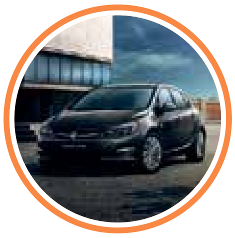
Pendragon | PLC

2013 ANNUAL REPORT








Pendragon | PLC

The UK's leading car retailer

CONTENTS

THE UK'S LEADING AUTOMOTIVE RETAILER

Pendragon's principal markets are the retailing of new and used vehicles and the service and repair of vehicles (aftersales). Pendragon also operates in the dealership management system, leasing and wholesales parts markets.

Brands

Stratstone
Evans Halshaw
California
pinewood
Quickco
Quicks.co.uk
Pendragon Contracts

Mercedes-Benz GL 63 AMG available from Stratstone.com

What we do

The UK's leading automotive retailer in the UK with 225 franchise points selling new and used vehicles and conducting service and repair activity (aftersales). We primarily operate in the UK under the brands of 'Stratstone' for the premium segment, 'Evans Halshaw' for the volume segment and 'Quicks' for the value segment. We also have a vehicle operation in California.

We have a number of complementary businesses within the Group which are: 'Pinewood' for dealership management systems, 'Leasing' for fleet and contract hire vehicles and 'Quickco' for wholesale vehicle parts.

AT A GLANCE

£500m
GROSS PROFIT

265,000
NEW & USED UNIT SALES

13.3m
WEBSITE HITS

225
FRANCHISE POINTS

>1MILLION
AFTERSALES TRANSACTIONS

7%
USED CAR UNIT GROWTH

9,171
EMPLOYEES

26
WORLDWIDE BRANDS

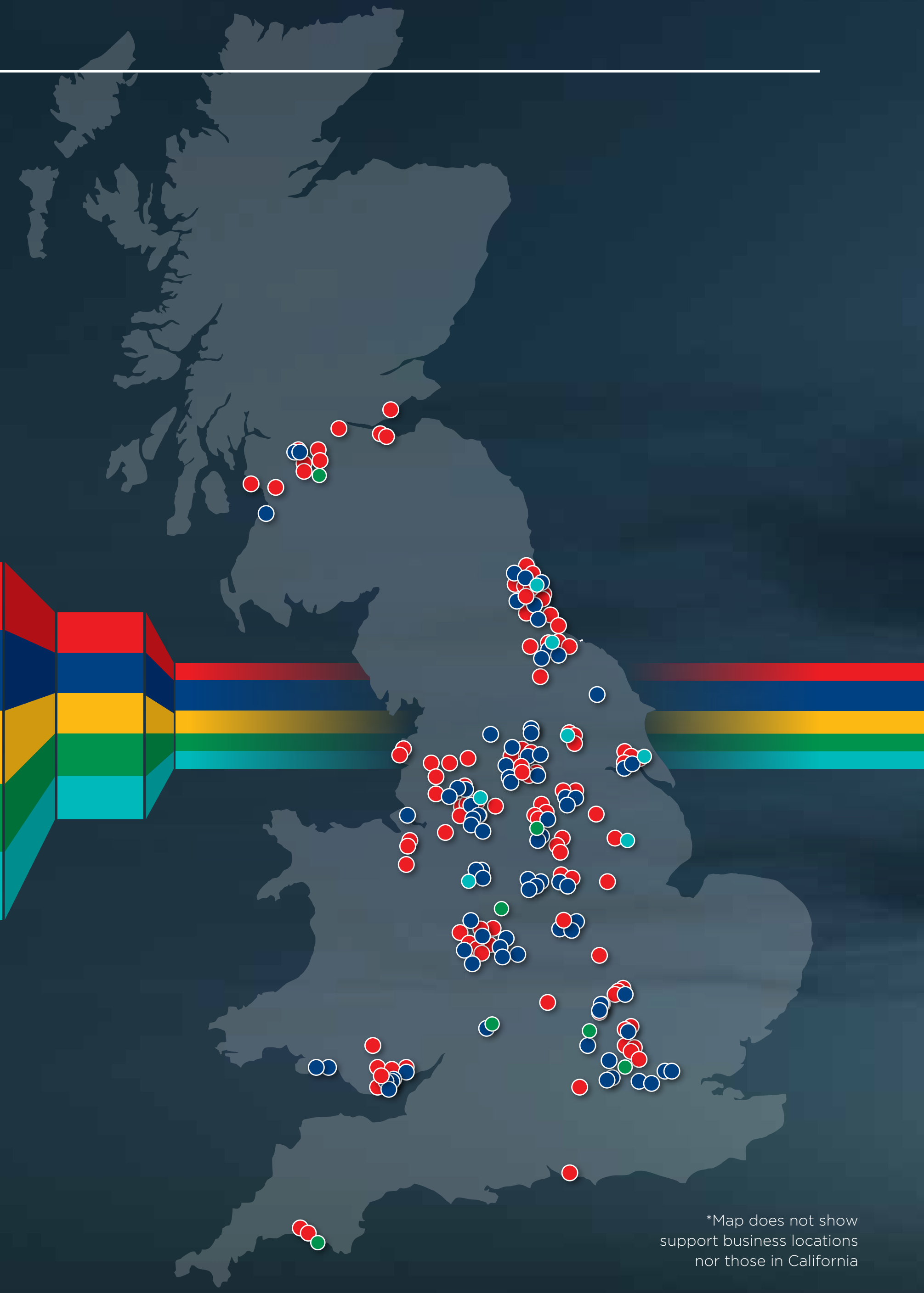
£38.9m
PROFIT BEFORE TAX

£3.8bn
TURNOVER

With its balanced, sporty and sophisticated design, the Peugeot RCZ is one truly stunning coupe.

LOCATIONS

Evans Halshaw	132
Stratstone	84
California/Others	21
Used Non-franchise	8
Quicks	7



*Map does not show support business locations nor those in California

Range Rover Evoque optimises performance and capability in all on and off-road conditions.

Range Rover Evoque available from Stratstone.com

OUR OPERATIONAL AND FINANCIAL HIGHLIGHTS

"Continued strong performance in the used, aftersales and new sectors has generated a material step forward in profitability. Underlying profit before tax is up 21% in the period and the Group continues to achieve record used performance, with volume growth of 7%. We are very encouraged by the second half performance in aftersales which provides verification that the vehicle parc is recovering, as a result of the growth in new car sales. Our online performance continues to surpass expectations growing by 22% in the year with over 13 million website visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk. The Group is in a strong position with its leading UK retail business, strong balance sheet and the continued delivery of strategy in the used vehicle sector. The Board is delighted to announce a final dividend of 0.3p per share, bringing the total dividend for 2013 to 0.4p, a 300% increase on last year. We would like to thank our teams for helping deliver a strong performance in 2013 and we look forward to their continued engagement and commitment in 2014. We are confident that 2014 will be another year of good performance, with Group performance in line with expectations for the year."

Operational Highlights

- Online visitors grew 22%, reflecting the growth of Evanshalshaw.com, Stratstone.com and Quicks.co.uk generating 13.3 million website visitors.
- Aftersales, our largest area of profitability, grew retail sales by 3% in the second half following the trend in new car sales.
- Used performance continued to outperform the market with volume up 7% on a like for like basis and stable margins.
- New UK retail sales grew on a like for like basis by 18%.

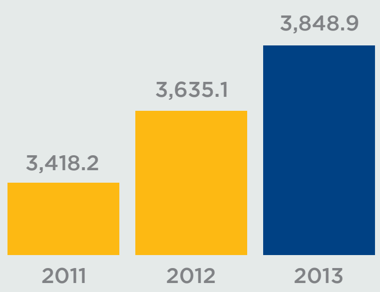
Financial Highlights

- Underlying earnings per share of 2.3p, up from 2.0p in the prior year (+15%).
- Underlying profit before tax up £7.8 million to £44.2 million (+21%).
- Proposed final dividend of 0.3p per share, following an interim dividend of 0.1p per share represents a 300% increase on the 2012 final and interim dividend.
- Profit before tax up £4.9million to £38.9 million (+14%).
- Completing the comprehensive refinancing, a net debt reduction £76.8m and early achievement of the Group's debt : underlying EBITDA target of 1.5 establishes a strong capital structure.

OUR OPERATIONAL AND FINANCIAL HIGHLIGHTS

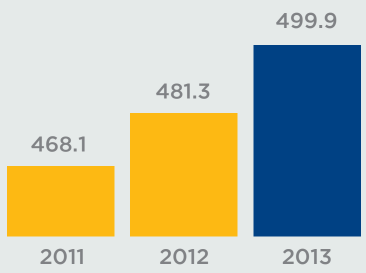
UNDERLYING REVENUE

£3,848.9m



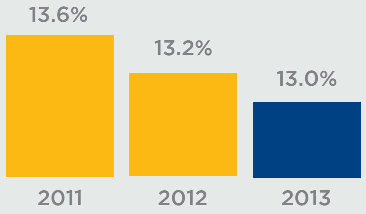
UNDERLYING GROSS PROFIT

£499.9m



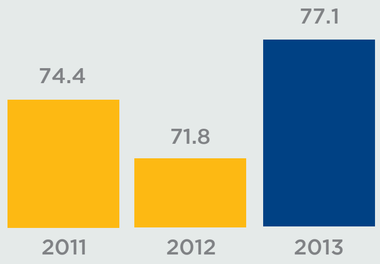
GROSS MARGIN

13.0%



UNDERLYING OPERATING PROFIT

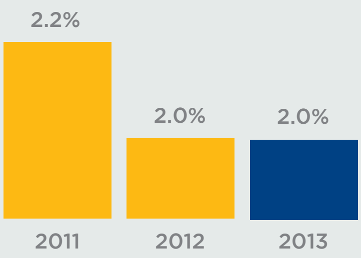
£77.1m



3 YEAR FINANCIAL HISTORY

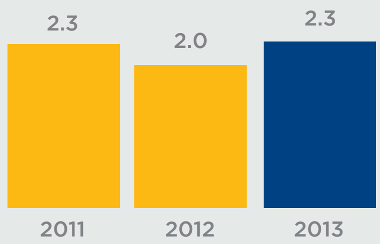
UNDERLYING OPERATING MARGIN

2.0%



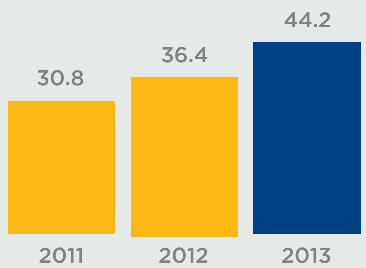
UNDERLYING EPS

2.3p



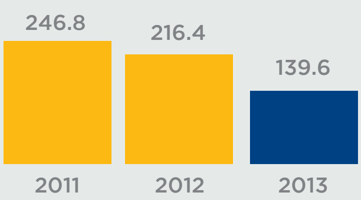
UNDERLYING PROFIT BEFORE TAX

£44.2m



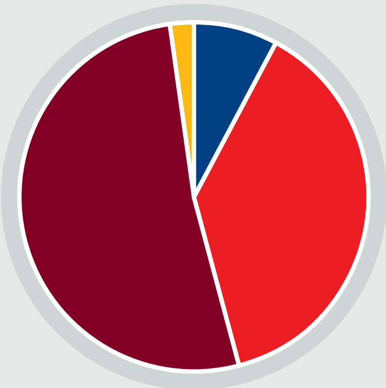
NET DEBT

£139.6m



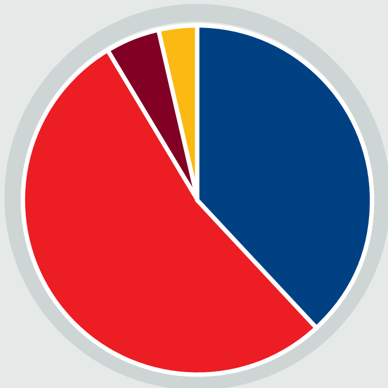
OUR OPERATIONAL AND FINANCIAL HIGHLIGHTS

REVENUE BY SECTOR



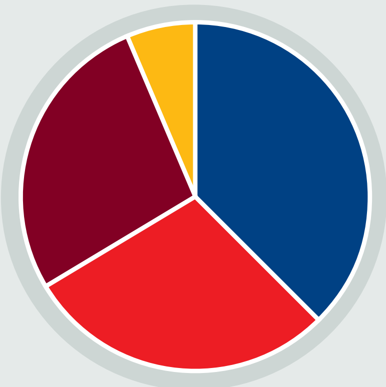
- Aftersales **£300.9m**
- Used **£1,575.7m**
- New **£1,891.7m**
- Support **£80.6m**

UNDERLYING REVENUE BY SEGMENT



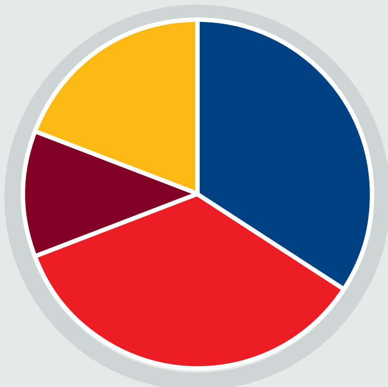
- Stratstone **£1,467.9m**
- Evans Halshaw **£2,056.6m**
- California **£194.9m**
- Support/Quicks **£129.5m**

GROSS PROFIT BY SECTOR



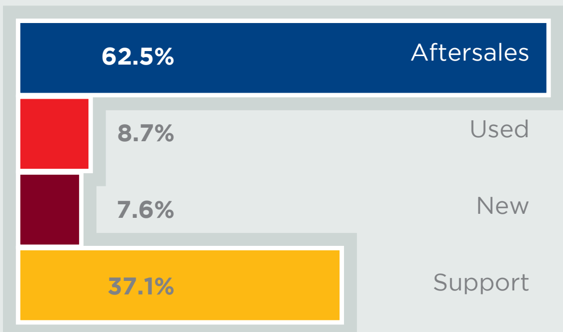
- Aftersales **£188.0m**
- Used **£137.6m**
- New **£144.4m**
- Support **£29.9m**

UNDERLYING OPERATING PROFIT BY SEGMENT

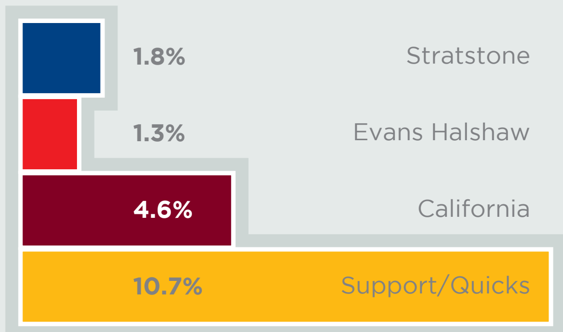


- Stratstone **£26.9m**
- Evans Halshaw **£27.4m**
- California **£9.0m**
- Support/Quicks **£13.8m**

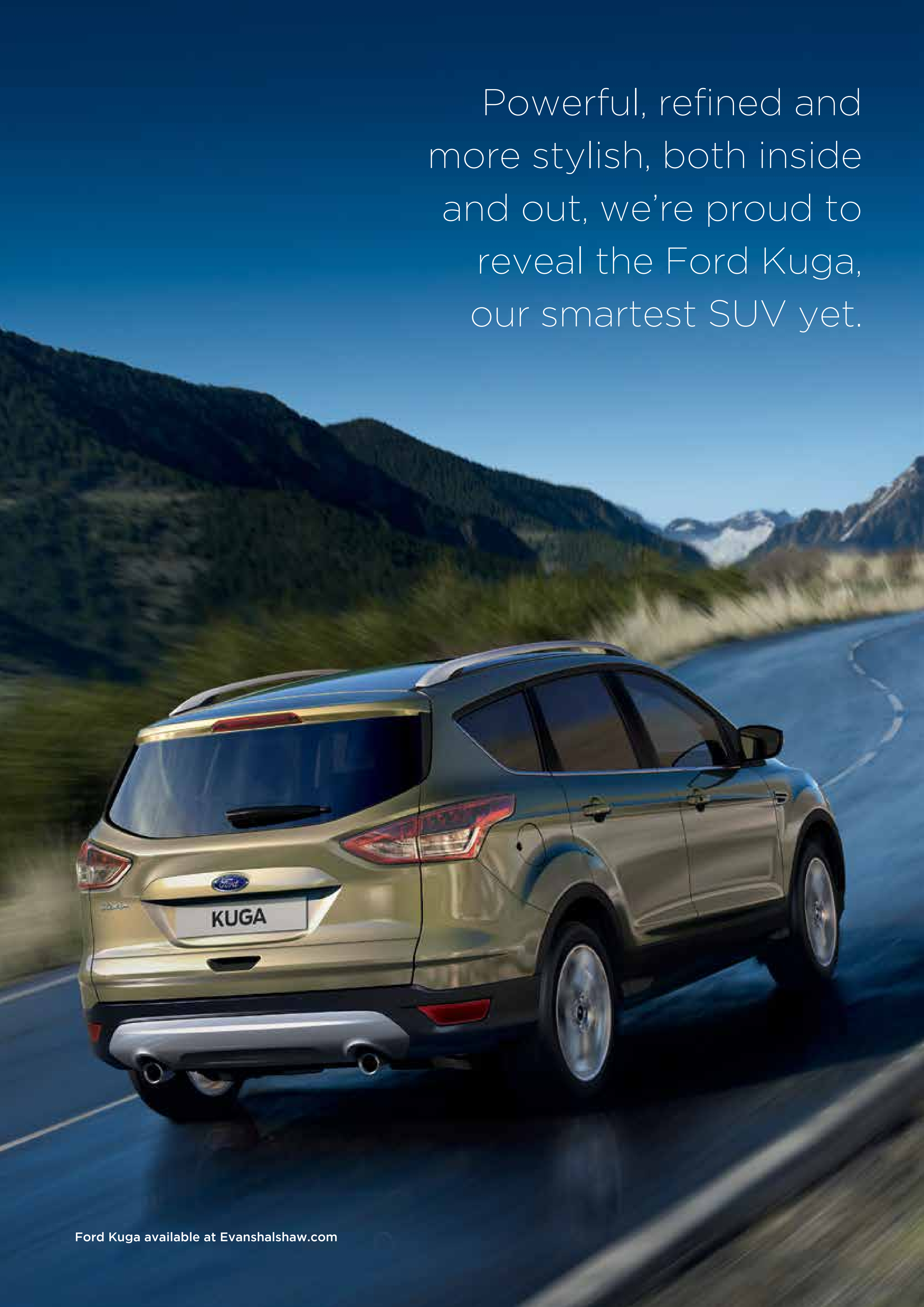
GROSS PROFIT MARGIN BY SECTOR



UNDERLYING OPERATING MARGIN BY SEGMENT



Powerful, refined and more stylish, both inside and out, we're proud to reveal the Ford Kuga, our smartest SUV yet.



Ford Kuga available at Evanshalshaw.com

OUR CHAIRMAN

"The UK's leading car retailer continues to deliver improved results from its Evanshalshaw.com, Stratstone.com and Quicks.co.uk brands. With underlying profit before tax up 21 per cent, the Group is looking forward to further performance gains from its aftersales and vehicle sales in 2014."

Mel Egglenton, Chairman

Overview

I am delighted to report strong financial results in my first year as Chairman. Having been with the Group since December 2010, it is no surprise, given the strength of the executive and non-executive team that the Group continues to produce strong financial results and is delivering against its strategy. Our people continue to play a vital role in our success, so I would like to thank them for their continued input, energy and delivery for our business and our customers.

Financial Performance

The Group has achieved strong financials in 2013, with profit before tax up £4.9 million to £38.9 million and underlying profit before tax up £7.8 million to £44.2 million. Underlying earnings per share has increased from 2.0p to 2.3p, an increase of 15%. The Group has reduced debt by £76.8 million in the period, with net debt of £139.6 million at the end of 2013.

Shareholders

The Board is delighted to announce an increase in the proposed final dividend to 0.3p per share in respect of 2013. This compares to an interim dividend of 0.1p and a final dividend for 2012 of 0.1p.

Governance and Board

Effective governance is a prerequisite to success for all our stakeholders. The Board is collectively responsible for the long term success of the company. Since my appointment as Chairman designate in Spring 2013, I have overseen the completion of the planned refreshing of the Board's non-executive positions and, as Chairman, I have revised our planned agenda to ensure each member of the Board gains an appropriate level of understanding of our businesses and is able to contribute positively to the Board's effectiveness in all aspects of our role. For further information on governance, please see the 'Chairman's Corporate Governance Letter to Shareholders' on page 52.

Strategy

The Group remains focussed on maximising returns from our three key sectors: aftersales, used and new. The Group's strategy is focussed on continuing the upward trajectory in the used and aftersales sectors together with delivering first class customer service. The full detail of the Group's business model, strategy and key performance indicators can be found in the 'Our Business Model and Strategy' section on page 26.

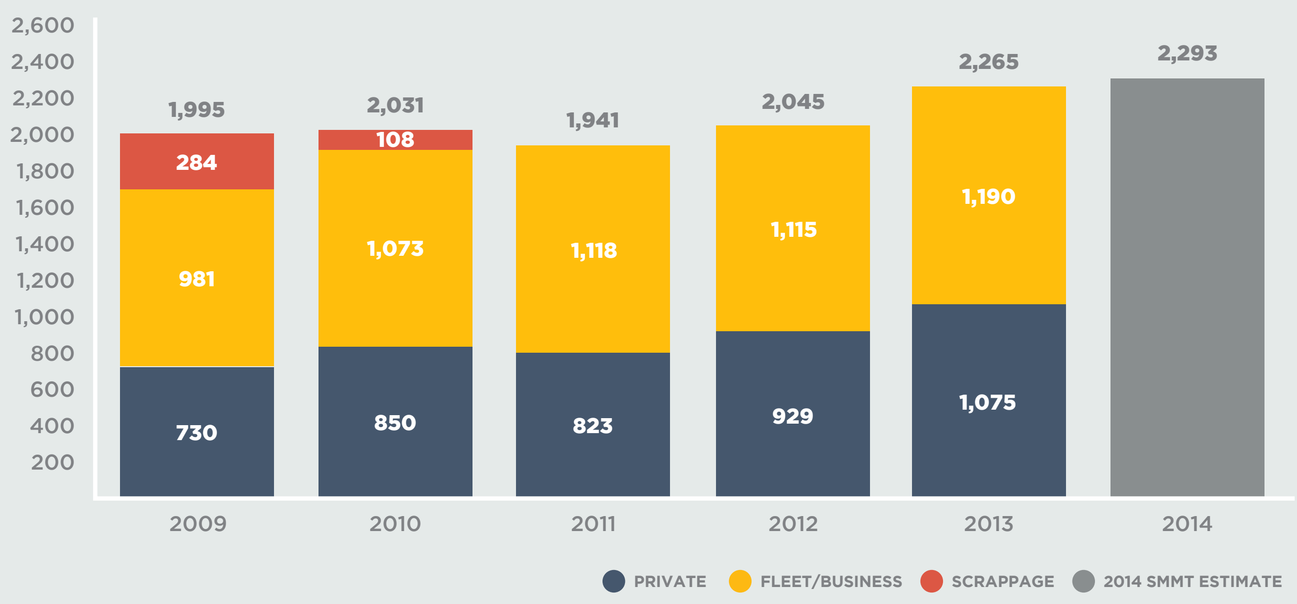
Outlook

The Group is in a strong position with its leading UK retail business, strong balance sheet and continued delivery of our strategy in the used vehicle sector. The Group is very encouraged by the second half performance in aftersales, which provides verification that the vehicle parc, in the less than three year old category is beginning to rise. The Group remains committed to managing its balance sheet and capital structure and has set a revised debt : underlying EBITDA ratio in the range 1.0 to 1.5 times. Our Group strategy is to continue to develop our leading market position in vehicle sales and aftersales through operating efficiencies and volume growth. We are confident that 2014 will be another year of good performance, with Group performance in line with expectations for the year.

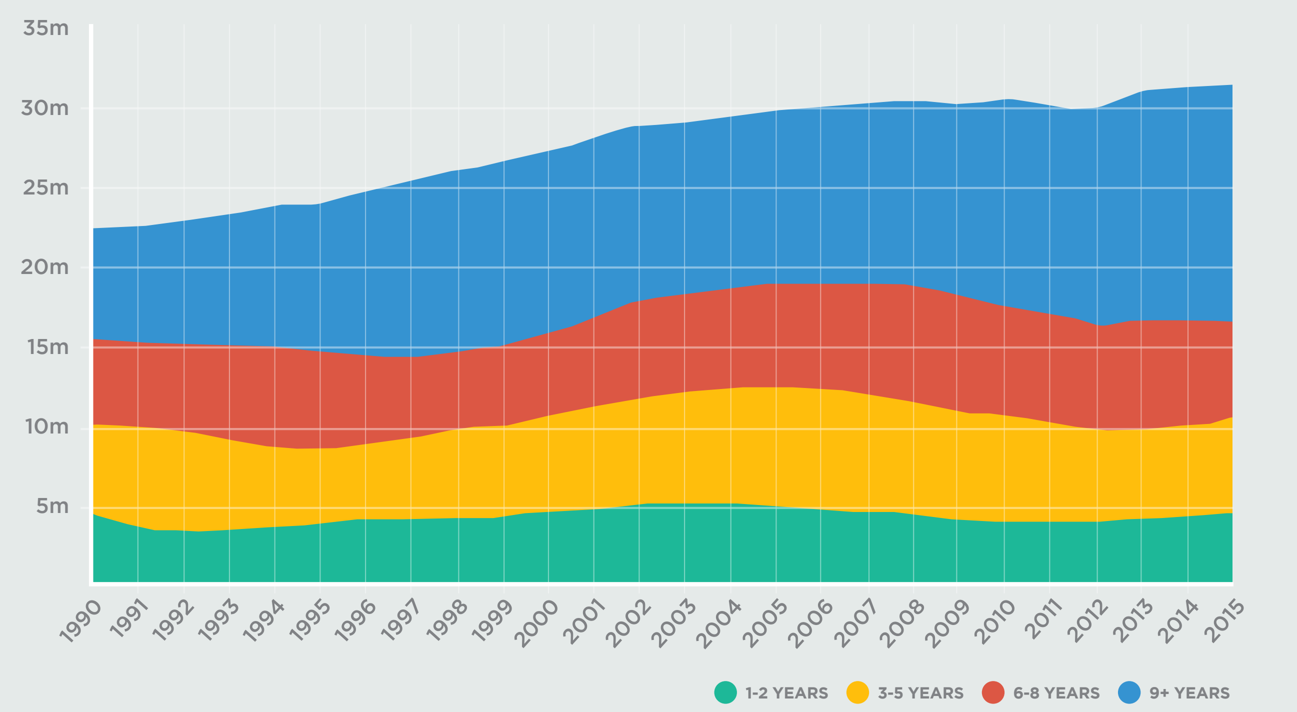
Mel Egglenton
Chairman

OUR MARKETS

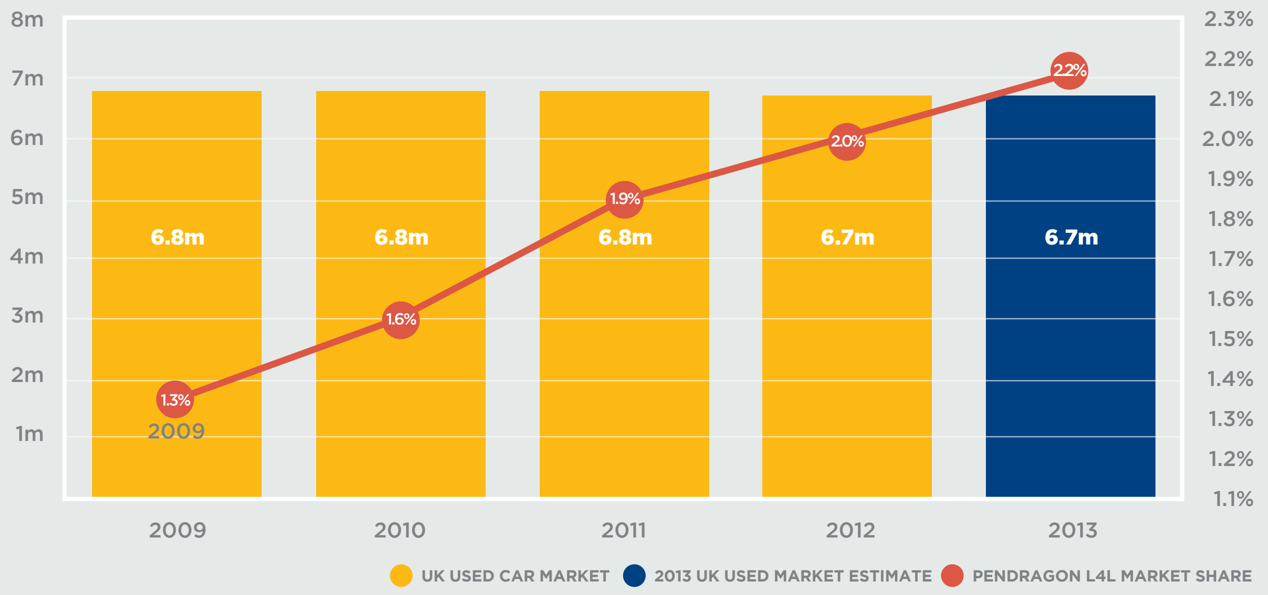
UK NEW CAR MARKET (SOURCE: SMMT)



UK CAR PARC BY AGE OF VEHICLE (SOURCE: BCA USED CAR REPORT/ UNIVERSITY OF BUCKINGHAM)



UK USED CAR MARKET (SOURCE: EXPERIAN) AND PENDRAGON L4L MARKET SHARE



MARKETS AND SECTOR PERFORMANCE

Our business can be split into four key sectors, as follows: aftersales services ("aftersales"), used vehicle sales ("used"), new vehicle sales ("new") and support business sectors ("support"). The three sectors of aftersales, used and new form our motor division total. Our support business can be split into a further three sectors, as follows: Pinewood, Leasing and Quickco.

SECTOR FINANCIAL HIGHLIGHTS

The following table shows the underlying results for the Group, including the motor division sector splits, for the years ended 31 December 2013 and 31 December 2012:

UNDERLYING SECTOR RESULTS FOR YEAR ENDED 31 DECEMBER (£m)

	Aftersales		Used		New		MOTOR DIVISION TOTAL #		GROUP TOTAL †	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	300.9	307.8	1,575.7	1,517.9	1,891.7	1,733.3	3,768.3	3,559.0	3,848.9	3,635.1
Gross Profit	**188.0**	**188.1**	**137.6**	**132.4**	**144.4**	**129.7**	**470.0**	**450.2**	**499.9**	**481.3**
Gross Margin (%)	62.5%	61.1%	8.7%	8.7%	7.6%	7.5%	12.5%	12.6%	13.0%	13.2%
Operating Profit*	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**61.0**	**54.4**	**77.1**	**71.8**
Operating Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	1.6%	1.5%	2.0%	2.0%

* Operating costs are not split by sector in the motor division, so no operating profit or operating margin is available.
# The Group previously split out trade and wholesale sector activity from used and new activity respectively. However, in order to simplify the understanding of the business, we have now combined these sectors.
† The Group total comprises the motor division total and support totals.

OUR MARKETS

AFTERSALES SECTOR

Aftersales encompasses the servicing, maintenance and repair of motor vehicles, including bodyshop repairs and the retailing of parts and other motor related accessories. The main determinant of the aftersales market is the number of cars on the road, known as the 'car parc'. The car parc in the UK has typically been around 32 million cars in each of the last three years. The car parc can also be segmented into markets representing different age groups. Typically, around 19% of the car parc is represented by less than three year old cars, around 18% is represented by four to six year old cars and the balance of 63% is greater than seven year old cars.

The size of each of these age groups within the car parc is determined by the number of new cars entering the parc and the number exiting the parc. New car retailers tend to focus on the less than three year old market rather than the greater than three year old market. Over the last three years, the Group has also targeted the over three year old vehicle market, through our Vehicle Health Check process and associated initiatives such as service plans and value pricing. The size of the less than three year old market has been increased by the growth in the new car market since March 2012. The demand for servicing and repair activity is less impacted by any adverse economic conditions than are our other sectors, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

AFTERSALES SECTOR PERFORMANCE

The Group's like for like retail labour sales have been following a recovering trajectory, as a result of the growth in new car sales. In the first half of 2013 retail labour sales were flat. However, in the second half of 2013, retail labour sales increased by 3%, a recovery expected to continue in 2014 and beyond as the size of the less than three year old vehicle parc increases. Within aftersales, the level of warranty revenue appears to be beginning to plateau, falling by 2% in the period. On a like for like basis, aftersales gross profit increased by £5.9 million (of which £1.3 million was within the first half of the year and £4.6 million in the second half of the year). Aftersales gross margin increased from 61.1% in 2012 to 62.5% in 2013.

USED VEHICLE SECTOR

The used vehicle sector comprises the selling of vehicles by one party to another for all vehicles except newly registered vehicles. Data on the 2013 UK national used vehicle market is only available up to 30 June 2013. The rolling year data to 30 June 2013 shows the market opportunity to be flat, at 6.7 million vehicles, with around half of these transactions being completed by franchise dealers and the balance being completed by independent dealers and private individuals.

USED VEHICLE SECTOR PERFORMANCE

Growing the used vehicle sector continues to be a performance highlight for the Group. In the year, like for like used volumes increased by 7%, and over a four year period, the Group has now increased used volumes by 59%. In the year, like for like used gross profit increased by nearly 6%, which equates to a £7.1 million increase in profit. Gross margin was 8.7% in the period, which compares to 8.7% in the prior year.

OUR MARKETS

NEW VEHICLE SECTOR

The new vehicle sector consists of the first registration of cars and commercial vehicles. In 2013, the UK new car market, the second largest market in Europe, increased by 11% over the prior year, with 2.265 million registrations, up from 2.045 million in 2012. The Society of Motor Manufacturers and Traders ("SMMT") has predicted a growth rate in 2014 of 1.2%, which equates to a 2.293 million market in the current year.

The UK new car market is primarily divided into retail and fleet markets. The retail market is the direct selling of vehicle units to individual consumers and operates at a higher margin than the fleet market. The fleet market represents selling of multiple vehicles to businesses and is predominantly transacted at a lower margin and consumes higher levels of working capital than retail. The retail market is the key market opportunity for the Group and represents just under half of the total UK market.

The following table summarises the UK new car vehicle market, separating the retail and fleet components for the years ended 31 December 2013 and 31 December 2012:

NEW CAR VEHICLE REGISTRATIONS FOR YEAR ENDED 31 DECEMBER ('000)

	2013	2012	Change	Change %
UK Retail Market	1,074.6	929.4	145.2	+15.6%
UK Fleet Market	1,190.1	1,115.2	74.9	+6.7%
UK New Market	**2,264.7**	**2,044.6**	**220.1**	**+10.8%**
Group Represented* UK Retail Market	724.3	618.1	106.2	+17.2%
Group Represented* UK Fleet Market	856.6	812.5	44.1	+5.4%
Group Represented* UK New Market	**1,580.9**	**1,430.6**	**150.3**	**+10.5%**

*Group Represented is defined as national registrations for the brands that the Group represents as a franchised dealer.

The UK commercial vehicle market, consisting of light commercial vehicles and trucks, had a market size of 327 thousand new units in 2013, an increase of 15% over the prior year. The SMMT's expectations for 2014 are that the light commercial vehicle market will increase by 2.5%.

The Group has a small representation in California. The USA new vehicle market was 15.5 million in 2013, an increase of 8% over 2012. The National Automobile Dealers' Association expects the USA market to be 16.4 million vehicles in 2014, an increase of 6%.

NEW VEHICLE SECTOR PERFORMANCE

The Group increased new gross profitability by £17.4 million on a like for like basis and by £14.7 million on an underlying basis. Within the key new retail vehicle segment of the UK market, the Group increased its volume by 18% on a like for like basis, which compares to a 17% increase for the brands that we represent. Overall, the Group sold 115,000 like for like new units in 2013, an increase of 13% over the prior year. Gross margin improved from 7.5% in 2012 to 7.6% in 2013 as a result of stronger margin in both Stratstone and Evans Halshaw. California had an excellent performance in the year, with new gross profitability increasing by £5.1 million, largely as a result of the strength of the Land Rover franchise.

OUR MARKETS

SUPPORT BUSINESSES SECTORS

The support businesses operate in the following markets, sectors and segments: dealer management systems sector/markets (Pinewood segment), contract hire and leasing sector/markets (Leasing segment) and parts wholesale sector/markets (Quickco segment). An overview of these markets and the Group's performance within them is shown below. The following table shows the underlying results for the support businesses for the years ended 31 December 2013 and 31 December 2012:

UNDERLYING SUPPORT SECTOR RESULTS FOR YEAR ENDED 31 DECEMBER (£m)

	Pinewood		Leasing		Quickco		SUPPORT TOTAL		GROUP† TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	10.4	9.9	18.0	18.2	52.2	48.0	80.6	76.1	3,848.9	3,635.1
Operating Profit	**8.9**	**9.1**	**5.4**	**6.9**	**1.8**	**1.4**	**16.1**	**17.4**	**77.1**	**71.8**
Operating Margin (%)	85.6%	91.9%	30.0%	37.9%	3.4%	2.9%	20.0%	22.9%	2.0%	2.0%

†The Group total comprises the motor division total and support totals.

DEALER MANAGEMENT SYSTEMS MARKET

In the UK, where we operate extensively under the 'Pinewood Technologies' brand, the market for dealer management systems is served by three main suppliers and the market opportunity is determined by the number of franchise points.

DEALER MANAGEMENT SYSTEMS PERFORMANCE (PINEWOOD SEGMENT)

Pinewood continues to be a very stable and profitable income stream for the Group, with overall operating profit of £8.9 million. This compares to £9.1 million in the prior period and is attributed to Pinewood continuing to invest in developing its products, to ensure we offer class leading products to our customers.

CONTRACT HIRE MARKET

We operate a contract hire and leasing business in the UK. Profits are generated both during the lease and when we sell the used car after it is returned to us at the end of the lease period.

CONTRACT HIRE AND LEASING PERFORMANCE (LEASING SEGMENT)

Pendragon Contracts is our contract hire and leasing business. It generated an operating profit of £5.4 million in 2013 compared to £6.9 million in the prior period. The business generates a significant amount of its profit from the disposal of vehicles. Compared to 2012, profit in 2013 reduced, as a consequence of lower contract hire and leasing activity three years before the current year. The fleet size stood at 10,600 at 31 December 2013 compared to 9,700 at 31 December 2012, the first increase in fleet size since 2006.

PARTS WHOLESALE MARKET

The market consists of wholesale motor vehicle parts suppliers who supply to franchised and non-franchised retailers and vehicle repairers. The market is scale-driven, but is highly fragmented owing to the large number of suppliers.

PARTS WHOLESALE PERFORMANCE (QUICKCO SEGMENT)

Quickco, our independent genuine parts wholesale business, generated an operating profit of £1.8 million in the period versus £1.4 million in the prior year, resulting from higher levels of activity in the year.


The F12berlinetta ushers in a new generation of Ferrari that delivers unprecedented performance from an exceptional new engine, unparalleled handling and innovative design and aerodynamics.
Ferrari F12berlinetta available from Stratstone.com

OUR MARKETS

Our Markets	Stratstone	Evans Halshaw	Quicks	California	Pinewood
Automotive Retailing					
Aftersales	✓	✓	✓	✓	
Used	✓	✓	✓	✓	
New	✓	✓		✓	
Dealer Management Systems					✓
Contract Hire Market					
Parts Wholesale Market					

Citreon C4 available at Evanshalshaw.com

Leasing	Quickco
✓	
	✓

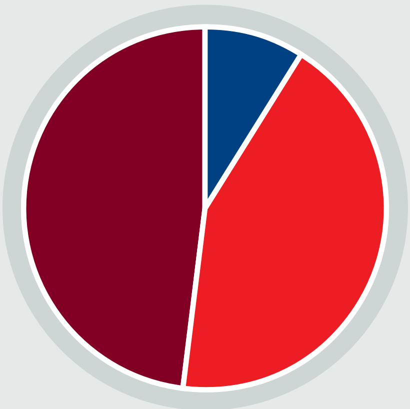
Citroën C4 is the embodiment of strength, control and efficient engineering.

OUR BUSINESS - STRATSTONE.COM

2013 FINANCIAL HIGHLIGHTS

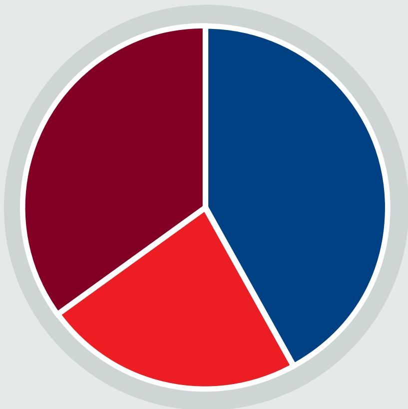
OPERATING PROFIT £26.9m	GROSS PROFIT £181.0m
OPERATING MARGIN 1.8%	GROSS MARGIN 12.3%

REVENUE SPLIT BY SECTOR



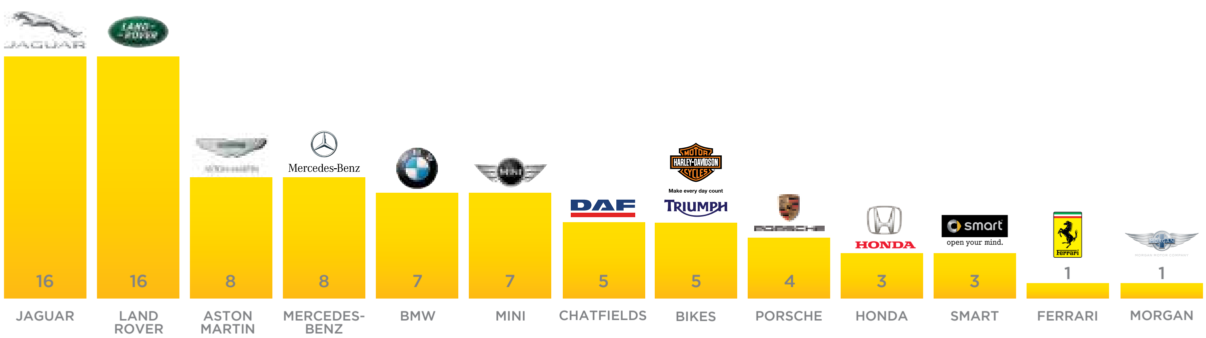
- Aftersales 9%
- Used 43%
- New 48%

GROSS PROFIT SPLIT BY SECTOR



- Aftersales 42%
- Used 23%
- New 35%

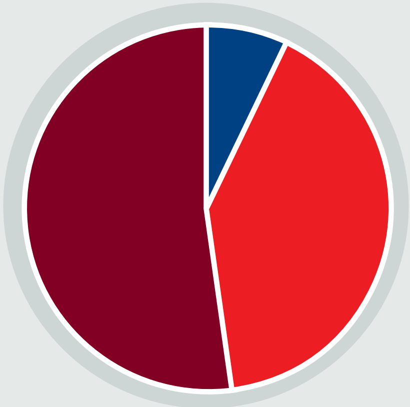
STRATSTONE is one of the UK's leading premium motor car retailers with 84 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Mercedes-Benz, MINI, Morgan, Porsche and Smart as well as five motorcycle franchises. This segment also contains the retail and service outlets for DAF commercial vehicles under the Chatfields brand name.



2013 FINANCIAL HIGHLIGHTS

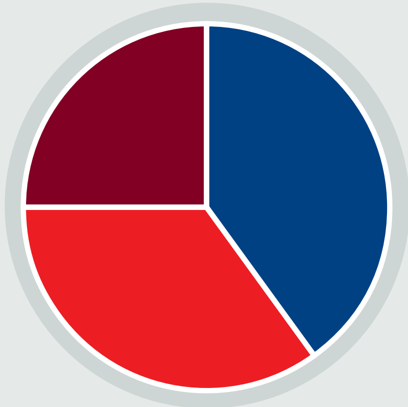
OPERATING PROFIT £27.4m	GROSS PROFIT £249.2m
OPERATING MARGIN 1.3%	GROSS MARGIN 12.1%

REVENUE SPLIT BY SECTOR



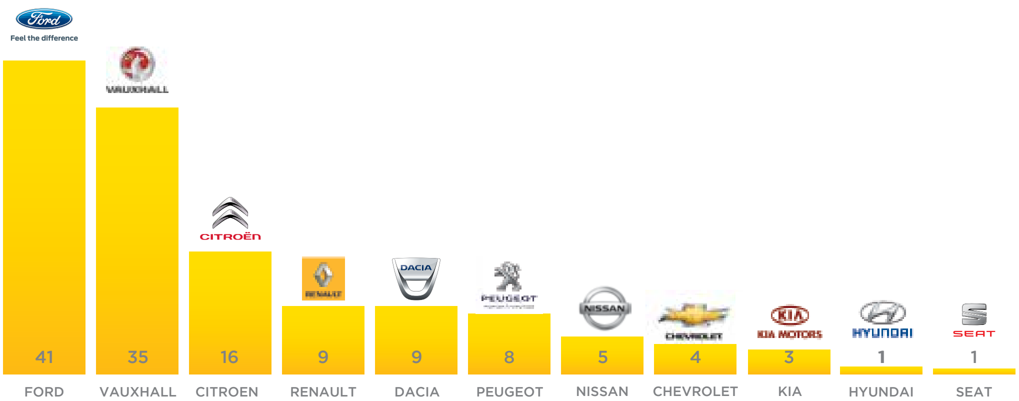
Aftersales	7%
Used	41%
New	52%

GROSS PROFIT SPLIT BY SECTOR



Aftersales	40%
Used	35%
New	25%

EVANS HALSHAW is the UK's leading volume motor car retailer, with 132 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall.



OUR MARKETS AND BUSINESSES

OUR BUSINESS - QUICKS.CO.UK

2013 FINANCIAL HIGHLIGHTS

OPERATING LOSS (£2.3m)	GROSS PROFIT £5.2m
OPERATING MARGIN (4.7%)	GROSS MARGIN 10.6%

REVENUE SPLIT BY SECTOR

Aftersales	6%
Used	94%

GROSS PROFIT SPLIT BY SECTOR

Aftersales	12%
Used	88%

QUICKS is our used car operation with seven sites in the UK.

7

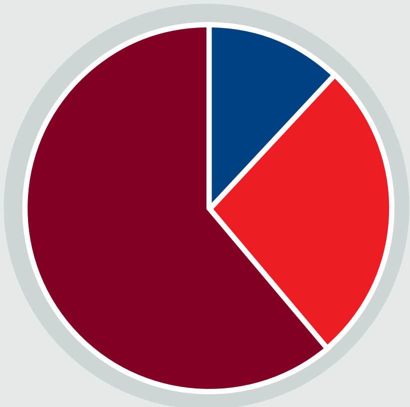
QUICKS

OUR BUSINESS - CALIFORNIA

2013 FINANCIAL HIGHLIGHTS

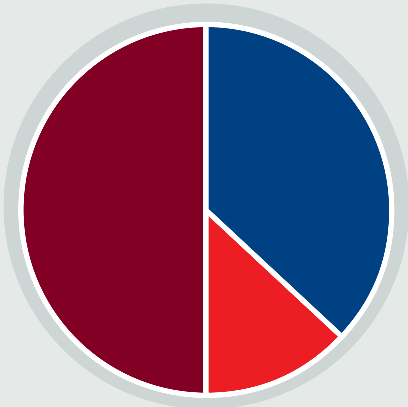
OPERATING PROFIT	£9.0m	GROSS PROFIT	£34.6m
OPERATING MARGIN	4.6%	GROSS MARGIN	17.8%

REVENUE SPLIT BY SECTOR



- Aftersales 12%
- Used 27%
- New 61%

GROSS PROFIT SPLIT BY SECTOR



- Aftersales 37%
- Used 13%
- New 50%

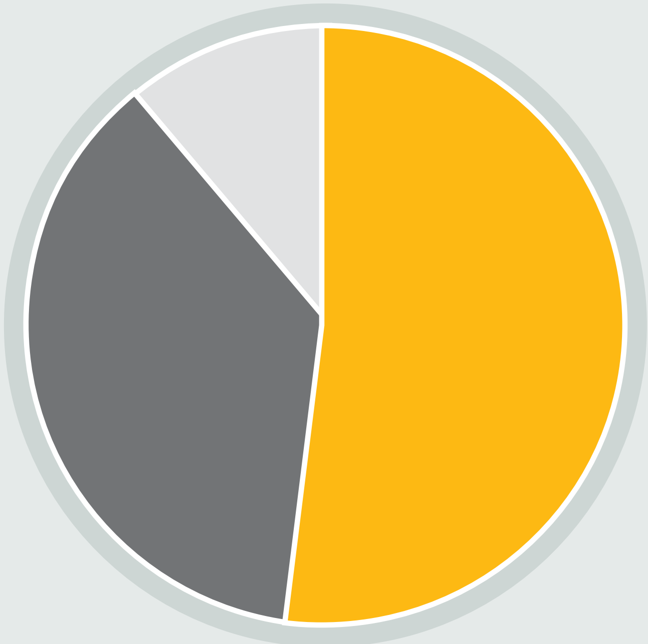
CALIFORNIA represents the premium brands of Aston Martin, Land Rover and Jaguar with nine franchise points in Southern California.

OUR BUSINESS - SUPPORT BUSINESSES

2013 FINANCIAL HIGHLIGHTS

OPERATING PROFIT	£16.1m	GROSS PROFIT	£29.9m
OPERATING MARGIN	20.0%	GROSS MARGIN	37.1%

OPERATING PROFIT SHARE



Pinewood	55%
Leasing	34%
Quickco	11%

SUPPORT BUSINESSES complement the Group's dealership activities by offering Leasing for fleet and contract hire, dealer management systems from Pinewood and a wholesale vehicle parts distribution business with Quickco.


ONE WAY
6th St
M UW 5208
BMW i3.
ELECTRIC & ELECTRIFYING.
BMW i3 available from Stratstone.com

BUSINESS MODEL

OUR BRANDS

Evanshalshaw.com   Stratstone.com   Quicks.co.uk   California

CUSTOMER RESEARCH

PURCHASE

PURCHASE

PURCHASE

MOTOR DIVISION

NEW
Selling of a new car or commercial vehicle (1st registration)

Used activity creates a new vehicle opportunity tomorrow

New vehicle sale creates part-exchange opportunity in used today

New vehicle sale creates aftersales revenue today and opportunity tomorrow

USED
Selling of all vehicles except new vehicles (as defined above)

Aftersales activity creates opportunity for new vehicle sale tomorrow

Aftersales activity creates opportunity for used vehicle sale tomorrow

Used vehicle sale creates aftersales revenue today and opportunity tomorrow

AFTERSALES
Encompasses the service, maintenance, and repair of vehicles (including vehicle part sales and body shop repairs)

Pendragon | PLC

FEEDBACK

Our People & Customer Service

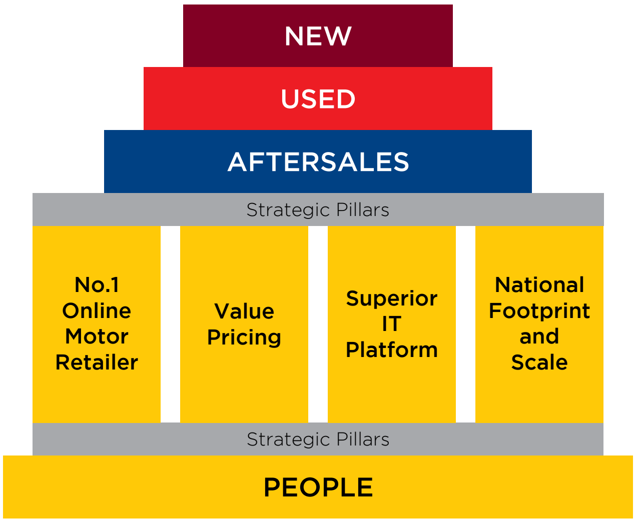
SUPPORT BUSINESS

PINEWOOD
Our IT provider, providing dealer management systems, operating largely in the UK

LEASING
Contract hire and leasing, providing new, used and aftersales activity for the Group

QUICKCO
Provides vehicle parts for our used and aftersales sectors

STRATEGY



The Group remains focussed on maximising returns from our three key sectors: aftersales, used and new. The Group's strategy is focussed on continuing the growth trajectory in the used and aftersales sectors together with delivering first class customer service.

In order to achieve these objectives, the Group has defined four "strategic pillars" which are a prerequisite to our success: number one online motor retailer, value pricing, national footprint and scale and a superior IT platform.

Online channels remain a key strategic pillar for the Group and are a key differentiator for the Group. Online visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk increased by 22% over the prior year. Online visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk are in excess of 13.3 million for the year ended 31 December 2013. The Group continues to invest resource into a number of projects to support our online pillar.

Aligned with this strong online and social media offering, the Group's second strategic pillar is a 'value pricing' offer for consumers. Our value pricing provides the consumer with the assurance of frequently researched prices to ensure we offer the best pricing proposition to consumers in the market.

Our third and fourth strategic pillars are key enablers for achieving the Group's objectives and are: a superior

Porsche Macan available from Stratstone.com

IT platform and a national footprint and scale. Pinewood provides the Group with a superior integrated IT platform with which to monitor, control, report and analyse the Group's results and progress against objectives. Pinewood also has a growing external customer base. Our IT system remains a key differentiator for the success of the Group.

Our national footprint enables us to fulfil the needs of consumers locally to their home or business. This, coupled with scale, provides a true differentiator from our peers in the industry. Within the new car market, our large balanced brand portfolio ensures that we are insulated from the product cycles of the vehicle manufacturers we represent, hence any franchises which are impacted by a falling market share tend to be compensated by franchises which have increased market share. Our scale also provides a number of efficiencies and economies of scale within procurement, fixed overheads, shared services and central marketing.

This strategy is underpinned by our people. We recognise that people provide the essential platform for us to deliver our objectives and we are continuing to invest more in this area of resource in 2014. The Group is investing in training, development and recruitment activities.

Following the comprehensive refinancing and debt reduction in 2013 the Group has a strong balance sheet. The Board's target debt : underlying EBITDA ratio of 1.5 was achieved 18 months early at 30 June 2013, and at 31 December 2013 this ratio was 1.2.

The Board has now adopted a debt : underlying EBTIDA target range of between 1.0 and 1.5. This target range has been set in the light of the Group's expected ongoing cash flow generation and is designed to give the flexibility to maintain shareholder value growth by returning cash to shareholders, whilst at the same time allowing the Group to assess and pursue appropriate expansion opportunities or otherwise continue with debt reduction.

KEY PERFORMANCE INDICATORS

	KPI	Definition	Performance
Financial KPIs	Adjusted EPS	Underlying profit after tax divided by weighted average number of shares	FY13 – Adjusted EPS of 2.3p FY12 – Adjusted EPS of 2.0p Improvement of 15% year on year
	Underlying PBT	Underlying profit before tax excludes items that have non-trading attributes due to their size, nature or incidence	FY13 – Underlying PBT £44.2m FY12 – Underlying PBT £36.4m Improvement of 21% year on year
	Operational Margin	Underlying operating profit divided by underlying revenue	FY13 – Operating Margin 2.0% FY12 – Operating Margin 2.0% Operating margin maintained
	Net Debt	Net Debt: underlying EBITDA is the ratio of our net debt to underlying EBITDA	FY13 – Ratio 1.2 FY12 – Ratio 2.0 The Group has reduced net debt by £76.8m and increased underlying EBITDA by £7.5m.
Strategic/Operational KPIs	Aftersales Retail Labour Sales	Retail labour sales is activity direct to consumers for the servicing and repair of motor vehicles	FY13 – Retail growth 1.3% FY12 – Retail growth 1.3% Retail labour sales maintained
	Used Volume	All used unit volumes (like for like)	FY13 – Used volume 147k FY12 – Used volume 137k Improvement of 7% year on year
	New Market Share	Retail new unit volume divided by retail registrations for the brands we represent	FY13 – New retail share 8.8% FY12 – New retail share 9.1% Retail market share maintained at 9%
	Online Growth	Website visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk	FY13 – 13.3m visitors FY12 – 10.9m visitors Improvement of 22% year on year
	Customer Service	Customer service is measured via email survey responses from aftersales, used and new rating from 1 to 5 stars (5: Excellent)	FY13 – 4/5 Star – 83% FY12 – 4/5 Star – 82% Improvement of 1% year on year

Risk Factor Link	Business Model Impact			
	Aftersales	Used	New	Support
ALL	✓	✓	✓	✓
ALL	✓	✓	✓	✓
3 4 7 8	✓	✓	✓	✓
1 6	✓	✓	✓	✓
1 2 3 5 10	✓			
1 2 3 4 5 10		✓		
1 2 3 4 5 10			✓	
1 8	✓	✓	✓	✓
1 7 8 10	✓	✓	✓	✓

Jaguar F-Type coupé available from Stratstone.com

Powerful, agile and distinctive,
F-TYPE is a true Jaguar sports car,
engineered for high performance and
instantaneously responsive handling

RISK OVERVIEW AND MANAGEMENT

PRINCIPAL RISKS

Recognising that all businesses entail elements of risk, the Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The table below is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. The specified risks are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined below should be considered in conjunction with the Group's system for managing risk, described below and in the Corporate Governance Report on pages 58 to 59.

RISK MANAGEMENT AND INTERNAL CONTROLS

Accountability

The Board is responsible for risk management and internal control within the context of achieving the Group's objectives. The system of control the Board has established covers both the Group's financial reporting, including the consolidation process, and the mitigation of business and operational risks. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Financial Reporting

The executive directors oversee the preparation of the Group's annual Corporate Plan; the Board reviews and approves it and monitors actual performance against it on a monthly basis. Where appropriate, during the year, revised forecasts are prepared and presented for Board review and approval. To ensure that information to be consolidated into the Group's financial statements is in compliance with relevant accounting policies, internal reporting data is comprehensively reviewed. Reviews of the appropriateness of group accounting policies take place at least twice a year, under the scrutiny of the Audit Committee, which considers reports on this from the Group's auditor, the application of IFRS and the reliability of the Group's system of control of financial information. No material changes have occurred in 2013 which have or are likely to have a material effect on the Group's internal controls over financial reporting. Controls are designed to ensure that the Group's financial reporting presents a true and fair reflection of the Group's financial position. The Board has concluded that, as at 31 December 2013, the Group's systems of control over financial reporting were effective.

Operational and Other Risks

Operational management is charged by the Board with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis and is supported by the Risk Control Group (RCG), a committee formed of three executive directors, together with the Group's head of IT, and supplemented by the co-option of senior audit, HR, IT and compliance personnel, as required from time to time. The RCG is chaired by the finance director. The chairman of the Audit Committee and representatives of the Group's auditor also attend its meetings by invitation. The RCG operates to a standing agenda based on financial, transactional, technological, political, regulatory, reputational, socio-economic and physical risks and considers reports from the Group's heads of function responsible for data security, regulatory compliance, health and safety and the monitoring and enforcement of the Group's policies on theft, anti-fraud and anti-bribery controls. The Audit Committee monitors the RCG's work and its impact on mitigating risk.

Risk Management

The accountability framework described above is designed to ensure comprehensive management of risk across the Group's business. The Board and any of its committees is able to refer specific risks to the RCG for evaluation and for controls to be designed or modified; this occurs in consultation with operational management and the communication and implementation of mitigating controls and corresponding systems of check is a function of operational management. The RCG oversees the effective implementation of new measures designed to mitigate or meet any specific risks or threats.

The RCG met three times in 2013. In addition to reviewing and updating the Group's corporate risk register, the RCG has added measures on data security and controls on transactional risks and commissioned changes to the Group's business continuity plan. It has not identified any weakness in controls which would have a material effect on the Group's business. Based on the RCG's detailed work, during the year the Board has performed a high level risk assessment, to ensure that (i) the principal risks and uncertainties facing the Group's business have been identified and assessed, taking into account any adaptations made to the Group's business strategies, and (ii) that appropriate mitigation is in place. The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to its business and the proper assessment and mitigation of those risks. An overview of the principal risks identified by the Board is on pages 35 to 37.

PRINCIPAL RISKS *Continued*

STRATEGY AND BUSINESS RELATIONSHIPS

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
1	Our Strategy: Failure to adopt the right strategy or, Failure of our adopted strategy to deliver the desired results	We miss our profit growth and/or debt management target, alienate key stakeholders and are unable to invest adequately in our business	• Our strategy is informed by significant research and market data • We communicate effectively our adopted strategy to our stakeholders • We invest appropriately in the technological, physical and human resources to deliver our strategy, closely monitor performance against our objectives, and adjust our actions to meet our strategic goals • Our sophisticated management information identifies threats to the success of our strategy and informs mitigating actions, both directionally and operationally • We focus strongly on efficient use of working capital through embedded disciplines, especially in relation to vehicle inventory • We review capital expenditure plans to ensure our ROCE objectives are achievable
2	Our Manufacturer Relationships: Dependence on vehicle manufacturers for the success of our business	Failure of or weaknesses in our vehicle manufacturers' financial condition, reputation, marketing, production and distribution capabilities, and lack of alignment with manufacturers' remuneration systems for dealers impairs our investments and prevents us achieving our profit goals Failure to maintain good relations with our franchisors impairs our ability to generate good quality earnings	• Our diverse franchise representation avoids overreliance on any single manufacturer • Our close contact with our vehicle manufacturers seeks to ensure our respective goals are communicated, understood and aligned, to deliver mutually acceptable performance • Our appropriately targeted investment in franchise assets and our performance maintains our reputation as a quality representative for our brand manufacturers • Our investment in marketing initiatives and our online presence supplement and enhance our market presence and offering over and above manufacturers' marketing efforts • Our strategy to develop and maintain revenues from used vehicles and aftersales reduces our overall reliance on new vehicle franchises
3	Our Competitors: Failure to meet competitive challenges to our business model or sector	Customers migrate to alternative providers Revenues and profits fall owing to competitor action	• Our detailed market and sector monitoring systems assist effective response to identify early and assist effective response to any competitive threats • Our scale, expertise and technological capabilities enable rapid and flexible response to market opportunities • Our well-developed customer relationship management capabilities and online customer satisfaction tools aim to drive industry-leading service and attract customer loyalty

PRINCIPAL RISKS *Continued*

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
	MACRO-ECONOMIC, POLITICAL AND ENVIRONMENTAL		
4	European economic instability impacting the UK in particular impacting used vehicle prices UK economic and business conditions deteriorate UK Governmental spending constraints	Vehicle manufacturers oversupply into UK market, damaging margins and vehicle values Fewer purchasers of vehicles Lower demand for vehicle servicing	• We carefully control new vehicle inventory to mitigate effects of overstocking • Our business model derives revenues from every stage of the vehicle's life-cycle and has expanded into the older vehicle parc for both sales and aftersales • We invest in and vigorously pursue customer retention initiatives to secure longer-term loyalty
	ENVIRONMENTAL		
5	Progression towards greener technologies and /or pay-per-use, rather than owning a vehicle UK taxes change to penalise road use, vehicle use and to increase VAT	Customers choose greener vehicles we cannot supply Overall vehicle parc reduces Vehicle purchase and use declines, adversely affecting revenue opportunities	• We represent vehicle brands which are responding effectively to the greener technology agenda • We identify trends in demand through our sophisticated management information and analysis tools and tailor our model accordingly • Our breadth of relationships with asset finance companies and geographic footprint help us to provide innovative mobility solutions for private and business vehicle users, whatever their needs • We maintain the right level of tax expertise to interpret and assess proposed changes, respond with well-informed advice and effectively assist our strategic planning and the design and implementation of appropriate mitigating actions
	FINANCE AND TREASURY		
6	Availability of debt funding Pension liabilities	Unable to meet debt obligations Unsustainable demand of funding occupational pensions schemes	• Our business model produces strong free cash flow generation • We maintain adequate committed facilities to meet forecast debt funding requirements • Diversification of funding sources, monitor daily our funding requirements • Asset backed pension deficit reduction plan reduces cash contributions • Regular review by our pension trustees of investment strategy and liability reduction, taking professional advice
	LEGAL AND REGULATORY		
7	Significant litigation Regulator action against the Group	Resources are diverted to taking proceedings or defending legal or regulatory action, at the expense of business efficiency and profit Reputation is damaged by regulatory censure or punitive action Fines and penalties reduce profits	• We maintain the right level of legal expertise to interpret, assess and respond to proposed changes in regulation, enabling us to adapt our model and processes to comply with changes in a seamless manner • Our culture focuses strongly on good compliance delivering good performance • Our team of compliance specialists design, and we communicate effectively, processes that support our businesses to minimise the risk of non-compliance

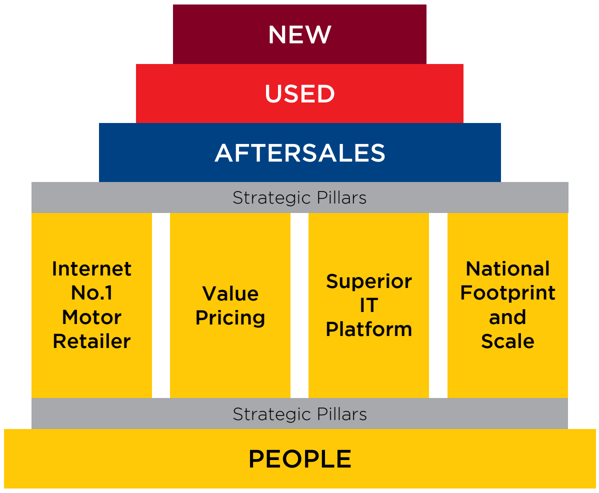
PRINCIPAL RISKS *Continued*

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
	TECHNOLOGY, INFORMATION SYSTEMS AND ESTIMATES		
8	Failure of systems	Data loss interrupts business, incurs cost of re-creating records, causes loss of or impairment to financial and operational control and loss of business opportunities Customer confidence is impaired	• We adopt and regularly update robust business continuity measures, including within our dealer management systems • Our geographic diversity allows prompt deployment of key functions to alternative locations
9	Reliance on the use of significant estimates which prove to be incorrect	Revenue, profits and reputation all suffer damage Group's financial statements will be wrong, affecting property valuations, future warranty costs, vehicle values where we have committed to purchase at a pre-set price, and the discounted cashflows used to test impairment of goodwill Reputational damage and inability to raise funding for the Group's business	• We assess actual outturns of previous estimates to test the robustness of adopted assumptions, and adjust the estimating approach accordingly • We support estimates with reliable external research where available
	TEAM MEMBERS AND THE ENVIRONMENT WE WORK IN		
10	Failure to attract, develop, motivate and retain good quality team members and leaders Failure to provide safe working and retail environments Failure to control environmental hazards	Poor decision making and inability to deliver our strategy and meet our business objectives Lack of innovation in our business Loss of custom owing to poor quality customer experience delivered by demotivated or untrained team members Illness and injury, lost working time and civil claims Reputational damage and clean-up costs, leading to loss of custom and revenues Regulatory censure, suspension of business, convictions and fines; reputational damage, leading to loss of custom and revenues	• We invest in online means of attraction and recruitment, targeting the right quality candidates • We set clear competencies and career goals to prevent miss-hires • We continually review and adapt for the market conditions our employment terms, salaries and performance related pay elements at all levels • We adopt and renew responsive succession plans for all key roles • We leverage our scale to afford training opportunities and progression within the Group • We work to the Health & Safety Executive's "Plan, Do, Check, Act" framework for managing risk in the workplace and our retail spaces • We allocate clear responsibilities for delivery of safe places to work and shop • We adopt process-driven initiatives to mitigate specific risk areas • We measure and review our performance against appropriate benchmarks • We allocate local accountability for sites' compliance and provide specialist support to responsible leaders • We monitor site conditions and drive corrective action through audit follow-up

OUR PEOPLE

STRATEGY

We know our most valuable asset is our people. At our leadership conference in 2013 we recognised the contribution of our team members in delivering the stability we have today through a tough period in the company's and the UK's economic history and how our people can shape our future. Our revised strategic model was shared with our leaders at this conference and it now explicitly references people (our team members and customers) as being the foundation of our strategy and success.

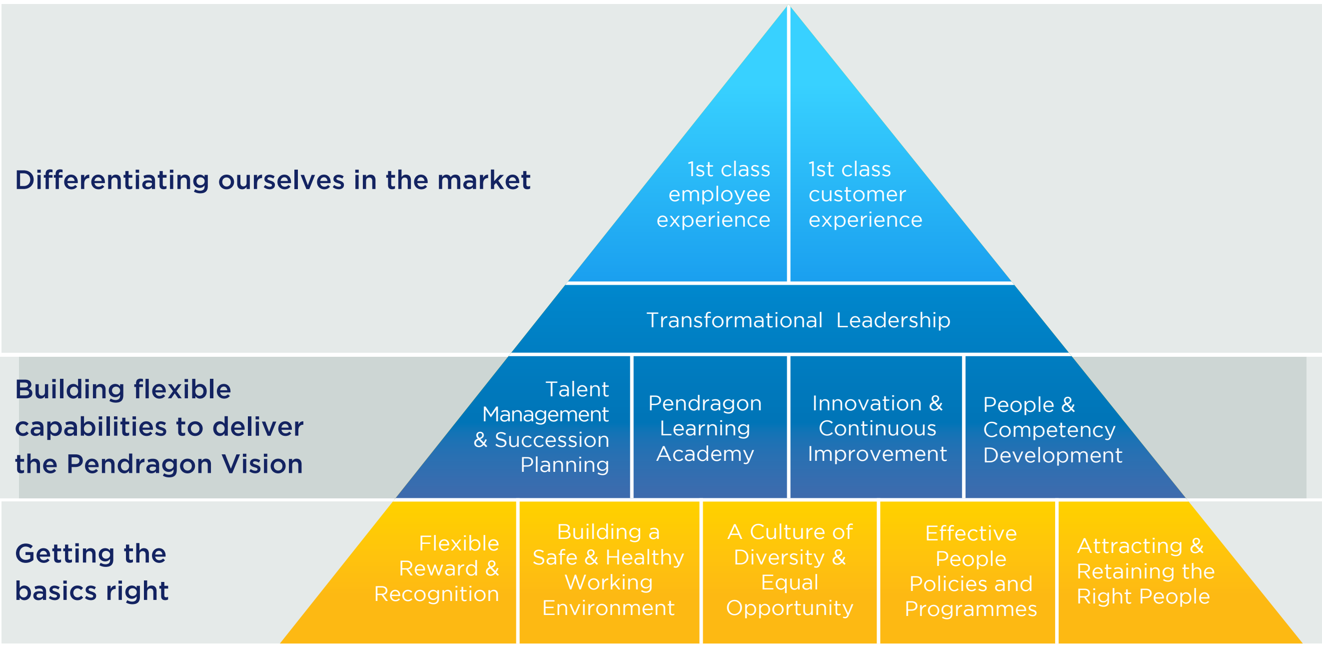


WHAT DOES THIS LOOK LIKE AND WHAT HAVE WE DONE ABOUT IT IN 2013?

We have invested in our HR and Learning and Development teams in 2013. We've increased the resource in the teams and introduced new roles to move us forward in 2014. Key highlights are:

- We centralised our resourcing process and created a new team to manage this. This is benefitting us with higher calibre candidates to join our business in key roles.
- We revised our employer brand and have invested in a new resourcing system and website that drives this brand to the market.
- We have increased the size of our learning and development team including new roles focused on improving our customer experience, internal communications and talent management.
- We have developed one of our vacant dealerships into a bespoke training academy that will deliver a more effective experience for all trainees, particularly new starters.

Our People Plan is set out below. We intend to deliver an improved team member and customer experience through a number of key initiatives in 2014.



OUR PEOPLE

INDIVIDUAL SUCCESS STORIES

Management winner - Warren Eason

Warren's drive and determination to succeed is evident in the way he runs his business and his approach to completing his qualifications with the IMI. This was recognised by the IMI at their annual awards ceremony. Warren is pictured accepting his award in the management category.

From Shop Floor to Top of one of our businesses...

Chris Peel started with us as Service Advisor in 1991. He has developed himself and been promoted through various roles in aftersales and vehicle sales. He is now the leader in the Cardiff Jaguar business. He led the business to winning 'business of the year' at our Top Gun awards in 2012 and was runner-up in 2013.

From Contact Centre to Customer Facing

Rebecca Reynolds, Service Advisor

Rebecca joined the Evans Halshaw contact centre team in July 2010. She built up her experience across a number of teams before providing maternity cover in a leadership role. This gave her the experience to become one of our Evans Halshaw Super Agents in May 2013. Towards the end of 2013 she applied for a Service Advisor role at Vauxhall Chilwell and is now advising our customers face to face every day.

We love to celebrate our team member's successes and these are just a few of the many achievements over recent years. Promoting talent from within is key to our values and the achievement of our strategy so we plan to celebrate many, many more, moving forward.

TEAM MEMBER DEVELOPMENT CYCLE

OPERATIONAL REVIEW

INTRODUCTION

Pendragon is the leading automotive retailer in the UK and the Group has 225 franchise points and 15 dedicated used car locations, in addition to 12 locations for its support businesses. Pendragon sells and services a broad range of new, used and commercial vehicles in the UK and has an operation in California, USA and a substantial presence in the UK dealer management systems, vehicle leasing and wholesale parts markets.

Pendragon's core business is the sale and servicing of new and used vehicles in the UK, through Evanshalshaw.com, for volume brands, and Stratstone.com, for premium brands. The Group has a used vehicle and aftersales operation in the UK, branded Quicks.co.uk, together with a franchised business in California. The Group also has a number of support businesses in the UK.

Revenue and volumes

Revenue increased by £213.8 million, 6% up on the prior year, mainly due to increases within the used and new sectors. On a like for like basis, revenue increased by £303.5 million. On a like for like basis, the Group improved used volumes by 7% and new retail volumes by 17%. The UK motor division increased new retail volumes by 18%.

Gross margin

Although margins in our three main areas of activity either increased or remained flat, gross margin in the year was 13.0% versus a prior year of 13.2%. This reduction was primarily due to the increased activity in new vehicle sales which has a dilutive effect on overall gross margin. Aftersales gross margin improved by 140 basis points, to 62.5%; used gross margin remained stable at 8.7% and new gross margin increased by 10 basis points to 7.6%.

Gross profit

Gross profit increased by £18.6 million in the period due to strong performance from the new and used sectors. On a like for like basis, gross profit increased by £29.2 million due to improvements in all sectors, with aftersales increasing by 3%, used increasing by 5% and new increasing by 14%.

Operating costs

Underlying operating costs have increased by £13.6 million and, on a like for like basis, increased by £25.6 million. Of this like for like increase, approximately £12.6 million is attributable to variable costs relating to increases in new, used and aftersales activity levels. The remaining £13.0 million largely relates to property costs including rent, heat, light and power, in addition to salaries, pension scheme auto-enrolment and redundancy costs. Some of these people related costs relate to the Group's investment to facilitate the transformation of the business model, for example the Group has invested in central operational activities and invested in training, development and recruitment activities.

Operating profit and margin

Operating profit increased by £9.3 million to £77.2 million and underlying operating profit increased by £5.3 million to £77.1 million. 2013 underlying operating margin remained at 2.0%.

SEGMENTAL PERFORMANCE

The Group is divided operationally into eight segments. The motor division consists of four segments which are: Stratstone, Evans Halshaw, California and Quicks. The Support division consists of three segments which are: Pinewood, Leasing and Quickco. Additionally the Group has a central segment. Commentary on the markets and performance of the Support division is on page 16.

Segmental Financial Highlights

The following table shows the revenue, gross profit, operating costs and operating profit by segment for the Group's motor division for each of the years ended 31 December 2013 and 31 December 2012:

MOTOR DIVISION SEGMENT RESULTS FOR YEAR ENDED 31 DECEMBER (£m)

	Stratstone		Evans Halshaw		Quicks		California		Motor Division	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
REVENUE										
Aftersales	132.1	138.6	142.5	142.2	2.7	3.9	23.6	23.1	300.9	307.8
Used	624.5	626.9	852.3	799.1	46.2	43.0	52.7	48.9	1,575.7	1,517.9
New	711.3	673.4	1,061.8	958.8	-	-	118.6	101.1	1,891.7	1,733.3
Revenue	**1,467.9**	**1,438.9**	**2,056.6**	**1,900.1**	**48.9**	**46.9**	**194.9**	**173.1**	**3,768.3**	**3,559.0**
GROSS PROFIT										
Aftersales	75.4	77.7	99.2	97.9	0.6	0.0	12.8	12.5	188.0	188.1
Used	42.1	42.0	86.5	83.2	4.6	3.7	4.4	3.5	137.6	132.4
New	63.5	59.5	63.5	57.9	-	-	17.4	12.3	144.4	129.7
Gross Profit	**181.0**	**179.2**	**249.2**	**239.0**	**5.2**	**3.7**	**34.6**	**28.3**	**470.0**	**450.2**
Operating Costs	**(154.1)**	**(153.3)**	**(221.8)**	**(212.0)**	**(7.5)**	**(7.5)**	**(25.6)**	**(23.0)**	**(409.0)**	**(395.8)**
Operating Profit	**26.9**	**25.9**	**27.4**	**27.0**	**(2.3)**	**(3.8)**	**9.0**	**5.3**	**61.0**	**54.4**
METRICS										
Gross Margin %	12.3%	12.5%	12.1%	12.6%	10.6%	8.0%	17.8%	16.4%	12.5%	12.6%
Units Sold ('000)	53.1	52.7	200.3	182.1	7.3	7.0	4.6	4.3	265.3	246.1

Stratstone (Stratstone.com)

Stratstone is one of the UK's leading premium motor car retailers, with 84 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Mercedes-Benz, MINI, Morgan, Porsche and Smart vehicles as well as five motor-cycle franchises. This segment also contains the retail and service outlets for DAF commercial vehicles under the Chatfields brand name.

Stratstone delivered £26.9 million of operating profit in 2013, which is an increase of £1.0 million over the prior year. On a like for like basis, Stratstone increased gross profit in the new sector by 11%, with both the aftersales and used sectors increasing by 4% and 6% respectively. The new performance has been a key aspect of the improved performance, with new retail registrations increasing by 14%, which compares to 11% for the brands that we represent. New volume performance has been particularly strong from BMW, Jaguar, Land Rover and Mercedes-Benz. Used like for like volumes increased by 5% in the period, which maintains the consistent growth story for the Stratstone division. Aftersales results are also encouraging, with retail labour sales flat in the first half of the year, but accelerating to over 1% growth in the second half of the year on a like for like basis.

SEGMENTAL PERFORMANCE *Continued*

Evans Halshaw (Evanshalshaw.com)

Evans Halshaw is the UK's leading volume motor car retailer, with 132 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall vehicles.

Evans Halshaw's operating profit was £27.4 million in 2013, which is an increase of £0.4 million over the prior year. The division has been expanding organic capacity and resource in the used sector, which provides a platform for growth in 2014. On a like for like basis, used gross profit increased by 4%, with volume growth of 8%. Aftersales like for like gross profit increased by approximately 3% in the period, and similarly to Stratstone, the first and second half performances have noticeably reversed. Retail labour sales on a like for like basis declined by 0.8% in the first half, but increased by 5.0% in the second half of the year. New vehicle gross profit increased by £6.0 million in the period, on a like for like basis, as a result of volume improvements across the division. On a like for like basis, new retail volumes increased by 20% in the period, which is in line with the brands that we represent. Key improvements in new retail volume were from the Ford, Vauxhall, Renault, Peugeot and Hyundai franchises.

Quicks (Quicks.co.uk)

The Quicks business is our dedicated used car operation, encompassing the sale of used motor vehicles, together with associated aftersales activities. The business continued to improve performance with a £1.5 million improvement in profitability in the year. Used volumes increased by 4% and, importantly, used gross margin has improved by 140 basis points in the year.

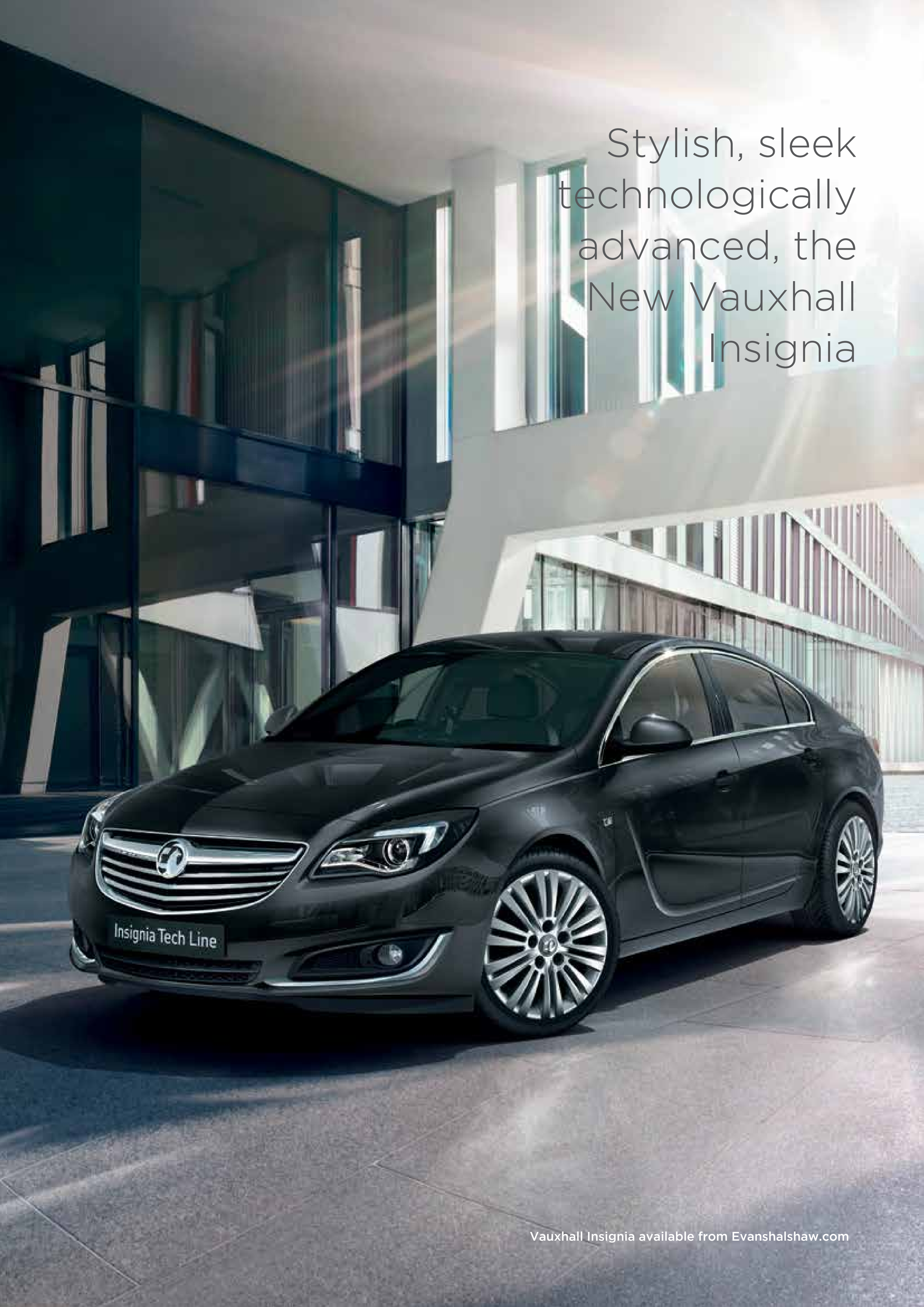
California

The California business has produced record results in 2013 from its nine franchise points in Southern California which represent the Aston Martin, Jaguar and Land Rover brands. Operating profit increased by £3.7 million in the year, due to improvements in the new and used vehicle sectors. New vehicle profitability hit record levels, increasing by 41% at gross profit level, aided by the success of new Range Rover and F-Type Jaguar product. Used gross profit increased by 28% in the period as we continue to grow this area of the business in California.

Support Businesses

Our Support businesses provide a broad range of services both to the Group and to external customers. The services are provided by a number of specialist businesses which consist of contract hire and leasing, dealer management systems and wholesale parts distribution.

Commentary on the markets and performance of each of the Support businesses can be found on page 16 in 'Our Markets' section.


Stylish, sleek technologically advanced, the New Vauxhall Insignia
Insignia Tech Line
Vauxhall Insignia available from Evanshalshaw.com

FINANCIAL REVIEW

FINANCIAL SUMMARY

PENDRAGON PLC (£m)	Year Ended 31 December2013	Year Ended 31 December 2012	YOY Change %
Revenue	3,848.9	3,635.1	+6%
Gross Profit	499.9	481.3	+4%
Operating Profit	77.2	67.9	+14%
Profit Before Tax	**38.9**	**34.0**	**+14%**
Underlying* Revenue	3,848.9	3,635.1	+6%
Underlying* Gross Profit	499.9	481.3	+4%
Underlying* Operating Profit	77.1	71.8	+7%
Underlying* Profit Before Tax	**44.2**	**36.4**	**+21%**
Underlying* Gross Margin (%)	13.0%	13.2%	-0.2%
Underlying* Operating Margin (%)	2.0%	2.0%	0.0%
Net Debt	139.6	216.4	+35%
Debt : Underlying* EBITDA Ratio	1.2	2.0	+40%
Underlying* Earnings Per Share (p)	2.3	2.0	+15%

* Underlying results exclude items that have non-trading attributes due to their size, nature or incidence.
† Restated to reflect the impact of IAS 19 (revised), as described in section 1 of the financial statements.

Commentary on the financial performance of the Group is summarised in the Chief Executive's Operational Review section above.

FINANCIAL REVIEW

UNDERLYING FINANCE COSTS

During the year, underlying net finance costs have fallen by £2.5 million to £32.9 million (2012: £35.4 million), primarily due to debt reduction.

NON-UNDERLYING ITEMS

Non-underlying items in 2013 relate to refinancing costs, property impairments and associated profits and losses on the disposal of businesses and property, pension scheme net finance expense and income from VAT settlements. The non-underlying items for the years ended 31 December 2013 and 31 December 2012 are as follows:

NON-UNDERLYING ITEMS (£m)

	Year Ended 31 December 2013	Year Ended 31 December 2012†
Refinancing Costs and Interest	(7.1)	-
Property Impairments and Loss on Disposals	(1.9)	(3.7)
Pensions	(1.3)	(1.4)
VAT Settlements	5.0	2.7
TOTAL	**(5.3)**	**(2.4)**

† Restated to reflect the impact of IAS 19 (revised) as described in section 1 of the financial statements.

Refinancing costs of £8.0 million were incurred in the period in relation to the raising of new debt facilities and the settlement of existing debt, and an interest refund of £0.9 million in relation to an historic acquisition was received.

In the period, property impairments and associated property and business disposal costs have reduced by £1.8 million, to a £1.9 million charge.

In the period, the Group received £2.0 million (2012: £0.8 million) of VAT refunds in respect of VAT overpaid on demonstrator vehicles in the period from 1973 to 1996, together with associated interest of £3.0 million (2012: £1.9 million).

The pensions net finance expense in the year was £1.3 million (2012 restated: £0.4 million). In the prior year, non-underlying expenses of £1.0 million were also incurred in connection with the merger of the Group's previous six schemes.

CASH FLOW AND NET DEBT

The Group has been focussing on achieving a strong balance sheet and lowering its debt profile. The following table summarises the cash flows and net debt of the Group for the years ended 31 December 2013 and 31 December 2012 as follows:

Summary Cashflow and Net Debt £m	Year Ended 31 December 2013	Year Ended 31 December 2012
Underlying Operating Profit Before Other Income	**76.8**	**71.8**
Depreciation and Amortisation	19.8	19.2
Non-underlying Items	2.0	0.4
Share Based Payments	1.6	0.9
Working Capital Movement	49.4	3.4
Movement in Contract Hire Vehicles	(14.3)	(17.9)
Operating Cash Flow	**135.3**	**77.8**
Tax (Paid) / Received	(0.9)	0.4
Underlying Net Interest Paid	(33.6)	(36.9)
Non-underlying Net Interest Paid & Refinancing Costs	(8.0)	1.9
Replacement Capital Expenditure	(19.5)	(17.1)
Acquisitions	(12.5)	(2.6)
Disposals	16.3	9.4
Dividends	(2.8)	-
Other	2.5	2.5
Reduction In Net Debt	**76.8**	**30.4**
Closing Net Debt	**139.6**	**216.4**

The Group's net debt fell from £216.4 million at 31 December 2012 to £147.3 million at 30 June 2013 and further reduced to £139.6 million at 31 December 2013. This reduction in net debt of £76.8 million was largely helped by strong working capital inflow, of £49.5 million in the year, largely as a result of £56.9 million of increased trade and other payables, of which £27.7 million relates to trade credit on new and used vehicle funding. Disposal proceeds of £16.3 million, made up of £9.0 million from business disposals and £7.3 million from property disposals, were up £6.9 million on the prior year.

Acquisitions primarily relate to an investment of £10.0 million in a new property investment company as described in the 'Property Joint Venture' section. The following table illustrates the debt : underlying EBITDA ratio for the years ended 31 December 2013 and 31 December 2012:

Debt : Underlying EBITDA Ratio £m	Year Ended 31 December 2013	Year Ended 31 December 2012	YOY Improvement
Underlying Operating Profit	77.1	71.8	+7%
Depreciation & Amortisation	40.9	38.7	+6%
Underlying EBITDA	**118.0**	**110.5**	**+7%**
Net Debt (see note 4.2)	**139.6**	**216.4**	**+35%**
Debt : Underlying EBITDA Ratio	**1.2**	**2.0**	**+40%**

CASH FLOW AND NET DEBT *Continued*

As a consequence of this lower debt level and strong EBITDA performance, the debt : underlying EBITDA ratio has fallen from 2.0 at 31 December 2012 to 1.2 at 31 December 2013. Having achieved our target debt : underlying EBITDA target of less than 1.5 times, we have set a new target range, in line with the Group's current financial position and performance. This reflects the appropriate balance of capital efficiency and growth potential, providing both a strong balance sheet and, with our strong cashflow generation, the ability to invest for the future.

REFINANCING AND COVENANTS

The debt refinancing of the Group was successfully completed in the period. This has considerably extended the maturity of the Group's debt and eliminated more costly and restrictive legacy debt and therefore places the Group's finances in a stronger position for the future.

The refinancing consists of a new £175 million 6.875% seven-year secured bond expiring May 2020 and a new £145 million four-year secured revolving credit facility provided by four banks expiring in June 2017. The margin on the new bank facility was initially 3.5%, and is determined by reference to the Group's ratio of net debt to underlying EBITDA (after stocking interest). Due to our strong debt reduction performance in the year, the Group will benefit from interest margin saving in 2014.

PROPERTY

Our property portfolio is an important aspect of our business, with the Group operating from both leasehold and freehold properties. In addition, through strategic investment choices, including the decision to close some franchise points, we have a number of vacant property assets which we hold for sale. At 31 December 2013, the Group had £161.3 million of land and property assets (2012: £165.7 million). Additionally, the Group held assets for sale of £13.1 million (2012: £23.6 million). Business disposals resulted in a loss on disposal of £1.1 million and property disposals resulted in a profit of £0.5 million. During the period, the Group disposed of 18 franchise points which were operationally surplus to requirements, and added three franchise points.

PROPERTY JOINT VENTURE

The Group occupies as tenant a number of properties that were previously held in a joint venture in which the Group held an investment. The value of investment in that joint venture was impaired to £nil in 2008. The arrangement was without recourse to the Group and the leases gave the usual protections to the Group as tenant. Due to a default in the debt obligations of the joint venture, it was placed into administration in November 2013. The Group has invested £10.0 million in a new company which acquired all of the property from the joint venture. This 6% stake in the new company generated a dividend of £0.3 million, received by the Group in the year.

FINANCIAL REVIEW

PENSIONS

The net liability for defined benefit pension scheme obligations has increased from £29.8 million at 31 December 2012 to £43.4 million at 31 December 2013. This increase is primarily a result of a combination of two factors: there was a reduction in the deficit of approximately £22.4 million as a result of positive asset performance and the benefit of higher discount rates; however, this reduction was more than offset by an increase of £36.0 million due to an amendment to the UK pension partnership arrangement (detailed further below and in note 5.1 to the financial statements) which results in the associated plan asset no longer being recognised for accounting purposes. Excluding this accounting change, the reported pension scheme deficit would have fallen to £7.4 million.

As a result of correspondence with the Conduct Committee of the FRC concerning their review of accounting for asset backed pension arrangements across a number of companies, the Group entered into discussions with the Trustees of the Pendragon Group Pension Scheme during the year which resulted in changes to the pension partnership agreement, specifically restricting the Scheme's ability to sell or otherwise transfer its income interest in the UK Pension Partnership without Pendragon's consent. The result of this amendment is that the income interest no longer meets the criteria for recognition as an IAS 19 plan asset at 31 December 2013. The Group has no intention of restricting transfer if such transfer were in the best interests of the Group and the Scheme and, in all other respects, there have been no changes to the income received by the Scheme or the value to the Scheme of the partnership asset.

DIVIDEND

The Company returned to the dividend list in 2013. In May 2013, a final dividend of 0.1p per share was paid in respect of 2012 and in October 2013 an interim dividend of 0.1p per share was paid in respect of 2013.

The Board has considered future dividend policy, particularly in view of the strong trading, comprehensive refinancing and debt reduction achieved in 2013. The Board is therefore delighted to announce an increase in dividend: it will propose a final dividend of 0.3p per share in respect of 2013, to be paid following approval at the AGM in April 2014. The Board expects to maintain the existing policy at paying the same level of interim and final dividends in respect of each year.

RISKS AND UNCERTAINTIES

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The principal risks identified were: failure to adopt the right strategy or failure of our adopted strategy to deliver the desired results, dependence on vehicle manufacturers for the success of our business, failure to meet competitive challenges to our business model or sector, European economic instability affecting the UK in particular impacting used vehicle prices, UK governmental spending constraints, changes to the type of vehicles sold or the amount of road use, availability of debt funding, funding requirements of the occupational pension scheme, significant litigation or regulator action against the Group, failure of systems, reliance on the use of estimates, failure to attract, develop, motivate and retain good quality team members, failure to provide safe working and retail environments and failure to control environmental hazards. The Board has recently reviewed the risk factors and confirms that they should remain valid for the rest of the current year. The Board considers the main areas of risk and uncertainty that could impact profitability to be used vehicle prices and economic and business conditions.

TREVOR FINN
Chief Executive
18 February 2014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HISTORY
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Aston Martin V12 Vantage S available from Stratstone.com

DIRECTORS' REPORTS

"An effective board keeps governance front-of-mind."

Mel Egglenton, Chairman

Overview of our Directors' Reports split into the following sections:

Get this report online: We encourage more shareholders each year to help us reduce the environmental impacts of report printing and distribution, by agreeing to receive an on-line only version. For our last distribution, we are pleased to report that over 62% of our shareholders had chosen on-line, rather than printed reports. We also make our reports, governance materials and policies available on our website at www.pendragonplc.com.

How to choose online-only information: If you are a new shareholder, unless you specify otherwise, you will be deemed to have automatically elected to receive this report electronically. If you are an existing shareholder and wish to switch to receiving this report only electronically, please telephone our registrars on 0871 664 0300 or e-mail shareholderenquiries@capitaregistrars.com to enable our registrars to update your preferences.

UK Corporate Governance Code: The UK Corporate Governance Code published by the Financial Reporting Council in September 2012 (Code) applies to the company and is available on the FRC website at www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf. In addition, the Financial Conduct Authority has yet to change the Listing Rules and therefore requires that certain compliance statements are made in relation to the predecessor edition of the Code, issued in June 2010. This report addresses the requirements of both editions of the Code. Throughout 2013, the company complied in full with the provisions of both editions of the Code, as applicable.

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on the following pages.

BOARD OF DIRECTORS

Mel Egglenton †
Non-executive Chairman (N*) (R)
Joined Pendragon on 1 December 2010. He is a chartered accountant and former regional chairman of KPMG Midlands and UK senior independent partner. Mel Egglenton is a non-executive director of, and advisor to, a number of private companies. Mel Egglenton succeeded Mike Davies as non-executive Chairman on 22 May 2013.

Malcolm Le May †††
Non-executive Director (A) (N) (R) (SID)
Joined Pendragon on 1 March 2006. His background is in investment banking with a particular interest in commercial property. He is also a senior advisor to Ernst & Young LLP and a non-executive director of each of RSA Insurance Group Plc and Provident Financial PLC.

Chris Chambers
Non-executive Director (A) (N) (R)
Joined Pendragon on 28 January 2013. He is a banker with particular expertise in retail and property. He is a non-executive director of Swiss Prime Site AG and a member of the supervisory board of Berenberg Bank (Schweiz) AG. He is executive chairman of Lonrho Limited and vice-chairman of Cembra Money Bank AG Switzerland.

Paul Hampden Smith ††
Non-executive Director (A*) (N) (R)
Joined Pendragon on 23 May 2013. He is a chartered accountant and a former finance director of Travis Perkins PLC. He is also a non-executive director and chairman of the audit committee of Bellway PLC.

Gillian Kent ††
Non-executive Director (A) (N) (R)
Joined Pendragon on 23 May 2013. Her executive career at Microsoft, culminated as head of their largest online business in the UK as Managing Director of MSN, UK. Her expertise is in building markets and brands for online consumer products and web-based applications.

David Joyce †††
Non-executive Director (A) (N) (R*)
Joined Pendragon on 1 March 2006. He is a civil engineer and the former chief operating officer of Vinci PLC. He is also a director of Taylor Woodrow International Limited.

Trevor Finn
Chief Executive
Joined the vehicle division of Williams PLC in 1982 and subsequently became divisional managing director. He was appointed chief executive of Pendragon prior to the demerger from Williams in 1989.

Martin Casha †
Chief Operating Officer
Joined the vehicle division of Williams PLC in 1982 and subsequently became a group general manager. He was appointed operations director of Pendragon in September 1995 and chief operating officer in November 2001.

Tim Holden
Finance Director
Joined Pendragon in June 2008 as group financial controller from KPMG LLP, where he was a senior manager advising on audit and transactional service matters. He is a chartered accountant. Mr Holden became finance director in December 2009.

Hilary Sykes
Corporate Services Director
Hilary Sykes is a solicitor and prior to joining Pendragon, advised the company as a corporate lawyer with Geldards LLP. She joined Pendragon in 1994 as company secretary and became a director in April 1999.

(A) member of the Audit Committee
(N) member of the Nomination Committee
(R) member of the Remuneration Committee
*indicates Committee chairman
(SID) senior independent director
† retiring by rotation at the AGM, proposed for re-election
†† retiring following initial appointment, proposed for election at the AGM
††† retiring and proposed for re-election owing to having more than eight years' service as a non-executive director

Secretary
Hilary Sykes

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Telephone 01623 725200

Registered number
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Website
www.pendragonplc.com

Registrars
Capita Asset Services
The Registry, 34 Beckenham Road
Beckenham, Kent, BR3 4TU

Auditor
KPMG Audit Plc

Banks
Barclays Bank PLC
Lloyds TSB Bank plc
Royal Bank of Scotland plc
Allied Irish Banks plc

Stockbrokers
Arden Partners Plc
Jefferies International Limited

Solicitors
CMS Cameron McKenna LLP
Geldards LLP

Shareholders' enquiries should be addressed to the Registrars at the above address (Tel: 0871 664 0454)

CHAIRMAN'S CORPORATE GOVERNANCE LETTER TO SHAREHOLDERS

Dear Shareholder

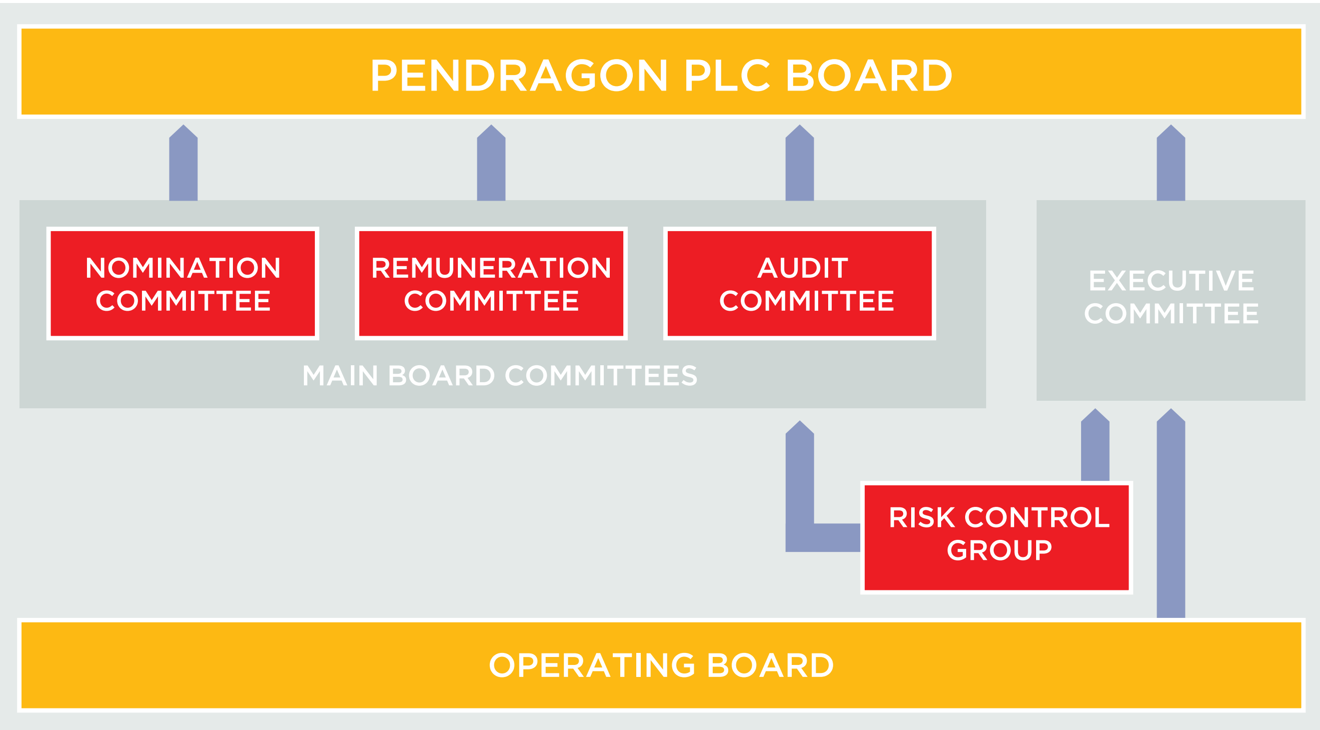
The Board is collectively responsible for the long term success of the company. We carry out our role of strategic leadership, setting corporate goals and overseeing the management of risk, through regular discussions and debates. We discuss governance matters at our regular formal board meetings and ensure the company operates to high governance standards. We hold informal meetings and operational visits to help form our strategic thinking. We receive comprehensive management information to allow us to assess progress against the company's plans and decide how best to mitigate risks faced by our businesses.

Since my appointment as Chairman designate in Spring 2013, I have overseen the completion of the planned refreshing of the Board's non-executive positions and, as Chairman, I have reviewed our planned agenda to ensure each member of the Board gains an appropriate level of understanding of our businesses and is able to contribute positively to the Board's effectiveness in all aspects of our role. I have also continued our engagement with shareholders, aiming to ensure that the company's objectives are being well articulated and understood, and that we keep in touch with shareholders' opinions.

The following pages explain in more detail how we, our Board, and our committees have carried out our duties during 2013. I hope you find this part of our report helpful. As always, I and the chairmen of the Board's committees, as well as other Board members, are available at our next AGM to answer questions on how we and the company are performing. I look forward to seeing some of you then.

Yours sincerely

Mel Egglenton



Within this section, ● indicates which risk factor detailed in the table on page 35 most closely relates to the governance matter described.

OUR BOARD STRUCTURE

The Board sets the strategy of the company and its principal trading businesses and ensures the company has in place the financial and human resources it needs to meet its objectives. So that the Board discharges its duties properly and decisions are made at the right level within the company, we have reserved certain key decisions exclusively to the Board. These are set out in a schedule of matters reserved for Board decision, reviewed and agreed by the Board annually.

The Chairman and the chief executive perform distinct leadership roles. The Chairman is primarily responsible for the effectiveness of the Board in all aspects of its role, whereas the chief executive is responsible for the implementation of the strategy set by the Board. The division of their responsibilities is set out in a document reviewed and agreed by the Board annually. Both this and the schedule of matters reserved for Board decision are found on the company's website www.pendragonplc.com.

The operational running of the company and its group is carried out by the executive directors, led by the chief executive, Trevor Finn and operating within prescribed delegated authority, such as capital expenditure limits. The executive directors meet regularly and facilitate the communication and implementation within the Group of the company's strategy. The chief executive and the chief operating officer, Martin Casha, each hold monthly operational review meetings with the leaders of the Group's motor divisions and support businesses, at which business performance and the effectiveness of the Group's business model and key operating controls are considered.

The Board also delegates certain of its duties to its Audit, Nomination and Remuneration committees, made up entirely non-executive directors. The work of these committees and the work of the Risk Control Group (RCG) (which is a committee of the executive board), are summarised on pages 58 and 62 to 67. Each operates within prescribed terms of reference determined by the Board, reviewed annually and displayed on the company's website www.pendragonplc.com.

HOW THE BOARD WORKED IN 2013

In 2013, the Board increased its strategic focus and held a series of structured strategy meetings in addition to its set Board timetable. We held one additional formal Board meeting, in April, specifically to discuss the refinancing of the Group, which successfully completed in May 2013. Our planned refreshing of the Board led to a greater than usual number of Nomination Committee meetings and Board discussions about selection, leading to the appointments of Paul Hampden Smith and Gillian Kent in May, each of whom joined the Board as an independent non-executive director.

Board Succession During 2013, the planned retirement of Mike Davies led to a vacancy in the role of company Chairman. Owing to the interest expressed by eligible non-executive directors, the Board as a whole (excluding the outgoing Chairman and the interested directors), rather than the Nomination Committee, undertook the process for the appointment of the Chairman of the company. The interested directors played no part in determining the selection process or the Board decision on this appointment. Having drawn up the role description and required capabilities for the appointment, the Board considered whether or not it would be appropriate to engage an external search consultancy or publicly advertise this role. At the time, an external search was already under way for two non-executive directors. The Board concluded that, in the circumstances, this was not appropriate for the Chairman's role. In reaching this view, the Board took account of the point reached in the company's financial facilities cycle and the importance of maintaining continuity as the company prepared for the renewal of its financial and banking facilities in the early part of the year. The Board concluded that the company's interests were best served by appointing as Chairman someone already familiar with its financing structure, as well as with the development of the company's strategy. Mel Egglenton was an internal candidate viewed by the Board as meeting the role criteria. Accordingly, he was appointed as Chairman in preference to seeking an external appointee.

EFFECTIVENESS AND EVALUATION

During the year, we reviewed our effectiveness as a Board, having regard to the principles and provisions of Section B of the Code and taking into account the findings of the evaluations described further below. Our 2013 internal evaluation, facilitated by the Chairman, aimed to address in turn the Code principles and provisions and to track progress on issues or questions emerging from our 2012 internal evaluation. In addition to completing questionnaires, based on the Code, evaluating the Board and each committee, and the Chairman, each non-executive and executive director attended a structured meeting with the Chairman, covering their individual responses and views on directors' effectiveness in their respective roles. The Chairman's own interview was with the senior independent director. The other directors were happy with the progress made since 2012 and the steps taken to facilitate Board strategic discussion.

In accordance with best practice, in December 2013, Mel Egglenton and the non-executive directors met without the executive directors present and the non-executive directors met without Mel Egglenton. Those directors appointed during 2013 expressed satisfaction with their induction and the functioning of the Board and its committees.

The Board as a whole concluded that we and our committees continue to function well and that the Chairman and each of the non-executive directors is contributing effectively and able to devote the amount of time required to attend to the company's affairs.

OPERATION OF THE BOARD (RISK FACTOR 1 page 35)

The Board takes collective responsibility for the company's long term success. To do this, our work focuses on developing strategy, setting objectives and measuring performance against them, identifying risks to the Group's businesses and ensuring effective measures to control and mitigate such risks are in place. The Board operates to a standing agenda which ensures that all our responsibilities are discharged in an appropriate manner and all matters requiring regular or annual review receive adequate scrutiny and debate. Our annual programme of reviews also features Board composition and performance, skill mix and balance, succession planning for executive and non-executive roles, and how the company's businesses operate in the wider social and environmental context. Further, detailed review of each of these areas occurs within the relevant Board committees. By formal and informal means, all directors have the opportunity to contribute effectively and raise matters of particular concern to them. Any unresolved concern about the running of the company would be raised at a Board meeting and recorded in the minutes of meeting. There were no such unresolved concerns in 2013.

BOARD ATTENDANCE CHART

DIRECTOR	BOARD
Mel Egglenton	12/12
Mike Davies (resigned 22 May 2013)	5/5
David Joyce	10/12
Malcolm Le May	10/11
Chris Chambers (appointed 28 January 2013)	10/11
Paul Hampden Smith (appointed 23 May 2013)	7/7
Gillian Kent (appointed 23 May 2013)	6/7
Trevor Finn	11/12
Martin Casha	12/12
Hilary Sykes	12/12
Tim Holden	12/12

Attendance is displayed showing the number of meetings attended out of the total a director was eligible to attend, e.g.11/12 means 11 out of 12 of such meetings were attended.

NON-EXECUTIVE DIRECTORS

The non-executive directors have particular responsibility for monitoring financial and performance reporting to ensure that progress is being made towards agreed goals. They monitor the performance of the executive directors and determine their remuneration and terms of service. Their responsibilities also include assessing the effectiveness of internal controls and the management of risk. To discharge these responsibilities, as well as attending Board and committee meetings, non-executive directors make themselves available for consultation between Board meetings, individually and collectively. This enables them to apply their own skills and expertise and to feed back to the Chairman informally. The non-executive Chairman ensures that at all times the Board performs effectively though a well-functioning combination of Board and committee meetings and other appropriate channels for strategic input and constructive challenge from non-executive directors. The Chairman holds meetings with the non-executive directors without the executive directors present when he deems it appropriate.

BOARD COMPOSITION

We review annually our Board's composition and that of its committees. Our review considers the adequacy and appropriateness of the skill-set of the existing Board, taking into account new developments in the company's business and strategy and the range of experience and expertise already represented. We also consider directors' attendance and ability to devote sufficient time to the company's affairs and the effective discharge of their responsibilities.

During 2012 we identified the need to appoint two new independent non-executive directors, the first of whom was Chris Chambers, who replaced Ian Coull in January 2013. In addition, following the decision to appoint as Chairman Mel Egglenton, upon Mike Davies' retirement in May 2013, a third vacancy for a non-executive director arose, to replace Mel Egglenton as chairman of the Audit Committee. In making appointments, the Board has regard to the need for the appropriate balance of skills, experience, independence and knowledge of the company to enable us as a Board and each committee to discharge our respective duties and responsibilities effectively. For each Board appointment, the Nomination Committee leads the search and selection process, with a view to recommending appointees to the Board and uses external search consultants except in circumstances where the Board deems it unnecessary. The Committee's work in 2013 followed these principles and is described on page 66. The process for the appointment of the current Chairman differed from the normal protocol and is described, together with the reasons for this, on page 53. The Board is committed to the progressive refreshing of its membership. In January 2013, David Joyce and Malcolm Le May had each served approaching seven years. Before its renewal at that time, Malcolm Le May's contract of appointment as a non-executive director was given particular scrutiny, owing to length of service. We concluded that it was essential that the Board has a balance of longer-served and more recent appointees so that the company continues to benefit from the deeper knowledge and understanding of the Group gained by the longer-served non-executive directors, whilst receiving fresh insights from those new to the Board. Each of David Joyce and Malcolm Le May was re-elected by shareholders in 2013 and will offer himself for re-election in 2014. The Board considers that, for 2014 their continued membership is important to the effectiveness of the Board, in particular given that three of the non-executive directors are relatively recent appointees. Details of those directors offering themselves for election or re-election in 2014 appear on page 51.

As at 18 February 2014 the Board is made up of four executive directors and six non-executive directors, one of whom is Chairman. Biographical details are on page 51. Gender details are given on page 59.

COMMITMENT AND DEVELOPMENT

Before appointment, non-executive director candidates are appraised of the commitment the role demands and are required to give assurances as to their ability to devote sufficient time to enable them to discharge their responsibilities effectively. The Board maintains a register of all Board members' interests, offices and appointments and receives details of changes to these as they occur. The Board reviews the register at each Board meeting, ensuring that impacts on Board members' time commitments to the company are fully assessed. Non-executive directors' appointment terms record the expected time commitment and they declare prior to appointment, and disclose as changes occur, their outside commitments. The annual individual evaluation of non-executive directors includes a review of their capacity to contribute positively to Board business and attendance at meetings and other Board events. Mel Egglenton's outside commitments were re-assessed at the time of his appointment as Chairman. The Board is satisfied that the Chairman and each of the non-executive directors is able to devote the amount of time required to attend to the company's affairs and his duties as a Board member and (where applicable) chairmanship of membership of committees. All Board members have access to professional development events and briefings appropriate to their role, organised by the company or its professional advisers. The Board periodically makes overseas visits for research or to view operations. A non-executive directors' visit to the Group's California operations is planned in February 2014. New directors receive a tailored induction designed to afford a comprehensive understanding of the strategy, business model and operations of the Group. This takes the form of operational visits to selected Group retail outlets, a tour of the support businesses' facilities and a head office based orientation session. The induction programme and supporting governance materials were comprehensively reviewed in 2013. The new non-executive directors' experiences of the 2013 programme were monitored to ensure it is fit for purpose, and their evaluation confirmed that they were satisfied with the quality of the induction experience.

INFORMATION AND SUPPORT

To enable effective decision-making and ensure all matters requiring regular or annual review receive adequate scrutiny and debate, the Board operates to a standing agenda and we structure our meetings to enable open discussion by all directors. To facilitate fully informed debate and the contribution of all members, the Chairman and company secretary ensure the Board's business is set timely to allow appropriately detailed information to be circulated to all directors in advance of meetings.

The company secretary attends all Board meetings and is responsible for advising the Board and its committees, through their respective chairmen, on corporate governance and matters of procedure, as well as facilitating the flow of information within the Board. All directors have access to support from the company secretary on matters of procedure, law and governance and also in relation to their own induction and professional development as Board members. All directors are entitled to take independent advice at the company's expense, and to have the company and other Board members provide the information required to enable them to make informed judgements and discharge their duties effectively.

INDEPENDENCE

To satisfy ourselves that a director is independent, the Board closely scrutinises all matters and relationships which might appear capable of affecting the director's judgment. In judging independence, we pay particular attention to a director's existing and recent former interests and to the length of his service on the Board.

To help us identify potential impacts on a director's independence, the Board maintains a register of all interests, offices and appointments which are material to be considered in our assessment of director independence. This is reviewed at every Board meeting. Each review from 2008 to date has concluded that there are not, in relation to any director, any relationships or circumstances regarded by the company as affecting his exercising independent judgement.

Each of the non-executive directors is determined by the Board to be independent, both now and throughout 2013. Prior to joining the Board in December 2010, Mel Egglenton disclosed that he is a former partner in KPMG, the company's auditor. At that time, the Nomination Committee and the Board as a whole took all appropriate steps to assure itself that he had not at any time had any connection with the audit of the company's or any member of its group's financial statements. His association with that firm ceased before his appointment to the Board. Neither at the time of his appointment nor since has he had any interest in KPMG.

The Board does not regard Mel Egglenton's former membership of or association with KPMG as affecting his independence in any way and believes he has at all times exercised, and continues to exercise, independent judgement. The Board reassessed Mel Egglenton's independence on his appointment as Chairman in May 2013 and considered him to continue to be independent at that time.

RE-ELECTION OF DIRECTORS

In accordance with the company's Articles of Association (Articles), directors appointed by the Board seek election at the first AGM following their appointment and all directors seek re-election by rotation at least once every three years. In accordance with best practice, non-executive directors who have served in excess of six years seek re-election annually and the reasons for the Board's proposal that they be re-elected are given on each occasion. For directors seeking re-election in 2014, these reasons are set out on page 90 under Business at the AGM.

AUTHORISATION OF CONFLICTS OF INTEREST

The Articles permit the Board to authorise directors' conflicts of interest if certain conditions are met. Directors declare at all Board and committee meetings all matters which might constitute a conflict of interest with the interests of the company. Board authorisation of a conflict can be sought, but can only be given by decision of those directors who have no interest in the matter being considered. In deciding whether or not to authorise a conflict, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the company. They are not obliged to give authorisation, and, if they choose to do so, may, at the time of giving an authorisation or subsequently, impose limits or conditions if deemed appropriate. Any conflicts considered by the Board, and any authorisations given, are recorded and subject to annual Board review and may be withdrawn or amended at any time by decision of the non-conflicted directors.

RISK MANAGEMENT AND INTERNAL CONTROLS (RISK FACTORS 6, 7 & 8 pages 38 & 39)

Risk Management The accountability framework described on pages 34 to 37 above is designed to ensure the comprehensive management of risk across the Group's businesses. The Board and any of its committees is able to refer specific risks to the RCG for evaluation and for controls to be designed or modified; this occurs in consultation with operational management. The communication and implementation of mitigating controls and corresponding systems of check is a function of operational management. The RCG oversees the effective implementation of new measures designed to mitigate or meet any specific risks or threats.

The RCG met three times in 2013. In addition to reviewing and updating the Group's corporate risk register, the RCG has added measures on data security and controls on transactional risks. It has also commissioned changes to the Group's business continuity plan. Following its review of the Group's systems of internal control, the RCG has reported to the Audit Committee that it has not identified any weakness in controls which would have a material effect on the Group's business. The Audit Committee has reviewed and accepted the processes adopted by the RCG in this respect and accepts its conclusions. Based on the RCG's detailed work, during the year the Board has performed a high level risk assessment, to ensure that (i) the principal risks and uncertainties facing the Group's business have been identified and assessed, taking into account any adaptations made to the Group's business strategies, and (ii) that appropriate mitigation is in place. The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to its business and the proper assessment and mitigation of those risks. An overview of the principal risks identified by the Board, and their mitigation, are on pages 36 to 39.

CORPORATE SOCIAL RESPONSIBILITY

PEOPLE AND DEVELOPMENT (RISK FACTOR 10 page 39)

We regard our people, combined with our mutually shared values and aspirations for the Group's business, as among our greatest assets. Enabling our people to contribute every day what they do best is essential to our success. Our industry-leading communications ensure that we transmit key messages swiftly to all within our business. Together with our carefully designed performance awards for many areas of our activities, these enable team members across the entire Group to readily understand our goals and ensure that both individuals and teams enjoy the recognition they deserve for outstanding achievement. The Group's scale creates opportunities for everyone to enhance their skills and experience in different areas of operation, affording scope to progress within our business, whether to develop in their own discipline or to attain leadership roles suited to them and their career aspirations.

We aim to grow the talent of our people to enable them and our business to thrive. During 2013, over and above specialist training accessed from our manufacturer partners, we internally delivered over 4,000 sessions of training to, and made 5,700 assessments of competence of, our team members. We also developed further our online training on a wide range topics: in 2013 our team members accessed approximately 26,000 hours of online training in subjects relevant to their roles and development. The appropriate application of apprenticeship schemes also benefits our business: during the year, 55 new apprentices began their programmes, bringing our entire apprentice population to 119. Our people development focus is reflected in the proportion of role vacancies filled internally: in 2013, the first year of measurement, we satisfied over 38% of all UK Group vacancies through internal hires. We aim to monitor and further improve on these achievements over time.

COMMUNICATION (RISK FACTOR 10 page 39)

The challenges presented by our size and geography and the importance of consistency drive us to devise and implement ever more innovative and timely means of communication. Live-streaming information bulletins and podcasts, internal website messaging and face to face presentations as well as electronic newsletters and video play-books keep team members up-to-date with the company's strategy and performance. Team members' views on our performance and services are actively gathered via targeted social media campaigns. Regular briefings for all team members at each location provide a forum for sharing both company and local information. At all levels, communications aim particularly to recognise the achievements of individual team members and celebrate outstanding business performance, through peer recognition and widely publicised awards. Each year we increase the breadth and variety of incentive programmes aligned to the Group's business objectives and we consistently experience increased team member engagement with these programmes.

DIVERSITY AND EQUALITY OF OPPORTUNITY (RISK FACTOR 10 page 39)

We are an equal opportunity employer, committed to ensuring that our workplaces are free from unfair discrimination within the framework of the law. Throughout all our attraction, recruitment, selection, employment and internal promotion processes, we aim to ensure that our team members achieve their full potential and that all employment decisions are taken without reference to irrelevant or discriminatory criteria. During 2013 we reviewed our means of attracting candidates for positions within the Group and made significant investments in our systems, processes and personnel dedicated to securing suitable, good calibre applicants for roles at all levels of our business. The company's Diversity and Equal Opportunities Policy is available at www.pendragonplc.com.

GENDER BALANCE

The table below gives the numbers of Group employees in each category, by gender, as at 31 December 2013. We assess the representation of females in senior management as capable of improvement. The talent management processes we have initiated in 2013 should enable us better to monitor gender representation and progression to leadership roles.

	FEMALE	MALE	TOTAL
Director	2	8	10
Senior manager	0	6	6
All employees	2,066	6,853	8,919

CORPORATE SOCIAL RESPONSIBILITY

HEALTH AND SAFETY (RISK FACTOR 10 page 39)

As a Group, we recognise our responsibility to all team members and others working in or visiting our facilities to provide, so far as is reasonably practicable, an environment which is safe and without risk to their health. Our policy is to identify and assess all potential risks and hazards presented by our activities and to provide systems and procedures which allow team members at all levels to take responsible decisions in their day to day work, in relation both to their own and others' health and safety. We promote awareness of potential risks and hazards and the implementation of corresponding preventative or remedial actions through our on-line health and safety systems, operations manuals and regular communications on topical issues. A clear hierarchy of responsibility is published to team members and reinforced through regular monitoring by a variety of means. We assess our safety record against relevant published benchmarks and target specific hazards for improved results through additional monitoring and processes promoting safe working. In 2013 the Group's UK businesses reported 24 RIDDOR accidents occurring in that year (2012:28). The company's Health and Safety Policy is available at www.pendragonplc.com.

COMMUNITY

We are predominantly a retail operator, with a tangible presence in the many communities our businesses serve. At a national level, the Group is a sponsor of and fundraiser for Hope for Tomorrow, a national cancer charity which brings vital chemotherapy treatments to patients near their homes through mobile units: www.hopefortomorrow.org.uk Our retail businesses also generate community involvement through local engagement, contributing to their local areas in a variety of ways. In addition, we hold regular charity fund-raising events at our headquarters and larger offices. Individuals and businesses organise events to support schools, hospitals and charities such as Comic Relief, Sport Relief, the Royal British Legion and the BBC's Children in Need Appeal. The company supports and encourages these activities and we welcome the opportunities they present for team-building within our businesses, engagement with the communities they serve and recognition of charitable causes with whom our team members and their families have personal connections.

RESPONSIBLE SOURCING (RISK FACTOR 7 page 38)

All our Group's sites are situated within the UK or US and at each of them we operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present any risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way, free from the exploitation of labour or other human rights abuses.

ENVIRONMENT AND GREEN HOUSE GAS REPORTING (RISK FACTORS 5 & 7 page 38)

Although not generally regarded as a high environmental impact sector, motor retailing and its associated after sales service activities carries with it a range of responsibilities relating to protection of the environment. Our policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground; and to manage responsibly the by-products of our activities, such as noise, waste packaging and substances and vehicle movements. During the year, we have continued to be registered with and have complied with our obligations under the Department for Environment, Food and Rural Affairs' carbon reduction commitment scheme. The company's statement of Environment Policy is available at www.pendragonplc.com.

CORPORATE SOCIAL RESPONSIBILITY

GREENHOUSE GAS EMISSIONS[1] (RISK FACTORS 5 & 7 page 38)

In 2013, our businesses[2] emitted 25,495 tonnes of carbon dioxide, or CO_2[3].

Our emissions are principally of carbon dioxide (CO_2), and are from the sources stated in the table:-

FOR THE PERIOD 1 JANUARY 2013 TO 31 DECEMBER 2013	
SOURCE:	TONNES OF CO_2
CO_2 emitted from facilities[4]	15,389
CO_2 emitted from driving activities[5]	10,106

Intensity ratio (tonnes of CO_2 per £k)[6]: £151.0k per tonne

Baseline for 2013 targets Since the Group has not previously reported on emissions, there are no prior years' emissions with which to compare our 2013 emissions. It is our intention to use the current year's data as the baseline data for future reporting periods.

REDUCING CARBON AND WASTE

During the year, we have made a concerted effort to assess and monitor our energy use and, where practicable, to implement measures designed to reduce our activities' environmental impact, one effect of which, over time, will be to reduce our carbon footprint. We continue, where practicable, to install LED lights in our sites; these use significantly less energy than conventional lighting. We seek to limit the duration of periods when full lighting illuminates our retail sites, consistent with adequate safety and security. In addition, other simple measures continue to improve our heating energy use and efficiency, such as ensuring workshop doors are closed when not in use or fitted with insulators. We seek to limit our paper consumption and waste, through increasingly paperless communications and systems.

TAX STRATEGY AND OBJECTIVE

As a responsible taxpayer, the Group is committed to establishing, maintaining and monitoring the implementation of an appropriate tax strategy. Our tax strategy is aligned with our objective of paying the correct amount of tax at the right time. Commercial transactions are therefore structured in the most tax efficient way but without resorting to artificial arrangements which we regard as abusive. There is an ethical dimension to achieving this objective. This ethical dimension reflects the need to mitigate the risk to the company's reputation which would arise from a tax strategy that entails aggresive tax planning.

[1] This section details our mandatory reporting of greenhouse gas emissions for the period 1 January 2013 to 31 December 2013. Disclosures comply with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

[2] Including both our UK businesses and estimated usage for our US businesses.

[3] Our methodology to calculate our greenhouse gas emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) published by the Department for Environment, Food and Rural Affairs. Our greenhouse gas emissions are measured in carbon dioxide or CO_2. Note that the CO_2 reported figure is actual CO_2. We have reported on greenhouse gas emissions arising only from those sources over which we have operational control, meaning within the company and its subsidiaries where we have full authority to introduce and implement our operating policies. In some cases, we have extrapolated total emissions by utilising available data from part of the reporting period, and extending it to apply to the full reporting period.

[4] We have used 2013 UK Government Conversion Factors for Company Reporting for the conversion of grid electricity.

[5] Emissions from driving activities comprises data verified internally, including estimates for distances travelled during test drives, transportation of vehicles and parts between sites, and business travel (excluding commuting by means which are not owned/controlled by us).

[6] We have selected £ revenue as our intensity ratio, as this is a relevant indicator of the Group's growth and, in our view, provides the best comparative measure over time.

AUDIT COMMITTEE

Full terms of reference of the Pendragon PLC Audit Committee are available at:
www.pendragonplc.com

Our Audit Committee comprises five independent non-executive directors

MEETINGS AND ATTENDANCE 2013	POSSIBLE MEETINGS	ACTUAL MEETINGS
Paul Hampden Smith (chairman)*	2	2
Malcolm Le May	3	3
David Joyce	3	3
Chris Chambers†	3	3
Gillian Kent††	2	1
Mel Eggleton**	1	1

* appointed as a director and chairman of the committee on 23.05.13
** ceased as a committee member on 22.05.13; thereafter attended two meetings by invitation, as Chairman of the company
† appointed as a director and a committee member on 28.01.13
†† appointed as a director and a committee member on 23.05.13

Key Responsibilities

- Monitors the integrity of the financial statements and formal announcements
- Reviews and approves the Annual Report and Accounts for adoption by the Board
- Recommends to the Board the selection of the external auditor and its terms of appointment and monitors its effectiveness and independence
- Reviews internal controls and risk management
- Monitors the effectiveness of the internal audit function
- Review and monitors whistleblowing arrangements

Regular attendees, at the discretion of the chairman of the Committee, include the finance director, group financial controller and group head of internal audit and representatives of the company's external auditor. The Committee is chaired by Paul Hampden Smith, who is considered by the Board as having recent and relevant financial experience. The Audit Committee meets at least three times a year and is supported by the company secretary, who also attends. As new chairman of the Committee in 2013, Paul Hampden Smith invited those executive directors who do not normally attend to be present for selected parts of the Committee's business, better to inform the discussion. This was welcomed by the Committee members.

Vauxhall Cascade available from Evanshalshaw.com

THE COMMITTEE'S WORK IN 2013

Review and approval of the 2012 financial statements, Annual Report and Accounts and interim results The Committee received the external auditor's memoranda on the 2012 financial statements and the unaudited 2013 interim results, discussed these with the auditor and in each case satisfied itself of the integrity of the financial statements.

The Committee considered the key audit risks, which were, for the 2012 results: valuation of goodwill, valuation of inventories, valuation of pension schemes liabilities, and judgements applied on taxation provisions and, for the 2013 results: valuation of goodwill, valuation of inventories, valuation of pension schemes liabilities, and judgements applied on taxation provisions.

- **Goodwill** The judgements in relation to asset impairment of goodwill largely related to the achievability of the assumptions underlying the calculation of the value in use of the business being tested for impairment, set out in note 3.1 to the financial statements. These primarily consist of the Group's forecasts from 2014 to 2017, which underpin the valuation process. The Committee considered the risk that goodwill could be materially overstated in the context of the sensitivity analysis, also set out in note 3.1. The Committee addressed these matters through receiving reports from management outlining the basis for the assumptions used, assessing the range and depth of information underpinning the assumptions and calculations and discussing this with the auditors. The Committee concluded that the judgements applied were appropriate.
- **Inventory** The Committee reviewed the judgements made in relation to the valuation of inventory, in particular used vehicle inventory. The Committee considered the risk that the value of inventory set out in note 3.6 to the financial statements could be materially overstated and whether or not an appropriate provision had been calculated. The Committee received a report from management which set out factors relevant to an assessment of used inventory valuation, including the level of inventory held across the business, the ageing of the inventory, the stock turn of the inventory and an analysis of market factors including the parc of used vehicles, the used vehicle market sales rate and historic movements in used vehicle prices. The Committee discussed the report from management with the auditors together with all auditor's findings. The Committee was satisfied that a comprehensive assessment of inventory valuation had been undertaken and concluded that the judgements applied were appropriate.

THE COMMITTEE'S WORK IN 2013 *Continued*

- **Pensions** The Committee considered the risk that the value of the pension scheme liabilities set out in note 5.1 to the financial statements could be materially under- or over-stated in the context of the sensitivity analysis in that note. The judgements made on pension scheme liabilities involved actuarial assumptions, including judgements in relation to long-term interest rates, inflation, longevity and investment returns, and were all made based on advice from the Group's pension adviser. The final calculations in respect of the Group's defined benefit pension scheme liability were performed by our pension scheme actuary. The Committee also considered the accounting treatment of the pension partnership which holds an interest in the Central Asset Reserve, both before and after the change in the partnership agreement, as described in note 5.1 to the financial statements. The Committee also discussed with the auditor the assumptions applied, in particular the findings of the auditor's own pensions specialist. The Committee concluded that the judgements applied were appropriate.

- **Taxation** The Committee considered the risk that amounts recorded in respect of taxation could be materially misstated. Tax disclosures are set out in the consolidated balance sheet and note 2.7 to the financial statements. The Committee has assessed the judgements made in relation to uncertain tax positions regarding the outcome of negotiations with and enquiries from HM Revenue & Customs. The Committee considered judgements made following discussion with the Group's tax advisers and the auditor. The Committee concluded that the judgements applied were appropriate.

Review of the appointment of the external auditor and performance evaluation KPMG Audit Plc (KPMG) was first appointed as the company's auditor in 1997 after a competitive tender, since when there has been no tender exercise for audit services. KPMG has applied audit partner rotation every five years. The Committee has conducted an annual evaluation of KPMG's performance as auditor. This evaluation, performed again in 2013, considered its length of tenure and audit partner rotation arrangements and an assessment of the audit firm's independence, having regard to the company's policy on the use of its auditor for non-audit work. It also covered, among other things, the adequacy of the external audit's scope, the quality control processes applied, the degree of the audit firm's challenge of key judgments and assessment of critical accounting policies, the nature of the audit firm's assessment of management representations and the quality of the communication of audit differences to the Committee.

The Committee's recommendation to the Board on the auditor's appointment is made on the basis of exclusively objective criteria, the ability of the audit firm to demonstrate its independence and its effectiveness in the performance of its duties. As part of its 2013 assessment of audit independence, the Committee considered again the historical relationship between KPMG and Mel Egglenton, as described on page 57. The Committee concluded that there are no existing or historical relationships which impact on the independence of KPMG as the company's auditor. The Committee considered whether or not to go out to competitive tender of the audit service and concluded that this is not necessary at this time. The Committee reported its findings to the Board and recommended the re-appointment of KPMG as the company's auditor. The Board accepted the Committee's findings and recommendation and confirmed that:

- it does not consider that any director's independence in considering this matter is impaired in any way and does not consider any Board member to have a potential or actual conflict of interest in relation to KPMG, either in regard to its appointment, fees, the evaluation of its performance, any decision as to competitive tender for audit services or any other matter;

- following review, the fees paid for audit services met the company's value-for-money criteria; and

- there are no matters warranting a competitive tender exercise in relation to the provision of audit services, but this position would change if there were to arise at any time any concerns as to the continuing independence or performance of the current audit firm.

Review of Non-audit Services Provided by the Company's Auditor The Committee reviewed the company's policy on its use of its audit firm for non-audit work. The company's objective is to ensure that all non-audit work is delivered on time, meets the company's aims and requirements, and demonstrates good quality and value for money. Accordingly, the auditor is not excluded from tendering for and undertaking non-audit services in areas considered by the Committee to be appropriate. However, non-audit services are not commissioned where the audit firm has any perceived actual or potential conflict of interest. The Committee considered reports on the extent and nature of non-audit work available, the allocation during the year of that work to accountancy and audit firms including KPMG Audit Plc and KPMG LLP, and the associated fees. The Committee's findings were reported to the Board as follows:-

THE COMMITTEE'S WORK IN 2013 *Continued*

- The Committee is satisfied that the company's existing policy continues to be appropriate and is operating effectively to provide the necessary safeguards to the independence of the external auditor.

- There has been no requirement for the provision of non-audit services arising in 2013 in circumstances which warranted a competitive tender exercise.

- No contract for non-audit services has been awarded to KPMG LLP in any circumstance of perceived or potential conflict of interest.

- The fees earned by KPMG LLP from non-audit services provided during the year are not, by reason of their amount or for any other reason, such as might impair its independence.

The Board accepted these findings. A full statement of the fees paid to KPMG Audit Plc and KPMG LLP for audit and non-audit services performed during the year is set out in note 2.5 to the financial statements on page 120. The company's policy on the use of its auditor for non-audit services is available at www.pendragonplc.com.

Review of Internal Audit Function When considering the effectiveness of the internal audit function, the Committee objectively evaluated its performance and obtained the views of management and of the external auditor. The external auditor assured the Committee of its ability to place reliance on the work of the internal audit team and the Committee concluded that the scope and quality of the internal audit work reflects an effective, well-functioning team.

Review of Risk Management and Internal Controls The Committee reviewed the effectiveness of the company's system of internal control and financial risk management, considered reports from the internal audit function, the external auditor and the RCG, whose work is detailed on page 58, and scrutinised the company's key risks register. It reported the results of its work to assist the Board in its own high level risk review performed during the year. This resulted in further development of the risk register to reflect all principal risks and uncertainties facing the company and its group and the corresponding mitigation. The Board then approved the revised risk register.

Review of Anti-bribery Controls and Whistleblowing Arrangements Whistleblowing data reports form part of the Committee's standing agenda. The Committee reviews at least annually the company's bribery risk and its arrangements for the effective deterrence, prevention, reporting and investigation of allegations of bribery. During the year, it approved the company's bribery risk assessment and, following review, recommended for the Board's adoption the company's anti-bribery policy statements and associated controls. It also routinely reviews the effectiveness of the company's procedures for the reporting and recording of suspected improprieties, fraud, money-laundering and dishonest acts. The Committee has done so during 2013 and, in respect of specific reported incidents, considered the adequacy of follow-up action and instigated improvements in related controls.

The company's Anti-bribery Value Statement was re-adopted during the year, and appears at www.pendragonplc.com, as do its Anti-Fraud, Theft and Bribery Policy and Anti-Money Laundering Policy.

NOMINATION COMMITTEE

Full terms of reference of the Pendragon PLC Nomination Committee are available at: www.pendragonplc.com

Our Nomination Committee comprises five independent directors and the non-executive chairman

MEETINGS AND ATTENDANCE 2013	POSSIBLE MEETINGS	ACTUAL MEETINGS
Mel Eggleton (chairman)*	2	2
Malcolm Le May	2	1
David Joyce	2	2
Chris Chambers†	2	1
Gillian Kent**	n/a	n/a
Paul Hampden Smith**	n/a	n/a

* appointed as chairman of the Committee on 23.05.13; the previous chairman was Mike Davies (retired, 22.05.13)
† appointed as a director and a Committee member on 28.01.13
**appointed as a director and a Committee member on 23.05.13

Key Responsibilities

- Reviews the Board's size, structure and composition and leads the process for appointments to the Board
- Undertakes annual performance evaluation of Board members
- Satisfies itself on succession planning at Board and senior below-Board levels

The Committee is chaired by Mel Egglenton, the Chairman of the company. It meets at least once a year and is supported by the company secretary, who also attends. Where the Committee's business concerns the appointment of the company Chairman, the senior independent director or another independent non-executive director chairs the meeting. The planned retirement of former Chairman, Mike Davies, led to a vacancy in the role of Chairman of the company in 2013. Recruitment to this role was not handled by the Nomination Committee owing to the fact that each of the three remaining independent non-executive directors was eligible to be considered for this appointment. Accordingly, the Board as a whole (excluding those non-executive directors who were candidates for the role of Chairman) dealt with the selection process, explained on page 53 above.

THE COMMITTEE'S WORK IN 2013

Review of Board Composition and Refreshing of the Board Having concluded the appointment as a non-executive director of Chris Chambers, in January, the Committee oversaw the process for the appointment to the Board of two further new non-executive directors. This entailed selecting and briefing an external executive search service provider, Lygon Group, drawing up role and attributes descriptions, reviewing potential candidates, interviewing them and taking up references and recommending to the Board suitable appointees. Lygon Group has no connection with the Group other than its activity as executive search services provider.

Recommendations of Appointees In the period, the Committee made two recommendations of selected candidates for appointment to the role of independent non-executive director. In arriving at its recommendations to the Board, the Committee considered the length of service of each existing non-executive director, the Board's composition and that of its committees and in particular, took account of the appointment of Mel Egglenton to the company Chairman's role and the requirement for a non-executive director to succeed him as chairman of the Audit Committee. The Board endorsed its selection of Paul Hampden Smith as a non-executive director and chairman of the Audit Committee, and of Gillian Kent as a non-executive director. For the reasons explained under Board Succession on page 53 above, the Board, rather than the Nomination Committee, undertook the process of selection of the new Chairman.

Diversity Although the company has not adopted a specific male / female target ratio for board composition, particular attention to gender balance was paid in the process for the latest appointments to the Board. The appointment of Gillian Kent as a non-executive director brings our board gender composition ratio to M: 8 / F: 2, an improvement on the prior year (2012 – M: 8 / F: 1). This remains the position at the date of this Report and would remain the case were shareholders to elect all the directors offering themselves for election at the company's 2014 AGM. In making Board appointments, the company adheres to its Diversity and Equal Opportunities Policy, which is found on the company's website at www.pendragonplc.com.

REMUNERATION COMMITTEE

Full terms of reference of the Pendragon PLC Remuneration Committee are available at: www.pendragonplc.com

Our Remuneration Committee comprises five independent non-executive directors and the non-executive chairman

MEETINGS AND ATTENDANCE 2013	POSSIBLE MEETINGS	ACTUAL MEETINGS
David Joyce (chairman)	5	5
Malcolm Le May	5	5
Mel Egglenton	4	4
Chris Chambers†	4	4
Gillian Kent††	1	1
Paul Hampden Smith††	1	1

† appointed as a director and a committee member on 28.01.13
†† appointed as a director and a committee member on 23.05.13

Key Responsibilities

- Determines and agrees with the Board the framework for remuneration of executive directors
- Determines the remuneration of the Chairman
- Ensures that executive directors are provided with appropriate incentives which align their interests with those of shareholders, and encourage enhanced performance in the short and medium term, as well as achievement of the company's longer term strategic goals
- Determines targets for any performance related pay schemes
- Seeks shareholder approval for any long term incentive arrangements

THE COMMITTEE'S WORK IN 2013

Full details of the work of the Remuneration Committee in 2013 are set out in the Directors' Remuneration Report on pages 68 to 87.

Remuneration Committee Chairman's Letter to Shareholders

Dear Shareholder

I am very pleased to present on behalf of the Board the Directors' Remuneration Report for the year ended 31 December 2013 and to highlight some of the main aspects of the Remuneration Committee's work during the financial year.

As I noted in my foreword to the 2012 Remuneration Report, the Remuneration Committee took the opportunity last year to undertake a detailed review of our remuneration arrangements, and, in light of a number of changes to our policy arising out of our review, completed a wide ranging shareholder consultation process prior to confirming remuneration policy for 2013. This constructive engagement, allied to the changes to policy implemented last year, enabled us to enter 2013 with confidence that our remuneration policy and practice remain appropriate.

Last year, we were able to incorporate some of the new-style reporting requirements into our report. The Remuneration Committee continues to remain mindful of the considerable interest that exists in executive remuneration. I anticipate interest this year will continue to be intense, both as a consequence of it being the first year that the new reporting requirements are compulsory, but also, more importantly, because remuneration policy will be put to a binding vote at the 2014 AGM. These changes mean that, as we enter a new phase in terms of the governance of executive pay, it is even more important to ensure that we succeed in aligning the interests of our executive directors with those of our major shareholders and investors.

Remuneration Policy

During the year under review, there have been no major changes to the Group's remuneration policy. The only change in relation to 2014, following further engagement with our major shareholders, is the removal of the annual cap on variable pay introduced last year, which restricted the costs of variable pay to 25% of the growth in profit in any given year. It was perceived that there would be a number of practical difficulties in operating this cap. For example, the actual costs of long-term incentive awards granted in a given year will not be known until the vesting of that award three years later. As a result, the Remuneration Committee intends to review the ongoing costs of remuneration on an annual basis to ensure that they remain within appropriate bounds. It should be noted that the costs of operating our incentive plans are taken into account when setting the demanding performance requirements that apply independently to both our short-term and long-term incentive plans. This change brings us into line with typical Official List remuneration practice, and, allied to the outcome of the Committee's work last year, is designed to ensure that the company has a remuneration policy suitable for the needs of our business over the next three year period under the new executive remuneration reporting rules. We will be pleased to present our remuneration policy (as outlined in this report) to our shareholders for approval at our forthcoming AGM.

2013 Outturn

2013 has been an outstanding year for the company: year on year underlying profit growth of 21% has been delivered, net debt has been reduced by 35% and we have again made further significant progress on maximising returns within our three key sectors of aftersales, used and new. As a result, for the year under review, bonuses were paid to the executive directors at 100% of salary. In addition, long term incentives awarded in 2011 achieved the requisite performance criteria for 100% vesting, and accordingly, these awards will vest in full, the first long term incentives awarded to our executive directors to vest in over eight years. The Remuneration Committee remains satisfied that awards made are appropriate, in what remains a difficult retail environment.

At last year's AGM, 99.67% of shareholders voted in favour of the 2012 Directors' Remuneration Report. Details of the votes cast are set out on page 87. I very much hope you will support the 2013 Directors' Remuneration Report at our forthcoming meeting by voting in favour of both resolutions to be put to shareholders at that meeting.

Yours sincerely

David Joyce
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

Pages 69 to 77 of this report set out policy for the company's directors' remuneration until 2017, subject to a binding vote by our shareholders (the effective date for the company's policy being the AGM date, and the policy being expected to run for a minimum of three years thereafter). Pages 78 to 87 describe annual remuneration and the relevant amounts paid in respect of 2013 performance, and are subject to an advisory vote of our shareholders at the company's 2014 AGM. The remuneration report as a whole has been prepared by the Remuneration Committee and approved by the Board. The report complies with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and has been prepared in accordance with the UK Corporate Governance Code and the UKLA Listing Rules.

The structure and content of the report remains compliant with the Regulations. The parts of the report which have been audited in accordance with the Regulations have been highlighted.

REMUNERATION POLICY REPORT

2013 Remuneration and Business Strategy

The company's strategy is to maximise the returns within the three key sectors of aftersales, used and new. The company's remuneration policy is designed to link executive pay with strategy, aiming to:

- attract and retain directors of the calibre necessary to run the business effectively with levels of remuneration that are arrived at responsibly and also reflect their individual contribution and value to the company;
- recognise the benefits of simplicity in the design of remuneration structures;
- weight remuneration towards variable pay which is aligned with the achievement of business-specific measures tied to the company's strategy;
- structure performance targets that are suitably challenging, the delivery of which is aligned with the interests of shareholders but that do not encourage undue financial or operational risk-taking; and
- encourage executives to build significant levels of share ownership, through the retention of vested share awards, which provide the greatest weighting in the overall remuneration package.

The Remuneration Committee will retain full discretion over all elements of variable remuneration, both in terms of annual bonus awards made and vesting, and long term incentive awards granted and vesting. The extent of this discretion is more particularly described on page 72.

The following table shows a summary of the individual elements of remuneration provided to the executive directors, including the split between fixed and variable pay, assuming target performance is achieved on variable elements:-

POLICY: FIXED ELEMENTS

REWARD ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE METRICS
BASE SALARY	Provide competitive remuneration that will attract and retain executives of the calibre required to take forward the company's strategy.	Reviewed annually effective from 1 January. The Committee sets base salaries taking into account: • the performance and experience of the individual concerned; • any change in responsibilities; • rates of pay in comparably sized companies; • rates of pay within the company's group. The finance director's salary has undergone a phased increase to market levels, recognising the level of experience he has built as a PLC Board Finance Director. The two year period of phased increases was concluded, with a 10% increase on last year effective from 1 January 2014, representing the final instalment of the phased increase. The chief operating officer's salary has been increased by 5% in order to ensure that his remuneration is commensurate with remuneration for comparable roles in the sector, effective from 1 January 2014.	Salaries with effect from 1 January 2014 are as follows: • chief executive officer- £463,500 (no change). • chief operating officer – £278,486 (5% increase). • finance director – £220,825 (10% increase) • corporate services director - £128,750 (no change) These salary levels will be eligible for increases during the three-year period that the Remuneration Policy operates from the Effective Date. During this time, salaries may be increased each year. Salary increases usually determined after taking due account of market conditions and any increases awarded to the wider workforce. Significant changes in role scope may require further adjustments to bring salary into line with new responsibilities. For recent joiners or promotions, whose pay was initially set below market rate, higher than usual increases may be awarded to bring them into line with market over a phased period as they develop in their role.	The Committee considers individual salaries at the appropriate Committee meeting each year taking due account of the factors noted in operation of the salary policy.
PENSION	To provide cost-effective long-term retirement benefits that will form part of a remuneration package that will attract and retain executives who are able to take forward the company's strategy.	Post-2009 executives: participation in a defined contribution pension scheme. Pre-2009 executives: deferred membership of defined benefit pension scheme.	Post-2009 executives: contribution of 10% of base salary. Pre-2009 executives: 26% of salary cash supplement in lieu of pension contribution.	Not applicable.
BENEFITS	To provide cost-effective, market competitive benefits.	Life assurance, private health cover, professional subscriptions, home telephone costs and (at executive's option) company cars.	Benefit levels are set to be competitive relative to companies of a comparable size. The cost of some of these benefits is not pre-determined and may vary from year to year based on the overall cost to the company in securing these benefits for a population of employees (particularly health insurance and death in service cover).	No changes.

POLICY: VARIABLE ELEMENTS

REWARD ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE METRICS
ANNUAL BONUS	Incentivises achievement of annual objectives which support the short term goals of the company, as reflected in the annual business plan.	25% of bonus earned is subject to compulsory deferral into the company's shares until such time as the company's share ownership guidelines are met. In such situations where bonus is deferred in to shares, an executive director may be entitled to receive dividend payments on such shares.	Maximum available bonus is equivalent to 100% of base salary. No award is made for flat or negative profit growth. Maximum bonus is available only for material outperformance of the company's annual business plan.	Annual bonus is earned based on performance against stretching company financial performance measures as set and assessed by the Committee. At present, financial measures used are adjusted profit and year-end net debt. A sliding scale of targets is set for each measure, with 12.5% of salary for each element being payable for achieving the relevant threshold hurdle. Adjusted profit and debt targets are set in the context of the company's overall business plan. Further conditions for payment of each element of annual bonus:- • On the profit metric, the company must have achieved not less than the adjusted profit of the previous financial year; • On the debt metric, year end net debt must be less than that of the previous financial year. The Committee retains discretion to refine the choice of performance metrics each year in light of developments in the company's strategy. In the event of a significant or material change, the Committee would engage in dialogue with shareholders and, if necessary seek a renewed shareholder approval by ordinary resolution. Clawback provisions will permit the company to reclaim payments in exceptional circumstances of misstatement or misconduct. These will be reviewed in due course, in the light of prevailing Financial Reporting Council guidance.
LONG TERM INCENTIVE PLAN	Designed to incentivise executives to achieve EPS growth over a three year period. EPS growth is the measure most appropriate to the company's strategy.	Potential to receive fully paid shares in the company (Performance Shares), which are the only available long term incentive. Awards are subject to performance conditions measured over three years and a service requirement. Awards made in 2014 will be subject to a guaranteed minimum holding period of 6 months on vesting. The remuneration committee intends to review the holding period for LTIP awards made from 2015 onwards.	Fully paid shares equivalent to a maximum of 150% of the executive's base salary, subject to strict vesting conditions. Entitlement to a dividend may exist on vested LTIP awards.	Awards vest at the end of a three year performance period, based on achievement of stretching underlying EPS targets. The underlying EPS targets operate subject to a positive total shareholder return (TSR) underpin. Threshold performance attracts vesting of 25% of the award with 100% of the awards being achieved for maximum performance. There is straight line vesting between performance points. The Committee retains discretion to refine the choice of performance metrics each year in light of developments in the company's strategy. In the event of a significant or material change, the Committee would engage in dialogue with shareholders and, if necessary seek a renewed shareholder approval by ordinary resolution. Clawback provisions will permit the company to reverse conditional share awards or claim proportionate repayments in exceptional circumstances of misconduct or misstatement. These will be reviewed in due course, in the light of prevailing Financial Reporting Council guidance.

Notes accompanying Remuneration Policy Table: explanations as to why certain performance measures were selected and how targets are set: 1. Base salary: base salaries are set by reference to the relative market data for the role, internal relativities and the individual's skills, experience and current salary. If a salary is initially set below the market rate, a phased re-alignment may be made over time. 2. Pensions: Trevor Finn, Martin Casha and Hilary Sykes ceased to be active members of the Pension Plan in 2006. Tim Holden participates in the defined contribution section of the Pendragon Group Pension Scheme, to which the company makes a contribution of 10% of his basic salary. 3. Benefits: benefit levels are set to be competitive relative to companies of a comparable size. 4. Annual bonus: targets of underlying (adjusted) profit (50%) and year end net debt (50%) were selected in 2013 as these measures correlate to measures used in the company's overall business plan. The split between net debt and profit, and the performance measures attributable to them, is determined by the Remuneration Committee, who seek external guidance on the appropriateness of any performance targets set relative to the market. 5. Long term incentive plan: performance shares are awarded up to a maximum of 150% of base salary. LTIP awards only vest at the maximum of 150% of salary if significantly challenging underlying EPS targets are attained. The Remuneration Committee selected underlying EPS as this remains the key internal measure of long term financial performance, as well as being well understood by the executives and our investors as providing a clear incentive to deliver the company's long term growth prospects. An underpin of creating absolute shareholder return has been adopted as this further aligns the interests of executives with those of shareholders. The vesting schedule outlines vesting percentage in relation to underlying EPS performance targets, which were set after taking into account internal scenario analysis, current market expectations and the current trading environment.

ANNUAL BONUS & LTIP POLICY: REMUNERATION COMMITTEE DISCRETIONS

The Committee will operate the annual bonus plan and the LTIP in accordance with their respective rules and in accordance with the Listing Rules, where relevant. Consistent with market practice, the Committee retains discretion in a number of respects with regard to the operation and administration of these plans. These include the following (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table):-

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or a payment;
- the determination of vesting and/or meeting targets;
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group;
- determination of good/bad leaver cases for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures and weighting, and targets for the annual bonus plan and the LTIP from year to year.

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (such as a material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

In approving this Remuneration Policy Report, authority is given to the company to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports (e.g. all historic awards that were granted under any LTIPs that remain outstanding, as detailed on page 84), and which remain eligible to vest based on their original award terms. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise. With regard to any promotions to executive director positions, the company will retain the ability to honour payments agreed prior to the executive's joining the Board, albeit any payments agreed in consideration of being promoted to the Board will be consistent with the policy on new appointments as an executive director detailed on page 75.

POLICY ON EXECUTIVE DIRECTOR SHARE OWNERSHIP

The company continues to recognise the importance of executive directors building significant holdings of the company's shares. The current share ownership policy was reviewed in autumn 2013. To encourage share ownership among executive directors joining the company, these require executive directors to aim, within three years of joining the Board, to have built a stake equal in value to 100% of their annual salary (200% in the case of the chief executive). Until such time as the policy is met, executive directors will be required to defer 25% of annual bonus into the company's shares and retain half the after tax number of vested performance shares received under long term incentive plans.

In addition, the LTIP awarded in 2014 will be subject to a guaranteed minimum holding period of six months on vesting. The Remuneration Committee intends to review this holding period requirement for LTIPs awarded in 2015 and thereafter.

ESTIMATE OF TOTAL FUTURE POTENTIAL REMUNERATION FROM 2014 REMUNERATION PACKAGE

The table and charts on the following pages provide estimates of the potential total future remuneration that would be received by each of our executive directors in accordance with the Directors' Remuneration Policy in the first year in which the policy applies. A significant proportion of remuneration is linked to performance, particularly at the maximum level. Potential outcomes based on different performance scenarios are provided for each executive director.

The charts on page 74 show how much each of the executive directors could earn under our Remuneration Policy, under different performance scenarios (based on their salaries as at 31 January 2014). The following assumptions have been made in respect of the performance scenarios:-

PERFORMANCE SCENARIOS

	THRESHOLD (PERFORMANCE BELOW EXPECTATIONS)	IN LINE WITH EXPECTATIONS	MAXIMUM
	Only the fixed pay[1] elements of the package are earned. No variable pay (annual bonus or LTIP vesting).	Fixed pay[1] plus a bonus at the threshold payment level (giving a maximum of 25% of the bonus opportunity) and vesting at the threshold level of the LTIP (threshold vesting being set at 25% of the maximum opportunity).	Performance meets or exceeds maximum. Fixed pay[1] plus maximum bonus (100% of the total bonus opportunity) and maximum LTIP vesting (100% vesting).
TOTAL PAY AS A PERCENTAGE OF BASE PAY	100%	162.5%	350%

[1]Fixed pay comprises base salaries, benefits and pension.

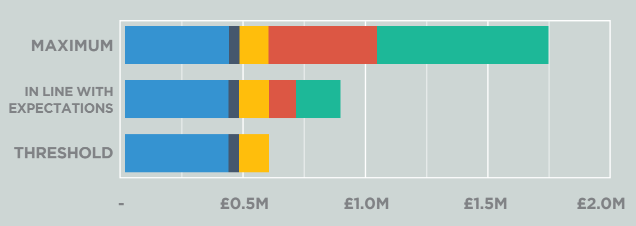
DIRECTORS' REPORTS

Estimates of total future potential remuneration from 2013 remuneration packages The charts below provide estimates of the potential future remuneration for each executive director in respect of the remuneration opportunity granted to them in 2013/14. Potential outcomes based on different performance scenarios are provided for each executive director.

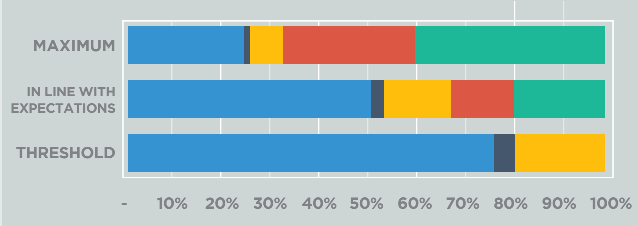
SALARY + BENEFITS + PENSIONS + BONUS + LTIP = TOTAL

TREVOR FINN

VALUE OF PACKAGE (£M)

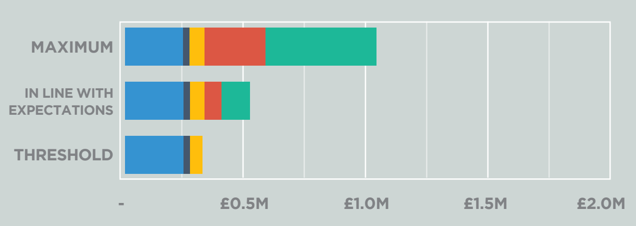


COMPOSITION OF OVERALL PACKAGE (%)

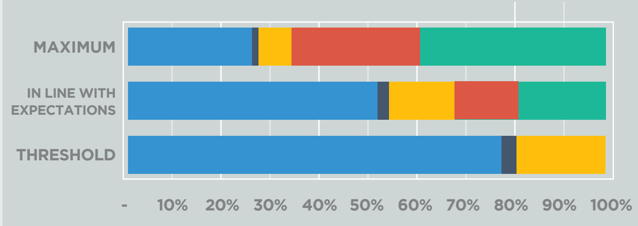


MARTIN CASHA

VALUE OF PACKAGE (£M)

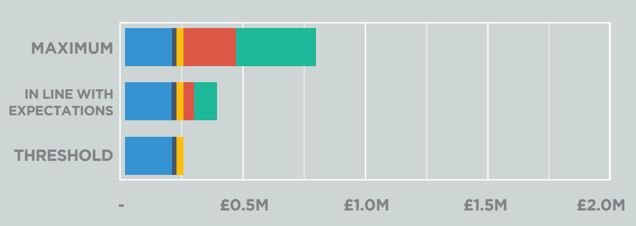


COMPOSITION OF OVERALL PACKAGE (%)

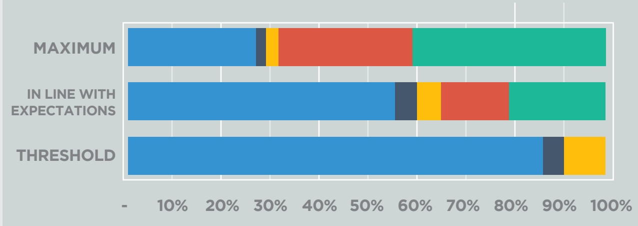


TIM HOLDEN

VALUE OF PACKAGE (£M)

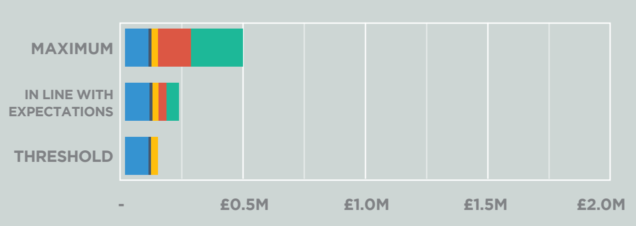


COMPOSITION OF OVERALL PACKAGE (%)

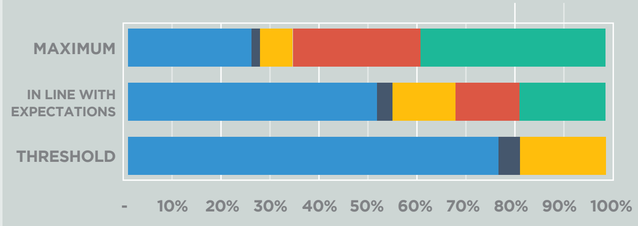


HILARY SYKES

VALUE OF PACKAGE (£M)



COMPOSITION OF OVERALL PACKAGE (%)



SALARY BENEFITS PENSIONS BONUS LTIP

NOTES: Salary: base salary as at 31 January 2014. Benefits: estimate based on benefits received during 2013. Pension: based on pensions contribution or supplement (as applicable) for 2013. Bonus: 2014 in line with expectations and maximum awards in accordance with plan rules. Nil payment for threshold performance. LTIP: estimated value in line with expectations and maximum vesting based on proposed 2014 performance measures. Nil payout for threshold performance. The scenarios above do not include any share price growth or dividend assumptions.

NEW APPOINTMENTS AS A DIRECTOR

The tables below set out the principles which the company applies when agreeing the components of a remuneration package for a newly appointed director.

POLICY: NEW APPOINTMENTS AS EXECUTIVE DIRECTOR	
REWARD ELEMENT	
BASE SALARY	Base salary is set by reference to relevant market data for the role, internal relativities and the individual's skills, experience and current salary. Where a salary is initially set below the market rate, a phased re-alignment may be made over time, subject to the executive's development in the role.
BENEFITS	Benefits will be set in accordance with the company's remuneration policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment, and flexibility is retained to pay for legal fees and other costs incurred by the individual in relation to their appointment.
PENSION	A defined contribution or cash supplement at the level provided to current executive directors.
ANNUAL BONUS	Eligible to participate in the annual bonus plan in operation, as described in the Remuneration Policy table, with any award being time pro-rated in relation to the proportion of service in the year. Different performance measures may be set initially for the annual bonus, taking in to account the responsibilities of the individual, and the point in the financial year that they joined.
LTIP	Eligible to participate in the LTIP in operation, as described in the Remuneration Policy table, on the same terms as other executive directors.
BUY OUTS	In order to facilitate external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeit on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy-out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions.

POLICY: NEW APPOINTMENTS AS NON - EXECUTIVE DIRECTOR	
REWARD ELEMENT	
FEES	Fees for the non-executive Chairman are determined by the Remuneration Committee, taking into account the experience and calibre of the individual. The non-executive Chairman is not permitted to take part in any discussions relating to his own fees. Fees for other non-executive directors are approved by the Board, on the recommendation of the Chairman and Chief Executive.
BENEFITS	Remuneration for non-executive directors is confined to fees alone unless a non-executive director elects to receive all or part of their fees in the form of benefits in kind, typically the provision of a motor vehicle for their use.
PENSION	No entitlement
ANNUAL BONUS	No entitlement
LTIP	No entitlement
BUY OUTS	No entitlement

POLICY ON NON-EXECUTIVE DIRECTORS' REMUNERATION

The company's policy on non-executive directors' remuneration is reviewed annually by the Board. The company considers that the remuneration of the non-executive directors is consistent with the time commitments associated with individual positions and wider market practice among companies of a comparable size. The current fee levels were established upon review in 2010 (with the exception of the fee payable for chairing the Audit Committee which was increased to £10,000 in 2011). The Chairman receives an all encompassing fee of £150,000, established in 2010, and reaffirmed in 2013. Non-executive directors' fees are structured as follows:-

FEE TYPE		FEE LEVEL	LAST CHANGE	CHANGE IN 2013
	BASIC FEE	£40,000	2011	None
SUPPLEMENTARY FEES:	**1. SENIOR INDEPENDENT DIRECTOR**	£4,000	April 2011	None
SUPPLEMENTARY FEES:	**2. AUDIT COMMITTEE CHAIRMAN**	£10,000	April 2011	None
SUPPLEMENTARY FEES:	**3. REMUNERATION COMMITTEE CHAIRMAN**	£5,000	January 2011	None
SUPPLEMENTARY FEES:	**4. NOMINATION COMMITTEE CHAIRMAN**	Nil	n/a	None
	CHAIRMAN FEE	£150,000	October 2010	None

The fee levels are reviewed on a periodic basis, and may be adjusted taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity

DIRECTORS' REMUNERATION REPORT

HOW EMPLOYEES' PAY IS TAKEN INTO ACCOUNT

Pay and conditions elsewhere in the Group were considered when finalising the current remuneration packages for executive directors. As well as overseeing participation in long-term incentives for below Board level team members, the Committee is kept updated during the year on salary increases within the Group, and the level of annual bonus awards. As a result, the Committee is aware of how typical employee total remuneration compares to the potential total remuneration packages of executive directors. No across-the-board pay increases have been awarded to the wider workforce in recent years, and this is also the case for executive directors' salaries.

The company has not specifically consulted with its employees on and no steps have been taken to seek employee views in relation to the setting of executive director Remuneration Policy.

HOW SHAREHOLDERS' VIEWS ARE TAKEN INTO ACCOUNT

The Board considers shareholder feedback received in relation to the AGM each year, at a meeting immediately following the AGM and any action required is built in to the Remuneration Committee's business for the ensuing period. This, and any additional feedback received from shareholders from time to time, is considered by the Committee and as part of the company's annual review of Remuneration Policy.

In 2012, the Remuneration Committee undertook a comprehensive review of Remuneration Policy in conjunction with the company's major shareholders. The outcome of this exercise formed the basis of the Remuneration Policy for 2013, which remains the policy as reflected in this report. The Chairman of the Remuneration Committee is in regular contact with our major shareholders at key points during the year to ensure we are fully aware of their prevailing thinking on our remuneration policies and on executive remuneration generally.

SERVICE CONTRACTS AND EXIT PAYMENTS

Executive directors are appointed under service contracts of indefinite duration (with a 12 month notice period), whereas non-executive directors each has a fixed term appointment renewable upon expiry, at the company's discretion. Since 2010, appointments of new non-executive directors and renewals of existing appointments have been on three-year fixed terms. When considering the re-appointment of a non-executive director, the Board reviews his attendance at and participation in meetings and his overall performance, and also takes into account the balance of skills and experience of the Board as a whole.

NAME	COMMENCEMENT	EXPIRY/ CESSATION	UNEXPIRED TERM AT DATE OF REPORT (MONTHS)
David Joyce	01.01.12	31.12.14	10
Malcolm Le May	01.01.13	31.12.15	22
Mel Egglenton	19.02.13	31.12.15	22
Chris Chambers	28.01.13	27.01.16	22
Paul Hampden Smith	23.05.13	22.05.16	27
Gillian Kent	23.05.13	22.05.16	27

SERVICE CONTRACTS AND EXIT PAYMENTS *Continued*

The service contracts of Trevor Finn, Martin Casha and Hilary Sykes commenced on 20 December 1999. Tim Holden's service contract commenced on 10 December 2009. Each may be terminated by the company giving one year's notice. The company would expect any future executive director appointments to contain the same terms as to notice periods. Service contracts are available for inspection at the company's registered office.

Previous years' annual reports disclosed that both the current executive directors and one non-executive directors terms of appointment contain legacy provisions for payments to be made to them if their employment with the company is terminated as a result of a take-over. These are being phased out, as the opportunity arises, on renewals of appointments for non-executive directors. New executive director appointment terms will not include any entitlement to any predetermined compensation or severance payments in the event of cessation in office or employment as a consequence of a take-over. Currently, as a result of phased renewals among the non-executive directors, only David Joyce's terms contain the take-over compensation provisions. David Joyce's terms will not contain these provisions upon any further renewal of his appointment. The proportions and calculations of these take-over entitlements are as follows:-

DIRECTOR COMPENSATION POLICY IN THE EVENT OF A TAKEOVER

ROLE	PROPORTION OF ANNUAL SALARY/FEES	PROPORTION OF ANNUAL PERFORMANCE RELATED PAY
Executive Director	75%	75% of maximum available plus a pro rata amount, equivalent to the unexpired performance period
Non-Executive Director	100%	Not applicable

The circumstances under which the current executive directors might leave service, other than the above, these are described below, with a description of possible payments that may be anticipated:-

NATURE OF BENEFIT	REASON FOR LEAVING		
	"Bad" leaver (e.g. resignation)	"Good" leaver (e.g. ill health or retire-ment)	Departure on Agreed Terms
SALARY IN LIEU OF NOTICE PERIOD	No salary in lieu of notice paid on resignations unless in the interests of the company to do so.	Up to a maximum of 100% of salary (e.g. redundancy). Normal practice would be for phased payment.	Treatment will depend on the circumstances of the leaver event, subject to the discretion of the Remuneration Committee, and the terms of any termination agreement.
PENSION AND BENEFITS	Provided for period of notice period served. No benefits provided for periods after actual cessation of service unless in the interests of the company to do so.	Up to one-year's worth of pension and benefits (e.g. redundancy). Possible payment of pension and insured benefits triggered by the leaver event (this would be governed by the terms of the benefits provided).	
BONUS	None	Yes (discretion to pay pro-rata based on company's performance)	
LONG-TERM INCENTIVE ENTITLEMENTS	Lapse	Discretion to allow up to full vesting, based on company's performance, with normal practice to be for pro rata vesting based on the proportion of the performance period served.	
OTHER PAYMENTS	None	Disbursements such as contribution to legal costs	

Non-executive directors are not entitled to any exit or severance payments, regardless of the circumstances in which they leave office.

FEES FROM EXTERNAL DIRECTORSHIPS

None of the executive directors holds office as a non-executive director of other companies other than in a voluntary or honorary (that is, unpaid) capacity. Accordingly, the company does not have a formal policy on whether or not an executive director may keep fees gained from holding an external non-executive directorship or similar. This would be decided on a case by case basis.

ANNUAL REPORT ON REMUNERATION

The Committee's work in 2013

- Determined annual bonus awards in respect of 2012 performance;
- Finalised the annual bonus plan terms for 2013;
- Determined 2013 long-term incentive award levels, and the associated performance targets and granted the awards;
- Determined and agreed with the Board the remuneration policy for the 2014-2017 period;
- Tested the performance targets for the company's 2011 Long Term Incentive Award vesting;
- Set 2014 executive director salary levels;
- Considered the corporate governance environment and the proposed regulatory changes to voting and reporting on executive directors' remuneration; and
- Noted remuneration trends across the Group.

Advisers

During 2013, the chief executive, Trevor Finn provided advice to the Committee but not in respect of his own pay. In addition, external advice was provided from New Bridge Street (a trading name of Aon Corporation) who are appointed advisers to the Committee, and Pinsent Masons LLP, the company's share incentive scheme legal advisors. Pinsent Masons and New Bridge Street and are considered to independent. In 2013, fees of £23,750 were paid to New Bridge Street and fees of £12,900 were paid to Pinsent Masons neither of whom provided any other services to the Group. The secretary to the Committee is Richard Maloney, the group solicitor.

DIRECTORS EMOLUMENTS

EMOLUMENTS PAID OR PAYABLE TO THE DIRECTORS OF PENDRAGON PLC WERE	2013 £'000	2012 £'000
Remuneration	2,762	2,212
Gains made on vesting of LTIP awards	0*	0
TOTAL	2,762	2,212

*Excludes 2011 LTIP, which does not vest until April 2014.

Total Remuneration for 2013

SALARY + BENEFITS + PENSIONS + BONUS + LTIP = TOTAL

What did the Directors earn in the 2013 financial year?

DIRECTORS' EMOLUMENTS AND TOTAL REMUNERATION 2013, (AUDITED) (£'000)

EXECUTIVE DIRECTORS	Salary	Committee Chair Fees	Benefits[1]	Pension[2]	Bonus[3]	LTIP[4]	Total Emoluments 2013	Salary	Committee Chair Fees	Benefits[1]	Pension[2]	Bonus[3]	LTIP[4]	Total Emoluments 2012
Trevor Finn	464	-	14	121	464	2,055	3,118	464	-	22	121	250	0	857
Martin Casha	265	-	10	67	265	1,142	1,749	258	-	10	67	139	0	474
Tim Holden	201	-	13	21[2]	201	809	1,245	183	-	13	18[2]	99	0	313
Hilary Sykes	129	-	7	33	129	571	869	129	-	7	33	70	0	239
NON-EXECUTIVE DIRECTORS	**Fees**	**Committee Chair Fees**	**Benefits**	**Pension**	**Bonus**	**LTIP**	**Total Emoluments 2013**	**Fees**	**Committee Chair Fees**	**Benefits**	**Pension**	**Bonus**	**LTIP**	**Total Emoluments 2012**
Mel Egglenton	107[5]	4[6]	-	-	-	-	111	40	10	-	-	-	-	50
David Joyce	40	5	-	-	-	-	45	40	5	-	-	-	-	45
Malcolm Le May	40	4	-	-	-	-	44	40	4	-	-	-	-	44
Chris Chambers	37	-	-	-	-	-	37	-	-	-	-	-	-	-
Paul Hampden Smith[8]	25	6	-	-	-	-	31	-	-	-	-	-	-	-
Gillian Kent[8]	24	-	-	-	-	-	24	-	-	-	-	-	-	-
Mike Davies[9]	63	-					63	150	-					150
Ian Coull[10]	3	-					3	40	-					40
TOTAL	**1,398**	**19**	**44**	**242**	**1,059**	**4,577**	**7,339**	**1,344**	**19**	**52**	**239**	**558**	**0**	**2,212**

[1]Benefits in kind include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and provision of up to two cars (at the director's election), one of which is fully expensed. [2]Salary supplement in lieu of employer pension contribution, or in the case of Tim Holden, company contribution to defined contribution pension scheme of 10% of basic salary (£20,750 in 2013, £18,300 in 2012). Trevor Finn, Martin Casha and Hilary Sykes ceased to be active members of the Pendragon defined benefit Pension Plan in 2006. Whereas Martin Casha and Hilary Sykes remain as deferred members, entitled to a deferred pension calculated up to the date of their leaving the Pension Plan, Trevor Finn elected to take early retirement benefits from 08.02.08 and is therefore a pensioner member. [3]Bonus Award for 2013 total equivalent to 100% of base salary – see pages 80 to 81 for more detail. [4]The performance conditions for the LTIP, awarded in 2011 have been achieved in full and consequently these will vest in their entirety on 05.04.14. The sterling value of the LTIP awards shown above is based on the number of shares vesting multiplied by the market value as at 31.12.13, which was £0.3425, and is therefore an estimate of the potential monetary value of the LTIP awards. The exact monetary value of these LTIP awards will be determined by the prevailing share price at date of vesting. [5]Mel Egglenton was appointed Chairman on 23.05.13. Accordingly, his fees comprise of basic non-executive director and audit committee chairman fees up to 23.05.13, and non-executive chairman fees for the period thereafter up and until 31.12.13. [6]Mel Egglenton's fee for chairing the Audit Committee applied from 01.01.13 to 22.05.13, when he stood down from this role. [8]Fees for Paul Hampden Smith and Gillian Kent applied from 23.05.13, when they were appointed as non-executive directors. [9]Mike Davies stood down as Chairman on 23.05.13. Accordingly, his fees are for the period 01.01.13 to 23.05.13. [10]Ian Coull resigned from the Board on 28.01.13. Accordingly, his fees are for the period 01.01.13 to 28.01.13.

DIRECTORS' REMUNERATION REPORT

PENSIONS

The Pendragon Pension Plan (Pension Plan) is established for the benefit of the Group's eligible employees. The Pension Plan operates through a trustee company which holds and administers its assets entirely separately from the Group's assets. There is no direct investment in Pendragon PLC. Trevor Finn, Martin Casha and Hilary Sykes ceased to be active members of the Pension Plan in 2006. Tim Holden participates in the Pendragon Group Pension Scheme, a defined contribution pension scheme, to which the Company makes a contribution of 10% (£20,750 in 2013) of his basic salary, for his benefit. The non-executive directors are not eligible to participate in the Pension Plan or the Pendragon Group Pension Scheme

DIRECTORS' PENSION ENTITLEMENTS (AUDITED)

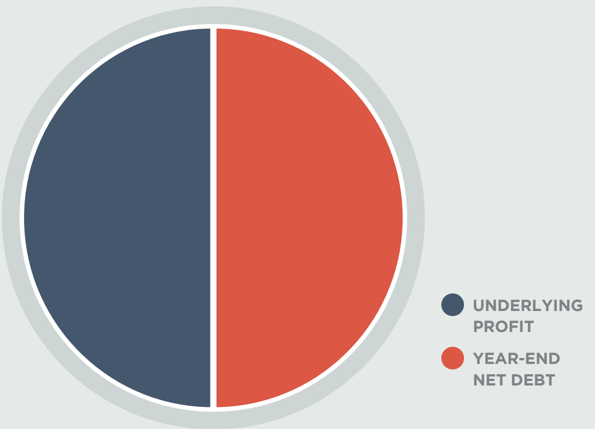
£000	TOTAL ACCRUED PENSION ENTITLEMENT AT 31.12.2013	TOTAL ACCRUED PENSION ENTITLEMENT AT 31.12.2012	NORMAL RETIREMENT DATE
Martin Casha	163	159	28.04.2025
Hilary Sykes	52	51	30.05.2025

PERFORMANCE RELATED PAY FOR 2013

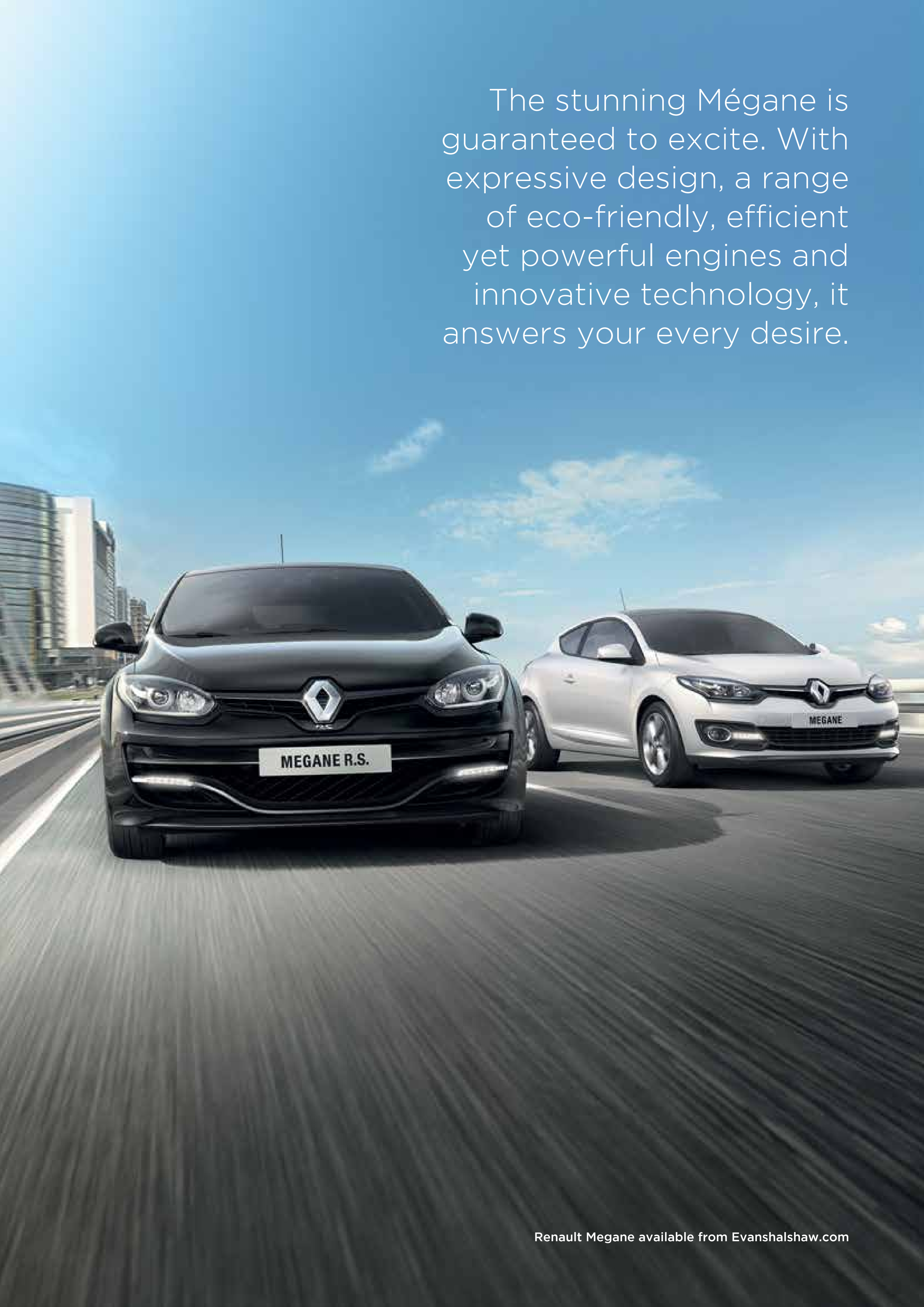
The Remuneration Committee set targets it considered to be measurable and appropriately stretching. For 2013, the maximum available annual bonus opportunity was 100% of base salary, with this maximum payment only achievable for performance in excess of the company's strategic plan.

For 2013, payouts were for achieving demanding performance, measured against underlying (adjusted) profit (50%) and year-end net debt (50%). This structure for bonus opportunity for 2013 reflects both the investor feedback received following the 2012 AGM, and the competitive market in which the company currently operates. Details of the percentages of salary payable at threshold, target and maximum are set out in the Remuneration Policy table below.

BALANCE OF MEASURES FOR PERFORMANCE RELATED PAY 2013



PERFORMANCE ACHIEVED	UNDERLYING PROFIT: % OF SALARY PAYABLE	DEBT: % OF SALARY PAYABLE
Threshold (10% below target, must exceed prior year's result)	12.5%	12.5%
Target	31.25%	31.25%
Maximum (10% above target)	100%	100%


The stunning Mégane is guaranteed to excite. With expressive design, a range of eco-friendly, efficient yet powerful engines and innovative technology, it answers your every desire.
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PERFORMANCE RELATED PAY FOR 2013 *Continued*

For the year ended 31 December 2013, the Committee determined the following performance outturn:-

	BELOW THRESHOLD	BETWEEN THRESHOLD AND TARGET	BETWEEN TARGET AND MAXIMUM	ABOVE MAXIMUM	% OF BONUS
Underlying profit				✓	50%
Net debt				✓	50%

MEASURE	PERFORMANCE REQUIRED			ACTUAL	PAYOUT
	THRESHOLD	TARGET	MAXIMUM		
Underlying profit	> £36.4m	≥ £39.3m	≥ £43.68m	£44.2m	50%
Net debt	< £209.0m	≤ £190.0m	≤ £171.0m	£139.6m	50%
TOTAL BONUS ACHIEVED AS A PERCENTAGE OF SALARY:					100%

For the year ended 31 December 2013, the Remuneration Committee determined that, since over 100% of the underlying profit performance metric had been achieved, and that over 100% of the net debt target had been achieved, total annual performance related pay for each director would be 100% of salary, based on the salary earned by each executive director during the year under review.

PERFORMANCE RELATED PAY FOR 2014

The annual bonus for the 2014 financial year will operate on the same basis as for the 2013 financial year (save for the removal of the annual cap on variable pay) and will be consistent with the policy detailed in the Remuneration Policy section of this report in terms of the maximum bonus opportunity, deferral and clawback provisions. The performance metrics selected are underlying profit and year-end net debt, with an equal weighting given to each. Underlying profit and year-end net debt targets have been set to be challenging relative to the 2014 business plan. The targets themselves, as they relate to the 2014 financial year, are considered to be commercially sensitive, and we do not publish details of these in advance.

LONG TERM INCENTIVE AWARDS MADE IN 2013

In March 2013, the executive directors were granted a performance award equivalent to 100% of base salary under the Pendragon Long Term Incentive Plan (LTIP), first adopted in 2006. At the 2013 AGM, in conjunction with certain adjustments which had the effect of reducing the variable pay opportunity, the company's shareholders approved amendments to the rules of the LTIP, such that the individual limit under which the maximum total market value of shares over which performance awards may be granted was increased to 150% of base salary. Consequently, in May 2013, the executive directors were granted a further performance award equivalent to 50% of base salary under the LTIP bringing the total performance award to each executive director for 2013 to 150% of base salary in the aggregate.

The effect of the implementation of the annual cap on variable pay for the 2013 LTIP Awards is such that 56% are available to vest in 2016 (subject to satisfaction of performance conditions). The annual cap on variable pay will not apply to LTIP awards made from 2014 onwards.
Full details of the performance awards made are displayed in the table on page 83.

The Remuneration Committee considers that the LTIP provides the most appropriate incentive and alignment of executive award with shareholders' interests. Vesting of LTIP performance awards remains conditional on challenging performance targets being achieved.

For the 2013 LTIP, vesting of performance awards will take place, subject to underlying EPS targets (measured from the 2012 underlying EPS result over a three year performance period) so that it will be actual underlying EPS achieved in the financial year ending 31 December 2015 that determines vesting, as follows:

LTIP 2013 PERFORMANCE CONDITIONS

2015 UNDERLYING EPS*	PERCENTAGE VESTING
Below 2.45 pence	Nil
2.45 pence	25%
2.88 pence	100%

Straight line vesting between performance points. *Underlying EPS targets are based on achieving EPS growth over RPI (+4% for threshold vesting and +10% for 100%/full vesting) . If the performance condition is not satisfied, none of the LTIP awards will vest. The above table assumes RPI of 3%.

LONG TERM INCENTIVE AWARDS MADE IN 2013 (AUDITED)

Director	Award	Type	No. of Shares[3]	Face value (%age of salary)	Performance Condition	Performance Period	% vesting at threshold performance
Trevor Finn	Performance	Nil Cost Option	2,934,528	£695,250 (150)	Underlying EPS growth over RPI[1]	3 financial years ending 31 December 2015[2]	25
Martin Casha	Performance	Nil Cost Option	1,679,201	£397,837 (150)	Underlying EPS growth over RPI[1]	3 financial years ending 31 December 2015[2]	25
Tim Holden	Performance	Nil Cost Option	1,270,995	£301,125 (150)	Underlying EPS growth over RPI[1]	3 financial years ending 31 December 2015[2]	25
Hilary Sykes	Performance	Nil Cost Option	815,146	£193,125 (150)	Underlying EPS growth over RPI[1]	3 financial years ending 31 December 2015[2]	25

1. Underlying EPS performance conditions for the 2013 LTIP are described in detail on page 82.
2. It will be actual underlying EPS achieved in the financial year ending 31.12.15 that determines vesting; see table on page 83.
3. As a result of the application of the annual cap on variable pay to the 2013 LTIP award, only 56% of the award will be capable of vesting, regardless of whether or not the applicable performance conditions are achieved.

LONG TERM INCENTIVE AWARDS VESTING IN 2013

The Remuneration Committee assesses the extent to which the performance conditions that apply to the performance related elements of the remuneration framework have been met. This ensures that incentive payments are made following independently audited results being known.

Following an assessment of the performance conditions applicable to the 2011 LTIP award, the Remuneration Committee determined that the relevant performance conditions to achieve 100% vesting were satisfied, (namely that 2013 cumulative adjusted EPS for 2011, 2012 and 2013 be 5.89p or above): actual cumulative adjusted EPS was 6.6p. The 2011 LTIP award will therefore vest in full on 5 April 2014, as detailed in the table on page 84.

LONG TERM INCENTIVE AWARDS FOR 2014

It is proposed that the LTIP award for the 2014 financial year will operate on the same basis as the 2013 LTIP award (save for the removal of the annual cap on variable pay) and will be consistent with the policy detailed in the Remuneration Policy section of this report in terms of the maximum LTIP opportunity, deferral and clawback provisions. In addition, a guaranteed six month minimum holding period for vested LTIP shares will be introduced. This means that for awards granted in 2014, assuming the award vests in 2014, a holding period of six months will apply before any shares can be sold.

The performance metric selected is underlying EPS, relative to the 2014 business plan and projected forward over the three-year measurement period. The targets themselves, as they relate to the 2014 financial year, are considered to be commercially sensitive, and as such we do not publish these in advance.

2014 LTIP awards will be at the maximum 150% of salary level, with vesting taking place subject to underlying EPS targets shown in the table below (measured from the 2013 underlying EPS result over a three-year performance period) so that it will be actual underlying EPS achieved in the financial year ending 31 December 2016 that determines vesting.

ACTUAL EPS YEAR ENDED 2016	VESTING %
Less than RPI + 4%	0%
RPI + 4%	25%
RPI + 10%	100%
Straight line vesting between performance points	

DIRECTORS' SHAREHOLDINGS (AUDITED)

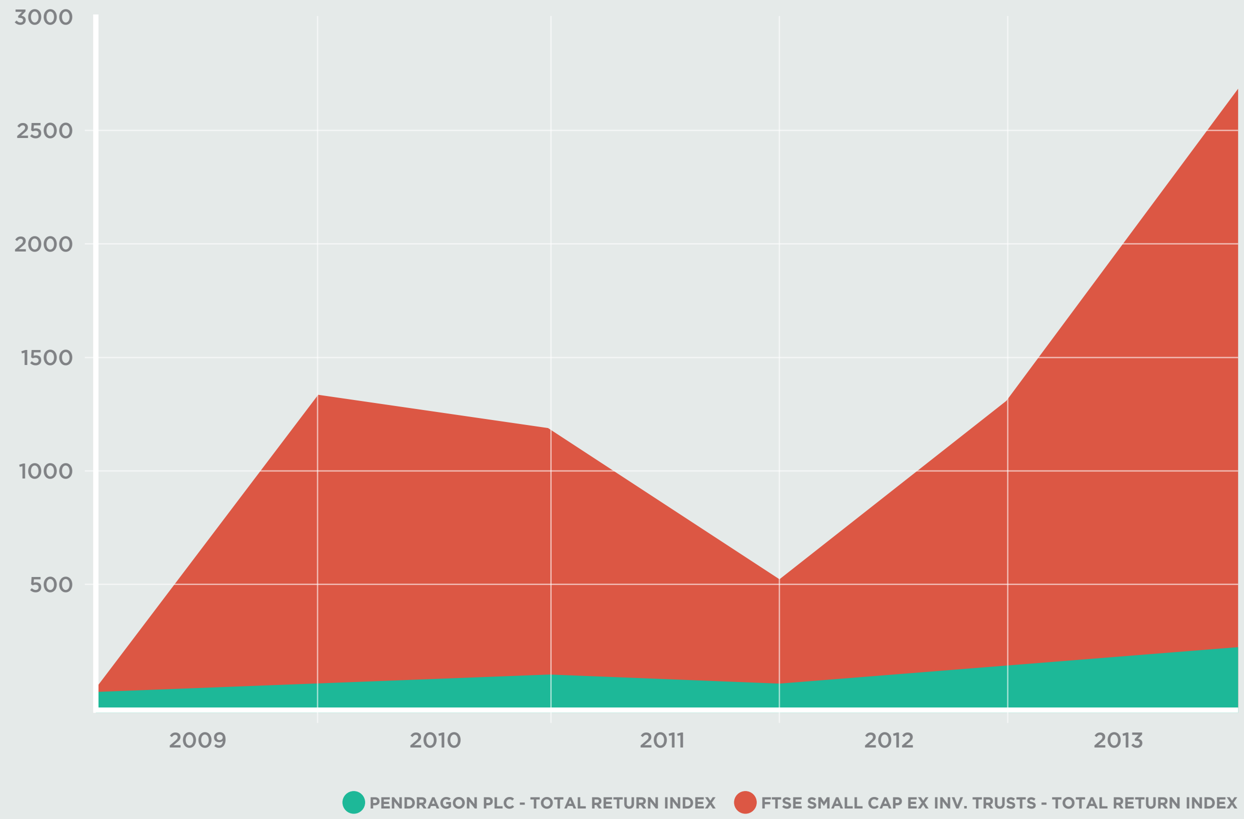
	LEGALLY OWNED AS AT 31 DEC 2013	LEGALLY OWNED AS AT 31 DEC 2012	SUBJECT TO DEFERRAL UNDER THE ANNUAL BONUS PLAN		SUBJECT TO PERFORMANCE CONDITIONS UNDER THE RELEVANT LONG TERM INCENTIVE PLAN			VESTED BUT UNEXERCISED SHARE OPTIONS	PERCENTAGE OF SALARY HELD IN SHARES UNDER SHAREHOLDING GUIDELINE[5]	GUIDELINE MET AS AT 31 DEC 2013
			2013 LTIP AWARD	2012 LTIP AWARD	2011 LTIP[1] AWARD	2012 LTIP[2] AWARD	2013 LTIP[3,4] AWARD			
Trevor Finn	34,317,691	34,317,691	No	No	5,999,993	6,008,331	2,934,528	0	2,536%	Yes
Martin Casha	7,135,869	7,135,869	No	No	3,333,329	3,337,960	1,679,201	0	921%	Yes
Tim Holden	1,127,015	1,116,712	No	No	2,362,453	2,365,739	1,270,995	0	192%	Yes
Hilary Sykes	2,535,988	2,525,685	No	No	1,666,663	1,668,984	815,146	0	674%	Yes
Mel Egglenton	200,000	200,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Paul Hampden Smith	200,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
David Joyce	106,250	106,250	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Malcolm Le May	40,375	40,375	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chris Chambers	Nil	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gillian Kent	Nil	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. Performance conditions: cumulative adjusted EPS - 4.77p (60% vesting) rising to 5.89p (full vesting) 2. Performance conditions: cumulative adjusted EPS - 5.08p (30% vesting) rising to 6.27p (full vesting) 3. Performance conditions: actual EPS achieved in the financial year ending 31.12.15: 2.45p (25% vesting) rising to 2.88p (full vesting) see page 83 4. As a result of the application of the annual cap on variable pay to the 2013 LTIP award, only 56% of the award will be capable of vesting, regardless of whether or not the applicable performance conditions are achieved. 5. Calculated as total of legally owned shares. Unvested LTIP awards which are subject to performance conditions are not counted. Percentage based on value of shares held on 31.12.13 – share price 34.25p.

TOTAL SHAREHOLDER RETURN[1]

The graph below shows the total shareholder return (TSR)[2] on the company's shares in comparison to the FTSE Small Cap Index (excluding investment companies).[3] TSR has been calculated as the percentage change, during the relevant period, in the market price of the shares, assuming that any dividends paid are reinvested on the ex-dividend date. The relevant period is the five years ending 31 December 2013. The notes at the foot of the graph provide more detail of the TSR calculation.

PENDRAGON PLC TSR 2008 - 2013



[1]This report is required, pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, regulation 18, Performance Graph. [2]Total Shareholder Return (TSR) is calculated over the five years ended on 31 December 2013 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends (if any) are reinvested in shares in the company. The price at which dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index the TSR statistics are normalised to a common start point, which gives the equivalent to investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain TSR growth of the relevant index over the chosen period, the weighted average of TSR for all the companies in the index is calculated. In this case, it is the FTSE Small Cap Index (excluding investment companies) as explained in Note 3. The weighting is by reference to the market capitalisation of each company in the index in proportion to the total market capitalisation of all the companies in the index at the end of the chosen measurement period. [3]The FTSE Small CAP index has been selected as it represents the equity market in which the company was a constituent member for the majority of the relevant five year period ending 31 December 2013 detailed above.

DIRECTORS' REPORTS

DIRECTORS' REMUNERATION REPORT

TABLE OF HISTORIC DATA FOR CHIEF EXECUTIVE OFFICER

Chief Executive	2013	2012	2011	2010	2009
Total Remuneration £m (single figure)	3,118	857	946	944	1,078
Annual bonus award (% of maximum that could have been paid)	100%	54%	75%	75%	100%
Percentage of LTIP[1] vesting	100%	0%	0%	0%	0%

[1]Percentage of shares vesting under the Pendragon Long Term Incentive Plan (for 2012, the Pendragon ExSOP) against the maximum number of shares that could have been received

PERCENTAGE CHANGE IN REMUNERATION OF CHIEF EXECUTIVE OFFICER

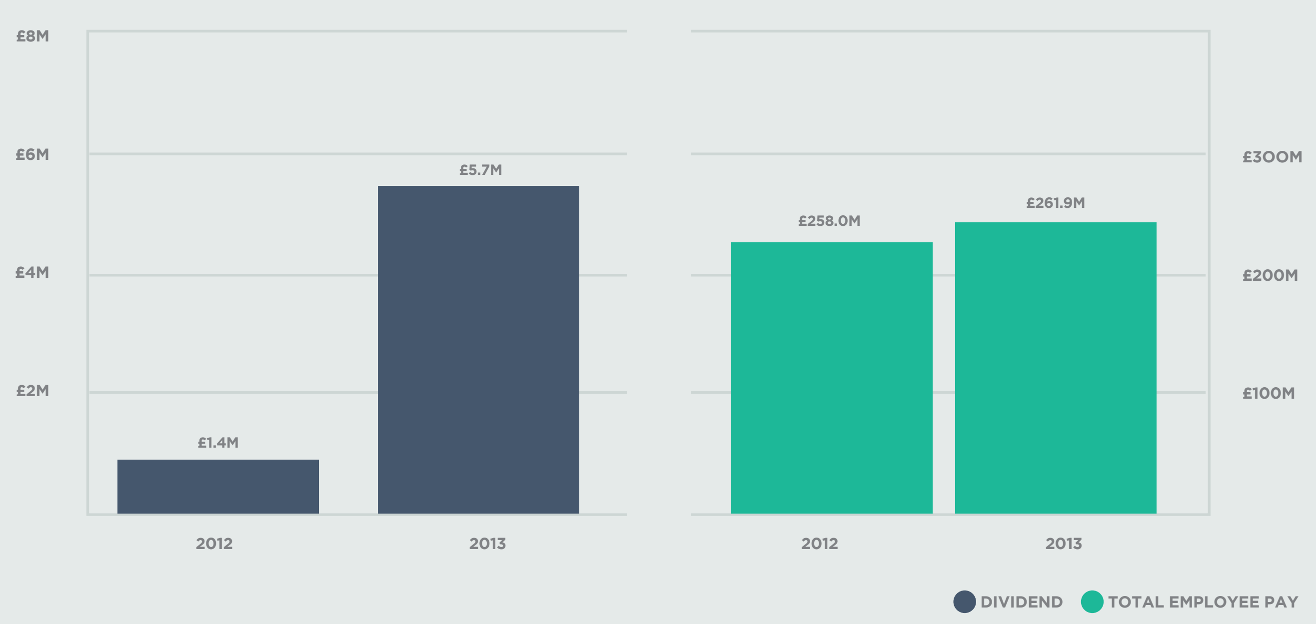
This table illustrates the percentage change in the remuneration awarded to the chief executive between the preceding year and the reported year, and that of the Group's employees across the entire UK business.

	Chief Executive Officer	Employees of Company as a whole
% change in salary 2013 compared to 2012	0%	1.2%
% change in benefits 2013 compared to 2012	0%	4.4%
% change in bonus 2013 compared to 2012	85%	2.0%

RELATIVE IMPORTANCE OF SPEND ON PAY

The graph below illustrates the difference between spend on remuneration paid to all Group employees, dividends and profit compared to the prior year.

RELATIVE IMPORTANCE OF SPEND ON PAY



DIRECTORS' REMUNERATION REPORT

SHAREHOLDERS' VOTE ON REMUNERATION AT THE 2013 AGM

At the AGM held in May 2013, the 2012 Directors' Remuneration Report received the following votes from shareholders:

Votes cast in favour	1,061,312,979	99.67%
Votes cast against	3,468,946	0.33%
Total votes cast in favour or against	1,064,781,925	100%
Votes withheld	19,609,812	

As detailed on page 76, in line with our commitment to an ongoing dialogue with our shareholders, meetings are offered, where appropriate, to understand the reasons for any potential or actual opposition to the company's remuneration policy.

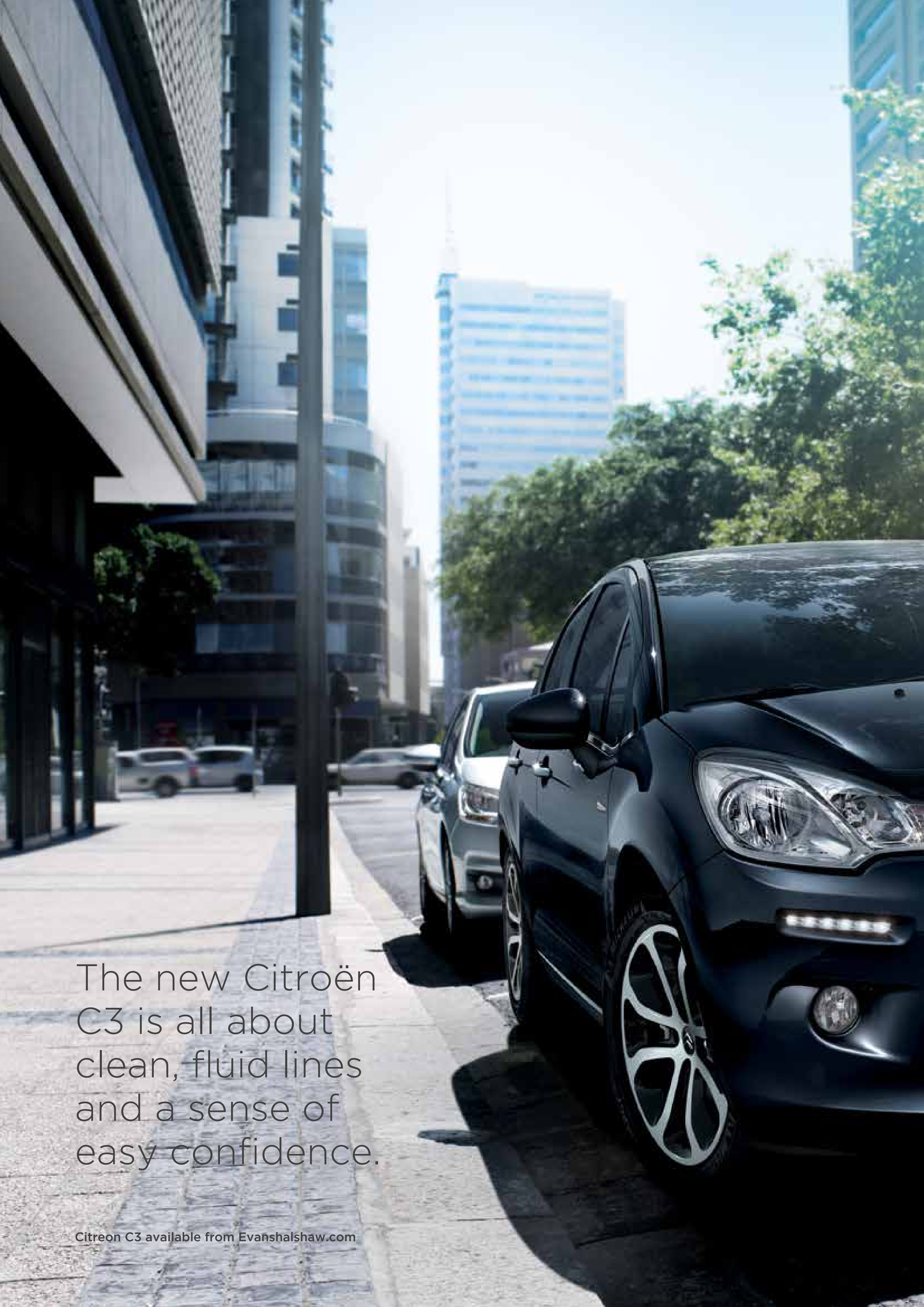
SHARE PRICE INFORMATION AND PERFORMANCE

Other than those detailed above, there are no share option or long term incentive schemes in which the directors are eligible to participate. The middle market price of Pendragon ordinary shares at 31 December 2013 was 34.25 pence and the range during the year was 17.50 pence to 41.00 pence.

APPROVAL

This report was approved by the Committee and signed on its behalf by:-

DAVID JOYCE
CHAIRMAN OF THE REMUNERATION COMMITTEE


The new Citroën C3 is all about clean, fluid lines and a sense of easy confidence.
Citreon C3 available from Evanshalshaw.com

DIRECTORS' REPORT

STRATEGIC REVIEW

The Companies Act 2006 requires us to present a fair review of the business during the year ended 31 December 2013 and of the position of the Group at the end of the financial year, along with a description of the principal risks and uncertainties faced. Our Strategic Review containing this material can be found at pages 34 to 37.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 102 to 170. An interim dividend of 0.1 pence per ordinary share was paid to shareholders on 28 October 2013. The directors are recommending a final dividend for the year ended 31 December 2013 of 0.3 pence per ordinary share. A final dividend of 0.1 pence per ordinary share was paid to shareholders for the year ended 31 December 2012.

BUSINESS AT THE ANNUAL GENERAL MEETING

As well as dealing with formal business, the company takes the opportunity afforded at the AGM to provide up-to-date information about the company's trading position and to invite and answer shareholders' questions on its policies and business. At the AGM, a separate resolution is proposed for each substantive matter. The company's annual report and financial statements, together with the Notice of AGM, which summarises the business being proposed at the AGM, will be issued to shareholders giving not less than the requisite period of notice.

DIRECTORS AND THEIR INTERESTS IN SHARES

The directors of the company are listed on page 51. Details of the terms of appointment and notice period of each of the current directors, together with their respective interests in the company's shares, and in shares the subject of the company's long term incentive plan, appear in the Directors' Remuneration Report on pages 68 to 87.

DIRECTORS AND THEIR ELECTION

The UK Corporate Governance Code and the Articles require directors to retire by rotation or, in the case of directors who have served more than nine years, annually. The company has elected to make annual retirement and offering for re-election compulsory for any non-executive director whose service exceeds six years. The notice of meeting describing the business of the AGM includes details of those directors proposed for election or re-election. Having been appointed as non-executive directors in May 2013, Gillian Kent and Paul Hampden Smith offer themselves for election. Non-executive directors David Joyce and Malcolm Le May offer themselves for re-election, owing to their length of service on the Board and, in particular given that, from March 2014, they will both be entering their eighth year of service. Each of David Joyce and Malcolm Le May has built considerable knowledge of the company's businesses and strategy. The Board believes their continued service after the AGM is important for the maintenance of Board balance, particularly in view of the relatively short periods of service of three of our independent non-executive directors. David Joyce chairs the Remuneration Committee and Malcolm Le May is the senior independent director and the Board regards each of them as effective in performing these roles. In addition, the directors retiring by rotation, and, being eligible, standing for re-election at the AGM are the non-executive Chairman, Mel Egglenton and executive director Martin Casha. Following the performance evaluation of individual directors, the Chairman has confirmed that those non-executive directors who have served throughout the year continue to perform effectively and demonstrate commitment to their roles.

INDEMNITIES TO DIRECTORS

The Articles permit the Board to grant to its directors indemnities in relation to their duties as directors. Such indemnities are in respect of liabilities incurred by a director in connection with any negligence, default, breach of duty or breach of trust in relation to the company unless the director is ultimately held to be at fault. In line with market practice, each director has the benefit of a deed of indemnity which includes provisions in relation to duties as a director of the company or an associated company, qualifying third party indemnity provisions and protection against derivative actions.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

At no time during the year did any of the directors have an interest in any contract with the Group, other than routine purchases of vehicles for their own use.

APPOINTMENT OF DIRECTORS

The rules for the appointment and replacement of directors are detailed in the Articles. Directors are appointed by ordinary resolution either at a general meeting of holders of ordinary shares or by the Board, either to fill a vacancy or as an addition to the existing Board. The appointment of non-executive directors is on the recommendation of the Nomination Committee; the procedure is detailed at page 66.

POWERS OF THE COMPANY'S DIRECTORS

Subject to the Articles, relevant legislation and any directions given by special resolution, the company and its group is managed by its board of directors. The directors have been authorised to allot and issue ordinary shares, to offer and allot ordinary shares in lieu of some or all of the dividends and to make market purchases of the company's ordinary shares. These powers are exercised under authority of resolutions of the company in general meeting. Further details of resolutions the company is seeking are set out in the explanatory notes to the notice of AGM.

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 February 2014 the directors had been advised of the following interests in the shares of the company:-

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF VOTING RIGHTS OF THE ISSUED SHARE CAPITAL
Odey Asset Management	288,203,217	20.03%
Schroder Investment Management	153,869,982	10.69%
Fidelity Worldwide Investment	136,522,822	9.49%
Cazenove Capital Management	71,760,430	4.99%
AXA Framlington	59,529,774	4.14%
GMT Capital Corp	49,377,786	3.43%
Legal & General Investment Management	40,436,644	2.81%
Norges Bank Investment Management	38,633,121	2.68%

SHARE CAPITAL

As at 31 December 2013, the issued share capital of the company comprised a single class of share: ordinary shares of 5 pence each. Details of the share capital of the company are set out in note 4.4 to the accounts on page 155. The company issued 2,400,085 new shares during the period under review, following the exercise of warrants over its shares. The rights and obligations attaching to the company's ordinary shares are set out in the Articles, and briefly summarised below. The Articles may be obtained from Companies House in the UK or upon application to the company secretary.

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

Subject to applicable statutes and other shareholders rights, shares may be issued with such rights and restrictions as the company may, by ordinary resolution, decide, or, if no resolution has been passed or so far as the resolution does not make specific provision, as the Board (as defined in the Articles) may decide.

Holders of ordinary shares are entitled to attend and speak at general meetings of the company, to appoint one or more proxies (and, if they are corporations, corporate representatives) and to exercise voting rights. Holders of ordinary shares are entitled to receive a dividend, if declared. Ordinary shareholders are entitled to receive a copy of the company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the company or propose resolutions at Annual General Meetings.

VOTING RIGHTS, RESTRICTIONS ON VOTING RIGHTS AND DEADLINES FOR VOTING RIGHTS

Shareholders (other than any who, under the provisions of the Articles or the terms of the shares they hold, are not entitled to receive such notices from the company) have the right to receive notice of, and to attend and to vote at, all general meetings of the company. A resolution put to the vote at any general meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded.

Every member present in person at a general meeting has, upon a show of hands, one vote, and on a poll, every member has one vote for every 5 pence nominal amount of share capital of which he is the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings while any amount of money relating to his shares remains outstanding.

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the Annual General Meeting. Details of the exercise of voting rights attached to the ordinary shares held by the Employee Benefit Trust are set out in the section entitled 'Shares held by the Pendragon Employee Benefit Trust' on page 93. None of the ordinary shares, including those held by the Employee Benefit Trust, carries any special voting rights with regard to control of the company.

To be effective, electronic and paper proxy appointments and voting instructions must be received by the company's registrars not later than 48 hours before a general meeting.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may be imposed pursuant to the Articles, certain restrictions which may from time to time be imposed by laws and regulations (for example in relation to insider dealing), restrictions pursuant to the company's share dealing code whereby directors and certain employees of the company require prior approval to deal in company's shares, and where a person has been served with a disclosure notice and has failed to provide the company with information concerning the interests in those shares.

The company is not aware of any arrangements or agreements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights.

REPURCHASE OF SHARES

Details of movements in the company's share capital are given in note • to the financial statements. The company has not repurchased any of its own shares during the year. The authority to purchase the company's own shares is exercised only if the directors expect it to result in an increase in earnings per share.

SHARES HELD BY THE PENDRAGON EMPLOYEE BENEFIT TRUST

As at 31 December 2013, the company's Employee Benefit Trust, with Investec Trust (Jersey) Limited, held 12,732,362 shares, representing 0.88% of the total issued share capital at that date. These are used to satisfy options under the Pendragon 2009 Approved Executive Share Option Scheme, the Pendragon 2009 Unapproved Executive Share Option Scheme and the Pendragon 2008 Sharesave Scheme. The voting rights in relation to these shares are ordinarily exercisable by the trustee; however these rights are waived and the trustee does not vote the shares held.

During the year, 7,189,891 shares were transferred to beneficiaries of any of the company's share schemes by the trustees of the Employee Benefit Trust.

ARTICLES OF ASSOCIATION

The Articles were adopted by special resolution at the Annual General Meeting held on 25 April 2008, and amended by special resolutions passed on 26 June 2009 and 29 April 2010. The implementation in the UK of the EU Shareholder Rights Directive in August 2009 increased the minimum notice period for company general meetings to 21 days. The Board nevertheless believes that it should ensure that the minimum period for notice of meetings of the company can remain at 14 days, and accordingly a special resolution will be put to shareholders to approve 14 days as the minimum period of notice for all general meetings of the company other than AGMs. Full details of these resolutions are contained in the notes accompanying the notice of Annual General Meeting. Any amendments to the company's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

SIGNIFICANT AGREEMENTS

The company has entered into a number of significant agreements which ordinarily would be terminable upon a change of control of the company.

- Franchise Agreements – our dealerships operate under franchised new vehicle dealer agreements and authorised repairer agreements with various vehicle manufacturers and importers. Without a franchise agreement, it is not generally possible to obtain new vehicles from a manufacturer or display vehicle manufacturer trademarks. Some of the franchise agreements contain provisions entitling the vehicle manufacturers, in certain circumstances, to terminate in the event of a change of control.

- A Credit Agreement dated 22 April 2013 between the company and its lenders under which the company's lenders agreed to make available to the company a revolving credit facility up to an aggregate sum of £145 million (as at 31 December 2013). In the event of a change of control, the lenders under this facility are able to cancel the facility and declare all outstanding amounts together with accrued interest, commission and other amounts immediately due and payable.

- £175,000,000 6.875% Senior Secured Notes (Notes) due 2020 were issued by the company in May 2013. The Notes bear interest at the rate of 6.875% per annum payable semi-annually in arrears on 1 May and 1 November each year. The Notes are guaranteed on a senior basis by the company's subsidiaries and were issued pursuant to an indenture as between the guarantors and the company. In the event of a change of control, holders of the Notes will have the right to require the company to repurchase all or any part of that holder's Notes.

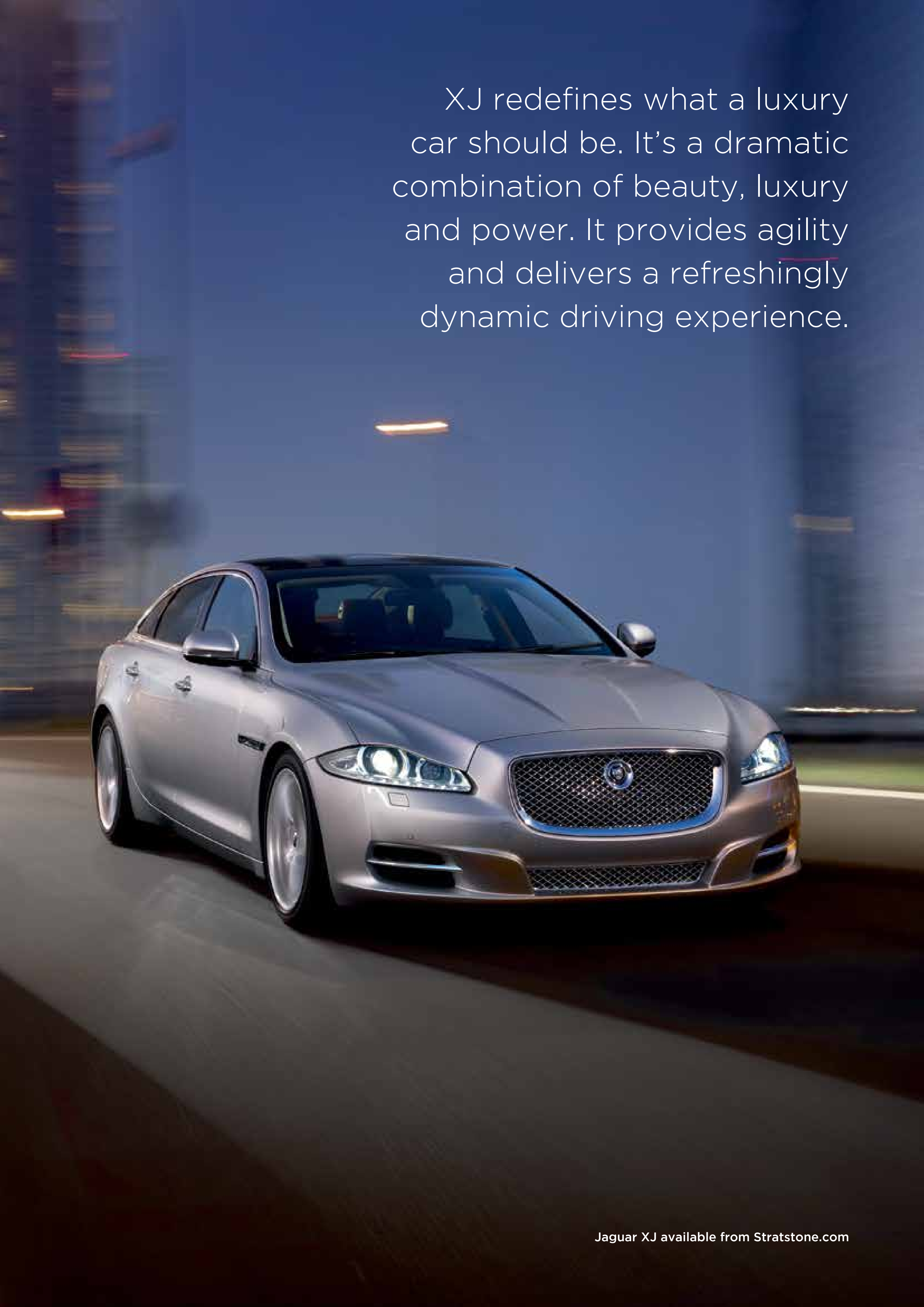
DIRECTORS' REPORT

AUDITOR

KPMG Audit Plc will be replaced by KPMG LLP as auditor should the resolution empowering the directors to appoint the company's auditors be passed at the 2014 Annual General Meeting. This is as a result of a change to the legal entity structure within KPMG. KPMG LLP has indicated its willingness to act as independent auditor.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

By order of the Board
H C Sykes
Secretary


XJ redefines what a luxury car should be. It's a dramatic combination of beauty, luxury and power. It provides agility and delivers a refreshingly dynamic driving experience.
Jaguar XJ available from Stratstone.com

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and the Directors have concluded that the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and

- the Annual Report and Accounts includes a fair review of the development and performance of the business and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board

Tim Holden
Finance Director
18 February 2014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OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Pendragon PLC for the year ended 31 December 2013 set out on pages 102 to 170. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

Goodwill (£365.4 million)
Refer to page 63 Audit Committee statement, page 128 (accounting policy) and page 129 (financial disclosures).

The risk – The Group's significant goodwill balance is allocated across its cash generating units ('CGU's) which generally comprise the franchises that the Group operates. For some CGUs with significant goodwill allocated to them and poor historical performance, there is a risk that the aggregated book value of the assets exceeds their recoverable amount (as defined in accounting standards), and therefore these assets are impaired and should be written down in value. The recoverable amount of goodwill will be affected by a number of factors including general market trends such as the number of new car registrations and franchise specific factors such as the performance of specific vehicle models. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.

Our response – In this area our audit procedures included, among others, testing of the Group's budgeting procedures; we challenged the assumptions in the budget with reference to historical trends, externally published expected future growth rates in the markets and a review of the historical accuracy of previous budgets. We also used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the group to derive a discount rate. We compared the Group's assumptions for key franchises to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates, as well as performing break-even analysis on the assumptions. We compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

2. Our assessment of risks of material misstatement *continued*

Valuation of inventory (£514.2 million)

Refer to page 63 Audit Committee report, page 136 (accounting policy) and pages 136 & 137 (financial disclosures).

The risk – The Group holds significant levels of used vehicle inventory. Used vehicle prices vary depending upon a number of factors including general economic conditions and the levels of new vehicle production. History has shown that average used vehicle prices can decline significantly over a short period of time resulting in the need for provisions against the carrying amount of inventory.

Our response – The Group operates a number of controls and processes across all franchise dealerships that are designed to minimise the holdings of ageing used vehicle stock, therefore reducing the need for an inventory provision. As part of our work we utilised the procedures performed by the Group's internal audit function on the above controls after evaluating the adequacy of this work. Management's assessment of the required provision is dependent on the following key assumptions: (i) the length of time it will take to sell the inventory and (ii) an expectation of the trend in used car prices. We therefore performed further audit procedures to validate these assumptions including, among others, consideration of the Group's historical trading patterns and a comparison of the Group's expectations for used car prices to the expectations of other market commentators. We also tested the levels of losses incurred on used cars subsequent to the year-end and considered the implications of this for the level of provision. We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the vehicle inventory provision.

Current tax liabilities (£30.5 million)

Refer to page 64 Audit Committee report, page 123 (accounting policy) and pages 124 to 126 (financial disclosures).

The risk – Accruals for tax contingencies require the directors to make judgements and estimates in relation to tax issues and exposures that could materially affect the financial statements. The time taken for tax matters to be agreed with the tax authorities also adds complexity. The group has a number of contingencies relating mainly to historic tax issues including the tax implications of managing the property portfolio and the tax treatment of certain new and used vehicle sales. The specific judgement in determining these calculations relates to the estimates of tax potentially payable and calculation of potential interest payable.

Our response – In this area our audit procedures included, among others, the use of our own tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities, and our knowledge and experiences of the application of the tax legislation by the relevant authorities and courts, in order to analyse and challenge the assumptions used to determine the Group's tax provisions. We also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

2. Our assessment of risks of material misstatement *continued*

Post retirement benefits (£43.4 million)
Refer to page 64 Audit Committee report, page 161 (accounting policy) and pages 162 to 168 (financial disclosures).

The risk – Significant estimates are made in valuing the Group's post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the results and financial position of the Group.

Our response – In this area our audit procedures included, among others, testing of the controls over the maintenance of each scheme's membership data as well as sample testing from those data to the source documentation establishing the obligation to members, and vice versa. With the support of our own actuarial specialists, we then challenged the key assumptions applied to those data to determine the Group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of -the sensitivity of the deficits to these assumptions.

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

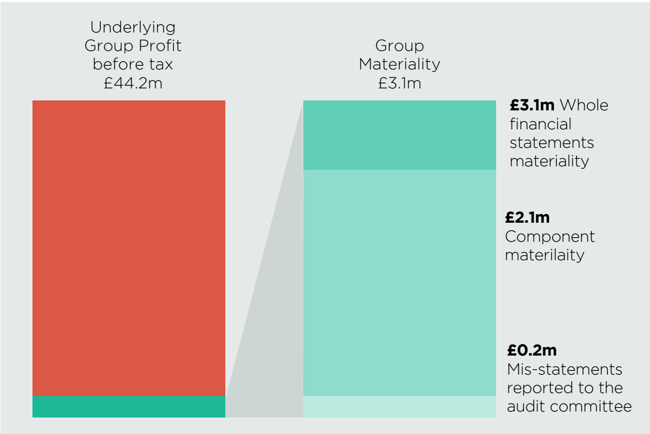
3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.1m. This has been determined with reference to a benchmark of underlying Group profit before taxation which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group. Materiality represents 7% of underlying Group profit before tax as disclosed on the face of the income statement and 8% of Group profit before tax.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.2m, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The key components of the Group are the franchise dealership subsidiaries, support business subsidiaries, head office subsidiaries and US subsidiaries. All audits for Group reporting purposes were performed by the Group audit team and covered 100% of total Group revenue; 100% of underlying Group profit before taxation; and 100% of total Group assets.

Audits for Group reporting purposes were performed to a materiality level of £2.1m for all components.



OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 53, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 44 and 45 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

SCOPE OF REPORT AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Michael Steventon (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants, One Snowhill, Snowhill Queensway
Birmingham B4 6GH
18 February 2014

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

	Notes	Underlying £m	Non-Underlying £m	**2013 £m**	Underlying £m	Non-Underlying £m	Restated* 2012 £m
Revenue	2.1	3,848.9	-	**3,848.9**	3,635.1	-	3,635.1
Cost of sales		(3,349.0)	-	**(3,349.0)**	(3,153.8)	-	(3,153.8)
Gross profit		499.9	-	**499.9**	481.3	-	481.3
Operating expenses	2.2	(423.1)	0.7	**(422.4)**	(409.5)	(4.3)	(413.8)
Operating profit before other income		76.8	0.7	**77.5**	71.8	(4.3)	67.5
Other income - (losses) / gains on the sale of businesses and property	2.6	-	(0.6)	**(0.6)**	-	0.4	0.4
Other income - dividends received	3.4	0.3	-	**0.3**	-	-	-
Operating profit		77.1	0.1	**77.2**	71.8	(3.9)	67.9
Finance expense	4.3	(33.3)	(9.3)	**(42.6)**	(35.9)	(0.4)	(36.3)
Finance income	4.3	0.4	3.9	**4.3**	0.5	1.9	2.4
Net finance costs		(32.9)	(5.4)	**(38.3)**	(35.4)	1.5	(33.9)
Profit before taxation		44.2	(5.3)	**38.9**	36.4	(2.4)	34.0
Income tax credit / (expense)	2.7	(11.4)	13.6	**2.2**	(8.0)	0.1	(7.9)
Profit for the year		32.8	8.3	**41.1**	28.4	(2.3)	26.1
Profit for the year attributable to:							
Equity shareholders of the parent		32.8	6.4	**39.2**	28.4	(4.3)	24.1
Non-controlling interests (pension related)		-	1.9	**1.9**	-	2.0	2.0
		32.8	8.3	**41.1**	28.4	(2.3)	26.1

	Notes	2013	2012
Earnings per share			
Basic earnings per share	2.8	**2.8p**	1.7p
Diluted earnings per share	2.8	**2.7p**	1.7p

	Notes	2013	2012
Non GAAP measure:			
Underlying basic earnings per share	2.8	**2.3p**	2.0p
Underlying diluted earnings per share	2.8	**2.2p**	2.0p

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

The notes on pages 108 to 170 form part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 £m	Restated* 2012 £m
Profit for the year		**41.1**	26.1
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and losses	5.1	**23.5**	(25.8)
Income tax relating to defined benefit plan remeasurement gains and losses	2.7	**(4.7)**	5.9
Income tax relating to amendment to the pension partnership agreement	5.1	**7.2**	-
Adjustment in respect of minimum funding requirement on defined benefit plans	5.1	**-**	4.8
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	2.7	**-**	(1.1)
		26.0	(16.2)
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences of foreign operations		**(0.5)**	(0.1)
		(0.5)	(0.1)
Other comprehensive income for the year, net of tax		**25.5**	(16.3)
Total comprehensive income for the year		**66.6**	9.8
Total comprehensive income for the year attributable to:			
Equity shareholders of the parent		**64.7**	7.8
Non-controlling interests (pension related)		**1.9**	2.0
		66.6	9.8

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	**Total £m**
Balance at 1 January 2013	71.8	56.8	2.5	12.6	(0.4)	98.3	33.8	**275.4**
Total comprehensive income for 2013								
Profit for the year	-	-	-	-	-	39.2	1.9	**41.1**
Other comprehensive income for the year, net of tax	-	-	-	-	(0.5)	26.0	-	**25.5**
Total comprehensive income for the year	-	-	-	-	(0.5)	65.2	1.9	**66.6**
Issue of ordinary shares (note 4.4)	0.1	-	-	-	-	(0.1)	-	**-**
Dividends paid (note 4.5)	-	-	-	-	-	(2.8)	-	**(2.8)**
Own shares issued under share schemes	-	-	-	-	-	1.2	-	**1.2**
Distribution from pension partnership to pension scheme	-	-	-	-	-	-	(2.5)	**(2.5)**
Amendment to the pension partnership agreement (note 5.1)	-	-	-	-	-	(2.8)	(33.2)	**(36.0)**
Share based payments	-	-	-	-	-	1.6	-	**1.6**
Income tax relating to share based payments	-	-	-	-	-	1.7	-	**1.7**
Balance at 31 December 2013	71.9	56.8	2.5	12.6	(0.9)	162.3	-	**305.2**
Balance at 1 January 2012	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**
Total comprehensive income for 2012								
Profit for the year (restated*)	-	-	-	-	-	24.1	2.0	**26.1**
Other comprehensive income for the year, net of tax (restated*)	-	-	-	-	(0.1)	(16.2)	-	**(16.3)**
Total comprehensive income for the year	-	-	-	-	(0.1)	7.9	2.0	**9.8**
Issue of ordinary shares (note 4.4)	0.8	-	-	-	-	(0.8)	-	-
Distribution from pension partnership to pension scheme	-	-	-	-	-	-	(2.5)	**(2.5)**
Share based payments	-	-	-	-	-	0.9	-	**0.9**
Balance at 31 December 2012	71.8	56.8	2.5	12.6	(0.4)	98.3	33.8	**275.4**

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

The notes on pages 108 to 170 form part of these financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Property, plant and equipment	3.2	**295.7**	290.3
Goodwill	3.1	**365.4**	368.2
Other intangible assets	3.1	**5.0**	4.4
Investments	3.4	**10.0**	-
Derivative financial instruments	4.2	**-**	14.2
Deferred tax assets	2.7	**22.7**	10.4
Total non-current assets		**698.8**	687.5
Current assets			
Inventories	3.6	**602.5**	590.0
Trade and other receivables	3.8	**103.2**	97.4
Cash and cash equivalents	4.2	**58.4**	58.0
Non-current assets classified as held for sale	3.5	**13.1**	23.6
Total current assets		**777.2**	769.0
Total assets		**1,476.0**	1,456.5
Current liabilities			
Interest bearing loans and borrowings	4.2	**-**	(60.4)
Trade and other payables	3.9	**(796.8)**	(739.8)
Deferred income	3.11	**(24.9)**	(23.0)
Current tax payable		**(30.5)**	(25.5)
Provisions	3.10	**(2.1)**	(2.4)
Total current liabilities		**(854.3)**	(851.1)
Non-current liabilities			
Interest bearing loans and borrowings	4.2	**(198.0)**	(228.2)
Trade and other payables	3.9	**(28.3)**	(23.7)
Deferred income	3.11	**(43.1)**	(44.8)
Retirement benefit obligations	5.1	**(43.4)**	(29.8)
Provisions	3.10	**(3.7)**	(3.5)
Total non-current liabilities		**(316.5)**	(330.0)
Total liabilities		**(1,170.8)**	(1,181.1)
Net assets		**305.2**	275.4
Capital and reserves			
Called up share capital	4.4	**71.9**	71.8
Share premium account	4.4	**56.8**	56.8
Capital redemption reserve	4.4	**2.5**	2.5
Other reserves	4.4	**12.6**	12.6
Translation reserve	4.4	**(0.9)**	(0.4)
Retained earnings		**162.3**	98.3
Total equity attributable to equity shareholders of the Company		**305.2**	241.6
Non-controlling interests		**-**	33.8
Total equity		**305.2**	275.4

Approved by the Board of directors on 18 February 2014 and signed on its behalf by:

T G Finn
Chief Executive

T P Holden
Finance Director

Registered Company Number: 2304195

The notes on pages 108 to 170 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Profit for the year (2012 restated)		**41.1**	26.1
Adjustment for taxation		**(2.2)**	7.9
Adjustment for net financing expense		**38.3**	33.9
Adjustment for dividend received		**(0.3)**	-
		76.9	67.9
Depreciation and amortisation		**19.8**	19.2
Share based payments		**1.6**	0.9
Loss on settlements or curtailments in pension schemes		**-**	0.6
Loss / (profit) on sale of businesses and property		**0.6**	(0.4)
Impairment of property, plant and equipment		**0.9**	-
Impairment of assets held for sale		**1.0**	5.4
Reversal of impairment of assets held for sale		**(0.6)**	(1.3)
Changes in inventories	3.6	**(1.0)**	(11.6)
Changes in trade and other receivables		**(6.2)**	4.1
Changes in trade and other payables		**56.9**	14.1
Changes in retirement benefit obligations		**(0.2)**	(0.2)
Changes in provisions		**(0.1)**	(3.0)
Movement in contract hire vehicle balances	3.7	**(14.3)**	(17.9)
Cash generated from operations		**135.3**	77.8
Taxation (paid) / received		**(0.9)**	0.4
Interest received		**4.3**	2.4
Interest paid		**(34.0)**	(37.4)
Net cash from operating activities		**104.7**	43.2
Cash flows from investing activities			
Dividends received	3.4	**0.3**	-
Purchase of business	6.1	**-**	(2.6)
Proceeds from sale of businesses	6.2	**9.0**	1.9
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	**(68.1)**	(68.4)
Proceeds from sale of property, plant and equipment	3.1, 3.2	**53.4**	58.8
Acquisition of investments	3.4	**(10.0)**	-
Net cash used in investing activities		**(15.4)**	(10.3)
Cash flows from financing activities			
Dividends paid to shareholders	4.5	**(2.8)**	-
Own shares issued under share schemes		**1.2**	-
Payment of capital element of finance lease rentals		**-**	(0.1)
Repayment of bank loans		**(272.6)**	(79.2)
Proceeds from issue of bond and loans		**199.7**	6.6
Payment of transaction costs related to bond and loans		**(11.9)**	-
Distribution from pension partnership to pension scheme		**(2.5)**	(2.5)
Net cash outflow from financing activities		**(88.9)**	(75.2)
Net increase / (decrease) in cash and cash equivalents		**0.4**	(42.3)
Cash and cash equivalents at 1 January		**58.0**	101.4
Effects of exchange rate changes on cash held		**-**	(1.1)
Cash and cash equivalents at 31 December	4.2	**58.4**	58.0

The notes on pages 108 to 170 form part of these financial statements

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2013 £m	2012 £m
Net increase / (decrease) in cash and cash equivalents	**0.4**	(42.3)
Payment of capital element of finance lease rentals	**-**	0.1
Repayment of bank loans	**272.6**	79.2
Proceeds from issue of bond and loans (net of directly attributable transaction costs)	**(195.8)**	(6.6)
Non-cash movements	**(0.4)**	-
Decrease in net debt in the year	**76.8**	30.4
Opening net debt	**(216.4)**	(246.8)
Closing net debt	**(139.6)**	(216.4)

Note: The reconciliation of net cash flow to movement in net debt is not a primary statement and does not form part of the consolidated cash flow statement but forms part of the notes to the financial statements.

The notes on pages 108 to 170 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2013 or later years. To facilitate the understanding of each note to the financial statements those accounting policies that are relevant to a particular category are presented within the relevant notes.

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2013 comprise the company and its subsidiaries and the Group's interest in jointly controlled entities.

The Group financial statements have been prepared and approved by the directors in accordance with international accounting standards, being the International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

The company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are presented on pages 171 to 179.

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention and where other bases are applied these are identified in the relevant accounting policy in the notes below.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in Our Markets and Operational Review sections on pages 12 to 24 and pages 40 to 42. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review section on pages 44 to 48. In addition, note 4.2 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Although there are net current liabilities at 31 December 2013, there are undrawn available facilities and, as highlighted in note 4.2 to the financial statements, the Group meets its day to day working capital requirements through bank, manufacturer and third party vehicle financing facilities. In May 2013 the Group refinanced its existing term loan, revolving credit facility and loan notes in respect of the Group's UK business activities, including all associated derivatives used for hedging purposes, and its loan facilities in respect of financing overseas businesses in the Netherlands and USA. All of these facilities were repaid and replaced by a single revolving credit facility expiring June 2017 and by the issue of a £175m 7 year secured bond expiring May 2020. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

SECTION 1 - BASIS OF PREPARATION

Accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The directors consider the following to be critical estimates and judgements applicable to the financial statements:

- note 2.7 - tax liability and recognition of deferred tax assets
- note 3.1 - key assumptions used in discounted cash flows for impairment testing
- note 3.6 - assessment of fair value of inventories
- note 5.1 - measurement of defined benefit obligations (including valuation of the Central Asset Reserve)

Basis of consolidation

The consolidated financial statements include the financial statements of Pendragon PLC, all its subsidiary undertakings, investments and the Group's share of its joint venture under the equity accounting method. Consistent accounting policies have been applied in the preparation of all such financial statements including those of the joint venture.

Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments
Investments in entities in which the Group has no control are stated at their fair value.

SECTION 1 - BASIS OF PREPARATION

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities net assets and profit after tax, on an equity accounted basis, from the date joint control commences until the date that joint control ceases.

When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the entity.

Foreign currencies

Transactions in foreign currencies are translated to the respective functional currency of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity, in the foreign currency translation reserve, to the extent the hedge is effective. To the extent the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit and loss on disposal.

In respect of all foreign operations, any differences that have arisen after 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and financial institutions, bank and cash balances, and liquid investments, net of bank overdrafts. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. In the balance sheet, bank overdrafts are included in current borrowings.

SECTION 1 - BASIS OF PREPARATION

Impairment

The carrying amounts of the Group's assets, other than inventories (see note 3.6) and deferred tax assets (see note 2.7), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other groups of assets ('the cash generating unit'). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash generating units. Management have determined that the cash generating units of the Group are the motor franchise groups and other business segments.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The impact of the current year impairment review can be seen in note 3.1.

Adoption of new and revised standards and new standards and interpretations not yet adopted

In the current year, the Group has adopted the following new standards and interpretations:

• Amendments to IAS 1: Presentation of Items of Other Comprehensive Income: The amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The adoption of this standard has had no significant impact.

SECTION 1 - BASIS OF PREPARATION

• Amendments to IAS 19 Employee Benefits: The amendments require immediate recognition of actuarial gains and losses in other comprehensive income. The principal amendment that affects the Group is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The new standard requires retrospective application and impacts the Groups Income Statement and Statement of Comprehensive Income as a result of the changes in assessing the return on pension scheme assets. A prior year restatement has been made to reflect these changes which is explained in further detail below.

• Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities: Specific disclosure for financial assets and financial liabilities within the scope of the common disclosures. The adoption of this standard has had no significant impact.

• IFRS 13 Fair Value Measurement: New standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. This standard applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The adoption of this standard has had no significant impact.

The following standards have been published, endorsed by the EU, and available for early adoption but have not yet been applied by the Group in these financial statements:

• IFRS 10 Consolidated financial statements (applicable for our December 2014 financial statements): This standard provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12.

• IFRS 11 Joint Arrangements (applicable for our December 2014 financial statements): This standard carves out from IAS 31, those cases in which there is a separate vehicle but that separation is overcome by form, contract or other facts and circumstances and removes the choice of equity or proportionate accounting for jointly controlled entities (as was under IAS 31).

• IFRS 12 Disclosure of Interests in Other Entities (applicable for our December 2014 financial statements): Contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

• IAS 27 Separate Financial Statements 2011 (applicable for our December 2014 financial statements): IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications.

• IAS 28 Investments in Associates and Joint Ventures 2011 (applicable for our December 2014 financial statements): Amendments relating to held for sale interests and changes of classification.

• Amendments to IAS 32 and IFRS 7 for Offsetting Financial Assets and Financial Liabilities (likely to be applied at the same time as IFRS 10): Amendments to clarify offsetting criteria and specific disclosures.

The above standards are not expected to have a significant impact on the financial statements of the Group.

SECTION 1 - BASIS OF PREPARATION

Restatement

As a result of the amendments to IAS 19 Employee Benefits, the Group has changed its accounting policy with respect to determining the income or expense related to its defined benefit pension scheme. The standard prescribes that an interest expense or income is calculated on the net defined benefit liability / asset by applying the discount rate to the net defined benefit liability / asset. This replaces the interest expense on the defined benefit obligation and the expected return on plan assets. The revised standard requires retrospective application, therefore the table below reflects the adjustments made to the comparative amounts for the year ended 31 December 2012. These comprise the reversal of the interest expense on the defined benefit obligation of £18.8m and the interest income on pension scheme assets of £22.2m to be replaced by a net interest expense of £0.4m. The associated income tax has been restated accordingly. Actuarial losses recognised in the consolidated statement of comprehensive income for the year ended 31 December 2012 of £29.6m have been restated into a remeasurement loss of £25.8m with the associated income tax also restated. All amounts subject to the change are non-underlying in nature and are included in the central segment.

There is no effect on the opening and closing cash position or net assets as previously reported.

The table below reflects the adjustments made to the comparative amounts for the year ended 31 December 2012.

Consolidated Income Statement	2012 £m
Decrease in finance expense	18.4
Decrease in finance income	(22.2)
Decrease in income tax expense	0.9
Decrease in profit for the year	(2.9)
Decrease in basic and diluted earnings per share (pence)	0.2p

Consolidated statement of comprehensive income	2012 £m
Decrease in profit for the year	(2.9)
Other comprehensive income	
Decrease in defined benefit actuarial (remeasurement) losses	3.8
Decrease in income tax income	(0.9)
Increase in other comprehensive income for the year	2.9
Increase in total comprehensive income for the year	-

The revised standard stipulates that actuarial gains and losses are recognised immediately in the periods in which they occur. The Group already adopted this policy and therefore there are no changes to the consolidated balance sheet and consolidated cash flow statement.

SECTION 2 - RESULTS AND TRADING

This section contains the notes and information to support the results presented in the income statement:

2.1 Revenue

Accounting policy

Revenue from the sale of goods is recognised in the income statement, net of discounts, when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts have been supplied or when service has been completed. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to time expended on services that are charged on a labour rate basis.

Where vehicles are supplied to a leasing company for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset to generate future rentals and, in accordance with IAS 17 'Leases', the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are held as deferred income allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. A finance charge is accrued against the present value of the repurchase commitment and recorded as a finance expense in the income statement. The remaining deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term. No additional disclosures are made under IAS 17 as there are no future rentals receivable. These vehicles are held within 'property, plant and equipment' at their cost to the Group and are depreciated to their residual values over the terms of the leases. These assets are transferred into inventory at their carrying amount when they cease to be rented and they become available for sale as part of the Group's ordinary course of business. Revenue also comprises commissions receivable for arranging vehicle finance.

The income received in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis. The unrecognised income is held within deferred income (see note 3.11).

Rental income from property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from property is recognised as rents received in net operating expenses.

2.2 Net operating expenses

	2013 £m	2012 £m
Net operating expenses:		
Distribution costs	**(238.0)**	(232.6)
Administrative expenses	**(187.7)**	(184.3)
Rents received	**3.3**	3.1
	(422.4)	(413.8)

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments

The Group has eight reportable segments, as described below, which are the Group's strategic business units. The segments offer different ranges of products and services and are managed separately because they require their own specialisms in terms of market and product. For each of these segments, the Executive Committee which is deemed to be the Chief Operating Decision Maker (CODM), reviews internal management reports on at least a monthly basis. The review of these management reports enables the CODM to allocate resources to each segment and form the basis of strategic and operational decisions, such as acquisition strategy, closure program or working capital allocation. The following summary describes the operations in each of the Group's reportable segments:

Stratstone This segment comprises the Group's premium vehicles, truck and commercial vans brand encompassing the sale of new and used motor cars, motorbikes, trucks and vans, together with associated aftersales activities of service, body repair and parts sales.

Evans Halshaw This segment comprises the Group's volume vehicle brand encompassing the sale of new and used motor vehicle, together with associated aftersales activities of service, body repair and parts sales.

Quicks This segment comprises the Group's used vehicle operation encompassing the sale of used motor vehicles, together with associated aftersales activities of service and parts sales.

California This segment comprises the Group's retail operation in California in the United States encompassing the sale of new and used motor cars, together with associated aftersales activities of service and parts sales.

Leasing This segment comprises the Group's contract hire and leasing activities.

Quickco This segment comprises the Group's wholesale parts distribution businesses which trade under the Quickco name.

Pinewood This segment comprises the Group's activities as a dealer management systems provider.

Central This segment represents the Group's head office function and includes all central activities including directors, finance, HR, marketing, central procurement and property management.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Executive Committee. These internal reports are prepared in accordance with IFRS accounting policies consistent with these Group Financial Statements.

The tables of financial performance presented in the Operational and Financial Review on pages 40 to 48 are based upon these segmental reports with the exception that the result of the Central segment is allocated across the other operational segments. A reconciliation of this allocation is presented within the tables below.

Inter-segment transfers and transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2013

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Aftersales revenue	132.1	142.5	2.7	23.6	-	-	-	-	**300.9**
Used vehicle revenue: excluding trade	582.7	795.5	43.9	45.4	-	-	-	-	**1,467.5**
trade	41.8	56.8	2.3	7.3	-	-	-	-	**108.2**
total	624.5	852.3	46.2	52.7	-	-	-	-	**1,575.7**
New vehicle revenue: excluding wholesale	707.3	967.0	-	118.6	-	-	-	-	**1,792.9**
wholesale	4.0	94.8	-	-	-	-	-	-	**98.8**
total	711.3	1,061.8	-	118.6	-	-	-	-	**1,891.7**
Support businesses revenue	-	-	-	-	32.9	70.0	23.1	-	**126.0**
Total gross segment revenue	1,467.9	2,056.6	48.9	194.9	32.9	70.0	23.1	-	**3,894.3**
Inter-segment revenue	-	-	-	-	(14.9)	(17.8)	(12.7)	-	**(45.4)**
Revenue from external customers	1,467.9	2,056.6	48.9	194.9	18.0	52.2	10.4	-	**3,848.9**
Operating profit before non-underlying items	31.1	32.6	(2.3)	9.0	5.7	2.1	9.2	(10.3)	**77.1**
Non-underlying items	-	-	-	-	-	-	-	0.1	**0.1**
Operating profit	31.1	32.6	(2.3)	9.0	5.7	2.1	9.2	(10.2)	**77.2**
Finance expense	(2.9)	(3.5)	(0.4)	(0.9)	-	-	-	(34.9)	**(42.6)**
Finance income	-	-	-	-	-	0.1	0.4	3.8	**4.3**
Segmental profit before tax	28.2	29.1	(2.7)	8.1	5.7	2.2	9.6	(41.3)	**38.9**
Reconciliation to tables in Operational Review									
Operating profit before non-underlying items (as above)	31.1	32.6	(2.3)	9.0	5.7	2.1	9.2	(10.3)	**77.1**
Allocation of central overheads	(4.2)	(5.2)	-	-	(0.3)	(0.3)	(0.3)	10.3	**-**
Result as presented in Operational Review tables	26.9	27.4	(2.3)	9.0	5.4	1.8	8.9	-	**77.1**

The results presented in the Operational Review are stated after the allocation of the costs incurred in the Central segment. This approach is not used as an internal measure of performance evaluation but is adopted to give an indication as to the overall contribution each operating segment makes to the Group and offers a consistent approach to that adopted in previous years to shareholders and the market as a whole.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2013

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Other items included in the income statement are as follows:									
Depreciation and impairment	(4.8)	(7.7)	(0.2)	(1.4)	(25.6)	(0.1)	(0.5)	-	**(40.3)**
Amortisation	(0.8)	(0.7)	-	-	-	-	-	-	**(1.5)**
Share based payments	(0.9)	(0.7)	-	-	-	-	-	-	**(1.6)**
Impairment of property, plant and equipment	-	-	-	-	-	-	-	(0.9)	**(0.9)**
Impairment of assets held for sale	-	-	-	-	-	-	-	(1.0)	**(1.0)**
Reversal of impairment on assets classified as held for sale	-	-	-	-	-	-	-	0.6	**0.6**
VAT assessment provision and refunds	-	-	-	-	-	-	-	2.0	**2.0**
Other income - losses on the sale of businesses and property	-	-	-	-	-	-	-	(0.6)	**(0.6)**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2012

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Restated* **Total £m**
Aftersales revenue	138.6	142.2	3.9	23.1	-	-	-	-	**307.8**
Used vehicle revenue: excluding trade	585.6	733.4	40.0	40.7	-	-	-	-	**1,399.7**
trade	41.3	65.7	3.0	8.2	-	-	-	-	**118.2**
total	626.9	799.1	43.0	48.9	-	-	-	-	**1,517.9**
New vehicle revenue: excluding wholesale	665.0	888.6	-	101.1	-	-	-	-	**1,654.7**
wholesale	8.4	70.2	-	-	-	-	-	-	**78.6**
total	673.4	958.8	-	101.1	-	-	-	-	**1,733.3**
Support businesses revenue	-	-	-	-	33.3	66.9	23.0	-	**123.2**
Total gross segment revenue	1,438.9	1,900.1	46.9	173.1	33.3	66.9	23.0	-	**3,682.2**
Inter-segment revenue	-	-	-	-	(15.1)	(18.9)	(13.1)	-	**(47.1)**
Revenue from external customers	1,438.9	1,900.1	46.9	173.1	18.2	48.0	9.9	-	**3,635.1**
Operating profit before non-underlying items	30.0	31.9	(3.8)	5.3	7.2	1.7	9.4	(9.9)	**71.8**
Non-underlying items	-	-	-	-	-	-	-	(3.9)	**(3.9)**
Operating profit	30.0	31.9	(3.8)	5.3	7.2	1.7	9.4	(13.8)	**67.9**
Finance expense	(3.5)	(4.3)	(0.4)	(0.7)	-	-	-	(27.4)	**(36.3)**
Finance income	-	-	-	-	0.2	0.1	0.4	1.7	**2.4**
Segmental profit before tax	26.5	27.6	(4.2)	4.6	7.4	1.8	9.8	(39.5)	**34.0**
Reconciliation to tables in Operational Review									
Operating profit before non-underlying items (as above)	30.0	31.9	(3.8)	5.3	7.2	1.7	9.4	(9.9)	**71.8**
Allocation of central overheads	(4.1)	(4.9)	-	-	(0.3)	(0.3)	(0.3)	9.9	**-**
Result as presented in Operational Review tables	25.9	27.0	(3.8)	5.3	6.9	1.4	9.1	-	**71.8**

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2012

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Other items included in the income statement are as follows:									
Depreciation	(5.5)	(9.1)	(0.2)	(1.5)	(20.1)	(0.1)	(0.8)	-	**(37.3)**
Amortisation	(0.7)	(0.7)	-	-	-	-	-	-	**(1.4)**
Share based payments	(0.4)	(0.4)	-	-	-	-	-	-	**(0.8)**
Impairment of assets held for sale	-	-	-	-	-	-	-	(5.4)	**(5.4)**
Reversal of impairment on assets classified as held for sale	-	-	-	-	-	-	-	1.3	**1.3**
VAT assessment provision and refunds	-	-	-	-	-	-	-	0.8	**0.8**
Professional fees	-	-	-	-	-	-	-	(0.4)	**(0.4)**
Losses on settlements or curtailments of pension scheme obligations	-	-	-	-	-	-	-	(0.6)	**(0.6)**
Other income - gains on the sale of businesses and property	-	-	-	-	-	-	-	0.4	**0.4**

Geographical information.

All segments, with the exception of California in the United States originate in the United Kingdom. The California segment has non-current assets of £17.0m (2012: £18.0m).

SECTION 2 - RESULTS AND TRADING

2.4 Staff costs

The average number of people employed by the Group in the following areas was:

	2013 Number	2012 Number
Sales	**2,751**	2,778
Aftersales	**4,219**	4,260
Administration	**2,201**	2,223
	9,171	9,261

Costs incurred in respect of these employees were:

	2013 £m	Restated* 2012 £m
Wages and salaries	**232.7**	230.9
Social security costs	**21.8**	21.7
Contributions to defined contribution plans (see note 5.1)	**4.5**	3.5
Cost recognised for defined benefit plans (see note 5.1)	**1.3**	1.0
Share based payments (see note 4.6)	**1.6**	0.9
	261.9	258.0

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 68 to 87.

2.5 Audit fees

Auditors' remuneration:	2013 £000	2012 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**212.4**	209.0
Fees payable to the company's auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	**193.1**	190.0
Audit-related assurance services	**45.0**	45.0
Tax compliance services	**61.0**	52.0
Tax advisory services	**238.1**	229.0
Other assurance services	**57.0**	47.0
	806.6	772.0

SECTION 2 - RESULTS AND TRADING

2.6 Non-underlying items (before tax)

Non-underlying income and expenses are items that have non-trading attributes due to their size, nature or incidence.

	2013 £m	Restated* 2012 £m
Within operating expenses:		
Impairment of property, plant and equipment	**(0.9)**	-
Impairment of assets held for sale	**(1.0)**	(5.4)
Reversal of impairment on assets classified as held for sale (see note 3.5)	**0.6**	1.3
Pension scheme merger costs	**-**	(0.4)
Losses on settlements or curtailments of pension scheme obligations	**-**	(0.6)
VAT assessment refunds	**2.0**	0.8
	0.7	(4.3)
Within other income - (losses) / gains on the sale of businesses and property:		
Losses on the sale of businesses	**(1.1)**	(0.7)
Gains on the sale of property	**0.5**	1.1
	(0.6)	0.4
Within finance expense:		
Net interest on pension scheme obligations	**(1.3)**	(0.4)
Refinancing fees and costs	**(8.0)**	-
	(9.3)	(0.4)
Within finance income:		
Interest receivable	**0.9**	-
Interest on VAT refunds	**3.0**	1.9
	3.9	1.9
Total non-underlying items (before tax)	**(5.3)**	(2.4)
Total non-underlying items attributable to:		
Equity shareholders of the parent	**(7.2)**	(4.4)
Non-controlling interests (pension related)	**1.9**	2.0
	(5.3)	(2.4)

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 2 - RESULTS AND TRADING

2.6 Non-underlying items (before tax) *continued*

The following amounts have been presented as non-underlying items in these financial statements:

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was an impairment charge against assets held for sale of £1.0m during the year (2012: £5.4m). There was also an impairment charge recognised against tangible fixed assets of £0.9m (2012: £nil). In addition a reversal of previous impairment charges of £0.6m was made for assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2012: £1.3m).

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility of this amount. A net expense of £1.3m has been recognised during the year (2012: restated £0.4m), of which £1.9m is attributable to the non-controlling interests (2012: £2.0m). During the previous year the Group's six defined benefit pension schemes were merged into the Pendragon Group Pension Scheme. As part of the process members whose value of benefits were below a set limit were entitled to a wind up lump sum in settlement of any future benefits. The cost recognised in settlement of these benefits in 2012 was £0.6m. Costs were also incurred in 2012 in relation to this process amounting to £0.4m. Due to the one off nature of the pension merger these settlement and professional costs are shown as non-underlying in the prior year.

Other income, being the profit on disposal of businesses and property, comprises a £0.5m profit on sale of properties (2012: £1.1m) and a £1.1m loss on the disposal of motor vehicle dealerships (2012: Loss £0.7m).

Upon the successful completion of the refinancing of the Group in May 2013 a net loss of £8.0m was recorded which comprised of refinancing related costs.

A VAT refund of £2.0m, net of costs, was received in the year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996 (2012: £0.8m). Associated interest received of £3.0m (2012: £1.9m) is disclosed within finance income.

The Group received a refund of overcharged interest of £0.9m during the year (2012: £nil). This was in respect of a business acquired in 2006 and the overcharge related to a period prior to that acquisition.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation

Accounting policy

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, recognising temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Estimates and judgements

The actual tax on the Group's profits is determined according to complex laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on profits which are recognised in the financial statements. The Group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of tax liabilities could be different from the estimates reflected in the financial statements.

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Taxation - Income statement

	2013 £m	Restated* 2012 £m
UK corporation tax:		
Current tax on profit for the year	**2.8**	0.8
Adjustments in respect of prior periods	**0.8**	(0.9)
	3.6	(0.1)
Overseas taxation:		
Current tax on profit for the year	**2.7**	1.8
Adjustments in respect of prior periods	**(0.4)**	(1.6)
	2.3	0.2
Total current tax	**5.9**	0.1
Deferred tax (credit) / expense:		
Origination and reversal of temporary differences	**(7.1)**	8.6
Benefit of tax losses recognised	**(1.0)**	(0.8)
Total deferred tax	**(8.1)**	7.8
Total income tax (credit) / expense in the income statement	**(2.2)**	7.9

Factors affecting the tax (credit) / charge for the period:
The tax assessed is different from the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)

The differences are explained below:

	2013 £m	2012 £m
Profit before taxation	**38.9**	34.0
Tax on profit at UK rate of 23.25% (2012: 24.5%)	**9.0**	8.4
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	**0.2**	0.3
Tax relief on employee share option gains	**(0.3)**	-
Permanent differences arising in respect of fixed assets	**0.3**	(0.9)
Dividend income	**(0.1)**	-
Unrecognised losses	**0.1**	0.1
Tax rate differential on overseas income	**1.5**	0.7
Non-underlying items (see below)	**(12.5)**	0.4
Impact of UK corporation tax rate change	**1.4**	0.5
Adjustments to tax charge in respect of previous periods	**(1.8)**	(1.6)
Total income tax (credit) / expense in the income statement	**(2.2)**	7.9

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Taxation - Other comprehensive income

	2013 £m	Restated* 2012 £m
Relating to defined benefit plan remeasurement gains and losses	**(4.7)**	4.8
Relating to amendments to the pension partnership agreement	**7.2**	-
	2.5	4.8

Tax rate

The Chancellor of the Exchequer announced on 21 March 2012 that the main rate of UK corporation tax would reduce from 24% to 23% from 1 April 2013. On 20 March 2013, the Chancellor stated his intention to reduce the main rate of UK corporation tax to 21% from 1 April 2014 and a further reduction to 20% from 1 April 2015. These additional rate reductions were substantively enacted on 2 July 2013, which will impact the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the expected long term rate of 20% substantively enacted at the balance sheet date.

Factors affecting the tax charge

The tax credit / charge is increased / decreased by the release of prior year provisions relating to UK corporation tax returns and also non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

Non-underlying tax credit / charge

The tax credit in relation to the non-underlying items referred to in note 2.6 was £13.6m (2012: tax charge £0.8m). This comprises a current tax credit of £0.4m (2012: charge £0.8m) and a deferred tax credit of £0.7m in respect of net non-underlying expenses of £5.4m (2012: net income £1.4m). In addition, a further non-underlying deferred tax credit of £12.5m relates to releases of provisions no longer required in respect of tax deferred on the original disposal of properties to the Group's property joint venture. The changes in the company's interest in the joint venture explained in note 3.3 resulted in the crystallisation of tax liabilities significantly lower than the values tax was originally deferred on.

Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £20.1m (2012: £19.7m) relating to former overseas businesses for which no deferred tax asset has been recognised pending the clarity of the availability of intra-EU losses.

Deferred tax assets / (liabilities)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2013 £m	2012 £m
Deferred tax assets	**23.8**	24.4
Deferred tax liabilities	**(1.1)**	(14.0)
	22.7	10.4

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

The table below outlines the deferred tax assets / (liabilities) that are recognised on the balance sheet, together with their movements in the year:

	At 1 January 2012 £m	(Charged) / credited to consolidated income statement £m	Credited to equity £m	Exchange differences £m	Restated* **At 31 December 2012 £m**
Property, plant and equipment	(1.1)	(5.9)	-	(0.2)	**(7.2)**
Retirement benefit obligations	2.2	-	4.8	-	**7.0**
Other short term temporary differences	12.6	(2.7)	-	(0.1)	**9.8**
Losses	-	0.8	-	-	**0.8**
Tax assets / (liabilities)	13.7	(7.8)	4.8	(0.3)	**10.4**

	At 1 January 2013 £m	Credited / (charged) to consolidated income statement £m	Credited to equity £m	Exchange differences £m	**At 31 December 2013 £m**
Property, plant and equipment	(7.2)	10.8	-	-	**3.6**
Retirement benefit obligations	7.0	(0.7)	2.5	-	**8.8**
Other short term temporary differences	9.8	(3.1)	1.7	-	**8.4**
Losses	0.8	1.1	-	-	**1.9**
Tax assets / (liabilities)	10.4	8.1	4.2	-	**22.7**

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 2 - RESULTS AND TRADING

2.8 Earnings per share

Accounting policy

The Group presents basic and diluted earnings per share ("eps") data for its ordinary shares. Basic eps is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted eps is calculated by dividing the profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees, LTIPs and share warrants.

Earnings per share calculation

	2013 Earnings per share pence	**2013 Earnings Total £m**	Restated* 2012 Earnings per share pence	Restated* 2012 Earnings Total £m
Basic earnings per share	**2.8**	**39.2**	1.7	24.1
Adjusting items:				
Non-underlying items attributable to the parent (see note 2.6)	**0.5**	**7.2**	0.3	4.4
Tax effect of non-underlying items	**(1.0)**	**(13.6)**	-	(0.1)
Underlying earnings per share (Non GAAP measure)	**2.3**	**32.8**	2.0	28.4
Diluted earnings per share	**2.7**	**39.2**	1.7	24.1
Diluted earnings per share - underlying (Non GAAP measure)	**2.2**	**32.8**	2.0	28.4

The calculation of basic, adjusted and diluted earnings per share is based on the following number of shares in issue (millions):

	2013 Number	2012 Number
Weighted average number of ordinary shares in issue	**1,421.0**	1,404.5
Weighted average number of dilutive shares under option	**55.6**	16.5
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,476.6**	1,421.0
Non-dilutive shares under option	**25.5**	54.8

The directors consider that the underlying earnings per share figure provides a better measure of comparative performance.

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

This section contains the notes and information to support those assets and liabilities presented in the Consolidated Balance Sheet that relate to the Group's operating activities

3.1 Intangible assets and goodwill

Accounting policies

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary undertakings at the effective date of acquisition and is included in the balance sheet under the heading of intangible assets. The goodwill is allocated to cash generating units (CGUs), which are franchise groups and other business units. An impairment test is performed annually. Goodwill is then held in the balance sheet at cost less any accumulated impairment losses.

Adjustments are applied to bring the accounting policies of the acquired businesses into alignment with those of the Group. The costs associated with reorganising or restructuring are charged to the post acquisition income statement. For those acquisitions made prior to 1 January 2004, goodwill is recorded on the basis of its deemed cost which represented its carrying value as at 1 January 2004 under UK GAAP. Fair value adjustments are made in respect of acquisitions. If at the balance sheet date the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

Internally generated intangible assets relate to activities that involve the development of dealer management systems by the Group's Pinewood division. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of labour and overhead costs that are directly attributable to preparing the asset for its intended use. If the development expenditure does not meet the above criteria it is expensed to the income statement.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses and is amortised over a period of five years.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and any impairment losses. This category of asset includes purchased computer software and internally generated intangible assets which are amortised by equal instalments over four years and the fair value of the benefit of forward sales orders assumed on acquisition, which is amortised by reference to when those orders are delivered.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets arising on an acquisition are recognised separately from goodwill if the fair value of the asset can be identified separately and measured reliably. Amortisation is calculated on a straight line basis over the estimated useful life of the intangible asset. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Activity

	Goodwill £m	Development costs £m	Other intangibles £m	**Total £m**
Cost				
At 1 January 2012	438.1	5.4	13.7	**457.2**
Additions	1.0	1.6	0.4	**3.0**
Disposals of businesses	(0.5)	-	-	**(0.5)**
Other disposals	-	-	(0.1)	**(0.1)**
At 31 December 2012	438.6	7.0	14.0	**459.6**
At 1 January 2013	438.6	7.0	14.0	**459.6**
Additions	-	1.8	0.3	**2.1**
Disposals of businesses	(2.8)	-	-	**(2.8)**
Other disposals	-	-	(0.2)	**(0.2)**
At 31 December 2013	435.8	8.8	14.1	**458.7**
Amortisation				
At 1 January 2012	70.4	2.6	12.7	**85.7**
Amortised during the year	-	1.2	0.2	**1.4**
Other disposals	-	-	(0.1)	**(0.1)**
At 31 December 2012	70.4	3.8	12.8	**87.0**
At 1 January 2013	70.4	3.8	12.8	**87.0**
Amortised during the year	-	1.3	0.2	**1.5**
Other disposals	-	-	(0.2)	**(0.2)**
At 31 December 2013	70.4	5.1	12.8	**88.3**
Carrying amounts				
At 1 January 2012	367.7	2.8	1.0	**371.5**
At 31 December 2012	368.2	3.2	1.2	**372.6**
At 1 January 2013	368.2	3.2	1.2	**372.6**
At 31 December 2013	365.4	3.7	1.3	**370.4**

The following have been recognised in the income statement within net operating expenses:

	2013 £m	2012 £m
Amortisation of internally generated intangible assets	**1.3**	1.2
Amortisation of other intangible assets	**0.2**	0.2
Research and development costs	**0.5**	0.5

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Goodwill is allocated across multiple cash-generating units which are franchise groups and other business units and consequently a consistent approach in assessing the carrying value of this amount is taken. This value was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

Future cash flows were projected into perpetuity with reference to the Group's forecasts from 2014 to 2017. These forecasts are based on key assumptions for the aftersales, used and new sectors. The aftersales sector has been forecast based on assumptions for the nearly new car parc (the key market segment for the business). The used sector forecast is based on modest underlying growth in the used car market. The new sector forecast is based on a weighted average assumption for the new car market growth rates from the Society of Motor Manufacturers and Traders, British Car Motor Auctions and University of Buckingham data and consideration of the new car recovery profile from historical data. For each of these sectors the forecast assumption is that gross margins will be stable. These forecasts have been approved by the directors and form the basis of the growth assumptions for future cash flows from 2014 to 2017.

It is anticipated that the units will grow revenues in the future. For the purpose of the impairment testing, a growth rate of 3.4% (2012: 2%) has been assumed beyond the business plan.

The discount rates are estimated to reflect current market estimates of the time value of money and is calculated after consideration of market information and risk adjusted for individual circumstances. With all units carrying a goodwill value operating in the UK and in the motor retail or related sector a single pre-tax discount rate of 10.3% has been applied (2012: 11.3%).

Neither a 1% increase in the discount rate or a 2% reduction in the post business plan growth rate would result in any additional impairment being required.

During the prior year the Group acquired a BMW and MINI dealership in Leeds for a total consideration of £2.6m, of which £1.0m was allocated to goodwill.

Movements of the principal CGUs are summarised in the table below:

	BMW £m	Ford £m	Mercedes £m	Vauxhall £m	Others £m	**Total £m**
At 1 January 2012	31.1	71.6	47.8	77.8	139.4	**367.7**
Additions	1.0	-	-	-	-	**1.0**
Disposals	-	-	-	-	(0.5)	**(0.5)**
At 31 December 2012	32.1	71.6	47.8	77.8	138.9	**368.2**
At 1 January 2013	32.1	71.6	47.8	77.8	138.9	**368.2**
Disposals	-	-	-	-	(2.8)	**(2.8)**
At 31 December 2013	32.1	71.6	47.8	77.8	136.1	**365.4**

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Goodwill by segment

	2013 £m	2012 £m
Stratstone	**131.7**	134.5
Evans Halshaw	**210.7**	210.7
Quickco	**0.7**	0.7
Pinewood	**0.3**	0.3
Contract Hire	**22.0**	22.0
	365.4	368.2

In 2008 goodwill impairments in respect of Land Rover and USA of £12.3m and £14.0m respectively were made. Whilst the reversal of an impairment loss is not recognised in subsequent periods, since 2010, the cash flow projections of both the Land Rover CGU and USA CGU have indicated that, if permitted, the impairments could have been reversed.

3.2 Property, plant and equipment

Accounting policy

Freehold land is not depreciated. Depreciation is provided to write off the cost less the estimated residual value of other assets by equal instalments over their estimated useful economic lives. On transition to IFRS as at 1 January 2004, all land and buildings were restated to fair value as permitted by IFRS 1, which is then treated as the deemed cost. All other assets are initially measured and recorded at cost.

Depreciation rates are as follows:

- Freehold buildings – 2% per annum
- Leasehold property improvements – 2% per annum or over the period of the lease if less than 50 years
- Fixtures, fittings and office equipment – 10 – 20% per annum
- Plant and machinery – 10 – 33% per annum
- Motor vehicles – 20 – 25% per annum
- Contract hire vehicles are depreciated to their residual value over the period of their lease

The residual value of all assets, depreciation methods and useful economic lives, if significant, are reassessed annually.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is possible that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in the income statement.

The depreciation charge in respect of property, plant and equipment is recognised within administrative expenses within the income statement.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

Activity

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	**Total £m**
Cost					
At 1 January 2012	204.4	68.1	38.5	104.0	**415.0**
Additions	3.3	6.8	57.7	35.9	**103.7**
Business acquisitions	-	0.2	-	-	**0.2**
Exchange adjustments	(1.4)	(0.3)	-	-	**(1.7)**
Disposals of businesses	(0.9)	(1.2)	-	-	**(2.1)**
Other disposals	(1.5)	(8.8)	(63.1)	-	**(73.4)**
Contract hire vehicles transferred to inventory	-	-	-	(32.2)	**(32.2)**
Classified as non-current assets held for sale	(13.7)	-	-	-	**(13.7)**
Reinstated from non-current assets held for sale	9.1	-	-	-	**9.1**
At 31 December 2012	199.3	64.8	33.1	107.7	**404.9**
At 1 January 2013	199.3	64.8	33.1	107.7	**404.9**
Additions	2.5	7.2	56.3	39.7	**105.7**
Exchange adjustments	(0.3)	(0.1)	-	-	**(0.4)**
Disposals of businesses	(1.1)	(0.9)	-	-	**(2.0)**
Other disposals	(3.3)	(8.2)	(50.4)	-	**(61.9)**
Contract hire vehicles transferred to inventory	-	-	-	(23.2)	**(23.2)**
Classified as non-current assets held for sale	(3.1)	-	-	-	**(3.1)**
Reinstated from non-current assets held for sale	5.7	-	-	-	**5.7**
At 31 December 2013	199.7	62.8	39.0	124.2	**425.7**
Depreciation					
At 1 January 2012	30.6	47.2	12.2	25.6	**115.6**
Exchange adjustments	(0.4)	(0.2)	-	-	**(0.6)**
Charge for the year	4.5	6.9	6.4	19.5	**37.3**
Disposal of businesses	(0.1)	(0.8)	-	-	**(0.9)**
Other disposals	(1.0)	(8.0)	(11.7)	-	**(20.7)**
Contract hire vehicles transferred to inventory	-	-	-	(16.1)	**(16.1)**
Classified as non-current assets held for sale	(2.4)	-	-	-	**(2.4)**
Reinstated from non-current assets held for sale	2.4	-	-	-	**2.4**
At 31 December 2012	33.6	45.1	6.9	29.0	**114.6**
At 1 January 2013	33.6	45.1	6.9	29.0	**114.6**
Exchange adjustments	(0.1)	(0.1)	-	-	**(0.2)**
Charge for the year	4.4	6.6	7.3	21.1	**39.4**
Impairment	0.9	-	-	-	**0.9**
Disposal of businesses	-	(0.3)	-	-	**(0.3)**
Other disposals	(1.6)	(7.4)	(5.1)	-	**(14.1)**
Contract hire vehicles transferred to inventory	-	-	-	(11.5)	**(11.5)**
Classified as non-current assets held for sale	(1.9)	-	-	-	**(1.9)**
Reinstated from non-current assets held for sale	3.1	-	-	-	**3.1**
At 31 December 2013	38.4	43.9	9.1	38.6	**130.0**

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	**Total £m**
Carrying amounts					
At 1 January 2012	173.8	20.9	26.3	78.4	**299.4**
At 31 December 2012	165.7	19.7	26.2	78.7	**290.3**
At 1 January 2013	165.7	19.7	26.2	78.7	**290.3**
At 31 December 2013	161.3	18.9	29.9	85.6	**295.7**

Included in the amounts for property, plant and equipment above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	Land & buildings £m
Depreciation	
Charge for the year	**-**
Carrying amounts	
At 31 December 2012	**0.3**
At 31 December 2013	**0.1**

	2013 £m	2012 £m
Building projects currently under construction for which no depreciation has been charged during the year	**1.2**	2.3
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment	**0.4**	0.5
Cumulative interest charges capitalised as construction costs and included in land and buildings	**0.8**	0.8

The following items have been charged to the income statement as operating expenses during the year:		
Depreciation of property, plant and equipment - owned	**39.4**	37.3
Impairment of property, plant and equipment	**0.9**	-

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.3 Interest in joint venture

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, a company that is incorporated in the United Kingdom. The Group, whilst holding a 51% holding in the ordinary share capital of PPH0 Limited, holds by way of a contractual agreement 50% of the voting rights attaching to that company, thereby giving the Group joint control. Up until 27 November 2013, PPH0 Limited owned 100% of PPH1 Limited whose principal activity is that of a property company. Due to a default in its debt obligations, PPH1 Limited was placed into administration on 27 November 2013 and its assets were disposed of to King Arthur Properties S.a.r.L, a company incorporated in Luxembourg. King Arthur Properties S.a.r.L is a wholly owned subsidiary of King Arthur Holdings S.a.r.L, in which the Group invested £10.0m during the year. The former joint venture was accounted for under the equity accounting method. The directors made a full provision of £6.2m against the carrying value of the investment in 2008 due to the difficulties faced by PPH1 Limited in adhering to its existing financial covenants. As at the balance sheet date, although the Group still owns 50% of PPH0 Limited, it has no assets and so the value of the investment is £nil.

The net liabilities of the joint venture company, not adjusted for the percentage owned by the Group are:

	2013 £m	2012 £m
Non-current assets	**-**	192.4
Current assets	**-**	10.2
Current liabilities	**-**	(8.8)
Non-current liabilities	**-**	(205.0)
Net liabilities of joint venture company	**-**	(11.2)

The non-current assets shown above at 2012 relate to properties held at their market value assessed as at 28 July 2011.

The carrying value of the Group's investment in the joint venture is £nil at 31 December 2013. For this reason no further profit or loss is recognised in these financial statements in respect of the trading result of the joint venture for the year ended 31 December 2013.

Revenues and expenses of the joint venture, not adjusted for the percentage attributable to the Group are:

	2013 £m	2012 £m
Income	**15.5**	18.1
Expenses	**(25.4)**	(13.8)
Loss on disposal of fixed assets	**(18.1)**	-
Income tax expense	**-**	(0.9)
(Loss) / profit after tax	**(28.0)**	3.4

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.4 Investments

Accounting policy

Investments other than held-to-maturity debt securities are classified as either fair value through other comprehensive income or available for sale and are measured at subsequent reporting dates at fair value. Fair value changes in resepect of financial assets held as available for sale are recognised through other comprehensive income.

Balance sheet

	2013 £m	2012 £m
Investment in King Arthur Holdings S.a.r.L at cost	**10.0**	-
Fair value changes through other comprehensive income	**-**	-
Investment at 31 December	**10.0**	-

The equity securities represent a 5.8% holding in King Arthur Holdings S.a.r.L and have been designated as available for sale financial asset in accordance with IAS 39.

A dividend of £0.3m was received in respect of this investment during the year.

3.5 Non-current assets classified as held for sale

Accounting policy

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are measured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. Non-current assets classified as held for sale are available for immediate sale and a resultant disposal is highly probable within one year.

A non-current asset that stops being classified as held for sale is remeasured at the lower of its carrying amount prior to the asset or disposal group being classified as held for sale, adjusted for any depreciation or amortisation that would have been recognised if the asset had not been classified as held for sale, or, its recoverable amount at the date of the decision not to sell.

Balance sheet

The Group holds a number of freehold and long leasehold properties that are currently being marketed for sale which are expected to be disposed of during 2014.

Properties are valued using a combination of external qualified valuers and in-house experts. Due to the nature of the market, especially in light of current economic conditions, a property may ultimately realise proceeds that vary from those valuations applied.

Two properties previously classified as held for sale have now been de-classified having been taken off the market to facilitate refurbishment. These assets have been re-classified as property, plant and equipment at their carrying amounts. There were no significant adjustments in the re-instatement for any depreciation that would have been charged had the asset not been classified as held for sale nor any reversal of impairment charges in relation to this asset.

These properties form part of central segment assets.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.5 Non-current assets classified as held for sale *continued*

Income statement

The following items have been credited / (charged) to the income statement during the year:

	Income statement category	**2013 £m**	2012 £m
Profit on sale of assets classified as held for sale	Other income - gains on the sale of businesses and property	**1.1**	0.8
Reversal of impairment on assets classified as held for sale	Net operating expenses	**0.6**	1.3
Impairment of assets held for sale	Net operating expenses	**(1.0)**	(5.4)

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £0.7m would have been recognised (2012: £2.0m).

3.6 Inventories

Accounting policies

Motor vehicle inventories are stated at the lower of cost and net realisable value. Cost is net of incentives received from manufacturers in respect of target achievements. Fair values are assessed using market research data which is based upon recent industry activity. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied. Parts inventories are based on an average purchase cost principle and are written down to net realisable value by providing for obsolescence on a time in stock based formula approach.

Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables. Movements in consignment vehicle inventory and its corresponding liability within trade and other payables are not included within movements of inventories and payables as stated in the consolidated cash flow statement as no cash flows arise in respect of these transactions until the vehicle is either sold or purchased at which point it is reclassified within new and used vehicle inventory.

Motor vehicles are transferred from contract hire activities at the end of their lease term to inventory at their depreciated cost. No cash flow arises from these transfers.

Balance sheet

	2013 £m	2012 £m
New and used vehicles	**514.2**	506.3
Consignment vehicles	**54.9**	53.0
Vehicle parts and other inventories	**33.4**	30.7
	602.5	590.0

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.6 Inventories *continued*

	2013 £m	2012 £m
Inventories stated at net realisable value	**113.0**	51.7
Carrying value of inventories subject to retention of title clauses	**426.6**	392.2
(Charge) / credit recognised in respect of the movement of inventory provisions	**(2.5)**	3.0

Cash flow statement information

	2013 £m	2012 £m
Movement in inventory	**(12.5)**	(24.6)
Inventory changes in business combinations and disposals	**(2.0)**	0.2
Impact of exchange differences	**(0.1)**	0.5
Non cash movement in consignment vehicles	**1.9**	(3.8)
Transfer value of contract hire vehicles from fixed assets to inventory	**11.7**	16.1
Cash flow decrease due to movements in inventory	**(1.0)**	(11.6)

3.7 Movement in contract hire vehicle balances

	2013 £m	2012 £m
Depreciation	**21.1**	19.5
Changes in trade and other payables and deferred income	**6.1**	0.2
Purchases of contract hire vehicles	**(39.7)**	(35.9)
Unwinding of discounts in contract hire residual values	**(1.8)**	(1.7)
	(14.3)	(17.9)

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.8 Trade and other receivables

Accounting policy

Trade and other receivables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

Credit risk management

The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropriate evaluation of credit risk. Credit risk arises in respect of amounts due from vehicle manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due and management's belief that it does not expect any manufacturer to fail to meet its obligations. Financial assets comprise trade and other receivables (as above), cash balances, assets arising from transactions involving derivative financial instruments and the Group's investment in King Arthur Holdings S.a.r.L. The counterparties are banks and management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Before granting any new customer credit terms the Group uses external credit scoring systems to assess the potential new customer's credit quality and defines credit limits by customer. These limits and credit worthiness are regularly reviewed and use is made of monitoring alerts provided by the providers of the credit scoring systems. The Group has no customer that represents more than 5% of the total balance of trade receivables.

Balance sheet

	2013 £m	2012 £m
Trade receivables	**40.9**	41.8
Allowance for doubtful debts	**(0.3)**	(0.1)
	40.6	41.7
Other receivables	**42.2**	38.1
Prepayments	**20.4**	17.6
	103.2	97.4

All amounts are due within one year.

All trade receivables are classified as loans and receivables and held at amortised cost in the current year and prior year.

Total trade receivables held by the Group at 31 December 2013 was £40.6m (2012: £41.7m). No trade receivables have been classified as held for sale (2012: £nil). Receivables of the California segment are £6.6m (2012: £6.2m).

The average credit period taken on sales of goods is 29 days (2012: 29 days). No interest is charged on trade receivables. The Group makes an impairment provision for all debts that are considered unlikely to be collected plus a proportion of all debts over 120 days past their due date. An expense has been recognised in respect of impairment losses during the year of £0.2m (2012: £0.2m). The impairment is in respect of items that are aged greater than 120 days.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.8 Trade and other receivables *continued*

The ageing of trade and other receivables at the reporting date was:

	Trade receivables 2013 £m	**Other receivables 2013 £m**	Trade receivables 2012 £m	Other receivables 2012 £m
Not past due	**28.9**	**36.8**	29.3	33.6
Past due 0-30 days	**9.1**	**2.9**	9.8	2.1
Past due 31-120 days	**2.5**	**2.5**	2.4	2.4
Past due 120+ days subject to impairment	**0.4**	**-**	0.3	-
	40.9	**42.2**	41.8	38.1
Provision for impairment	**(0.3)**	**-**	(0.1)	-
	40.6	**42.2**	41.7	38.1

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2013 £m	2012 £m
Balance at 1 January	**0.1**	0.2
Utilisation	**-**	(0.3)
Impairment loss recognised	**0.2**	0.2
Balance at 31 December	**0.3**	0.1

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

3.9 Trade and other payables

Accounting policy

Trade and other payables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

Balance sheet

	2013 £m	2012 £m
Trade payables	**586.8**	559.1
Contract hire buyback commitments	**38.7**	33.1
Consignment vehicle liabilities	**54.7**	52.8
Payments received on account	**26.7**	15.6
Other taxation and social security	**24.4**	16.3
Accruals	**93.8**	86.6
	825.1	763.5
Non-current	**28.3**	23.7
Current	**796.8**	739.8
	825.1	763.5

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.9 Trade and other payables *continued*

Trade payables are classified as other financial liabilities and principally relate to vehicle funding. Fair value is deemed to be the same as carrying value.

The non-current element of trade and other payables relates to vehicles the Group has contracted to repurchase, at predetermined values and dates, that have been let under operating leases or similar arrangements.

The Group enters into leasing arrangements whereby it agrees to repurchase vehicles from providers of lease finance at the end of the lease agreement, typically two to four years in the future. The repurchase price is determined at the time the agreement is entered into based on the then estimate of a vehicle's future residual value. The actual value of the vehicles at the end of the lease contract, and therefore the proceeds that can be realised from eventual sale, can vary materially from these estimates. Annual reviews are undertaken to reappraise residual values and to recognise impairment write downs where necessary.

3.10 Provisions

Accounting policy

A provision is recognised if as a result of a past event the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that the Group will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Vacant property provision

A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a lease contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments less any contributions from income derived from the sub-letting of these properties. The present value of future net lease commitments is calculated using a 4% discount rate. It is expected that the majority of this expenditure will be incurred over the next three years. The present value of the income from the sub-leases is £4.1m over the period of the leases and assumes that any sub-let properties will remain so until the end of the sub-lease.

VAT assessment

The Group has a provision of £0.6m in respect of potential VAT issues arising from sales to finance companies, the settlement of which is expected to be concluded in the forthcoming year.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.10 Provisions *continued*

The movements in provisions for the year are as follows:

	Vacant property provision £m	VAT assessment £m	**Total £m**
At 31 December 2012	5.1	0.8	**5.9**
Provisions made during the year	0.9	-	**0.9**
Provisions used during the year	(0.8)	(0.2)	**(1.0)**
At 31 December 2013	5.2	0.6	**5.8**
Non-current	3.7	-	**3.7**
Current	1.5	0.6	**2.1**
	5.2	0.6	**5.8**

3.11 Deferred income

Property leases

The Group entered into a sale and leaseback arrangement in December 2006 with its joint venture company PPHO Limited, in which a number of properties were disposed of generating total proceeds of £250.1m. The arrangement entitled PPHO Limited to lease back those properties to the Group over a period of 25 years, a factor resulting in the Group receiving a consideration in excess of the deemed fair value as at the date of disposal, when measured under an open market valuation in accordance with IFRS. The proceeds received were estimated to be greater than the fair value of the properties by £17.8m and as required by IAS 17 'Leases' this excess over fair value is deferred and will be amortised over the period of the leases. In addition, the leases include fixed rental increases. During the year PPHO Limited sold its interests in all of its properties to King Arthur Properties S.a.r.L, However the terms of the leases remain unchanged for the Group and therefore there is no change in the recognition of the deferred income in respect of these leases.

Warranty policies sold

The income received in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis. The unrecognised income is held within deferred income.

Contract hire

Vehicles supplied to a leasing company for contract hire purposes where the Group undertakes to repurchase the vehicle at a predetermined date are accounted for in accordance with IAS 17 'Leases', where the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term.

3.11 Deferred income *continued*

	Property leases £m	Warranty policies £m	Contract hire £m	**Total £m**
At 31 December 2012	18.0	5.9	43.9	**67.8**
Created in the year	-	1.6	24.0	**25.6**
Recognised as income during the year	(0.5)	(1.4)	(23.5)	**(25.4)**
At 31 December 2013	17.5	6.1	44.4	**68.0**
Non-current	17.0	3.1	23.0	**43.1**
Current	0.5	3.0	21.4	**24.9**
	17.5	6.1	44.4	**68.0**

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

This section contains the notes and information to support the elements of both net debt and equity financing as presented in the Consolidated Balance Sheet:

4.1 Accounting policies

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expires. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled. Financial instruments comprise both derivative and non-derivative financial instruments.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Investment in equity - see note 3.4

Trade and other receivables - see note 3.8

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.1 Accounting policies *continued*

Loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The effective interest basis is a method of calculating the amortised cost of a financial liability and of allocating interest payments over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

In the case of a debt renegotiation where the existing and new terms are substantially different the exchange shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is recognised in profit or loss. Any costs or fees incurred in the refinancing are recognised as part of the gain or loss on extinguishment. If an exchange is not accounted for as an extinguishment, any fees or costs incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Trade and other payables - see note 3.9

Derivative financial instruments

The Group held derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the income statement. However, the treatment of gains or losses arising from derivatives which qualify for hedge accounting depends on the type of hedge arrangement. The fair value of derivatives is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date.

Hedging

(i) Fair value hedges
Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised within finance costs or finance income, as appropriate, in the income statement. The carrying amount of the hedged item is adjusted for any gain or loss attributable to the risk being hedged with any gain or loss also recognised within finance costs or finance income, as appropriate, in the income statement. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates. If the hedging instrument no longer meets the criteria for hedge accounting or is terminated then hedge accounting is discontinued prospectively.

(ii) Hedges of net investments in overseas operations
A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives

Net debt

	2013 £m	2012 £m
Cash and cash equivalents	**58.4**	58.0
Current interest bearing loans and borrowings	**-**	(60.4)
Non-current interest bearing loans and borrowings	**(198.0)**	(228.2)
Derivative financial instruments	**-**	14.2
	(139.6)	(216.4)

Cash and cash equivalents

Bank balances and bank overdrafts set out below are stated net of legal rights of set-off resulting from pooling arrangements operated by individual banks.

	Carrying value & fair value 2013 £m	Carrying value & fair value 2012 £m
Bank balances and cash equivalents	**58.4**	58.0

Borrowings

During the year, the Group refinanced its existing term loan, revolving credit facility and loan notes in respect of the Group's UK business activities, including all associated derivatives used for hedging purposes, and its loan facilities in respect of financing overseas' businesses in the Netherlands and USA. All of these facilities were repaid and replaced by a single revolving credit facility and by the issue of a secured bond.

As at 31 December 2013, the Group had a £145.0m credit facility and a £175.0m issued bond, expiring as set out below:

Revolving credit facility	Expiry date	**£m**
	December 2014	**20.00**
	December 2015	**20.00**
	December 2016	**16.25**
	June 2017	**88.75**
Revolving credit facility		**145.00**
Bond	May 2020	**175.00**
		320.00

The bond has been recorded at its fair value of proceeds received of £175.0m less directly attributable issue costs of £3.9m. These costs will be amortised over the expected life of the bond resulting in an amortisation charge of £0.7m per annum.

The revolving credit facility has been recorded at its fair value of the proceeds received. The revolving credit facility has been treated as a substantial modification in accordance with IAS 39 and consequently all issue and legal costs of £8.0m have been written off to the income statement.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Borrowings *continued*

	Initial margin	Commitment (non-utilisation) fee
Revolving credit facility	3.50%	1.40%
Bond	6.875%	n/a

The margin on the revolving credit facility is initially 3.50%, but after 31 December 2013 will reduce as the ratio of net debt to underlying EBITDA (after stocking interest) falls, and will be 2.50% when that ratio is below 1.5. The commitment fee is calculated at 40% of the margin. The interest rate in respect of the bond is a fixed rate of 6.875% until maturity.

Covenants

The revolving credit facility is subject to performance covenants with respect to debt: underlying EBITDA, fixed charge cover and net capital expenditure. The bond is subject to incurrence covenants only i.e. the Group is only permitted certain acts in certain circumstances. The main incurrence covenants relate to the incurrence of further debt, the making of certain restricted payments and the making of certain asset sales provided required thresholds are met (for example, provided a minimum fixed charge coverage ratio is achieved).

Security

Both the revolving credit facility and the bond are secured and rank pari-passu. The security granted is over certain of its assets, not subject to any other arrangements, comprising property, plant and equipment of £178.3m, trade and other receivables of £82.8m and bank accounts of £36.3m.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Summary of borrowings

	Carrying value 2013 £m	**Fair value 2013 £m**	Carrying value 2012 £m	Fair value 2012 £m
Non-current:				
Bank borrowings	**24.7**	**24.7**	142.9	142.9
6.875% bond 2020	**171.6**	**184.2**	-	-
9.310% USD 110m loan notes 2014	**-**	**-**	44.6	44.6
9.310% USD 67m loan notes 2014	**-**	**-**	27.1	27.1
9.834% GBP 17m loan notes 2014	**-**	**-**	11.9	11.9
Other loan notes	**0.2**	**0.2**	0.2	0.2
Finance leases	**1.5**	**1.5**	1.5	1.5
Total non-current	**198.0**	**210.6**	228.2	228.2
Current:				
Bank borrowings	**-**	-	48.0	48.0
9.310% USD 110m loan notes 2014	**-**	**-**	6.5	6.5
9.310% USD 67m loan notes 2014	**-**	**-**	4.0	4.0
9.834% GBP 17m loan notes 2014	**-**	**-**	1.9	1.9
Total current	**-**	**-**	60.4	60.4
Total borrowings	**198.0**	**210.6**	288.6	288.6

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:
Level 1: quoted prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the bond has been estimated by a Level 1 valuation method. The revolving credit facility has been measured by a Level 2 valuation method. The equity holding in King Arthur Holdings S.a.r.L has been measured by a Level 3 valuation method. The fair value disclosed in the table above represents the bond at its market price of 105.25 at 31 December 2013.

The effective interest rates for all borrowings after taking into account derivative financial instruments are all based on LIBOR for the relevant currency, except for the 6.875% bond 2020, which is at a fixed rate. Finance leases are effectively held at fixed rates of interest within the range set out below. Information regarding classification of balances and interest, the range of interest rates applied in the year to 31 December 2013 and repricing periods, is set out in the table below. In respect of financial instruments not held at 31 December 2013, effective interest rates quoted below are in respect of the period until termination during 2013.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

	Classification	**Carrying value £m**	Classification	Interest classification	Interest rate range	Effect of interest rate and currency swaps	Swapped interest rate range	Repricing periods
Bank balances and cash equivalents	Loans and receivables	**58.4**	Amortised cost	Floating GBP	0.45% - 2.00%	n/a	n/a	6 months or less
Borrowings								
Non-current:								
Bank borrowings	Other financial liabilities	**-**	Amortised cost	Floating GBP	3.73% - 4.30%	n/a	n/a	6 months or less
Bank borrowings	Other financial liabilities	**24.7**	Amortised cost	Floating USD	3.45% - 3.73%	n/a	n/a	6 months or less
6.875% bond 2020	Other financial liabilities	**171.6**	Amortised cost	Fixed GBP	6.875%	n/a	n/a	n/a
9.310% USD 110m loan notes 2014	Other financial liabilities	**-**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.310% USD 67m loan notes 2014	Other financial liabilities	**-**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.834% GBP 17m loan notes 2014	Other financial liabilities	**-**	Amortised cost *	Fixed GBP	9.83%	Floating GBP	5.69% - 6.13%	6 months or less
Other loan notes	Other financial liabilities	**0.2**	Amortised cost	Fixed GBP	12.50%	n/a	n/a	n/a
Finance leases	Other financial liabilities	**1.5**	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a	n/a	n/a
Total non-current		**198.0**						
Current:								
Bank borrowings	Other financial liabilities	**-**	Amortised cost	Floating GBP	3.73% - 4.30%	n/a	n/a	6 months or less
Bank borrowings	Other financial liabilities	**-**	Amortised cost	Floating USD	3.45% - 3.73%	n/a	n/a	6 months or less
9.310% USD 110m loan notes 2014	Other financial liabilities	**-**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.310% USD 67m loan notes 2014	Other financial liabilities	**-**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.834% GBP 17m loan notes 2014	Other financial liabilities	**-**	Amortised cost *	Fixed GBP	9.83%	Floating GBP	5.69% - 6.13%	6 months or less
Total borrowings		**198.0**						

* The classification of these items was at amortised cost with a fair value basis adjustment, i.e. the carrying amount has been adjusted for fair value changes attributable to the hedged risk.

The carrying amounts of the Group's borrowings are denominated in the following currencies after taking into consideration currency swaps:

	2013 £m	2012 £m
Pound sterling	**173.3**	265.3
US dollar	**24.7**	23.3
	198.0	288.6

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Treasury policy, financial risk, funding and liquidity management

Financial risk management

The Group is exposed to the following risks from its use of financial instruments:

Funding and liquidity risk - the risk that the Group will not be able to meet its financial obligations as they fall due

Credit risk - the risk of financial loss to the Group on the failure of a customer or counterparty to meet its obligations to the Group as they fall due

Market risk - the risk that changes in market prices, such as interest rates and foreign exchange rates, have on the Group's financial performance

The Group's quantitative exposure to these risks is explained throughout these financial statements whilst the Group's objectives and management of these risks is set out below.

Treasury policy and procedures

Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity, interest rate and foreign exchange exposure. Management of these areas is the responsibility of the Group's central treasury function. Derivative financial instruments are utilised to reduce exposure to movements in foreign exchange rates and interest rates. The Board does not permit the speculative use of derivatives.

Funding and liquidity management

The Group is financed primarily by its issued bond, revolving credit facility, vehicle stocking credit lines and operating cash flow. Committed facilities mature within appropriate timescales, are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the Group.

Each business within the Group is responsible for its own day to day cash management and the overall cash position is monitored on a daily basis by the Group treasury department. Our overseas subsidiaries formerly borrowed to fund their businesses independently of and without recourse to the UK parent company; subsequent to the refinancing of the Group during 2013 overseas businesses are party to the issued bond and revolving credit facility.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The maturity of non-current borrowings is as follows:

	2013 £m	2012 £m
Between 1 and 2 years	**-**	226.7
Between 2 and 5 years	**24.7**	0.4
Over 5 years	**173.3**	1.1
	198.0	228.2

Maturities include amounts drawn under revolving credit facilities which are contractually repayable generally within a month of the year end but which may be redrawn at the Group's option. The maturities above therefore represent the final repayment dates for these facilities. If the amounts drawn at the year end were redrawn at the Group's usual practice of monthly drawings, the total cash outflows associated with all borrowings, assuming interest rates remain at the same rates as at the year end, are estimated on an undiscounted basis as follows:

	Carrying amount	Contractual cashflows	Within 6 months	6-12 months	1-2 years	2-5 years	over 5 years
Bank borrowings	24.7	32.8	1.3	1.3	2.4	27.8	-
Secured bond	171.6	249.8	6.0	6.0	12.0	36.1	189.7
Loan notes	0.2	0.5	-	-	-	0.1	0.4
Finance leases	1.5	6.3	0.1	0.1	0.1	0.3	5.7
	198.0	289.4	7.4	7.4	14.5	64.3	195.8

The Group has the following undrawn borrowing facilities:

	2013 £m	2012 £m
Expiring in less than one year	**20.0**	-
Expiring in more than one year but not more than two years	**20.0**	68.2
Expiring in more than two years	**80.3**	-
	120.3	68.2

Interest rate risk management

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash-flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not actively manage cash flow interest rate risk as the Board believes that the retail sector in which the Group operates provides a natural hedge against interest rate movements. Consequently, it is normal Group policy to borrow on a floating rate basis and all fair value interest rate risk arising from fixed rate borrowings entered into by the Group are usually managed by swaps into floating rate. However, the Group has decided on a deviation from this policy in respect of the 6.875% bond 2020. This bond has been issued at a fixed rate of interest and, due to the historically low rates in current floating interest rates, there is relatively low downside risk in maintaining the bond at fixed rate.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Interest rate risk sensitivity analysis

As some of the Group's borrowings and vehicle stocking credit lines are floating rate instruments they therefore have a sensitivity to changes in market rates of interest. The table below shows the effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end, showing how profit or loss would have varied in the period on the assumption that the instruments at the period end were outstanding for the entire period.

	Profit / (loss) 2013 £m	Profit / (loss) 2012 £m
100 bps increase	**(4.3)**	(5.4)
Tax effect	**1.0**	1.4
Effect on net assets	**(3.3)**	(4.0)
100 bps decrease	**4.3**	5.4
Tax effect	**(1.0)**	(1.4)
Effect on net assets	**3.3**	4.0

Foreign exchange risk management

The Group faces currency risk in respect of its net assets denominated in currencies other than sterling. On translation into sterling, movements in currency will affect the value of these assets. The Group's policy is therefore to match, where possible, net assets in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. The Group has therefore borrowed USD 40.9m (2012: USD 38.0m) against its net assets held in overseas subsidiaries.

Where the Group borrowed in a foreign currency to finance assets denominated in sterling the Group would generally seek to swap borrowings into sterling. The Group had taken out hedges to effectively swap all of its fixed rate loan notes denominated in US dollars into floating rate sterling. The Group had the following hedge designations up until termination of these arrangements upon refinancing during 2013:

	Hedged item
9.310% USD 110m loan notes 2014	Principal and underlying changes in interest rates, excluding changes due to credit quality
9.310% USD 67m loan notes 2014	Principal and underlying changes in interest rates, excluding changes due to credit quality
9.834% GBP 17m loan notes 2014	Principal and underlying changes in interest rates, excluding changes due to credit quality

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Accounting for derivative financial instruments and hedging activities

The Group held derivative financial instruments to hedge currency and interest risks arising from its activities, which terminated upon refinancing in 2013. Derivative financial instruments were measured at fair value at each balance sheet date. Where a derivative financial instrument hedged the changes in fair value of recognised assets or liabilities, any gain or loss was recognised in the income statement. The hedged item was also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in the income statement. This resulted in variations in the balance sheet values of the hedged item and the offsetting derivatives as the market value fluctuated. The fair value of derivatives and hedged items is the estimated amount receivable or payable to terminate the contract determined by reference to calculations provided by certain financial institutions utilising market prices prevailing at the balance sheet date. On refinancing during the period, all swaps were closed out with the amounts charged to profit and loss on realisation included within finance costs.

Hedges

Fair value hedges of interest rate and currency risk

The net fair value of swaps used as hedges of the Group's USD and GBP loan notes is set out below:

Fair value hedge	**Assets carrying value & fair value 2013 £m**	Assets carrying value & fair value 2012 £m
Currency and interest swap (USD 110m / GBP: fixed rate to floating rate) expiring 2014	**-**	8.2
Currency and interest swap (USD 67m / GBP: fixed rate to floating rate) expiring 2014	**-**	5.0
Interest swap (GBP 17m: fixed rate to floating rate) expiring 2014	**-**	1.0
Total	**-**	14.2

Until cancellation upon refinancing during this period, the critical terms of the derivative financial instrument and the hedged item matched (i.e. currency, notional amount, and timing of rate resets and payments) and therefore changes in the fair value attributable to the risk being hedged were expected to be offset by the hedging derivative financial instrument. The contractual cashflows were due at each coupon payment date and upon cancellation.

The amounts in respect of the cancellation and repayment of derivative instruments and loan notes in this period, and the ineffective element of the hedging taken to the income statement in the previous period, are as follows:

	2013 £m	2012 £m
Change in fair value of hedged item - loan notes	**(14.2)**	(7.3)
Change in fair value of hedging item - derivative financial instruments	**14.2**	7.3
Net fair value gain / (loss) - recognised within finance expense	**-**	-

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Hedges of net investments in overseas operations

A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

Included within bank borrowings are balances denominated in US dollars which are designated as a hedge of the net investment in the Group's US subsidiaries. Foreign exchange differences on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange differences in respect of the net investments being hedged.

	2013 $m	2012 $m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	**40.9**	38.0

	£m	£m
Foreign exchange gains on translation of borrowings to sterling at balance sheet date	**0.2**	1.2
Foreign exchange losses on translation of net investments to sterling at balance sheet date	**(0.7)**	(1.3)
Net exchange losses recognised within translation reserve in equity	**(0.5)**	(0.1)

Capital management

The Group views its financial capital resources as primarily comprising share capital, issued bond, bank loans, vehicle stocking credit lines and operating cashflow.

Historically, the Group has funded major acquisitions through debt funding, the last major acquisition made by the Group being the £500m acquisition of Reg Vardy PLC in 2006. A core requirement remains, which the Group requires to fund its day to day working capital requirements. A fundamental element of the Group's financial resources revolves around the provision of vehicle and parts stocking credit lines, usually provided by the vehicle manufacturers funding arms, but also by other third party providers. The Group's funding of its vehicle and parts inventories is set out below:

	2013 £m	2012 £m
Manufacturer finance arm	**405.0**	409.2
Third party stock finance	**149.7**	122.3
Bank	**47.8**	58.5
Total inventories	**602.5**	590.0

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the vehicle manufacturers through their related finance arms and that funded through stock finance facilities and bank borrowings. Financing for stock other than through bank borrowings is shown in trade creditors in the balance sheet. Manufacturers' finance arms tend to vary the level of finance facilities offered dependent on the amount of stocks their manufacturer wishes to put into the network and this varies depending on the time of year and the level of production.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group is also responsible for funding the pension deficit. Further to the Group's refinancing during 2011, the Group agreed a pension transaction designed to eliminate over time the pension deficit and significantly reduced the expected cash outflow over the subsequent three years. Under this transaction the Group provides the pension scheme with an investment which generates a predictable property asset-backed income for up to 20 years to 2031 and which consequently unlocked aggregate cash flow savings for the Group of an estimated £46m in the period from December 2011 to December 2014. This asset backed arrangement is not recorded in these financial statements as a plan asset following the changes detailed in note 5.1 to these financial statements and is reflected in the pension deficit disclosed below. The total financial resources required by the Group to fund itself at 31 December 2013 comprises:

	2013 £m	2012 £m
Net debt	**139.6**	216.4
Stock finance	**554.7**	531.5
Pension deficit	**43.4**	29.8
	737.7	777.7

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group, to grow organicaly and service its debt requirements through generating cash flow. The Group had set a debt : underlying EBITDA target of below 1.5 : 1, which was achieved at 30 June 2013. The Group has now adopted a debt : underlying EBITDA target range of between 1.0 and 1.5. At 31 December 2013, the debt : underlying EBITDA ratio achieved was 1.2 : 1, calculated as follows:

	2013 £m	2012 £m
Underlying operating profit	**77.1**	71.8
Depreciation	**39.4**	37.3
Amortisation	**1.5**	1.4
Underlying EBITDA	**118.0**	110.5
Debt (being net debt as set out above)	**139.6**	216.4
Debt: underlying EBITDA ratio	**1.2**	2.0

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2013 and 2012 are set out below:

	2013	2012
Underlying profit before tax (£m)	**44.2**	36.4
Underlying earnings per share (p)	**2.3**	2.0
Debt: underlying EBITDA	**1.2**	2.0

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group has from time to time repurchased its own shares in the market and cancelled them. There is no predetermined plan for doing this although the Group has permission from shareholders to buy back up to 10% of its equity at any one time. The Group has in the past used profits made on surplus property sales to purchase its own shares and cancel them in order to promote growth in earnings per share. In the near term, the Group expects not to follow this strategy but instead to use proceeds from the sales of surplus properties to either reinvest in the business or to reduce debt. The Group may also issue shares or purchase them in the market to satisfy share incentives issued to employees of the Group. The Group encourages employees to be shareholders of the Group, providing selective share option schemes and group-wide sharesave schemes from time to time.

Certain of the company's subsidiaries are required to maintain issued share capital at levels to support capital adequacy under Financial Conduct Authority (FCA) requirements. The Group ensures these requirements are met by injections of equity to the subsidiaries in question, when required.

Other than specifically set out above, there were no changes to capital management in the year.

4.3 Net financing costs

Accounting policy

Finance income comprises interest income on funds invested, return on net pension scheme assets and gains on hedging instruments that are recognised in profit and loss. Interest income is recognised as it accrues in profit and loss, using the effective rate method.

Finance expense comprises interest expense on borrowings, unwinding of the discount on provisions, interest on net pension scheme obligations and losses on hedging instruments recognised in profit and loss. All borrowing costs are recognised in profit and loss using the effective interest method.

Gross finance costs directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets until such a time as the assets are substantially ready for their intended use or sale.

Finance expense

Recognised in profit and loss	**2013 £m**	Restated* 2012 £m
Interest payable on bank borrowings, bond and loan notes	**16.2**	19.7
Refinancing fees and costs (non-underlying - see note 2.6)	**8.0**	-
Vehicle stocking plan interest	**15.2**	14.4
Interest payable on finance leases	**0.1**	0.2
Net interest on pension scheme obligations (non-underlying - see note 2.6)	**1.3**	0.4
Less: interest capitalised	**-**	(0.1)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**40.8**	34.6
Unwinding of discounts in contract hire residual values	**1.8**	1.7
Total finance expense	**42.6**	36.3

Interest of £nil has been capitalised during the year on assets under construction (2012: £0.1m at an average rate of 3.85%).

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.3 Net financing costs *continued*

Finance income

Recognised in profit and loss	**2013 £m**	Restated* 2012 £m
Interest receivable on bank deposits	**0.4**	0.5
Other interest receivable (non-underlying - see note 2.6)	**0.9**	-
Interest on VAT refunds (non-underlying - see note 2.6)	**3.0**	1.9
Total finance income	**4.3**	2.4

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

4.4 Capital and reserves

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

	Number	**£m**
Allotted, called up and fully paid shares of 5p each at 31 December 2012	1,436,672,294	**71.8**
Issued during the year	2,400,085	**0.1**
Allotted, called up and fully paid shares of 5p each at 31 December 2013	1,439,072,379	**71.9**

During the year 2,400,085 (2012: 17,025,672) ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing in 2009. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 668,265 (2012: 8,371,823) in settlement of consideration of £0.1m (2012: £0.8m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All shares rank equally with regard to the company's residual assets.

Warrants

During 2009 as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. The number of warrants outstanding were adjusted to reflect the impact of the rights issue. Movements in the outstanding warrants and the amounts of outstanding warrants at 31 December 2013 and 31 December 2012 are shown in the table below:

Exercise period	Date of grant	Exercise Price Per Share (p)	At 31 December 2012 Number	Exercised Number	Lapsed Number	At 31 December 2013 Number
15 May 2009 to 31 December 2014	15 May 2009	5.00	14,801,869	(1,600,057)	(445,510)	12,756,302
26 June 2009 to 31 December 2014	26 June 2009	5.00	7,400,933	(800,028)	(222,755)	6,378,150
			22,202,802	(2,400,085)	(668,265)	19,134,452

The warrants outstanding at 31 December 2013 have a weighted contractual life of 1.0 years. All share warrants are settled in equity.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves *continued*

The fair value of the services received in return for share warrants is measured by reference to the fair value of the warrants granted. The estimate of the fair value of the services received in respect of share warrants is measured using the Black-Scholes option pricing model. The weighted average fair value of the warrants at the date of grant for those that are outstanding at 31 December 2013 is 16.2p (2012: 16.2p).

Capital redemption reserve

The capital redemption reserve has arisen following the purchase by the company of its own shares and comprises the amount by which distributable profits were reduced on these transactions in accordance with s733 of the Companies Act 2006.

Other reserves

Other reserves comprise the amount of demerger reserve arising on the demerger of the company from Williams Holdings PLC in 1989.

Own shares held by Employee Benefit Trust (EBT)

Transactions of the Group-sponsored EBT trust are included in the Group financial statements. In particular, the trust's purchases of shares in the company, which are classified as own shares, are debited directly to equity through retained earnings. When own shares are sold or re-issued the resulting surplus or deficit on the transaction is also recognised within retained earnings.

The market value of the investment in the company's own shares at 31 December 2013 was £4.7m (2012: £3.6m), being 13.6m (2012: 20.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2012: £0.40). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2013 was £5.2m (2012: £8.0m). The trustee of the EBT is Salamanca Group Trust (Jersey) Limited, formerly Investec Trust Jersey Limited. The shares in trust may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme, the 1998 Pendragon Sharesave Scheme and to satisfy amounts to directors under LTIPs. Details of the plans are given in the Directors' Remuneration Report on pages 68 to 87.

Dividends on the shares owned by the trusts, the purchase of which were funded by interest free loans to the trusts from Pendragon PLC, are waived. All expenses incurred by the trusts are settled directly by Pendragon PLC and charged in the accounts as incurred.

The trusts are regarded as quasi subsidiaries and their assets and results are consolidated into the financial statements of the Group.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the net investment in foreign operations as well as from the translation of liabilities held to hedge the respective net investment in foreign operations.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.5 Dividends

Final dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised when they are paid.

	2013 £m	2012 £m
Ordinary shares		
Final dividend in respect of 2012 of 0.1p per share	**1.4**	-
Interim dividend in respect of 2013 of 0.1p per share	**1.4**	-
	2.8	-

The Board is recommending a final dividend for 2013 of 0.3p (2012: 0.1p) per ordinary share equating to £4.3m (2012: £1.4m) in total.

4.6 Share based compensation

Accounting policy

The Group operates a number of employee share option schemes and an executive share ownership plan "exsop" awarded in 2010. Share warrants issued in 2009 as part of the refinancing are all considered to be equity settled share option schemes and therefore accounted for as such under IFRS 2 'Share based payment'. The fair value at the date at which the share options are granted is recognised in the income statement on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

Share Schemes

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2013	**Number of options millions 2013**	Weighted average exercise price 2012	Number of options millions 2012
Outstanding at beginning of period	**16.69p**	**49.1**	18.14p	39.7
Exercised during the period	**16.25p**	**(7.2)**	-	-
Lapsed during the period	**18.21p**	**(10.3)**	21.08p	(3.6)
Granted during the period	**-**	**-**	13.50p	13.0
Outstanding at the end of the period	**16.30p**	**31.6**	16.69p	49.1
Exercisable at the end of the period	**26.34p**	**10.2**	24.11p	17.8

The options outstanding at 31 December 2013 have an exercise price in the range of 8.82 pence to 42.98 pence and a weighted contractual life of 6.8 years. All share options are settled in equity.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2012 were as follows:

Exercise period	Date of grant	Scheme description	Exercise Price Per Share (p)	At 31 December 2012 Number	Exercised Number	Lapsed Number	At 31 December 2013 Number
24 March 2006 to 23 March 2013	24 March 2003	1999 Executive Scheme	16.74p	501,405	(501,405)	-	-
24 March 2008 to 23 March 2013	24 March 2003	1999 Executive Scheme	16.74p	2,450,894	(2,450,894)	-	-
30 September 2006 to 29 September 2013	30 September 2003	1999 Executive Scheme	28.70p	557,923	(445,882)	(112,041)	-
20 September 2009 to 19 September 2014	20 September 2004	1999 Executive Scheme	42.98p	4,306,584	-	-	4,306,584
1 July 2012 to 31 December 2012	1 July 2005	1998 Sharesave Scheme	43.13p	107,723	-	(107,723)	-
1 July 2013 to 31 December 2013	1 July 2006	1998 Sharesave Scheme	93.25p	55,693	-	(55,693)	-
1 August 2012 to 31 January 2013	13 July 2009	2008 Sharesave Scheme	17.61p	9,884,524	(210,180)	(9,674,344)	-
20 September 2013 to 19 September 2020	20 September 2010	2009 Executive Scheme	14.22p	9,495,625	(3,583,650)	-	5,911,975
7 October 2014 to 6 October 2021	6 October 2011	2009 Executive Scheme	8.82p	9,238,115	-	(150,000)	9,088,115
31 March 2015 to 30 March 2022	30 March 2012	2009 Executive Scheme	13.50p	12,528,296	-	(190,000)	12,338,296
				49,126,782	(7,192,011)	(10,289,801)	31,644,970

The grants of share options under the 2009 and 1999 Schemes prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 2009 and 1999 Schemes that the growth in the company's earnings per share over the prescribed three year period must exceed by at least 3 percent per annum compound the annual rate of inflation as shown by the RPI Index.

The weighted average share price at the date of exercise for share options exercised in the year was 30.0p. There were no exercises of share options in the previous period.

The vesting conditions attaching to the 1998 and 2008 Pendragon Sharesave schemes are that the option holder must have contributed monthly to the scheme and be employed by the Group on the date of exercise.

All options are settled by physical delivery of shares.

The fair value of the services received in return for share options is measured by reference to the fair value of the options granted. The estimate of the fair value of the services received in respect of share option and sharesave schemes is measured using the Black-Scholes option pricing model. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2013 is 5.1p (2012: 6.5p). The estimate of the fair value of services received in respect of the Long Term Incentive Plan (LTIP) (see Directors' Remuneration report) is measured using a stochastic model which incorporates the discount factor required for the total shareholder return performance condition.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

2009 Executive Scheme

	2013	2012
Number of share options granted in year	-	13,028,296
Weighted average share price (pence)	-	13.50
Weighted average exercise price (pence)	-	13.50
Weighted average fair value (pence)	-	3.86
Expected volatility (%)	-	50.2%
Expected life (years)	-	3.0
Risk free rate (%)	-	0.66%
Expected dividend yield (%)	-	3.0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the corresponding historical period with an adjustment made to exclude the abnormal period during the refinancing. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and team member turnover.

The Group recognised a total net expense of £1.6m as an employee benefit cost in respect of equity-settled share based payment transactions (2012: £0.9m) included within administration costs.

4.7 Obligations under finance leases

Accounting policies

Leases are classified as finance leases wherever the lease transfers substantially all the risks and rewards of ownership to the Group. All other leases are treated as operating leases.

Assets held under finance leases are recorded at inception at the lower of the fair value of the asset and the present value of the minimum payments required to be made under the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is recorded as a finance lease obligation. The finance charge element of rentals paid under these leases is expensed so as to give a constant rate of finance charge on the remainder of the obligation. Finance charges are expensed in the income statement and the capitalised leased asset is depreciated over the shorter of the lease term and the asset's useful economic life.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

Finance leases

	Minimum lease payments 2013 £m	2012 £m	Present value of minimum lease payments 2013 £m	2012 £m
Amounts payable under finance leases:				
Within one year	**0.1**	0.1	**-**	-
In the second to fifth years inclusive	**0.4**	0.4	**0.3**	0.3
After five years	**5.8**	5.9	**1.2**	1.2
	6.3	6.4	**1.5**	1.5
Less: future finance charges	**(4.8)**	(4.9)	**-**	-
Present value of lease obligations	**1.5**	1.5	**1.5**	1.5
Amount due for settlement within one year			**-**	-
Amount due for settlement in over one year			**1.5**	1.5
			1.5	1.5

The Group's obligations under finance leases comprise properties on long term leases with a lease term of between 55 and 80 years. The effective interest rates are shown in note 4.2 above. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

4.8 Operating lease arrangements

Leases are classified as operating leases wherever the lease does not transfer substantially all the risks and rewards of ownership to the Group.

Rentals paid under operating leases are charged directly to the income statement on a straight line basis over the period of the lease. Leases subject to predetermined fixed rental uplifts have their rentals accounted for on a straight line basis recognised over the life of the lease. Lease incentives received and paid are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 £m	2012 £m
Within one year	**43.1**	46.9
In the second to fifth years inclusive	**159.9**	166.3
After five years	**448.1**	489.9
	651.1	703.1

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.8 Operating lease arrangements *continued*

The Group leases a number of properties, the majority of which are motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of the leases includes contingent rentals. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles hired for short term usage, typically as courtesy cars.

The following amounts have been charged to the income statement as operating expenses during the year:

		2013 £m	2012 £m
Operating lease rentals payable	- hire of plant and machinery	**3.2**	4.9
	- property rentals	**43.5**	42.3

The Group as lessor

Property rental income earned during the year was £3.3m (2012: £3.1m). No contingent rents were recognised in income (2012: £nil). The Group currently receives rental income on 26 (2012: 23) properties on short term leases.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2013 £m	2012 £m
Within one year	**3.6**	3.0
In the second to fifth years inclusive	**15.1**	11.6
After five years	**31.8**	24.0
	50.5	38.6

In addition, the Group is a lessor in respect of vehicle sales with committed repurchase terms (see notes 3.9 and 3.11). There are no future minimum lease payments outstanding.

SECTION 5 - PENSION SCHEMES

This section explains the pension scheme obligations of the Group:

5.1 Pension obligations

Accounting policy

The Group operated a number of defined benefit and defined contribution plans during the year, the assets of which are held in independent trustee administered funds. Pension accounting costs for defined benefit plans are assessed by determining the pension obligation using the projected unit credit method after including a net return on the plan assets. Under this method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing historical accrued benefits. The Group recognises all actuarial gains and losses arising from defined benefit plans in the statement of other comprehensive income immediately.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

As a result of the amendments to IAS 19 Employee Benefits, the Group has changed its accounting policy with respect to determining the income or expense related to its defined benefit pension scheme. The standard prescribes that an interest expense or income is calculated on the net defined benefit liability or asset respectively by applying the discount rate to the net defined benefit liability or asset. This replaces the interest expense on the defined benefit obligation and the expected return on plan assets. The revised standard requires retrospective application. Details of the restatement are given in section 1 on page 113.

A defined contribution plan is one under which the Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due.

In accordance with IFRIC 14 surpluses in schemes are recognised as assets only if they represent unconditional economic benefits available to the Group in the future. Provision is made for future unrecognisable surpluses that will arise as a result of regulatory funding requirements. Movements in unrecognised surpluses are included in the statement of recognised income and expense. If the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Group support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is an obligation for the Group to pay deficit funding, this is also recognised.

Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2013 there was an outstanding balance of £0.8m (2012: £0.8m) payable to the pension schemes.

Pension obligations

The Group operated six defined benefit pension schemes (one of which had a defined contribution section) which closed to future benefits on 30 September 2006 and employees were offered membership of a stakeholder pension arrangement. The asset values shown do not include those of the defined contribution sections. Actuarial gains and losses are immediately recognised directly in the statement of other comprehensive income. Actuarial gains and losses are the differences between actual and interest income during the year, experience losses on scheme liabilities and the impact of any changes in assumptions. Details of the last independent statutory actuarial valuation and assumptions are set out below by scheme.

During 2012 the trustees merged the six defined benefit schemes into one new defined benefit scheme, "the Pendragon Group Pension Scheme", which remains closed to future benefits. The assets of the six schemes have all been transferred into the new scheme and the benefits previously accrued in the six schemes were transferred without amendment of the benefit entitlement of members to the new scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The Board of the Trustees of the pension scheme is composed of two employee and two employer representatives and an independent chair. The Trustee of the scheme is required to act in the best interest of the scheme's beneficiaries. The appointment of the Trustee is determined by the scheme's trust documentation.

Pendragon Group Pension Scheme

The Scheme's first actuarial valuation was carried out as at 31 December 2012 using the projected unit credit method. At this date the market value of the Scheme's assets relating to the defined benefit section was £409.8m; these assets represented 90.9% of the value of the technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5.0% and the annual rate of pension increases would be between 2.3% - 3.1%. The employer contributions paid to the defined benefit scheme section of the Plan during the year were based upon actuarial advice.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Stakeholder arrangements

With effect from April 2006, new contributions to the defined contribution sections of the schemes ceased. For the employees affected the Group offered to pay contributions to a stakeholder arrangement with Friends Provident. This arrangement was also made available to the employees affected by the closure of the defined benefit sections of the schemes on 30 September 2006. A Group Self Invested Personal Pension arrangement with Legal & General replaced the Friends Provident arrangement from 1 January 2010. Total contributions paid by the Group in 2013 to the Legal & General arrangement were £3.4m (2012: £3.5m).

Automatic Enrolment

To comply with the Government's automatic enrolment legislation, the Group chose to participate in the People's Pension Scheme in April 2013. This is a defined contribution occupational pension scheme provided by B&CE. Total contributions paid by the Group to the People's Pension in 2013 were £1.1m (2012: £nil).

Central Asset Reserve

On 13 July 2011 the Group agreed an asset-backed cash payment arrangement with the Trustees of the UK pension schemes to help address the UK pension funding deficit. In connection with the arrangement certain UK freehold properties were transferred to a limited partnership established by the Group. The partnership is controlled by and its results are consolidated by the Group. The fair value of the assets transferred was £34.5m. On 13 July 2011, the Group made a special contribution to the UK pension schemes of £34.5m and on the same date the UK pension schemes used this contribution to acquire a limited interest in the partnership for its fair value of £35.8m. The partnership interest of the UK pension schemes, now consolidated in the Pendragon Group Pension Scheme, entitles the Scheme to a distribution from the income of the partnership of £2.5m in the first 12 months from inception, rising at 2.25% per annum on the anniversary date over the next 20 years. The income interest has previously been recognised as an IAS 19 plan asset since the trustees were permitted to dispose of this interest, having been valued on a discounted cash-flow basis. The partnership obligation was shown as a corresponding non-controlling interest in equity because of the Group's discretion clause instead of being recognised as a liability. In March 2012 the Company received an enquiry from the Financial Reporting Review Panel in respect of the classification of the non-controlling interest in equity in the 2011 financial statements and in February 2013 a further enquiry from the successor body, the Conduct Committee of the FRC, relating to the valuation of the income interest as a plan asset. The Audit Committee and Board sought professional advice in respect of both the valuation of the plan asset and the accounting treatment which reconfirmed the valuation and accounting presentation reflected in the 2012 and 2011 financial statements. However, the FRC's Conduct Committee continued to have concerns with the company's accounting treatment. In order to address its concerns for the future, and so that the matter could be closed, during the year, the Group entered into discussions with the Trustees of the Pendragon Group Pension Scheme which resulted in changes to the pension partnership agreement, restricting the ability of the scheme to sell or otherwise transfer its income interest without consent from the Group. The result of this change is that the income interest no longer meets the criteria for recognition as an IAS 19 plan asset and consequently the plan asset has been removed from the Group's balance sheet with an effective date of 20 December 2013. The accounting result of the change is an increase to the Group's reported post-employment obligation deficit at that date by an amount of £36.0m, being the fair value of the income interest, and eliminates the non-controlling interest of £33.2m which was previously recognised in equity in relation to the scheme income interest. The remaining difference of £2.8m has been recognised in equity within retained earnings, as it represents a transaction with equity holders. The FRC's Conduct Committee has confirmed that this change, with the consequent accounting treatment effective from 20 December 2013, has brought its discussions with the Group to a close.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

During the year the Group has paid £2.5m (2012: £2.5m) to the Pendragon Group Pension Scheme through the pension partnership, all of which was paid as a distribution from the pension partnership to the UK Pension scheme, before the effective date of the new agreement.

For comparison purposes only, if the partnership amendment had an effective date of 1 January 2012 (the beginning of the comparative period), rather than the actual date of 20 December 2013, the pro forma net amounts for "Retirement benefit obligations" reported at 31 December 2012 would have been £69.6m. The amount actually reported was £29.8m. Similarly, the pro forma balance sheet value of "Non-controlling interests" would have been £nil at 31 December 2012 compared to the amount actually reported of £33.8m. In the income statement, pro forma "Net finance costs" would have increased by £1.9m to £35.8m (in accordance with IAS 19 (revised)), the increase being included within the non-underlying finance expense.

IAS 19 assumptions

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 for all schemes were:

	2013	2012	2011
Inflation - RPI	**3.50%**	2.90%	3.00%
Inflation - CPI	**2.50%**	2.10%	2.20%
Rate of increase in salaries	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**3.03%***	2.67%	2.73%
Discount rate	**4.50%**	4.35%	4.85%
Mortality table assumption **	**S1PMA CMI 2013 M (1%) / S1PFA CMI 2013 F (1%)**	S1PMA CMI 2011 M (1%) / S1PMA CMI 2011 F (1%)	S1PMA CMI 2011 M (1%) / S1PFA CMI 2011 F (1%)

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2013 valuation is as follows:

RPI to max 5%	3.50%
RPI to max 3%	3.00%
RPI to min 3% to max 5%	3.70%
CPI to max 5%	2.50%
CPI to max 3%	2.50%
CPI to min 3% to max 5%	3.00%

During 2010 the government announced a change to the index to be used for pension increases from RPI to CPI. The change applied to certain elements of pension increases depending on the nature of the pension entitlement, the period in which it was earned and the rules of each scheme. The application of either RPI or CPI to calculate the pension liability has been assessed for each scheme and the relevant elements of pension increases within each scheme.

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase / decrease by 0.1%	Decrease / increase of £7.8m
Rate of inflation	Increase / decrease by 0.1%	Increase / decrease of £5.8m
Mortality	Increase in life expectancy of 1 year	Increase by £11.7m

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the period ending 31 December 2013 is 18 years (2012: 18 years).

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to scheme liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future income statements. This effect would be partially offset by an increase in the value of the scheme's bond holdings. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS assumptions have been updated at 31 December 2013 and differ from those used for the earlier independent statutory actuarial valuations explained above.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

** The mortality table assumption implies the following expected future lifetime from age 65:

	2013 years	2012 years	2011 years
Males aged 45	**23.3**	23.5	23.4
Females aged 45	**25.6**	25.9	25.9
Males aged 65	**21.9**	22.2	22.1
Females aged 65	**24.1**	24.4	24.3

The fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme's liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

Scheme assets and liabilities

	2013 £m	2012 £m	2011 £m
UK equities	**238.1**	228.0	206.0
Overseas equities	**14.4**	-	-
Unit trust	**20.6**	-	-
Corporate bonds	**15.8**	16.2	14.1
Government bonds	**113.7**	117.6	130.8
Central Asset Reserve	**-**	39.8	39.7
Cash	**4.8**	3.7	4.4
Fair value of scheme assets	**407.4**	405.3	395.0
Present value of funded defined benefit obligations	**(450.8)**	(435.1)	(398.2)
	(43.4)	(29.8)	(3.2)
Adjustment in respect of non-recognition of surplus	**-**	-	(4.8)
Net liability on the balance sheet	**(43.4)**	(29.8)	(8.0)

None of the fair values of the assets shown above include any of the company's own financial instruments or any property occupied by, or other assets used by, the company. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

It is the policy of the Trustee and the company to review the investment strategy at the time of each funding valuation. The Trustee investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the scheme's Statement of Investment Principles.

There are no asset-liability matching strategies currently being used by the scheme.

Reconciliation of the impact of the asset ceiling	**2013 £m**	2012 £m
Impact of asset ceiling at start of period	**-**	(4.8)
Effect of the asset celing included in net interest cost	**-**	(0.2)
Actuarial losses / (gains) on asset ceiling	**-**	(5.0)
Impact of asset ceiling at end of period	**-**	-

The company have reviewed implications of the guidance provided by IFRIC 14 and have concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2013.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Movements in the net liability for defined benefit obligations recognised in the balance sheet

	2013 £m	Restated* 2012 £m
Net liability for defined benefit obligations at 1 January	(29.8)	(8.0)
Contributions received	0.2	0.2
Expense recognised in the income statement	(1.3)	(1.0)
Actuarial gains and losses recognised in the statement of other comprehensive income	23.5	(25.8)
Adjustment in respect of Central Asset Reserve	(36.0)	-
Adjustment in respect of non-recognition of surplus	-	4.8
Net liability for defined benefit obligations at 31 December	(43.4)	(29.8)

The defined benefit obligation can be allocated to the plans' participants as follows:

	2013 %	2012 %
Deferred plan participants	60	60
Retirees	40	40

	2013 £m	2012 £m
Actual return on assets	51.9	29.9
Expected contributions in following year	2.6	-

Total in the income statement

	2013 £m	2012 £m
Losses on settlements or curtailments	-	0.6
Net interest on obligation	1.3	0.4
	1.3	1.0

The expense is recognised in the following line items in the income statement:

	2013 £m	2012 £m
Administration costs	-	0.6
Finance costs	1.3	0.4
	1.3	1.0

Actuarial gains and losses recognised directly in the statement of other comprehensive income

	2013 £m	Restated* 2012 £m
Cumulative amount at 1 January	(47.1)	(21.3)
Recognised during the period	23.5	(25.8)
Cumulative amount at 31 December	(23.6)	(47.1)

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Defined benefit income / (costs) recognised in the statement of other comprehensive income

	2013 £m	Restated* 2012 £m
Difference between actual and expected interest income on scheme assets	**34.6**	11.5
Experience gain / (loss) on scheme liabilities	**0.7**	(6.3)
Changes in assumptions underlying the present value of scheme obligations	**(11.8)**	(31.0)
	23.5	(25.8)
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**-**	4.8
	23.5	(21.0)

Changes in the present value of the defined benefit obligation

	2013 £m	2012 £m
Opening present value of defined benefit obligation	**435.1**	398.2
Interest cost	**18.6**	18.8
Losses on settlements or curtailments	**-**	0.6
Liabilities extinguished on settlements	**-**	(5.9)
Remeasurements:		
Experience adjustments	**(0.7)**	6.3
Actuarial losses / (gains) due to changes in demographic assumptions	**(6.7)**	-
Actuarial losses / (gains) due to changes in financial assumptions	**18.5**	31.0
Less benefits paid	**(14.0)**	(13.9)
Closing present value of defined benefit obligation	**450.8**	435.1

Movement in fair value of scheme assets during the period

	2013 £m	Restated* 2012 £m
Opening fair value of assets	**405.3**	395.0
Interest income	**17.3**	18.4
Return on plan assets, excluding interest income	**34.6**	11.5
Assets distributed from settlements	**-**	(5.9)
Assets in respect of the Central Asset Reserve	**(36.0)**	-
Contributions by employer	**0.2**	0.2
Less benefits paid	**(14.0)**	(13.9)
End of period	**407.4**	405.3

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

History of experience adjustments

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligation	**450.8**	435.1	398.2	389.9	378.3
Fair value of scheme assets	**407.4**	405.3	395.0	341.5	296.5
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**-**	-	(4.8)	(21.3)	-
Deficit in schemes	**43.4**	29.8	8.0	69.7	81.8
Experience adjustments on scheme liabilities:					
Amount	**11.1**	37.3	(0.6)	1.5	57.2
Percentage of scheme liabilities (%)	**2.5%**	8.6%	(0.2%)	0.4%	15.1%
Experience adjustments on scheme assets (restated*):					
Amount	**34.6**	11.5	3.1	23.8	29.3
Percentage of scheme liabilities (%)	**7.7%**	2.6%	0.8%	6.1%	7.7%

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

SECTION 6 - OTHER NOTES

This section contains the notes and information relating to acquisitions and disposals and related party transactions:

6.1 Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The results of companies and businesses acquired during the year are included from the effective date of acquisition.

Acquisitions on or after 1 January 2010
For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
• the fair value of the consideration transferred; plus
• the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
• the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

SECTION 6 - OTHER NOTES

6.1 Business combinations *continued*

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market based value of the replacement awards compared with the market based value of the acquiree's awards and the extent to which the replacement awards relate to past and / or future service.

Acquisitions between 1 January 2004 and 1 January 2010
For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)
As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Activity

There were no business combinations in the year.

During the previous year the Group acquired the trade and assets of the BMW and MINI franchise in Leeds for a total cash consideration paid on completion of £2.6m. Goodwill arising on the acquisition was £1.0m. Acquisition costs were less than £0.1m which were included in administration expenses.

6.2 Business disposals

Accounting policy

The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

Activity

During the year the Group disposed of seven dealerships representing Jaguar and Land Rover franchise points.

Net assets at the date of disposal:

	Net book value £m
Goodwill	2.8
Property, plant and equipment	1.7
Non-current assets classified as held for sale	3.6
Inventories	2.0
Trade and other receivables	0.3
Trade and other payables	(0.3)
	10.1
Loss on sale of businesses	(1.1)
Proceeds on sale satisfied by cash and cash equivalents	9.0

No cash was disposed as part of any business disposal during the year.

Proceeds on sale satisfied by cash and cash equivalents for the previous period was £1.9m.

SECTION 6 - OTHER NOTES

6.3 Related party transactions

Subsidiaries

The Group's ultimate parent company is Pendragon PLC. A listing of all principal trading subsidiaries is shown within the financial statements of the company on page 175.

Joint venture

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, whose principal activity is that of a property company. The Group occupied properties owned by PPH0 Limited and its group on short term leases. On 27 November 2013, as described in note 3.3, the property assets were sold to King Arthur Properties S.a.r.L at which point the Group ceased trading with PPH0 Limited.

Investments

The Group has a 5.8% holding in King Arthur Holdings S.a.r.L whose principal activity is that of a property company. The Group occupies properties owned by King Arthur Holdings S.a.r.L and its group on short term leases.

During the year the Group entered into transactions with its related parties (PPH0 Limited and King Arthur Holdings S.a.r.L) on an arms length basis and has balances outstanding at 31 December as follows:

	2013 **£m**	2012 £m
Rent paid to related parties	**17.2**	17.5
Management fees and sales fees received from related party	**-**	0.1
Dividend received from related party	**0.3**	-
Amounts owed by related party	**-**	0.5

Transactions with key management personnel

The key management personnel of the Group comprise the executive and non-executive directors. The details of the remuneration, long term incentive plans, shareholdings, share option and pension entitlements of individual directors are included in the Directors' Remuneration Report on pages 68 to 87.

Directors of the company and their immediate relatives control 3.17% of the ordinary shares of the company.

During the year key management personnel compensation was as follows:

	2013 **£m**	2012 £m
Short term employee benefits	**2.5**	2.0
Post-employment benefits	**0.2**	0.2
Share based payments	**1.3**	0.8
	4.0	3.0

6.4 Contingent liabilities and contingent assets

The Group is in discussion with HM Revenue and Customs over issues which may result in both additional amounts of VAT payable and VAT receivable to be recognised in future periods and although these amounts, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2013 financial statements in respect of these issues.

COMPANY BALANCE SHEET

At 31 December 2013

	Note	**2013 £m**	2012 £m
Fixed assets			
Investments	5	**904.6**	850.6
Loans to subsidiary undertakings		**90.0**	90.0
		994.6	940.6
Current assets			
Debtors	6	**0.6**	22.7
Cash at bank and in hand		**1.1**	10.5
		1.7	33.2
Creditors: amounts falling due within one year	7	**(556.9)**	(473.4)
Net current liabilities		**(555.2)**	(440.2)
Total assets less current liabilities		**439.4**	500.4
Creditors: amounts falling due after more than one year	8	**(196.3)**	(226.7)
Net assets		**243.1**	273.7
Capital and reserves			
Called up share capital	11	**71.9**	71.8
Share premium account	12	**56.8**	56.8
Capital redemption reserve	12	**2.5**	2.5
Other reserves	12	**13.9**	13.9
Profit and loss account	12	**98.0**	128.7
Equity shareholders' funds		**243.1**	273.7

Approved by the Board of Directors on 18 February 2014 and signed on its behalf by:

T G Finn
Chief Executive

T P Holden
Finance Director

Registered Company Number: 2304195

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 2013

	2013 £m	2012 £m
(Loss) / profit for the financial year	**(31.8)**	106.6
Proceeds from own shares issued under share schemes	**1.2**	-
Net (decrease) / increase to shareholders' funds	**(30.6)**	106.6
Opening shareholders' funds	**273.7**	167.1
Closing shareholders' funds	**243.1**	273.7

The notes on pages 173 to 177 form part of these financial statements

1 **Accounting policies**

(a) Accounting convention The financial statements have been prepared in accordance with applicable UK accounting standards using the historical cost convention except for certain financial instruments which are stated at their fair value. The financial statements have been prepared on a going concern basis.

(b) Deferred taxation Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

(i) tax payable on the future remittance of the past earnings of subsidiaries is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute all past earnings exists;

(ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

(c) Financial instruments The company holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the profit and loss account. However, the treatment of gains or losses arising from derivatives which qualify for hedge accounting depends on the nature of the hedged item itself. The fair value of derivatives is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date.

Fair value hedges

Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in profit and loss. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in profit and loss. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates.

(d) Investments Investments held as fixed assets are stated at cost less any impairment losses.

(e) Employee benefits – Share based payments The company operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in profit and loss on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

(f) Pensions The company participates in a group wide defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

(g) Related parties Under FRS 8 the company has relied upon the exemption not to disclose related party transactions with other group undertakings as they are all included in the Pendragon PLC consolidated financial statements.

(h) Dividends Dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

1 Accounting policies *continued*

(i) Own shares held by ESOP trust Transactions of the group-sponsored ESOP trust are included in the company financial statements. In particular, the trust's purchases and sales of shares in the company are debited and credited directly to equity.

(j) Contingent liabilities Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

2. Profit and loss account of the company

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the profit and loss account of the company is not presented. The loss after taxation attributable to the company dealt with in its own accounts for the year ended 31 December 2013 is £31.8m (2012: profit £106.6m).

3. Directors

Total emoluments of directors (including pension contributions) amounted to £2.7m (2012: £2.2m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 68 to 87.

The directors are the only employees of the company.

4. Dividends

	2013 £m	2012 £m
Ordinary shares		
Final dividend in respect of 2012 of 0.1p per share	**1.4**	-
Interim dividend in respect of 2013 of 0.1p per share	**1.4**	-
	2.8	-

A final dividend in respect of 2013 of 0.3p (2012: 0.1p) per share amounting to a total of £4.3m (2012: £1.4m) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting.

5 Investments

	Shares in joint venture £m	Shares in subsidiary undertakings £m	**Total £m**
At 31 December 2012	-	850.6	**850.6**
Additions	-	54.0	**54.0**
At 31 December 2013	-	904.6	**904.6**

Shares in jointly controlled undertakings represent a 51 percent holding of the issued ordinary share capital of PPHO Limited, a property company incorporated in the United Kingdom. As described in note 3.4 on page 135 the company is no longer trading and has no assets or liabilities.

The investment in PPHO Limited was fully impaired in 2008.

5 Investments *continued*

Shares in subsidiary undertakings are stated at cost. Pendragon PLC owns directly or indirectly 100 percent of the issued ordinary share capital of the following principal subsidiaries.

Name	Activity
Incorporated in Great Britain:	
Alloy Racing Equipment Limited	Motor vehicle dealer
Bramall Quicks Dealerships Limited	Motor vehicle dealer
CD Bramall Dealerships Limited	Motor vehicle dealer
Chatfields Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
National Fleet Solutions Limited	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire & fleet management
Pendragon Finance & Insurance Limited	Motor vehicle finance and insurance services
Pendragon Management Services Limited	Management services
Pendragon Motor Group Limited	Motor vehicle dealer
Pendragon Motorcycles Limited	Motor vehicle dealer
Pendragon Orient Limited	Motor vehicle dealer
Pendragon Premier Limited	Motor vehicle dealer
Pendragon Property Holdings Limited	Property holdings
Pendragon Sabre Limited	Motor vehicle dealer
Pinewood Technologies PLC*	Computer systems and services
Quicks Car Supermarkets Limited	Motor vehicle dealer
Reg Vardy (MML) Limited	Motor vehicle repairs
Reg Vardy (VMC) Limited**	Motor vehicle dealer
Reg Vardy Limited*	Motor vehicle dealer
Stripestar Limited	Motor vehicle dealer
Victoria (Bavaria) Limited	Motor vehicle dealer
Incorporated in the United States of America:	
Pendragon North America Automobiles Inc.	Management services
Penegon West Inc.	Motor vehicle dealer
Penegon Mission Viejo Inc.	Motor vehicle dealer
Penegon Newport Beach Inc.	Motor vehicle dealer

* Direct subsidiary of Pendragon PLC
** Pendragon PLC owns 95% of the issued ordinary share capital

6 Debtors

	2013 £m	2012 £m
Amounts due within one year:		
Corporation tax	-	7.9
Other debtors	**0.1**	0.1
	0.1	8.0
Amounts due after more than one year:		
Deferred tax (see note 9)	**0.5**	0.5
Derivative financial instruments	-	14.2
	0.5	14.7
	0.6	22.7

Details of valuation techniques and fair values of derivative financial instruments are given above in note 4.2 to the consolidated financial statements.

7 Creditors: amounts falling due within one year

	2013 £m	2012 £m
Bank loans	-	27.7
9.310% USD 110m loan notes 2014	-	6.5
9.310% USD 67m loan notes 2014	-	4.0
9.834% GBP 17m loan notes 2014	-	1.9
Amounts due to subsidiary undertakings	**556.9**	431.8
Other creditors and accruals	-	1.5
	556.9	473.4

8 Creditors: amounts falling due after more than one year

	2013 £m	2012 £m
Bank loans (repayable between one and two years)	-	142.9
Bank loans (repayable between two and five years)	**24.7**	0.2
6.875% bond 2020	**171.6**	-
9.310% USD 110m loan notes 2014	-	44.6
9.310% USD 67m loan notes 2014	-	27.1
9.834% GBP 17m loan notes 2014	-	11.9
	196.3	226.7

Full details of the company's borrowings including security and maturity are given in note 4.2 to the consolidated financial statements.

9 Deferred tax

The movements in the deferred tax asset for the year are as follows:

	Deferred tax £m
At 31 December 2012	**0.5**
Profit and loss account	-
At 31 December 2013	**0.5**

Deferred tax asset is shown within debtors (see note 6)

The amount of deferred tax asset in the financial statements is as follows:

	2013 £m	2012 £m
Other timing differences	**0.5**	0.5

10 Share based payments

During 2009 as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. The number of warrants outstanding were adjusted to reflect the impact of the rights issue. Movements in the outstanding warrants and the amounts of outstanding warrants at 31 December 2013 and 31 December 2012 are shown in the table below:

Exercise period	Date of grant	Exercise Price Per Share (p)	At 31 December 2012 Number	Exercised Number	Lapsed Number	At 31 December 2013 Number
15 May 2009 to 31 December 2014	15 May 2009	5.00	14,801,869	(1,600,057)	(445,510)	12,756,302
26 June 2009 to 31 December 2014	26 June 2009	5.00	7,400,933	(800,028)	(222,755)	6,378,150
			22,202,802	(2,400,085)	(668,265)	19,134,452

The warrants outstanding at 31 December 2013 have a weighted contractual life of 1.0 years. All share warrants are settled in equity.

The fair value of the services received in return for share warrants is measured by reference to the fair value of the warrants granted. The estimate of the fair value of the services received in respect of share warrants is measured using the Black-Scholes option pricing model. The weighted average fair value of the warrants at the date of grant for those that are outstanding at 31 December 2013 is 16.2p (2012: 16.2p).

11 Called up share capital

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2012	1,436,672,294	**71.8**
Issued during the year	2,400,085	**0.1**
Allotted, called up and fully paid shares of 5p each at 31 December 2013	1,439,072,379	**71.9**

During the year 2,400,085 (2012: 17,025,672) ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing in 2009. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 668,265 (2012: 8,371,823) in settlement of consideration of £0.1m (2012: £0.8m).

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2013 are fully disclosed above on page 158 of this report.

12 Reserves

	Share premium account £m	**Capital redemption reserve £m**	**Other reserves £m**	**Profit and loss account £m**
At 31 December 2012	56.8	2.5	13.9	128.7
Loss for the financial year	-	-	-	(31.8)
Own shares issued under share schemes	-	-	-	1.2
On issue of shares	-	-	-	(0.1)
At 31 December 2013	**56.8**	**2.5**	**13.9**	**98.0**

The market value of the investment in the company's own shares at 31 December 2013 was £4.7m (2012: £3.6m), being 13.6m (2012: 20.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2012: £0.40). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2013 was £5.2m (2012: £8.0m). The trustee of the EBT is Salamanca Group Trust (Jersey) Limited, formerly Investec Trust Jersey Limited. The shares in trust may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme, the 1998 Pendragon Sharesave Scheme and to satisfy amounts to directors under LTIPs. Details of the plans are given in the Directors' Remuneration Report on pages 68 to 87.

Dividends on the shares owned by the trusts, the purchase of which were funded by interest free loans to the trusts from Pendragon PLC, are waived. All expenses incurred by the trusts are settled directly by Pendragon PLC and charged in the accounts as incurred.

13 Financial instruments and derivatives

Details of valuation techniques and fair values of each category of financial instruments are given above in note 4.2 to the consolidated financial statements.

14 Pensions

The company is a member of a funded group-wide pension scheme, the Pendragon Group Pension Scheme, providing benefits based on final pensionable pay. The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis and as permitted by FRS 17 'Retirement Benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. At 31 December 2013 the scheme had a deficit on an FRS 17 basis of £43.4m (2012: £29.8m).

The Pendragon Group Pension Scheme is a funded defined benefit scheme. The first actuarial valuation was carried out in 2013 as at 31 December 2012. Further details of the Pendragon Group Pension Scheme is given in note 5.1 of the consolidated financial statements.

The company has no outstanding pension contributions (2012: £nil).

15 Related party transactions

Identity of related parties
The company has related party relationships with its subsidiaries, its joint venture and its investment (see notes 3.3 and 3.4 to the consolidated financial statements), and with its key management personnel.

Transactions with related parties
The transaction with directors of the company, the joint venture PPH0 Limited and King Arthur Properties S.a.r.L are set out in note 6.3 to the consolidated financial statements.

16 Contingent liabilities

(a) The company has entered into cross-guarantees with its bankers whereby it guarantees payment of bank borrowings in respect of UK subsidiary undertakings.
(b) The company has given performance guarantees in the normal course of business in respect of subsidiary undertaking obligations.

SHAREHOLDER INFORMATION

Stock Classification The ordinary shares of the company are traded on the London Stock Exchange. Information concerning the day to day movement of the share price can be found on the London Stock Exchange's website under the code PDG. Users of GlobalTOPIC Trader and Reuters can identify the stock by the code PDG.L, and Bloomberg users by the code PDG.LN.

Share Dealing Service A simple and competitively priced service to buy and sell shares is provided by Capita Asset Services. There is no need to pre-register and there are no complicated application forms to fill in.

For further information on this service, or to buy and sell shares visit www.capitadeal.com or call 0871 664 0454 (calls cost 10p per minute plus network extras, lines are open 8.00am to 4.30pm, Monday to Friday. From outside of the UK dial + 44 20 3367 2699).

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5 YEAR GROUP REVIEW

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Revenue	**3,848.9**	3,635.1	3,465.8	3,575.0	3,191.7
Gross profit	**499.9**	481.3	470.6	499.4	492.1
Operating profit before other income	**77.5**	67.5	77.6	62.9	55.6
Profit before taxation	**38.9**	34.0	24.0	11.0	1.3
Basic earnings per share (note 1)	**2.8p**	1.7p	3.7p	0.6p	0.1p
Net assets	**305.2**	275.4	267.2	111.2	105.9
Net borrowings (note 2)	**139.6**	216.4	246.8	325.5	315.4

Other financial information					
Underlying profit before tax	**44.2**	36.4	30.8	25.2	10.1
Underlying earnings per share (notes 1 and 5)	**2.3p**	2.0p	2.3p	1.8p	0.8p
Debt: underlying EBITDA (note 7)	**1.2**	2.0	2.2	2.8	3.1
Gross margin	**13.0%**	13.2%	13.6%	14.0%	15.4%
Total operating margin (note 3)	**2.0%**	2.0%	2.2%	2.1%	1.7%
After tax return on equity (note 4)	**14.2%**	9.6%	21.0%	5.2%	0.7%
Dividends per share (note 6)	**0.4p**	0.1p	-	-	-
Dividend cover (times)	**6.9**	19.3	-	-	-
Interest cover (times)	**2.0**	2.0	1.4	1.2	1.0
Gearing (note 8)	**45.7%**	78.6%	92.4%	292.7%	297.8%

Business summary					
Number of franchise points	**225**	240	235	245	276

note 1 Comparative earnings per share data has been restated for the impact of the bonus element of the Rights Issue in 2011.
note 2 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments.
note 3 Total operating margin is calculated after adding back non-underlying items, and excluding other income.
note 4 Return on equity is profit after tax for the year as a percentage of average shareholders' funds.
note 5 Basic earnings per share adjusted to eliminate the effects of non-underlying operating, non-underlying finance and tax items, see note 2.8 of the financial statements.
note 6 Dividends per share are based on the interim dividend paid and final dividend proposed for the year.
note 7 Full details of the calculation of the Debt: underlying EBITDA ratio are given in note 4.2 to the financial statements.
note 8 Gearing is calculated as net borrowings as a percentage of net assets.

Pendragon | PLC

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