



Pendragon | PLC

Interim Report 2006

## FINANCIAL HIGHLIGHTS



	Unaudited 6 months to 30.06.06 £m	Unaudited 6 months to 30.06.05 £m
Revenue	2,646	1,751
Profit before tax and exceptionals up 15%	42.3	36.8
Underlying operating margin	2.8%	3.2%
Profit before tax	50.8	35.3
Adjusted earnings per share up 14%	23.6p	20.7p
Dividend per share up 10%	7.25p	6.6p
Net assets	280	238
Gearing	208%	95%



# CHIEF EXECUTIVE'S OPERATIONAL REVIEW

## Introduction

Trading performance across the group has been good in the first six months of the year against the backdrop of a weaker UK new car market. We are reporting growth of 14 per cent in adjusted earnings per share and an increase in the interim dividend of ten per cent. We bought Reg Vardy in February this year which has contributed £19.9 million of operating profits in the four and a half months of our ownership.

The focus in the first half has been on the Pendragon/Vardy integration and putting in place a new UK operational structure whilst maintaining profitability. We have also rolled out our new in-house dealer management system to a further 47 locations so far this year. Our drive to increase efficiency through further centralisation of certain dealership functions into our customer services centre in Nottingham has continued.

Group revenues have increased by £894.3 million to £2,645.5 million. The impact of acquisitions and disposals we made in 2005 and 2006 have added £856.3 million to revenues. The core businesses on a like for like basis grew revenues by £13.3 million which was achieved despite a fall of 4.2% in new car registrations in the UK market with a further £24.5 million contributed from recent greenfield start ups.

Operating profits, before one off exceptional items, were £73.3 million compared to £56.7 million last year. The underlying operating profit margin was 2.8 per cent against 3.2 per cent for the same period in 2005. The acquisitions made this year and in the second half of last year have had a dilutive effect on the margin. The property sale and leaseback joint venture completed at the end of 2005, whilst having little impact on profit before tax, has reduced operating margins which now include the additional rents. Excluding the impact of the acquisitions and property joint venture, operating margins achieved this period were in line with last year at 3.1 per cent.

The interim dividend is 7.25 pence per share compared to 6.60 pence last year, an increase of ten per cent.

## Results and dividend

The results for the six months to 30 June 2006 are summarised as follows:

	2006 £m	2005 £m
<b>Revenue</b>	<b>2,645.5</b>	<b>1,751.2</b>
Underlying operating profit	73.3	56.7
Exceptional operating costs	(3.4)	(2.9)
<b>Operating profit before other income</b>	<b>69.9</b>	<b>53.8</b>
Other income - gain on sale of fixed assets	11.9	1.4
<b>Operating profit</b>	<b>81.8</b>	<b>55.2</b>
Finance costs / Share of joint venture	(31.0)	(19.9)
<b>Profit before tax</b>	<b>50.8</b>	<b>35.3</b>
Earnings per share - basic	28.1p	19.7p
Earnings per share - adjusted	23.6p	20.7p
Dividend per share	7.25p	6.6p

Revenue has increased to £2,645.5 million from £1,751.2 million. Reg Vardy was acquired on 14 February 2006 and contributed four and a half months trading to this year's numbers which accounts for 90 per cent of the increase in revenues. Sales of new cars account for just over half of the revenue of the group and used cars a third. Aftersales activities account for the balance of revenues and contributed 40.0 per cent of gross profits.

Operating profit, excluding exceptional costs and disposal profits, increased by £16.6 million to £73.3 million from £56.7 million in 2005. Acquisitions contributed underlying operating profits of £20.3 million. Operating profits from the existing businesses have reduced by £3.7 million, principally due to the increase in rental costs as a result of the sale and leaseback we did at the end of last year.

## CHIEF EXECUTIVE'S OPERATIONAL REVIEW continued

Exceptional operating costs of £3.4 million relate to integration and reorganisation costs arising following the acquisition of Reg Vardy plus the professional fees incurred in respect of the unsuccessful bid we made to acquire Lookers plc. The Reg Vardy integration costs consist of redundancy payments made to the former directors plus a write down of redundant assets and provision for onerous contracts. We expect integration costs relating to Reg Vardy to be around £5.0 million for the full year which would be in line with previous major acquisitions we have made.

Other income includes business and property disposal profits. We completed the disposal of three surplus properties which generated profit of £11.9 million. Of this, £10.0 million was in respect of the Solihull site that we sold for alternative retail use. In the period we also sold five Volkswagen dealerships that were acquired as part of the Vardy acquisition. The profit on the disposal of these dealerships, £6.3 million, has been credited against the goodwill arising on the acquisition and is not taken to profit in the income statement.

Financing costs increased by £11.1 million to £31.0 million. The main component of the increase in interest costs is on borrowings associated with the acquisition of Reg Vardy which, in the first half, were approximately £12.0 million.

Underlying operating profit of £73.3 million (2005: £56.7 million) less interest cost of £31.0 million (2005: £19.9 million) resulted in an adjusted profit before tax and exceptionals of £42.3 million (2005: £36.8 million). Adjusted earnings per share increased by 14.0 per cent to 23.6p from 20.7p last year. Basic earnings increased by 42.6 per cent which includes the impact of the higher property disposal profits.

### **Acquisition of Reg Vardy and group operational structure**

We increased our borrowings substantially in February this year to acquire the entire share capital of Reg Vardy plc for a consideration of £500.1 million. Reg Vardy, one of the UK's largest motor vehicle retailers with 98 outlets mainly in Scotland and the Northeast of England, represents a broad range of manufacturers including BMW, Citroen, Ford, Jaguar, Land Rover, Mercedes-Benz, Nissan, Renault and Vauxhall. The acquisition is in line with our ongoing strategy to grow the business in order to generate further economies of scale and cost efficiencies. The acquisition of Reg Vardy increases the revenues of the group by around 50 per cent. In terms of integration, the main achievements in the first few months have been to eliminate the duplicate costs of Reg Vardy as a separate listed company and to put in place a new UK operational structure.

Since the beginning of the year we have been in the process of rebranding the group's dealerships in the UK as Stratstone, for premium brands, and Evans Halshaw, for volume brands. We have divided Stratstone into two divisions each organised on a national basis by franchise. Evans Halshaw has been structured into three divisions which reflect the different dynamics of volume dealership businesses. The divisions, North, East and West each cover all volume franchises. Under this new structure both the premium and volume brands continue to enjoy franchise focus whilst the volume brands will benefit in specific areas such as advertising and used car sales.

### **Motor retail business**

Our franchised motor retail activities are principally in the UK with a small but growing business in the USA. We currently operate 406 franchised sale points, of which 22 are overseas. We continue to represent a broad portfolio of brands each with sufficient scale to enable efficient operations within each franchise group or geographic region. We also operate a number of franchised commercial truck businesses.

### **UK**

In the UK, national new car registrations reduced by 4.2 per cent this year compared to the first six months of 2005. This continues the trend seen over the last two years with a falling number of registrations, first mainly in the more profitable private retail market but now also within the fleet and business sectors. The latest industry forecast for 2006 is for an annual new car market at 2.33 million, down 4.5 per cent on 2005. A decline of around five per cent continues to be our view.

The commercial vehicle market is up 0.6 per cent this year. This may not be representative of the true market as changes in legal requirements have resulted in customers buying before the changes to avoid increases in prices. Similarly the second half market may also be distorted by the introduction of new emission regulations from October.

In the UK we operate 384 franchised points of which 174 are premium, 189 are volume and 21 are trucks. The results of the UK business can be summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	1,647.5	218.9	13.3	40.1	2.4
Acquired	816.6	108.0	13.2	19.3	2.4
<b>Total 2006</b>	<b>2,464.1</b>	<b>326.9</b>	<b>13.3</b>	<b>59.4</b>	<b>2.4</b>
Total 2005	1,585.8	215.8	13.6	49.4	3.1

Revenues are up by £878.3 million, of which £816.6 million arises with acquisitions, principally being Reg Vardy. The balance of the increase in revenue of £61.7 million is a combination of the impact of acquisitions, disposals and greenfields completed last year and includes £6.4 million organic growth in the existing business.

Gross margins in aftersales have been maintained whilst most of our car franchises have seen a weakening in new car margins in light of the more difficult trading conditions. Our gross margins have fallen to 13.3 per cent which has had the effect of reducing underlying operating profit by £4.9 million in the existing businesses. The gross margin achieved by the acquired businesses is slightly lower at 13.2 per cent.

Operating margins in the existing dealerships have reduced from 3.1 per cent to 2.4 per cent. The reduction in gross margin accounts for approximately half of the reduction in operating margin with the balance arising with the increase in rents of £3.4 million and an increase in employment costs, principally in respect of funding pension liabilities. The reduction in margin is compensated in part by an improvement in the profits of our customer service centre, the results of which are shown within our Support Services segment. Included in the results of the UK business is a loss of £1.6 million in respect of our start up Cadillac retail operation. We now operate 12 sites as sole distributor in the UK. The acquired businesses operating margin is in line with our existing dealerships.

As part of the Reg Vardy acquisition we acquired five Volkswagen dealerships which were sold at the end of February shortly after completion. Given the relatively short period of ownership the results of these dealerships are insignificant to the group.

## USA

The market for new cars in the USA in the first half of 2006 was down by 2.4 per cent to 8.4 million registrations. We continue to represent only a few brands in California being Jaguar, Land Rover, Lincoln Mercury, Aston Martin and SAAB. Nationally Land Rover continues to grow in the USA mainly due to the success of the Range Rover Sport. Lincoln also showed growth in national sales. Jaguar volumes were helped by the new XK model but overall are down principally due to much lower X-type sales. The results for the first half of 2006 are summarised as follows:

## CHIEF EXECUTIVE'S OPERATIONAL REVIEW continued

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
<b>Total 2006</b>	<b>108.1</b>	<b>17.6</b>	<b>16.2</b>	<b>3.2</b>	<b>3.0</b>
Total 2005	100.5	15.3	15.2	2.5	2.5

Revenues increased on last year with higher unit sales of Land Rover and Aston Martin product being the main reason plus a full six months trading from the two SAAB dealerships that we acquired at the beginning of February 2005. Last year's results included a number of large low margin fleet deals for Lincoln Mercury which we have not repeated this year. The affect of this plus improved performance in all areas of the business has increased the gross margin by 1.0 per cent and the operating margin by 0.5 per cent.

### Germany

Our German operation remains a relatively small part of the group with a contribution to revenue of £20.4 million. The level of our investment in Germany is £7.3 million. We represent Jaguar, Land Rover and Aston Martin in Frankfurt and Munich. Operating losses for the six months have been significantly reduced to £0.2 million from £0.9 million last year. This was achieved through a combination of higher sales with new models, AMV8, Jaguar XK and Range Rover Sport, improved margin retention and a lower cost base.

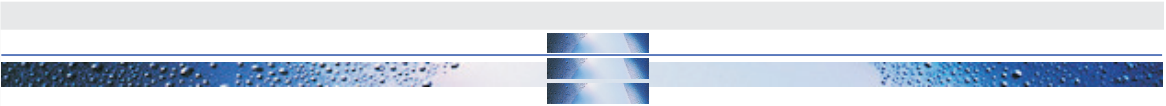
### Support Services

We provide a broad range of support services to both the Pendragon group and to external customers. The services are provided by a number of specialist businesses which consist of contract hire and leasing, computer software solutions, wholesale parts distribution and our customer services centre. The results for the first half of 2006 are summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	73.3	24.2	33.0	9.9	13.5
Acquired	8.7	2.2	25.6	1.0	11.7
<b>Total 2006</b>	<b>82.0</b>	<b>26.4</b>	<b>32.3</b>	<b>10.9</b>	<b>13.3</b>
Total 2005	76.1	20.9	27.5	5.7	7.5

We are pleased with the contribution made by our Support Services businesses. Revenues have fallen slightly within the existing businesses, principally due to lower disposals of contract hire vehicles, and yet the underlying operating profit has improved by £4.2 million. Each business has contributed to the improvement in both gross and operating margins.

The Contract Hire businesses have achieved improved margins on the disposal of vehicles that have been defleeted and overheads have been reduced, the combination of which has increased operating profit by almost £1.0 million. We currently have a fleet of 18,400 vehicles compared to 11,000 at the beginning of the year. The fleet now includes 7,600 vehicles operated by Vardy Contract Motoring.



Pinewood Technologies, our computer software company, has seen increased demand for its products from external customers as well as rolling out the new in-house dealer management system to our own sites. Operating profits have been improved by £0.7 million. We have progressed well with the implementation of our new dealer management system, Pinnacle, within the group. So far we have installed systems at 47 sites this year and plan a further 55 by this year end. We expect that the roll out will continue to accelerate across the enlarged group and with it the benefits that this technology brings in terms of operational efficiency.

Wholesale parts distribution has managed to grow its revenues in a tough market and also at the same time increased the retail element. This has helped strengthen margins and improved the returns from this business. Our customer services centre, which covers call centre, data processing and warranty management, continues to expand and cover more of the group. Its revenues have grown almost £2.0 million, most of which has been retained as additional profit with minimal increase in cost base due to the efficiencies and cost savings we have achieved within this operation.

### **Finance**

The level of borrowings at 30 June 2006 was £581.7 million up by £404.7 million since the beginning of the year. The acquisitions increased borrowings by £507.9 million which has been offset in part by strong operating cash inflows. The balance sheet gearing at 30 June 2006 was 208 per cent compared to 70 per cent at 31 December 2005. We expect the level of borrowings to reduce in line with the plan we put in place when acquiring Reg Vardy which was to reduce borrowings to more normal levels by the end of 2007.

Operating cash inflow for the first six months was £157.7 million, which compares with £80.9 million generated in 2005. The operating cash inflow includes a reduction in working capital investment of £52.7 million.

Net investment in property, plant and equipment for the six months was £8.1 million (2005: £24.2 million). This includes investment in new properties and refurbishments plus a net increase in the contract hire fleet and service loan cars. Proceeds from property disposals were £32.4 million (2005: £5.9 million). In addition to this £22.2 million was raised from business disposals (2005: £14.0 million).

### **Current trading and prospects**

The new car market continues to suffer from retail consumer weakness whereas aftersales and used cars have been relatively unaffected. The integration of the Reg Vardy business is continuing successfully and the new operational structure for the UK is now in place. Current trading remains in line with expectations. Looking ahead to the remainder of the year we do not expect trading conditions to change significantly. We are confident that our performance expectations for the year will be met and that our borrowings will continue to reduce in line with our plan.

**TREVOR FINN**  
**Chief Executive**  
**7 August 2006**

# CONSOLIDATED INCOME STATEMENT

## Interim Results

for the six months ended 30 June 2006

	6 Months to 30.06.06			6 Months to	12 Months to
	Existing	Acquisitions	Total	30.06.05	31.12.05
	£m	£m	£m	£m	£m
<b>Revenue</b>	1,820.2	825.3	<b>2,645.5</b>	1,751.2	3,284.5
Cost of sales	(1,561.3)	(715.0)	<b>(2,276.3)</b>	(1,499.8)	(2,816.8)
<b>Gross profit</b>	258.9	110.3	<b>369.2</b>	251.4	467.7
Operating expenses	(206.8)	(92.5)	<b>(299.3)</b>	(197.6)	(371.8)
Operating profit before other income	52.1	17.8	<b>69.9</b>	53.8	95.9
Operating profit before other income, analysed as:					
Before exceptional items	53.0	20.3	<b>73.3</b>	56.7	98.8
Goodwill impairment	-	-	<b>-</b>	(1.1)	(1.1)
Abortive acquisition costs	(0.9)	-	<b>(0.9)</b>	-	-
Integration and closure costs	-	(2.5)	<b>(2.5)</b>	(1.8)	(1.8)
Operating profit before other income	52.1	17.8	<b>69.9</b>	53.8	95.9
Other income - gain on sale of businesses and property	11.9	-	<b>11.9</b>	1.4	7.4
<b>Operating profit</b>	64.0	17.8	<b>81.8</b>	55.2	103.3
Finance costs (note 5)			<b>(39.3)</b>	(27.5)	(54.9)
Finance income (note 6)			<b>8.0</b>	7.6	15.3
Net finance cost			<b>(31.3)</b>	(19.9)	(39.6)
Share of post tax profit from joint venture			<b>0.3</b>	-	0.1
<b>Profit before taxation</b>			<b>50.8</b>	35.3	63.8
Income tax expense (note 7)			<b>(15.7)</b>	(11.0)	(20.7)
<b>Profit attributable to equity shareholders</b>			<b>35.1</b>	24.3	43.1
<b>Earnings per ordinary share</b> (note 9)			<b>28.1p</b>	19.7p	34.8p
<b>Diluted earnings per ordinary share</b> (note 9)			<b>27.4p</b>	19.1p	33.9p
<b>Dividend per share - interim</b> (note 8)			<b>7.25p</b>	6.6p	6.6p
<b>Dividend per share - final</b>					6.6p

All amounts are unaudited



## CONSOLIDATED BALANCE SHEET

	30.06.06 £m	30.06.05 £m	31.12.05 £m
<b>Non - current assets</b>			
Property, plant and equipment	581.1	474.0	394.0
Goodwill	471.4	164.6	166.3
Other intangible assets	2.3	1.4	1.2
Derivative financial instruments	-	5.7	6.5
Investment in joint venture	2.2	-	1.4
<b>Total non - current assets</b>	<b>1,057.0</b>	<b>645.7</b>	<b>569.4</b>
<b>Current assets</b>			
Inventories	859.7	639.9	641.8
Trade and other receivables	310.3	191.8	161.6
Cash and cash equivalents	36.2	92.9	82.1
Non-current assets classified as held for sale	22.5	-	18.9
<b>Total current assets</b>	<b>1,228.7</b>	<b>924.6</b>	<b>904.4</b>
<b>Total assets</b>	<b>2,285.7</b>	<b>1,570.3</b>	<b>1,473.8</b>
<b>Current liabilities</b>			
Bank overdrafts	-	(22.3)	(4.7)
Interest bearing loans and borrowings	(210.0)	(54.4)	(4.9)
Trade and other payables	(1,264.1)	(902.3)	(855.5)
Current tax payable	(24.6)	(21.2)	(19.1)
Provisions	(0.8)	-	(0.7)
<b>Total current liabilities</b>	<b>(1,499.5)</b>	<b>(1,000.2)</b>	<b>(884.9)</b>
<b>Non - current liabilities</b>			
Interest bearing loans and borrowings	(403.1)	(248.2)	(256.0)
Deferred tax	(14.4)	(5.5)	(7.7)
Derivative financial instruments	(4.8)	-	-
Retirement benefit obligations	(82.5)	(76.2)	(71.4)
Long term provisions	(1.2)	(2.1)	(1.2)
<b>Total non - current liabilities</b>	<b>(506.0)</b>	<b>(332.0)</b>	<b>(336.3)</b>
<b>Total liabilities</b>	<b>(2,005.5)</b>	<b>(1,332.2)</b>	<b>(1,221.2)</b>
<b>Net assets</b>	<b>280.2</b>	<b>238.1</b>	<b>252.6</b>
<b>Capital and reserves</b>			
Called up share capital	32.8	32.8	32.8
Share premium account	56.8	56.8	56.8
Capital redemption reserve	2.5	2.5	2.5
Other reserves	12.6	12.6	12.6
Translation reserve	(0.2)	(0.1)	(0.1)
Retained earnings	175.7	133.5	148.0
<b>Total equity</b>	<b>280.2</b>	<b>238.1</b>	<b>252.6</b>

All amounts are unaudited

## CONSOLIDATED CASH FLOW STATEMENT

	6 Months to 30.06.06 £m	6 Months to 30.06.05 £m	12 Months to 31.12.05 £m
<b>Cash flows from operating activities</b>			
Operating profit	81.8	55.2	103.3
Profit on sale of businesses and property	(11.9)	(1.4)	(7.4)
Depreciation and amortisation	34.8	23.0	47.5
Share based payments	0.3	0.2	0.4
Goodwill impairment	-	1.1	1.1
Decrease / (increase) in working capital	52.7	2.8	(14.5)
Cash generated from operations	157.7	80.9	130.4
Net interest paid	(29.7)	(20.1)	(43.2)
Taxation paid	(15.6)	(10.2)	(16.6)
<b>Net cash from operating activities</b>	<b>112.4</b>	<b>50.6</b>	<b>70.6</b>
<b>Cash flows from investing activities</b>			
Business acquisitions (net of cash acquired)	(458.8)	(13.0)	(35.1)
Proceeds from sale of businesses	22.2	14.0	16.2
Investment in joint venture	(1.3)	-	(6.5)
Purchase of property, plant and equipment	(85.4)	(69.0)	(154.4)
Proceeds from sale of property, plant and equipment	77.3	44.8	193.5
Receipts from sales of own shares	0.5	-	0.3
<b>Net cash (used in) / from investing activities</b>	<b>(445.5)</b>	<b>(23.2)</b>	<b>14.0</b>
<b>Cash flows from financing activities</b>			
Payment of capital element of finance lease rentals	(2.6)	(0.5)	(1.0)
Repayment of unsecured bank loans	(52.2)	(0.3)	(73.2)
Repayment of loan notes	(114.5)	(62.8)	(32.7)
Proceeds from issue of unsecured loans	470.0	-	-
Dividends paid to shareholders	(8.2)	(7.4)	(15.6)
<b>Net cash from / (used in) financing activities</b>	<b>292.5</b>	<b>(71.0)</b>	<b>(122.5)</b>
Effects of exchange rate changes on cash held	(0.6)	(0.1)	1.0
Net decrease in cash and cash equivalents	(41.2)	(43.7)	(36.9)
Opening cash and cash equivalents	77.4	114.3	114.3
<b>Closing cash and cash equivalents (note 10)</b>	<b>36.2</b>	<b>70.6</b>	<b>77.4</b>

All amounts are unaudited

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital £m	Share Premium £m	Other Reserves £m	Translation differences £m	Accumulated profit £m	<b>Total £m</b>
Balance at 1 January 2005	32.8	56.8	15.1	(0.3)	116.4	<b>220.8</b>
Currency translation differences	-	-	-	0.2	-	<b>0.2</b>
Net expense recognised directly in equity	-	-	-	0.2	-	<b>0.2</b>
Profit attributable to equity shareholders	-	-	-	-	43.1	<b>43.1</b>
Total recognised income and expense for 2005	-	-	-	0.2	43.1	<b>43.3</b>
Dividends	-	-	-	-	(15.6)	<b>(15.6)</b>
Share based payments	-	-	-	-	3.8	<b>3.8</b>
Disposal of own shares in share trusts	-	-	-	-	0.3	<b>0.3</b>
	-	-	-	-	(11.5)	<b>(11.5)</b>
Balance at 31 December 2005	32.8	56.8	15.1	(0.1)	148.0	<b>252.6</b>
Balance at 1 January 2006	32.8	56.8	15.1	(0.1)	148.0	<b>252.6</b>
Currency translation differences	-	-	-	(0.1)	-	<b>(0.1)</b>
Net expense recognised directly in equity	-	-	-	(0.1)	-	<b>(0.1)</b>
Profit attributable to equity shareholders	-	-	-	-	35.1	<b>35.1</b>
Total recognised income and expense for 2006	-	-	-	(0.1)	35.1	<b>35.0</b>
Dividends	-	-	-	-	(8.2)	<b>(8.2)</b>
Share based payments	-	-	-	-	0.3	<b>0.3</b>
Disposal of own shares in share trusts	-	-	-	-	0.5	<b>0.5</b>
	-	-	-	-	(7.4)	<b>(7.4)</b>
Balance at 30 June 2006	32.8	56.8	15.1	(0.2)	175.7	<b>280.2</b>

## NOTES

1. This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2005, except for the following changes.

As required by the Listing Rules of the Financial Services Authority, as a result of the endorsement by the EU of new or changed IFRSs that are applicable or available for early adoption in the preparation of the company's next consolidated financial statements for the year ending 31 December 2006, the directors have changed their accounting policies in respect of the amendment to IAS 39.

Where Pendragon PLC, 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.

The company does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

2. The comparative figures for the financial year ended 31 December 2005 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

## NOTES continued

3. The interim report was approved by the board of directors on 7 August 2006 and is unaudited.

### 4. Exceptional items

Exceptional items incurred during the first half of 2006 total £3.4 million. £2.5 million is in respect of integration costs arising on the acquisition of Reg Vardy plc and £0.9 million is in respect of the abortive acquisition costs incurred in the unsuccessful bid for Lookers plc. Exceptional costs incurred during the first half of 2005 of £2.9 million was in respect of our Rover Franchise Group, and consists of £1.1 million impairment of goodwill and £1.8 million for redundancy costs and non payment of manufacturer bonus and warranty debtors.

5. Finance costs	6 Months to 30.06.06 £m	6 Months to 30.06.05 £m	12 Months to 31.12.05 £m
Interest payable on bank borrowings	14.5	5.9	11.1
Interest payable on loan notes	3.8	5.0	8.9
Vehicle stocking plan interest	11.5	8.3	18.6
Interest payable on finance leases	0.1	0.1	0.1
Fair value loss - interest rate swaps	1.0	-	-
Unwinding of discounts in contract hire residual values	1.2	1.3	2.5
Interest on pension scheme obligations	7.2	6.9	13.8
	39.3	27.5	55.0
Less interest capitalised	-	-	(0.1)
Total finance costs	39.3	27.5	54.9

6. Finance income	6 Months to 30.06.06 £m	6 Months to 30.06.05 £m	12 Months to 31.12.05 £m
Fair value gains - interest rate swaps	-	0.2	0.4
Interest receivable on bank deposits	0.4	0.2	0.8
Interest on pensions scheme assets	7.4	6.7	13.6
Other interest receivable	0.2	0.5	0.5
Total finance income	8.0	7.6	15.3

7. The effective tax rate for 2006 of 30.9% (2005 : 31.2%) is an estimate based upon the anticipated charge for the full year on profit on ordinary activities before taxation.

8. A dividend of 7.25p (2005 : 6.6p) net per ordinary share will be paid on 3 October 2006 to shareholders appearing on the register at the close of business on 15 September 2006.

9. Earnings per share	30.06.06 pence	30.06.05 pence	31.12.05 pence
Basic earnings per share	28.1	19.7	34.8
Effect of adjusting items	(4.5)	1.0	(1.4)
Adjusted earnings per share	23.6	20.7	33.4
Diluted earnings per share	27.4	19.1	33.9

The calculation of basic, diluted and adjusted earnings per share is based on:  
Number of shares (millions)

	30.06.06 number	30.06.05 number	31.12.05 number
Weighted average number of shares used in basic and adjusted earnings per share calculation	124.8	123.5	123.9
Weighted average number of dilutive shares under option	3.3	3.8	3.4
Diluted weighted average number of shares used in diluted earnings per share calculation	128.1	127.3	127.3

Earnings	30.06.06 £m	30.06.05 £m	31.12.05 £m
Earnings for basic and diluted earnings per share calculation	35.1	24.3	43.1
Adjusting items:			
Profit on business and property disposals	(11.9)	(1.4)	(7.4)
Goodwill impairment	-	1.1	1.1
Abortive acquisition costs	0.9	-	-
Operating exceptional costs	2.5	1.8	1.8
Tax effect of adjusting items	2.8	(0.2)	2.8
Earnings for adjusted earnings per share calculation	29.4	25.6	41.4

The directors consider that the adjusted earnings per share figures provide a better measure of comparative performance.

10. Cash and cash equivalents	30.06.06 £m	30.06.05 £m	31.12.05 £m
Bank balances and cash equivalents	36.2	92.9	82.1
Bank overdrafts	-	(22.3)	(4.7)
	36.2	70.6	77.4

11. Net borrowings	30.06.06 £m	30.06.05 £m	31.12.05 £m
Cash and cash equivalents (note10)	36.2	70.6	77.4
Current interest bearing loans and borrowings	(210.0)	(54.4)	(4.9)
Non-current interest bearing loans and borrowings	(403.1)	(248.2)	(256.0)
Derivative financial instruments	(4.8)	5.7	6.5
	(581.7)	(226.3)	(177.0)

## NOTES continued

### 12. Acquisition of RegVardy plc

On 14 February 2006 the group acquired the entire share capital of RegVardy plc for a total consideration, including costs, of £500 million. In accounting for this acquisition we are required to review the book value of assets acquired and make adjustments as appropriate to align accounting policies and restate assets and liabilities to their fair value. This review under International Accounting Standards has to be completed within 12 months of acquisition.

Fair value adjustments made during the first half of the year have increased the value of assets acquired by £3.2 million giving total goodwill on acquisition of £304.2 million, which represents the excess of consideration over the fair value of both tangible and intangible assets that are able to be quantified. We have not as yet finalised our review of all the assets and liabilities and further adjustments will be required in the second half of 2006. This review will include the valuation of the acquired property portfolio which is anticipated to result in a further increase to the value of assets acquired. We will conclude the review prior to the preparation of the 2006 financial statements.

## INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

### Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the income statement, the balance sheet, the cash flow, the statement of changes in equity and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG Audit Plc  
Chartered Accountants  
Birmingham  
7 August 2006



## SHAREHOLDER INFORMATION

### Financial calendar

Ex dividend date for 2006 proposed interim dividend	13 September 2006
Record date for 2006 proposed interim dividend	15 September 2006
Payment date for 2006 proposed interim dividend	3 October 2006
Final results for 2006 announced	February 2007
Annual general meeting	April 2007
Final dividend for 2006 payable	May 2007

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