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GROUP REVIEW

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<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Revenue (note 6)</td>
<td>3,575.0</td>
<td>3,191.7</td>
<td>4,162.4</td>
<td>5,060.2</td>
<td>5,058.5</td>
</tr>
<tr>
<td>Gross profit (note 6)</td>
<td>499.4</td>
<td>492.1</td>
<td>543.2</td>
<td>672.7</td>
<td>701.3</td>
</tr>
<tr>
<td>Operating profit / (loss) before other income (note 6)</td>
<td>62.9</td>
<td>55.6</td>
<td>(130.9)</td>
<td>87.3</td>
<td>139.7</td>
</tr>
<tr>
<td>Profit / (loss) before taxation (note 6)</td>
<td>11.0</td>
<td>1.3</td>
<td>(194.0)</td>
<td>46.5</td>
<td>97.7</td>
</tr>
<tr>
<td>Net assets (note 9)</td>
<td>111.2</td>
<td>105.9</td>
<td>113.7</td>
<td>307.2</td>
<td>306.0</td>
</tr>
<tr>
<td>Net borrowings (note 7)</td>
<td>325.5</td>
<td>315.4</td>
<td>357.3</td>
<td>332.0</td>
<td>369.7</td>
</tr>
</tbody>
</table>

Other financial information

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Gross margin (note 6)</td>
<td>14.0%</td>
<td>15.4%</td>
<td>13.1%</td>
<td>13.3%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Total operating margin (note 1 and 6)</td>
<td>2.1%</td>
<td>1.7%</td>
<td>0.6%</td>
<td>2.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>After tax return on equity (note 2)</td>
<td>5.2%</td>
<td>0.7%</td>
<td>(73.8)%</td>
<td>12.7%</td>
<td>24.8%</td>
</tr>
<tr>
<td>Basic earnings per share (note 3)</td>
<td>0.9p</td>
<td>0.1p</td>
<td>(25.2)p</td>
<td>6.5p</td>
<td>10.7p</td>
</tr>
<tr>
<td>Underlying earnings per share (note 4)</td>
<td>2.5p</td>
<td>1.1p</td>
<td>(3.5)p</td>
<td>5.0p</td>
<td>7.5p</td>
</tr>
<tr>
<td>Dividends per share (note 5)</td>
<td>-</td>
<td>-</td>
<td>0.50p</td>
<td>4.00p</td>
<td>3.45p</td>
</tr>
<tr>
<td>Dividend cover (times)</td>
<td>-</td>
<td>-</td>
<td>(9.8)</td>
<td>1.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Gearing (note 8 and 9)</td>
<td>292.7%</td>
<td>297.8%</td>
<td>314.2%</td>
<td>108.1%</td>
<td>120.8%</td>
</tr>
</tbody>
</table>

Business development summary

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of franchise points</td>
<td>245</td>
<td>276</td>
<td>301</td>
<td>354</td>
<td>390</td>
</tr>
</tbody>
</table>

note 1 Total operating margin is calculated after adding back non-underlying items, and excluding other income.

note 2 Return on equity is profit for the year as a percentage of average shareholders’ funds.

note 3 Basic earnings per share has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 4 Basic earnings per share adjusted to eliminate the effects of non-underlying operating, non-underlying finance and tax items, see note 9 of the financial statements. It has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 5 Dividends per share are based on the interim dividend paid and final dividend declared for the year. Dividends per share has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 6 All comparative amounts have been adjusted to eliminate the results of the discontinued operation (2007 and prior).

note 7 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments.

note 8 Gearing is calculated as net borrowings as a percentage of net assets.

note 9 Net assets have been adjusted for the impact of the adoption of IFRIC 14 during 2008.
OPERATIONAL & BUSINESS REVIEW

INTRODUCTION

The Group has consolidated on its half year position in 2010 and continued to drive profitability across the Group. This has been achieved by a combination of improved business performance, reduced costs and operating efficiencies. This resulted in a 150.0% increase in underlying profit before tax over the prior period to £25.2 million. The previously reported strong recovery in Stratstone and improvement in the Evans Halshaw divisions has continued and the results from California and the Support Businesses are encouraging.

The Group has right sized the business and is well positioned for 2011 with a refined portfolio of franchises. However, we will continue to keep under review individual franchise points from a strategic and cost perspective. The Group is making good progress on a number of initiatives in the aftersales sector. The Group will continue to grow its used vehicle volumes in 2011 through further used car supermarket start-ups under the ‘Quicks’ brand and further progressing its used cars processes and initiatives across the Group. The existing portfolio of franchise points has further capacity for growth in 2011.

Underlying revenue has increased by £361.6 million, largely due to used and new department improvements which account for £346.9 million of this total. The Group continues to be selective on its low margin fleet activity. This is reflected in a further 4,100 unit reduction in fleet activity over 2009. Underlying operating profits were £75.1 million compared to £53.4 million in 2009 with significant improvements in profitability in the Stratstone, Evans Halshaw and California segments. A key aspect of this improvement in profitability has been the operational gearing effect of increased gross profit with well controlled operating costs. Costs will remain under management focus in 2011 to ensure further leverage is achieved. Within the motor division results, aftersales remains a key priority and the Group’s like for like aftersales performance has been resilient against the shrinking car parc of vehicles under three years old. This has historically been the primary market that the Group has operated within.

This performance in aftersales has been supported by the roll-out of our Vehicle Health Check programme, additional capacity to undertake MOT work and the increased deployment of service packages. Both of these initiatives are designed to retain more customers and increase the level of work undertaken per appointment. Like for like used volume increases have been a major highlight for the Group, up 12.1% on the prior year. Furthermore, new volume and margin improvements have been significant for some of our key franchises, assisting overall profitability. Underlying finance costs have increased by £6.6 million on 2009 mainly due to the full year effect in 2010 of the refinancing completed in April 2009. Profit before tax was £11.0 million (2009: £1.3 million) and underlying profit before tax more than doubled, rising from £10.1 million in 2009 to £25.2 million in 2010.

INTRODUCTION

FINANCIAL PERFORMANCE SUMMARY

<table>
<thead>
<tr>
<th>£m</th>
<th>2010 Underlying</th>
<th>2010 Total</th>
<th>2009 Underlying</th>
<th>2009 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,534.3</td>
<td>3,575.0</td>
<td>3,172.7</td>
<td>3,191.7</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>75.1</td>
<td>75.1</td>
<td>53.4</td>
<td>53.4</td>
</tr>
<tr>
<td>Non-underlying operating (costs) / income</td>
<td>-</td>
<td>(12.2)</td>
<td>-</td>
<td>2.2</td>
</tr>
<tr>
<td>Operating profit before other income</td>
<td>75.1</td>
<td>62.9</td>
<td>53.4</td>
<td>55.6</td>
</tr>
<tr>
<td>Other income – gain on sales of property and businesses</td>
<td>-</td>
<td>0.3</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td>Operating profit</td>
<td>75.1</td>
<td>63.2</td>
<td>53.4</td>
<td>56.7</td>
</tr>
<tr>
<td>Underlying net finance costs</td>
<td>(49.9)</td>
<td>(49.9)</td>
<td>(43.3)</td>
<td>(43.3)</td>
</tr>
<tr>
<td>Non-underlying finance costs</td>
<td>-</td>
<td>(2.3)</td>
<td>-</td>
<td>(12.1)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>25.2</td>
<td>11.0</td>
<td>10.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Tax</td>
<td>(9.1)</td>
<td>(5.4)</td>
<td>(2.9)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>16.1</td>
<td>5.6</td>
<td>7.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>-</td>
<td>0.9p</td>
<td>-</td>
<td>0.1p</td>
</tr>
<tr>
<td>Underlying basic earnings per share</td>
<td>2.5p</td>
<td>-</td>
<td>1.1p</td>
<td>-</td>
</tr>
</tbody>
</table>
OPERATIONAL & BUSINESS REVIEW

NON-UNDERLYING ITEMS

Non-underlying items primarily relate to franchise point closures, start-up business costs, property disposals and pension costs. They are summarised as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed businesses and redundancy costs</td>
<td>(8.5)</td>
<td>(10.7)</td>
</tr>
<tr>
<td>Start-up business costs</td>
<td>(2.8)</td>
<td>-</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>-</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Property impairment and net profit / loss on disposal</td>
<td>(0.6)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Net loss on refinancing</td>
<td>-</td>
<td>(9.6)</td>
</tr>
<tr>
<td>Pension net finance charge</td>
<td>(2.3)</td>
<td>(3.8)</td>
</tr>
<tr>
<td>VAT provision movement</td>
<td>-</td>
<td>16.2</td>
</tr>
<tr>
<td>Total</td>
<td>(14.2)</td>
<td>(8.8)</td>
</tr>
</tbody>
</table>

Total non-underlying costs before tax were £14.2 million for 2010 (2009: £8.8 million). The Group incurred costs in the start-up of the ‘Quicks’ branded used car and aftersales supermarkets during 2010. The start-up costs and operating losses amounted to £2.8 million. This new venture will target our two most profitable areas of the Group – aftersales and used. The Quicks operation is at an early stage with only four sites operational before 31 December 2010. The Group intends to open three additional Quicks sites this year and expects the Quicks sites will be profitable in 2011. The Group incurred £6.6 million of losses on closed businesses arising from the date of announcement to close and £1.9 million of redundancy costs during 2010. There is a net impairment in respect of property of £0.9 million and profits on disposal of fixed assets of £0.3 million.

NET DEBT

Our net borrowings as at 31 December 2010 were £325.5 million compared to £315.4 million at the end of 2009. This debt level is higher than planned with two main factors contributing to this increase – the realignment of target used car stock levels and the increase in stocks of new vehicles held to satisfy orders for vehicles prior to the VAT rate increase immediately after the year end. The Group had considerable success in the increase of used car sales during the year with like for like volume up 12.1% against a market that was flat. Towards the end of the year in particular a strategic decision was taken to invest in additional used car stock. This strategic decision was justified by a 33% like for like increase in used car volume in January 2011 compared with the previous year. We are experiencing appetite for some increase in providers’ vehicle based funding and anticipate reducing the debt impact of increased used vehicle stock during 2011. The increase in VAT on 4 January 2011 necessitated the Group paying for new vehicles ordered prior to the year end, to ensure delivery to customers who purchased at the old VAT rate but took delivery in the first three days of 2010 when the banks were closed. This temporary increase in debt reversed in January.

DIVIDEND

No interim dividend was paid during the year and no final dividend is proposed. No dividends were paid in 2009. The current Debt:underlying EBITDA ratio means that a dividend is not appropriate at this stage. However, the Group continues to focus on the conservation of cash and reduction of borrowings with the intention of achieving our long-term target of Debt:underlying EBITDA of 2.0:1.0.

STRATEGY

Pendragon is the largest independent operator of franchised motor vehicle dealerships in the UK. The Group now operates 245 franchise points (2009: 276), of which nine are in California. Pendragon sells a broad range of new and used motor cars and commercial vehicles and has a substantial presence in the UK vehicle leasing, wholesale parts and dealership management system markets.

Our strategy is to have a diversified portfolio of franchises representing both volume and luxury brands. These are sold through the Evans Halshaw and Stratstone brands respectively. In conjunction with this diversified portfolio we have identified certain brands that we wish to continue to operate on a significant scale. This scale gives multiple direct benefits by being able to realise economies of scale, minimise our fixed overheads and have significant manufacturer partnerships for the benefit of both parties. Our scale gives an advantage in some further areas over smaller competitors through the Group’s shared services centre, central marketing, IT capability and purchasing. The size of the Group also drives profitable functional integration in contract hire, wholesale parts distribution and dealership management systems.

Aligned to this strategy we are constantly reviewing our franchise portfolio and representation points to evaluate the performance and return that we
are achieving. In view of this, a decision to grow, close, sell or re-locate a franchise or franchise point may be identified. This strategy has resulted in a number of closures during the last three years. If we believe the long term prospects for a particular franchise are poor then an exit of that franchise will be completed as soon as is practicable.

Within the franchise portfolio, management is focussed on maximising the returns within three key sectors reflecting their contribution to the Group: aftersales, used and new. This has been a key strategy during 2010 and will continue to be for the foreseeable future. The aftersales sector is undergoing the Group-wide roll-out of our Vehicle Health Check programme and we are conducting direct marketing on a number of service plans and initiatives. The Group continues to focus on the used sector by assessing and accrediting our used car processes. This activity and the management focus applied to it has significantly helped the Group’s performance in 2010. We will continue to reinforce these processes and initiatives during 2011.

The UK is our principal market but we also have a small operation in California. The UK market splits into four key sectors: aftersales services, used vehicle sales, new vehicle sales and contract hire and other support businesses.

The aftersales market opportunity is dependent on the car parc and economic conditions. The size of the car parc is determined by the impact of the yearly increase of new vehicles less scrapped vehicles. The degree of net change to the car parc has been relatively stable over the last five years, other than during the government scrappage scheme which caused a reduction in the car parc to 31 million vehicles. This occurred in the period from May 2009 to July 2010. The aftersales sector is less impacted than the others by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

Within the aftersales sector there are four broad areas of revenue: retail, internal work (preparation of used and new vehicles to retail standard), warranty and parts. Each of these areas offers a different opportunity for the Group and is related to the profile of the car parc. For example, warranty and retail work is predominantly geared towards the under three year old car parc, which has fallen by 5% and 6% in 2009 and 2010 respectively. Like for like aftersales revenue fell by less than the impact of the smaller car parc and the associated reduction in warranty work due to the initial success of the roll-out of our aftersales initiatives. UK aftersales gross margin has improved 1.8% over the prior period. Aftersales activities remain the key area of focus, being the most profitable area for the Group.

The used vehicle sector has historically represented a market opportunity of around 7.5 million units per annum. Of this total market opportunity, around 55% is typically sold via franchised points in the UK. During the economic downturn, the 2009 used vehicle market was reduced by about 5% to 6.8 million (2008: 7.1 million). We expect the data for 2010 to show the market was flat year on year when this is published. The latest available data from Experian PLC for the nine months to September 2010 reported that the UK used vehicle market volume fell by 1.5% against the prior year. However the Group has outperformed the market with full year like for like UK used volume increasing by 12.1% over the prior period. This performance has been helped by having a higher level of stock throughout 2010, compared to the somewhat constrained levels held in 2009 during the refinancing process. Used car prices have remained stable during the year compared to 2009 when prices were rising. The improvement in profitability has therefore primarily been driven by volume increase. The widening of both the pricing and age ranges of our used vehicles has helped us to further exploit the used car market opportunity for the Group. Furthermore, the rigorous used vehicle sales process which we have progressively implemented across the Group remains our focus in 2011 so as to maintain the exacting internal standards and financial metrics that we have set ourselves for this activity.

The new vehicle sector consists of cars and commercial vehicles. The UK new car market is divided into retail and fleet markets. In each of the last three years the retail market represented just less than half of the total market and it operates at lower volume and higher margin compared to the fleet market. Fleet business is transacted at a higher risk and consumes higher working capital. Accordingly, the Group is highly selective about the business conducted. Prior to the downturn in 2008 the UK new car market was approximately 2.4 million. In the last three years, registrations have averaged over 2.0 million vehicles. During the twelve months to December 2010 UK new car registrations grew marginally, by 1.8%, to 2,031,000 units. The Government sponsored scrappage scheme contributed 108,000 registration units in 2010 and 285,000 in 2009. The underlying new car market grew by 12.5% excluding the impact of scrappage. For the brands we represent, total car registrations grew by 3.1% and the Group’s like for like new car volume increased by 1.0%. Removing the impact of scrappage, underlying car registrations for the brands we represent grew by 12.9% and the Group’s underlying like for like new car volume grew by 14.5%. However, over half the total market registrations are derived from fleet and business activity. The Group reduced fleet activity by 4,097 units in 2010 compared to 2009.

The UK new car retail market, which is the primary focus for Group new car activity, fell by 5.6% in 2010. However, removing scrappage units, underlying retail car registrations increased by 16.7%. In contrast, for the brands we represent, new car retail registrations nationally fell by 3.7% and underlying retail registrations increased by 17.5%. The Group increased new car retail volume by 6.7% and underlying new car retail volume increased by 17.3%. In the UK Pendragon sold 101,000 total new vehicles which equates to 5.0% of the total market (2009: 5.3%). The Group sold 77,000 new retail vehicles which equates to 8.0% of the retail market (2009: 7.3%).

The UK commercial vehicle market, consisting of vans and trucks, had a market size of 257,000 new units in 2010 which was up 16.4% on 2009. The truck market declined modestly year on year so the increase in commercial registrations is entirely attributable to the van sector which represented 223,000 units in 2010. The Group’s commercial vehicle volume like for like...
increased by 5.2% reflecting our strategy not to participate in lower margin higher risk fleet van business.

The Group has a small representation in California for Aston Martin, Jaguar and Land Rover new and used vehicles and aftersales. The USA car market was 11.6 million in 2010, a rise of 11.1% over 2009. As in the UK, Jaguar and Land Rover has performed particularly strongly which has driven profitability for the California business forward in 2010.

The Group also operates in certain ancillary markets. We operate a contract hire and leasing business in the UK. Profits are generated when we sell the used car after it is returned to us at the end of the lease period. Profitability of our leasing business has remained at normal levels, reflecting the stabilisation of the used car market.

In the UK, the market for dealer management software systems is served by three main suppliers and the market opportunity is determined by the number of franchise points. We operate extensively in the UK utilising the ‘Pinewood Technologies’ brand and continue to grow revenue and profitability for the Group. In 2010, further sales were achieved in South Africa which is a new market opportunity for the Group.

OPERATIONAL REVIEW

The Group is divided operationally into eight distinct trading segments. The core vehicle retail businesses consist of two segments, Stratstone and Evans Halshaw, together with our Chatfields truck business and California. Support businesses consist of the following segments: Leasing, Quicks, Pinewood and Central.

During the year the Group closed or sold 25 franchise points which had combined operating losses and closure costs of £6.6 million. When deciding upon franchise point closures, management considers the strategic future of the franchise, the level of losses which will be eliminated, the amount of business which will migrate to adjacent Group owned franchise points and the costs of closure, which will primarily be stock disposal, redundancy and property costs.

We have reduced job roles by 229 on a like for like basis through on-going redundancy exercises to maintain appropriate headcount levels, and through closed businesses by 422. During the year, 129 roles have been added for new businesses relating to Quicks activities. We continue to monitor the scale and mix of our human resource to ensure that suitable resource is in place for existing and future activity levels. The redundancy cost was £1.9 million in 2010 (2009: £2.1 million).

Underlying revenue and operating profit by division for the twelve months ended 31 December is shown below:

<table>
<thead>
<tr>
<th>£m</th>
<th>2010 Operating profit</th>
<th>2009 Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stratstone</td>
<td>1,317.7</td>
<td>29.2</td>
</tr>
<tr>
<td>Evans Halshaw</td>
<td>1,902.9</td>
<td>20.6</td>
</tr>
<tr>
<td>Chatfields</td>
<td>75.0</td>
<td>1.4</td>
</tr>
<tr>
<td>California</td>
<td>159.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Support businesses</td>
<td>79.2</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Underlying gross profit and gross margin by division for the twelve months ended 31 December is shown below:

<table>
<thead>
<tr>
<th>£m</th>
<th>2010 Gross margin %</th>
<th>2009 Gross margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stratstone</td>
<td>178.1</td>
<td>13.5%</td>
</tr>
<tr>
<td>Evans Halshaw</td>
<td>240.3</td>
<td>12.6%</td>
</tr>
<tr>
<td>Chatfields</td>
<td>13.6</td>
<td>18.2%</td>
</tr>
<tr>
<td>California</td>
<td>27.7</td>
<td>17.4%</td>
</tr>
<tr>
<td>Support businesses</td>
<td>36.8</td>
<td>46.5%</td>
</tr>
</tbody>
</table>

The underlying motor retail business is analysed by department as follows:
STRATSTONE

Stratstone is the UK’s leading prestige motor car retailer, with 98 franchise points. Each location sells new and used vehicles and undertakes aftersales service and parts sales. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche, SAAB and Smart. Stratstone also holds four motorcycle franchises.

The luxury automotive sector was the first to enter the recession but was also the first to recover and has performed strongly in 2010. In particular, our Jaguar and Land Rover franchise points have performed strongly in 2010 and contributed to the improvement in profitability in the division. Underlying operating profit has increased by 57% which is due to strong leverage as operating costs have remained flat year on year.

The underlying summary results for the twelve months of the year ended 31 December are as follows:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
<th>Total units sold 000</th>
<th>Gross profit per unit £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing</td>
<td>1,262.9</td>
<td>171.1</td>
<td>13.6%</td>
<td>29.1</td>
<td>2.3%</td>
<td>44.6</td>
<td>1,907</td>
</tr>
<tr>
<td>Disposed</td>
<td>54.8</td>
<td>7.0</td>
<td>12.8%</td>
<td>0.1</td>
<td>0.1%</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td><strong>Total 2010</strong></td>
<td><strong>1,317.7</strong></td>
<td><strong>178.1</strong></td>
<td><strong>13.5%</strong></td>
<td><strong>29.2</strong></td>
<td><strong>2.2%</strong></td>
<td><strong>46.9</strong></td>
<td><strong>2,183</strong></td>
</tr>
<tr>
<td><strong>Total 2009</strong></td>
<td><strong>1,149.1</strong></td>
<td><strong>170.9</strong></td>
<td><strong>14.9%</strong></td>
<td><strong>18.6</strong></td>
<td><strong>1.6%</strong></td>
<td><strong>46.0</strong></td>
<td><strong>1,907</strong></td>
</tr>
</tbody>
</table>

The underlying results by department for the twelve months of the year ended 31 December are as follows:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>2010</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
<th>2009</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aftersales</td>
<td>127.6</td>
<td>75.9</td>
<td>59.4%</td>
<td></td>
<td>140.2</td>
<td>83.1</td>
<td>59.2%</td>
</tr>
<tr>
<td>Used</td>
<td>533.4</td>
<td>45.5</td>
<td>8.5%</td>
<td></td>
<td>443.1</td>
<td>40.6</td>
<td>9.2%</td>
</tr>
<tr>
<td>New</td>
<td>606.7</td>
<td>56.0</td>
<td>9.2%</td>
<td></td>
<td>519.8</td>
<td>47.1</td>
<td>9.1%</td>
</tr>
<tr>
<td>Trade/Wholesale</td>
<td>50.0</td>
<td>0.7</td>
<td>1.4%</td>
<td></td>
<td>47.0</td>
<td>0.1</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,317.7</strong></td>
<td><strong>178.1</strong></td>
<td><strong>13.5%</strong></td>
<td></td>
<td><strong>1,149.1</strong></td>
<td><strong>170.9</strong></td>
<td><strong>14.9%</strong></td>
</tr>
</tbody>
</table>
OPERATIONAL & BUSINESS REVIEW CONTINUED

Revenue increased by 14.7% which was largely due to increases in used and new department turnover. Aftersales revenue reduced on the prior year by 8.9% but the reduction in revenue is wholly attributable to businesses that have closed in the year. Like for like revenue and gross profit in aftersales is flat which is an excellent result given a 7% reduction in the less than three-year old car parc within the Stratstone brands in the last two years. Used volume increased by 1.6% against the prior year and on a like for like basis used volume has increased significantly, by 12.6%. Used margin has fallen slightly year on year as a result of used car prices being stable this year compared to 2009 when prices were rising. Overall the volume increase has outweighed the margin reduction resulting in a gross profit increase of £4.9 million year on year from used cars. The very strong underlying used performance is an output of activities that we began in the Group three years ago and we intend to build further from this position in 2011.

For the brands we represent, total national new car registrations increased by 3.3% and retail new car registrations decreased by 3.7%. In contrast, Stratstone increased total new car volume like for like by 14.1% and retail new car sales like for like by 9.3%. A significant proportion of the new volume and margin improvement in the year has been due to the Land Rover franchise which continues to perform strongly.

Stratstone operating profit bridge

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>£18.6</td>
<td>£29.2</td>
</tr>
<tr>
<td>Aftersales</td>
<td>(£7.2)</td>
<td>£0.7</td>
</tr>
<tr>
<td>Used volume</td>
<td>£4.2</td>
<td>£8.0</td>
</tr>
<tr>
<td>Used margin</td>
<td>£0.9</td>
<td>£0.6</td>
</tr>
<tr>
<td>New volume</td>
<td>£3.4</td>
<td>£0.8</td>
</tr>
<tr>
<td>New margin</td>
<td>£29.2</td>
<td>£29.2</td>
</tr>
<tr>
<td>Trade/Wholesale</td>
<td>£0.6</td>
<td>£0.6</td>
</tr>
<tr>
<td>Operating costs</td>
<td>£8.0</td>
<td>£8.0</td>
</tr>
</tbody>
</table>
Evans Halshaw is the UK’s leading volume motor car retailer, with 130 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Fiat, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

The volume sector has recovered more slowly than the prestige sector but used volume improvements have been significant in 2010 for Evans Halshaw. Evans Halshaw’s underlying operating profit has increased by nearly 45% in the year with a similar leverage impact to that of Stratstone. The Government scrappage scheme was a significant factor in the second half of 2009 and in the first half of 2010 within the volume new vehicle sector.

The underlying summary results for the twelve months of the year ended 31 December are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>1,902.9</td>
<td>1,709.8</td>
<td>193.1</td>
</tr>
<tr>
<td>Gross profit (£m)</td>
<td>240.3</td>
<td>237.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Gross margin (%)</td>
<td>12.6%</td>
<td>13.9%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Operating profit (£m)</td>
<td>120.6</td>
<td>114.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>1.1%</td>
<td>0.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Total units sold ('000)</td>
<td>168.9</td>
<td>162.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Gross profit per unit £</td>
<td>817</td>
<td>815</td>
<td>2</td>
</tr>
</tbody>
</table>

The underlying results by department for the twelve months of the year ended 31 December are as follows:

<table>
<thead>
<tr>
<th>Department</th>
<th>Revenue (£m)</th>
<th>2010 Gross profit (£m)</th>
<th>Gross margin %</th>
<th>2009 Gross profit (£m)</th>
<th>Gross margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aftersales</td>
<td>173.1</td>
<td>102.3</td>
<td>59.1%</td>
<td>185.0</td>
<td>104.7</td>
</tr>
<tr>
<td>Used</td>
<td>618.5</td>
<td>75.9</td>
<td>12.3%</td>
<td>488.3</td>
<td>74.7</td>
</tr>
<tr>
<td>New</td>
<td>938.5</td>
<td>62.7</td>
<td>6.7%</td>
<td>894.2</td>
<td>59.2</td>
</tr>
<tr>
<td>Trade/Wholesale</td>
<td>172.8</td>
<td>(0.6)</td>
<td>(0.4)%</td>
<td>142.3</td>
<td>(1.1)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,902.9</strong></td>
<td><strong>240.3</strong></td>
<td><strong>12.6%</strong></td>
<td><strong>1,709.8</strong></td>
<td><strong>237.5</strong></td>
</tr>
</tbody>
</table>

The Gross margin % 2010 2009:

- Aftersales: 59.1% 56.6%
- Used: 12.3% 15.3%
- New: 6.7% 6.6%
- Trade/Wholesale: (0.4)% (0.7%)

Gross margin (%) 2010 2009:

- Total: 12.6% 13.9%
- New & used units ('000): 168.9 162.9
- PPU (£): 817 815

The underlying summary results for the twelve months of the year ended 31 December are as follows:
It is estimated that the under three-year-old car parc for the major brands we represent in Evans Halshaw has fallen by 5%. Together with the reduction in the car parc, warranty work levels have fallen, but this has been offset by the initial success of our aftersales initiatives resulting in aftersales revenue only falling by 6.4%. Used volume increased by 11.1% against the prior year and on a like for like basis used volume has increased by 12.2% which is a significant improvement. Used margin has fallen slightly, reflecting the very strong margins in 2009 when used car prices recovered strongly. Overall gross profit increased, reflecting the higher used volumes. Similarly to Stratstone, this improvement in performance is attributable to a number of Group activities that we started three years ago which will gain further momentum in 2011.

For the brands we represent, total new car registrations nationally increased by 3.1% and retail new car registrations decreased by 3.7%. Removing the impact of scrappage, underlying total new car registrations increased by 14.8% and underlying retail new car registrations increased by 25.8%. Evans Halshaw like for like total new car volume was down 1.9% due to reduced fleet activity and like for like retail new car sales increased by 5.9%, with underlying total new car volume up 11.1% and underlying retail new car volume up by 17.4%.
Chatfields is our commercial vans and trucks retailer with eight franchise points. Chatfields holds franchises to retail and/or service DAF, Iveco, LDV and Renault. The overall results are impacted by the closure of our Iveco sales franchise points in the first half of 2010. Operating profit for the segment has moved forward by £0.2m in the year. Like for like aftersales revenues and gross profit are flat year on year excluding the impact of the closed franchise points in the year. The combined new and used gross profit per unit has increased from £1.378 to £1.659 in the current year. Overall gross margin has increased year on year to 18.2% from 17.0% in 2009 which is in part a result of the rationalisation of the segment that occurred in the first half of 2010.

The underlying results by department for the twelve months of the year ended 31 December are as follows:

| Underlying       | Revenue (£m) | Gross profit (£m) | Gross margin % | Operating profit (£m) | Operating margin % | Total units sold '000 | Gross profit per unit (£) |
|------------------|--------------|-------------------|................|-----------------------|--------------------|-----------------------|--------------------------|
| **Total 2010**   | 75.0         | 13.6              | 18.2%          | 1.4                   | 1.8%               | 1.4                   | 1.659                    |
| **Total 2009**   | 107.6        | 18.3              | 17.0%          | 1.2                   | 1.1%               | 2.5                   | 1.378                    |
| Aftersales       | 29.7         | 11.3              | 38.1%          | 39.7                  | 14.8               | 1.4                   | 1.659                    |
| Used             | 5.3          | 0.4               | 8.2%           | 6.9                   | 0.5                | 2.0                   | 0.85                     |
| New              | 36.1         | 1.8               | 4.9%           | 58.7                  | 3.0                | 2.0                   | 1.659                    |
| Trade/Wholesale  | 3.9          | 0.1               | 2.0%           | 2.3                   | (0.0)              | 1.0                   | 0.85                     |
| **TOTAL**        | **75.0**     | **13.6**          | **18.2%**      | **107.6**             | **18.3**           | **2.5**               | **1.378**                |
OPERATIONAL & BUSINESS REVIEW
CONTINUED

CALIFORNIA

California consists of nine franchise points in Southern California which operate Aston Martin, Jaguar and Land Rover brands. Turnover increased by 14.2% over 2009, largely as a result of new and used vehicle sales. The used sector has benefited from the Group’s used car initiatives and volume has increased by 10.9%. Overall, gross profit increased by £2.6 million and operating profit by £4.5 million versus 2009 due to the strong used and new performance. Similarly to the UK, the Jaguar and Land Rover brands have been particularly strong in California.

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
<th>Total units sold '000</th>
<th>Gross profit per unit £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 2010</td>
<td>159.5</td>
<td>27.7</td>
<td>17.4%</td>
<td>5.8</td>
<td>3.7%</td>
<td>3.5</td>
<td>4,221</td>
</tr>
<tr>
<td>Total 2009</td>
<td>139.7</td>
<td>25.1</td>
<td>18.0%</td>
<td>1.3</td>
<td>1.0%</td>
<td>3.4</td>
<td>3,337</td>
</tr>
</tbody>
</table>

The underlying results by department for the twelve months of the year ended 31 December are as follows:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>2010 Gross profit £m</th>
<th>Gross margin %</th>
<th>2009 Gross profit £m</th>
<th>Gross margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aftersales</td>
<td>24.3</td>
<td>12.9</td>
<td>53.1%</td>
<td>26.4</td>
<td>13.8</td>
</tr>
<tr>
<td>Used</td>
<td>31.9</td>
<td>2.8</td>
<td>8.8%</td>
<td>24.5</td>
<td>2.1</td>
</tr>
<tr>
<td>New</td>
<td>97.4</td>
<td>12.1</td>
<td>12.4%</td>
<td>86.5</td>
<td>9.3</td>
</tr>
<tr>
<td>Trade/Wholesale</td>
<td>5.9</td>
<td>(0.1)</td>
<td>(1.0)%</td>
<td>2.3</td>
<td>(0.1)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>159.5</td>
<td>27.7</td>
<td>17.4%</td>
<td>139.7</td>
<td>25.1</td>
</tr>
</tbody>
</table>

Gross margin (%) 2010 2009
Aftersales 53.1% 52.2%
Used 8.8% 8.5%
New 12.4% 10.8%
Trade/Wholesale (1.0)% (1.8)%

New & used units ('000) 3.5 3.4
PPU (£) 4,221 3,337
SUPPORT BUSINESSES

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

LEASING

Leasing and contract hire continues to offer a range of products and services mainly to the small corporate and medium fleet market for fleet sizes of up to 1,000 vehicles. The fleet has reduced from 13.6 thousand units in 2009 to 10.1 thousand units in 2010. This reduction in fleet size was due to the lower level of new vehicle contracts that were available in the market place given the broader economic conditions. However, the stabilisation of used vehicle prices resulted in only a small reduction in the segment’s operating profit to £7.5 million, down from £8.0 million in the prior year. The underlying results for the twelve months ended 31 December are shown below:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
<th>Fleet size '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 2010</td>
<td>44.9</td>
<td>9.9</td>
<td>22.1%</td>
<td>7.5</td>
<td>16.7%</td>
<td>10.1</td>
</tr>
<tr>
<td>Total 2009</td>
<td>54.4</td>
<td>10.8</td>
<td>19.9%</td>
<td>8.0</td>
<td>14.8%</td>
<td>13.6</td>
</tr>
</tbody>
</table>

QUICKCO

Quickco is our independent parts wholesale business serving franchise points and wholesale customers throughout the UK. Quickco operates seven different manufacturer franchises, from ten depots across the country, with an extensive fleet of vans making in excess of 60,000 deliveries per month on a same day and next day service. The underlying results for the twelve months ended 31 December are shown below:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 2010</td>
<td>61.9</td>
<td>14.4</td>
<td>23.3%</td>
<td>1.5</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total 2009</td>
<td>67.9</td>
<td>15.4</td>
<td>22.6%</td>
<td>1.7</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

PINEWOOD

Pinewood Technologies, one of three main Dealer Management System (‘DMS’) suppliers in the UK, continues to grow year on year. Pinewood has pioneered the delivery of Software as a Service (‘SaaS’) in the motor industry. Pinewood’s main product is ‘Pinnacle’, a web browser based DMS providing a management reporting suite for motor retailers. The underlying results for the twelve months ended 31 December are shown below:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Revenue £m</th>
<th>Gross profit £m</th>
<th>Gross margin %</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 2010</td>
<td>23.8</td>
<td>16.1</td>
<td>67.0%</td>
<td>9.1</td>
<td>38.4%</td>
</tr>
<tr>
<td>Total 2009</td>
<td>21.2</td>
<td>14.9</td>
<td>70.2%</td>
<td>8.4</td>
<td>39.7%</td>
</tr>
</tbody>
</table>

Pinewood has further developed the integrated Electronic Vehicle Health Check module which has been implemented within the Stratstone and Evans Halshaw divisions. Pinewood has further increased revenue from South Africa following the appointment of a reseller in the region.
Our property portfolio is an important aspect of our business which we seek to utilise in the most cost effective manner. We operate from both leasehold and freehold properties. In addition, through strategic investment choices and the decision to close some franchise points, we have a number of vacant property assets which are held for sale. At 31 December 2010 we held £177.1 million of property assets on the balance sheet as well as £25.1 million of properties held for sale.

In 2010 we disposed of five freehold properties which were operationally surplus to requirements. This resulted in proceeds of £4.1 million and profit of £0.3 million.

Regarding our investment in our joint venture property company the value of this investment continues to be fully impaired. The joint venture was restructured during the year but further conditions must be satisfied before its banking covenants can be reset. The structure is non-recourse to the Group and therefore we have no obligations to the joint venture other than as tenants to pay the rent.

### CASH FLOW

The cash flows of the business are summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying operating profit</strong></td>
<td>75.1</td>
<td>53.4</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>40.0</td>
<td>47.8</td>
</tr>
<tr>
<td>Non-underlying cashflow</td>
<td>(11.3)</td>
<td>(10.7)</td>
</tr>
<tr>
<td>Underlying working capital movement</td>
<td>(59.6)</td>
<td>2.3</td>
</tr>
<tr>
<td>Other items</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>44.8</td>
<td>93.3</td>
</tr>
<tr>
<td>Net interest paid</td>
<td>(36.9)</td>
<td>(46.4)</td>
</tr>
<tr>
<td>Tax (paid) / received</td>
<td>(1.4)</td>
<td>2.3</td>
</tr>
<tr>
<td>Replacement capital expenditure</td>
<td>(13.3)</td>
<td>(15.1)</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>(6.8)</td>
<td>34.1</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(6.5)</td>
<td>(4.0)</td>
</tr>
<tr>
<td>Disposals</td>
<td>9.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Other</td>
<td>(5.8)</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>(Increase) / Reduction in net debt</strong></td>
<td>(10.1)</td>
<td>41.9</td>
</tr>
</tbody>
</table>

Cash flow generated from operations was £44.8 million, which compares with £93.3 million generated in 2009. Underlying operating profit has increased by £21.7 million but net debt has increased by 3% primarily due to the strategic decision to increase inventory and thus working capital requirements. The working capital cash outflow is stated after £15.8 million cash payments made to reduce the deficit in our pension schemes (2009: £1.7 million).

Non-underlying cash outflows, principally comprising costs related to redundancies, closed franchise points and start-up businesses, were £11.3 million.

Non-underlying cash outflows, principally comprising costs related to redundancies, closed franchise points and start-up businesses, were £11.3 million.

There has been a £9.5 million reduction year on year in net interest paid reflecting the cash outflow in 2009 relating to the refinancing completed in April 2009. Taxation paid in the year amounted to £1.4 million.

Replacement capital expenditure was £13.3 million, which includes plant and machinery, fixtures and fittings and motor vehicles (2009: £15.1 million). Expenditure on plant and machinery and fixtures and fittings was £6.8 million (2009: £2.5 million). The balance of the expenditure of £6.5 million (2009: £12.6 million) is in respect of motor vehicles used either for our contract hire fleet or for service loan cars for our customers. Business disposals raised £4.9 million in 2010 (2009: £0.6 million) with nil profit on sale. Surplus property disposals raised £4.1 million (2009: £5.6 million).
The Group views its financial capital resources as primarily comprising share capital, loan notes, bank loans, vehicle stocking credit lines and operating cashflow.

The Group is also responsible for funding the pension deficit and thus the total financial resources required by the Group to fund itself at 31 December comprises:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>323.0</td>
<td>310.6</td>
</tr>
<tr>
<td>Finance leases</td>
<td>2.5</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td><strong>325.5</strong></td>
<td><strong>315.4</strong></td>
</tr>
<tr>
<td>Stock finance</td>
<td>128.8</td>
<td>126.2</td>
</tr>
<tr>
<td>Manufacturer finance arm</td>
<td>338.5</td>
<td>295.3</td>
</tr>
<tr>
<td>Pension deficit</td>
<td>69.7</td>
<td>81.8</td>
</tr>
<tr>
<td><strong>Total funding</strong></td>
<td><strong>862.5</strong></td>
<td><strong>818.7</strong></td>
</tr>
</tbody>
</table>

At 31 December 2010 the Group has made a provision of £5.5 million in respect of assessments raised by HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers and the Group continues to discuss the issue with HM Revenue and Customs. During the year £5.1m has been settled in respect of these assessments.

After strong progress in 2010, we expect to make further performance enhancements in our aftersales and used sectors during 2011 with our key aftersales and used car processes and initiatives. We expect the new prestige sector to continue to perform well in 2011 with the new volume sector facing some turbulence alongside the general economy. The year has started strongly with all areas of the business, aftersales, used cars and new cars, ahead on a like for like basis. Our used car initiatives boosted by increased stock over the Christmas period continue to gain momentum with January volumes up 33% on a like for like basis. We look forward to continuing this positive momentum during 2011.

TREVOR FINN
CHIEF EXECUTIVE
22 February 2011
DIRECTORS & ADVISORS

Mike Davies (63)
Non-executive Chairman (N) (R)
Joined as a non-executive director in 2004 and was appointed non-executive chairman of Pendragon in October 2010. Mr Davies is non-executive chairman of the Royal Mint and Manchester Airports Group PLC. Mr Davies chairs the company’s Nomination Committee.

John Holt (71)
Non-executive Director (A) (N) (R)†
Joined Pendragon in November 1999. He was previously head of Cooper & Lybrand’s (now PricewaterhouseCoopers) computer assurance practice in the North of England. Mr Holt is the senior non-executive director and chairman of the Audit Committee.

David Joyce (62)
Non-executive Director (A) (N) (R)*
Joined Pendragon on 1 March 2006. He is a civil engineer and chief operating officer of Vinci PLC (formerly Norwest Holst Group PLC). Mr Joyce is the chair of the Company’s Remuneration Committee.

Mel Egglenton (54)
Non-executive Director (A) (N) (R)**
Joined Pendragon on 1 December 2010. He is a chartered accountant. He was previously a partner in KPMG LLP Regional Chairman of KPMG Midlands and Senior Partner of its Birmingham practice.

Malcolm Le May (53)
Non-executive Director (A) (N) (R)*
Joined Pendragon on 1 March 2006. He is chief executive officer of Matrix Corporate Capital LLP and a member of the advisory board of Three Delta LLP. His background is in investment banking with a particular interest in commercial property. Mr Le May is also a non-executive director of RSA Group Plc.

Secretary
Hilary Sykes

Registered Office
Loxley House, 2 Oakwood Court, Little Oak Drive
Annesley, Nottingham NG15 0DR
Telephone 01623 725000
Facsimile 01623 725015

Registered number
2304195

Website
www.pendragonplc.com

Registrars
Capita IRG Plc
The Registry, 34 Beckenham Road.
Beckenham, Kent, BR3 4TU

Ian Coull (60)
Non-executive Director (A) (N) (R)**
Joined Pendragon on 1 December 2010. He is a chartered surveyor. Ian is the chief executive of Segro Plc and is a non-executive director of Galliford Try Plc, the construction and house-building group.

Trevor Finn (53)
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.

Martin Casha (50)
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 (46)
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 (50)
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
† retires at the AGM and will not seek re-election
* retiring by rotation at the AGM, proposed for re-election
** retiring following initial appointment, proposed for election at the AGM

Bankers
Barclays Bank Plc
Lloyds TSB Bank plc
Royal Bank of Scotland plc

Stockbrokers
Arden Partners Plc
Citigroup Global Markets Limited

Auditors
KPMG Audit Plc

Solicitors
CMS Cameron McKenna LLP
A detailed review of the Group’s activities and future developments is presented in the Operational and Business Review on pages 2 to 14. We have further consolidated our business during 2010, identifying uneconomical or underperforming franchise points and selling, closing or refranchising these, as appropriate. This is reflected in the number of businesses closed during the year, which is 25 (2009:24). The following summarises, by franchise, the 2010 franchise point closures or disposals:

<table>
<thead>
<tr>
<th>Franchise</th>
<th>Closures / disposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buell</td>
<td>1</td>
</tr>
<tr>
<td>Cadillac</td>
<td>2</td>
</tr>
<tr>
<td>DAF</td>
<td>1</td>
</tr>
<tr>
<td>Ducati</td>
<td>1</td>
</tr>
<tr>
<td>Ford</td>
<td>1</td>
</tr>
<tr>
<td>Harley-Davidson</td>
<td>1</td>
</tr>
<tr>
<td>Honda (motorbikes)</td>
<td>1</td>
</tr>
<tr>
<td>Iveco</td>
<td>3</td>
</tr>
<tr>
<td>Kawasaki</td>
<td>1</td>
</tr>
<tr>
<td>Mercedes-Benz</td>
<td>5</td>
</tr>
<tr>
<td>Smart</td>
<td>2</td>
</tr>
<tr>
<td>Suzuki</td>
<td>1</td>
</tr>
<tr>
<td>Volvo</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>25</td>
</tr>
</tbody>
</table>

In addition, we have opened two Triumph motorcycle franchise points.

The results of the Group for the year are set out in the financial statements on pages 40 to 94. Our borrowings as at 31 December 2010 were £325.5 million compared to £315.4 million at 31 December 2009. As reported in the Operational Review, this higher than planned debt level has resulted from two main factors: the realignment of target used car stock levels and the VAT rate increase immediately after the year end. Whilst these factors have led to an increase in the level of Group indebtedness as at the year end compared with our plans, the focus nevertheless remains on the conservation of cash and reduction of borrowings. The current debt:underlying EBITDA ratio means that a dividend is not appropriate at this stage. Movements in reserves are set out in the Consolidated Statement of Changes in Equity on page 41.

Certain information required by the Companies Act 2006 to be included in the Directors’ Report is contained in the Operational and Business Review Report on pages 2 and 14. The Operational and Business Review principally covers the development and performance of the business and the external environment. Other requisite disclosures are contained within the Directors’ Report, which includes the principal risks and uncertainties affecting the business and corporate social responsibility matters. The Company has not disclosed certain specific non-financial key performance indicators, in the absence of relevant measures monitored consistently over the past three years.

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 key risk factors set out below are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined should be considered in connection with the statement on risk management and systems of internal control in the Corporate Governance Report on page 25. Health and safety is addressed within the Corporate Governance Report on page 27.

**Business Conditions and Adverse Economic Conditions, including Changes in Consumer Confidence and Credit Availability:** The profitability of Pendragon’s businesses is influenced by the economic environment in the United Kingdom, where over ninety per cent of its revenues are generated, and could be adversely affected by a worsening of general economic conditions. Factors such as unemployment levels, the level and volatility of equity markets, consumer confidence, the level of discretionary spending, fuel prices, interest rates, inflation, adverse weather conditions, action taken by the UK Government relating to VAT and the taxation of engine emissions, road usage or fuel for vehicles and the availability and cost of credit could significantly affect the market for the sale of new and used vehicles. An adverse movement in any one or a combination of these factors could have a material negative impact on Pendragon’s trading, financial position and prospects.

**Profitability can be significantly affected by the Level of New Vehicle Production:** A significant proportion of the Group’s income is generated from vehicle manufacturers in the form of programmes designed to incentivise the sale of new vehicles produced. These are typically structured to include a fixed payment once a pre-determined target level of new cars from the manufacturer is registered by a dealership or dealership group. In recent years, these manufacturer sales targets had not been adjusted downward to reflect declining demand levels. This, in turn, required dealers to reduce prices and/or pre-register new vehicles in order to meet the sales targets. Decreasing new car prices also impacts negatively on prices and profit margins for used cars. Although recently manufacturers have, in general, reduced their sales targets to levels more readily achievable by vehicle dealers, there can be no assurance that manufacturers will set realistic sales targets in future.
Vehicle Manufacturer Dependencies: We depend on the vehicle manufacturers’ financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and industrial relations. Although we do not depend on any single vehicle manufacturer, a failure by a manufacturer in the areas noted could, depending on the scale of our representation of its brands, lead to significant losses, especially in the case of the insolvency of a manufacturer. Vehicle manufacturers provide a wide variety of marketing programmes that are intended to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.

Changes to Manufacturers’ Incentive Programmes: We depend on the manufacturers for sales incentives, warranties and other programmes that are intended to promote and support new vehicle sales at our dealerships. Some of these programmes include customer rebates on new vehicles, customer incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicles sales. Manufacturers have historically made changes to their incentive programmes during each year. If manufacturers reduce or discontinue incentive programmes, this could have an adverse impact on our business.

Used Vehicle Prices, and therefore Profit Margins, can Decline Significantly: Used vehicle prices can decline significantly. As a significant proportion of our business comprises used vehicle sales, these declines can have a material impact on our business. The impact of declines in used vehicle prices manifests itself not only through reduced profits on sales, but also through related write-downs in the value of used vehicle inventory.

Franchise Agreements: We operate franchised motor vehicle dealerships. Franchises are awarded to us by the vehicle manufacturers. Failure to continue to hold franchises could result in a significant reduction in the profits of the Group as this would end its rights to source new vehicle stock directly to sell, to perform warranty repairs and display vehicle manufacturer trademarks.

Liquidity and Financing: Liquidity and financing risks relate to our ability to pay for goods and services required by the Group to trade on a day to day basis. We have two main sources of financing facilities: (i) committed borrowing facilities from banks; and (ii) trade credit from suppliers. A withdrawal of financing facilities or a failure to renew them as they expire could lead to a significant reduction in the trading ability of the Group.

Regulatory Compliance Risk: The Group is subject to regulatory compliance risk which can arise from a failure to comply fully with the applicable laws, regulations or codes. Non-compliance can lead to fines, cessation of certain business activities or public reprimand.

Competition: We compete with other franchised vehicle dealerships, independent used vehicle sellers, private buyers and sellers, internet based dealers, independent service and repair shops and vehicle manufacturers who have entered the retail market. We compete for the sale of new and used vehicles, the performance of warranty repairs, non-warranty repairs, routine maintenance business and for the provision of spare parts. The principal competitive factors in service and parts sales are price, utilisation of customer databases, familiarity with a manufacturer’s brands and models and the quality of customer service. We also compete with a range of financial institutions that finance customers’ vehicle purchases directly. Some of our competitors may have greater resources and lower overhead and sales costs. This could lead to our failure to be able to compete and result in a reduction in our profitability.

Reliance on Certain Members of Management and Staff: The Group is dependent on members of its senior management team and skilled personnel and the future financial well-being of the Group could depend in part on our ability to attract and retain highly skilled management and personnel. The loss of the service of a number of such individuals could have a material adverse effect on the business. Additionally, if we fail to recruit and retain skilled staff it may not be possible to continue to grow the Group’s businesses.

Failure of Information Systems: Our businesses are dependent on the efficient and uninterrupted operation of our information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failure, sabotage, vandalism or similar misconduct. Whilst we have put in place contingency and recovery plans in order to mitigate the impact of such failures it can never be certain that these plans could cover every eventuality or situation.

Reliance on the use of Significant Estimates: The Company relies on certain assumptions and estimates that could have a material effect on its financial statements. These include: discounted cash flows for impairment testing, recognition of deferred tax, estimation of VAT provisions, measurement of defined benefit obligations, valuations of properties held for sale, estimates of vacant property provisions, assessment of repurchase commitments, future warranty costs and warranty provisions.

Legislative Changes in Relation to the Distribution and Sales of Vehicles: Pursuant to the Motor Vehicle Block Exemption Regulation (Commission Regulation EC 1400/2002) (“MVBER”), franchise agreements in the motor vehicle franchise sector are regulated by a specific EU competition law regime. The MVBER permits the suspension of the usual competition rules in order to allow efficient, well-equipped pan-European networks of specialised distributors and repairers to be set up. Such a suspension is justified by the relatively high value and technical complexity of a motor vehicle.

For new vehicle franchising, the MVBER expires in June 2013, when both new vehicle distribution and motor repair will be brought under the parallel block exemption covering agreements for the distribution of all types of goods and services. Certain changes as regards specific regulation of the aftermarket have taken effect from June 2010. Limited additional sector-specific provisions, tailored to the motor retail markets, have been put in place. On the whole, these measures reflect a more permissive regime of competition regulation for the primary motor retail market, which could potentially have an adverse effect on franchised business operations.
The directors of the Company are listed on page 15. 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, appear in the Remuneration Report on pages 28 to 37. The Combined Code and the Company’s Articles of Association require directors to retire by rotation or in the case of directors who have served more than nine years, annually. The notice of meeting describes the business of the Annual General Meeting and includes details of those directors proposed for election or re-election. Following the performance evaluation of individual directors, the Chairman has confirmed that those non-executive directors who have served throughout the year and are standing for re-election at this year’s AGM continue to perform effectively and demonstrate commitment to their roles. The directors in question are: Mr D A L Joyce and Mr M J Le May each of whom, being eligible, will stand for re-election. In addition, the non-executive directors Mr I D Coull and Mr M J Egglenton will stand for election, this being the first Annual General Meeting following their appointment. The following executive director will stand for re-election: Mr M S Casha, who retires by rotation. Each of the non-executive directors, Mr M T Davies, Mr J H Holt, Mr M J Le May, Mr D A L Joyce, Mr I D Coull and Mr M J Egglenton considers himself to have sufficient time to commit to the Company’s affairs, notwithstanding other business commitments, and not to have any conflicting interests.

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. The interests of the directors in the share capital of the Company, other than with respect to options to acquire ordinary shares (which are detailed in the Directors’ Remuneration Report) were as follows:

<table>
<thead>
<tr>
<th>Ordinary shares of 5 pence each</th>
<th>Nature of holding</th>
<th>31 December 2010 shares</th>
<th>31 December 2009 shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>T G Finn</td>
<td>Beneficial</td>
<td>17,384,496</td>
<td>17,384,496</td>
</tr>
<tr>
<td>M S Casha</td>
<td>Beneficial</td>
<td>5,101,972</td>
<td>5,101,972</td>
</tr>
<tr>
<td>H C Sykes</td>
<td>Beneficial</td>
<td>1,844,662</td>
<td>1,844,662</td>
</tr>
<tr>
<td>MT Davies</td>
<td>Beneficial</td>
<td>150,000</td>
<td>150,000</td>
</tr>
<tr>
<td>J H Holt</td>
<td>Beneficial</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td>D A L Joyce</td>
<td>Beneficial</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>M J Le May</td>
<td>Beneficial</td>
<td>19,000</td>
<td>19,000</td>
</tr>
<tr>
<td>T P Holden</td>
<td>N/A</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>I D Coull</td>
<td>N/A</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>M J Egglenton</td>
<td>N/A</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

These shares include the investment shares the executive directors have acquired for the purposes of the 2006 Long Term Incentive Plan (“LTIP”) pursuant to awards made in 2006, 2007 and 2008, further details of which appear in the Director’s Remuneration Report.

There have been no changes to the directors’ interests shown between 31 December 2010 and the date of this report.

Appointment and replacement of the Company’s directors: The rules for the appointment and replacement of the Company’s directors are detailed in the Company’s Articles of Association. Directors are appointed by ordinary resolution 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 in the Corporate Governance Report at page 24.

Powers of the Company’s Directors: Subject to the Company’s Articles of Association, 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 Annual General Meeting.

Directors’ Indemnities: The Company’s Articles of Association permit the board to grant the directors indemnities in relation to their duties as directors in respect of liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company which apply to a director 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 directors of an associated company, qualifying third party indemnity provisions and protection against derivative actions.

Compensation for Loss of Office: In the event of a current executive director’s employment with the Company being terminated as a result of a take-over offer or otherwise 50% or more of the Company’s issued share capital being acquired, he is entitled to receive from the Company a sum equivalent to 0.75 times his salary which applied immediately before the take-over event, 0.75 times his available bonus and a sum equal to that proportion of the available bonus which the expired part of the measurement period for annual bonus bears to the whole of such measurement period.

In the event of a current non-executive director’s employment with the Company being terminated as a result of a take-over offer or otherwise 50% or more of the Company’s issued share capital being acquired, he is entitled to one times his annual director’s fees at the rate prevailing immediately before the take-over event. In addition, where a non-executive director has elected to receive part of his fee in the form of vehicle provision, he will be entitled to receive one times the annual cost of the provision and one times the annual cost of the insurance and road tax for such vehicle provision in the event of a take-over.
REPORT OF THE DIRECTORS CONTINUED

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 January 2011 the directors had been advised of the following interests in the shares of the Company:-

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroder Investment Management</td>
<td>74,077,456</td>
<td>11.09</td>
</tr>
<tr>
<td>Odey Asset Management</td>
<td>56,801,089</td>
<td>8.50</td>
</tr>
<tr>
<td>JP Morgan Asset Management</td>
<td>36,521,956</td>
<td>5.47</td>
</tr>
<tr>
<td>Standard Life Investments</td>
<td>36,002,176</td>
<td>5.39</td>
</tr>
<tr>
<td>AXA Framlington</td>
<td>26,000,000</td>
<td>3.89</td>
</tr>
<tr>
<td>Legal &amp; General Investment Management</td>
<td>24,914,436</td>
<td>3.73</td>
</tr>
<tr>
<td>Threadneedle Investments</td>
<td>24,321,999</td>
<td>3.64</td>
</tr>
</tbody>
</table>

SHARE CAPITAL

As at 31 December 2010, the issued share capital of the Company comprised a single class of share capital which is divided into ordinary shares of 5 pence each. Details of the share capital of the Company are set out in note 10 to the Financial Statements of the Company on page 101. The Company issued 6,091,282 new shares during the period under review, relating to the exercise of share warrants issued following the refinancing of the Company in April 2009. The rights and obligations attaching to the Company’s ordinary shares are set out in the Company’s Articles of Association, and briefly summarised below. The Articles of Association may be obtained from Companies House in the UK or by writing 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. 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 the proposal of 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 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 20 below. None of the ordinary shares, including those held by the Employee Benefit Trust, carry 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 of Association of the Company, 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 10 to the Financial Statements of the Company on page 101. 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.
The Company continues to encourage employee share ownership through the provision of a save as you earn (SAYE) scheme, administered by the Yorkshire Building Society (the “Pendragon 1998 Sharesave Scheme” and the “Pendragon 2008 Sharesave Scheme”). As at 31 December 2010, 1,752 team members, representing 19.20% of total team members, participated in the scheme. Share options are exercisable by participating team members upon expiry of either a 3, 5 or 7 year savings contract, at a pre-determined option price. Full details of options remaining under this scheme can be found in note 27 to the financial statements on page 87.

**Shares held by the Pendragon Employee Benefit Trust:** The Company established an Employee Benefit Trust in June 1999 with Investec Trust (Guernsey) Limited. As at 31 December 2010, the trustee held 19,065,983 shares, representing 2.85% of the total issued share capital at that date. These are used to satisfy options under the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme, the Pendragon 1998 Sharesave 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, no 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 Company’s existing Articles of Association 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 this resolution are contained in the notes accompanying the notice of Annual General Meeting. This is a request for the renewal of a similar authority, given by shareholders at the Company’s 2010 AGM.

**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. Whilst some of the franchise agreements contain provisions entitling the vehicle manufacturers to terminate in the event of a change of control, this entitlement is circumscribed by regulation so that generally a vehicle manufacturer cannot terminate where the new controlling entity already holds that manufacturer’s brand of franchise.

- A Facilities Agreement dated 3 December 2005 (as subsequently amended and supplemented by amendment letters dated 3 February 2006, 14 February 2006 and 17 February 2006, an amendment and restatement agreement dated 8 March 2006 and an override agreement dated 30 April 2009) between the Company and its lenders under which the Company’s lenders agreed to make available term and revolving facilities to Pendragon up to an aggregate sum of £340 million (as at 31 December 2010). 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.

- A Loan Note Purchase Agreement dated 25 February 2004 (as subsequently amended and supplemented by an override agreement dated 30 April 2009) in relation to US $110,000,000 9.310% Guaranteed Senior Loan Notes due in 2012, US $67,000,000 9.310% Guaranteed Senior Loan Notes due in 2014 and GBP £17,000,000 Guaranteed Senior Loan Notes due in April 2014. In the event of a change of control, the Company must offer to prepay all outstanding loan notes no more than 90 days and not less than 50 days from the date of the change of control event.

**CORPORATE SOCIAL RESPONSIBILITY**

The Company’s approach to corporate social responsibility is set out on page 26 of the Corporate Governance Report. No political donations were made (2009: £ nil) and the Company does not intend the Company or any member of the Group to make any such donations.
PAYMENTS TO SUPPLIERS

The Group’s policy is to settle the terms of payment to its suppliers when agreeing the terms of the transaction and to abide by those terms, provided it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group has not adopted any specific code or standard on payment practice. The number of days’ purchases outstanding for payment by the Group at 31 December 2010 was 55 days (2009: 65 days). The Company had no trade creditors.

AUDITORS

KPMG Audit Plc has indicated its willingness to continue as independent auditor and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

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
22 February 2011
CORPORATE GOVERNANCE REPORT

Pendragon is committed to maintaining the highest standards of corporate governance, recognising that good governance helps the business deliver its vision of being “the Number One Choice” for all its stakeholder groups, reflected in the following value statements:

**The Pendragon Vision**

to be “the Number One Choice”

**Our Customers**

we provide a good value, personalised service to existing and potential customers

**Our Manufacturers**

we provide quality, brand focussed representation, meeting mutual aspirations of customer retention and sales volume

**Our Suppliers**

we provide long term, profitable partnerships in return for quality service and competitive pricing

**Our Team Members**

we provide secure, satisfying employment, recognising the contribution of each individual to the success of our business

**Our Shareholders**

we provide the best earnings per share performance over a rolling five year view against defined sector competition

**COMPLIANCE WITH UK COMBINED CODE**

The Board is collectively responsible for the long-term success of the Company and for ensuring the Company operates to governance which serves the best interests of the Company. At all times in 2010 the Company complied with the applicable corporate governance provisions: the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the “Code”). This Corporate Governance Report, together with the Directors’ Remuneration Report, provides the information shareholders need in order to evaluate how the Company has applied the principles of corporate governance.

**THE BOARD OF DIRECTORS**

As at 22 February 2011 the Company’s Board is made up of four executive directors and six non-executive directors, one of whom is Chairman. Changes to the membership of the Board during 2010 were: the retirement on 4 October 2010 of Sir Nigel Rudd and the appointment in his place of Mr M T Davies as non-executive Chairman; and the appointment of two new independent non-executive directors, Mr I D Coull and Mr M J Eggleton, on 1 December 2010. There is a clear division of responsibility between the role of non-executive Chairman and Chief Executive. This is recorded in a written statement available on the Pendragon PLC website, and is reviewed and agreed annually by the Board.

**Role of the Board:** The Board sets the strategy of the Company and its individual trading businesses and ensures the Company has in place the financial and human resources it needs to meet its objectives.

There is a written schedule of matters reserved for Board decision. This covers the Company’s policy on acquisitions, investments and divestments, approval of significant capital expenditure and funding proposals, treasury management and taxation policies, annual budgeting and budget monitoring, risk management and the governance of financial management and internal controls, approval of significant changes to accounting policies or practices, financial reporting to shareholders, dividend policy, health and safety, environmental and employment policies, appointments to the Board and to its committees and policies relating to directors’ remuneration and severance. Operating within prescribed delegated authority, such as capital expenditure limits, the operational running of the Company and its businesses is carried out by the executive directors, led by the Chief Executive.

The Board delegates certain of its duties to its Audit, Nomination and Remuneration committees, each of which operates within prescribed terms of reference which are set out on the Company’s website. The responsibilities and composition of the Board’s committees are set out on pages 24 to 25 of this Report and in the Directors’ Remuneration Report.

The Board has evaluated the performance of its committees, for the year under review. The Chairman and the respective committee chairs take responsibility for carrying out any actions recommended as a result of that evaluation.

**Directors’ conflicts of interest:** The Company’s Articles of Association permit the Board to consider and, if it sees fit, to authorise directors’ conflicts of interest. Conflicts of interest can include situations where a director has an interest that directly or indirectly conflicts, or may possibly conflict, with the interests of the Company. The Board operates a formal system for directors to declare at all Board meetings all conflicts of interest. Any so declared are considered by 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. When giving authorisation, or subsequently, they may 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 by decision of the non-conflicted directors at any time.
CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS continued

Meetings and Attendance: Full meetings of the Board are ordinarily held at least every other month. Additional meetings are held as required. Board and Committee members’ attendance is detailed in the table below, reflecting those meetings the director was eligible to attend and the number actually attended.

<table>
<thead>
<tr>
<th>Director</th>
<th>Board</th>
<th>Audit</th>
<th>Remuneration</th>
<th>Nomination</th>
</tr>
</thead>
<tbody>
<tr>
<td>MT Davies (A, N**, R)</td>
<td>9 / 10</td>
<td>3 / 5</td>
<td>1 / 1</td>
<td>3 / 4</td>
</tr>
<tr>
<td>Sir Nigel Rudd (N, R) retired 4 October 2010</td>
<td>5 / 8</td>
<td>N/A</td>
<td>1 / 1</td>
<td>2 / 3</td>
</tr>
<tr>
<td>JH Holt (A**, N, R)</td>
<td>10 / 10</td>
<td>5 / 5</td>
<td>2 / 2</td>
<td>4 / 4</td>
</tr>
<tr>
<td>DAL Joyce (A, N, R**)</td>
<td>10 / 10</td>
<td>5 / 5</td>
<td>2 / 2</td>
<td>4 / 4</td>
</tr>
<tr>
<td>MJ Le May (A, N, R)</td>
<td>5 / 10</td>
<td>3 / 5</td>
<td>1 / 2</td>
<td>3 / 4</td>
</tr>
<tr>
<td>ID Coull (A, N, R)^</td>
<td>1 / 1</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>MJ Egglenton (A, N, R)^</td>
<td>1 / 1</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>TG Finn</td>
<td>10 / 10</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>MS Casha</td>
<td>9 / 10</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>HC Sykes</td>
<td>10 / 10</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>TP Holden</td>
<td>10 / 10</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(A) Audit, (N) Nomination, (R) Remuneration committee members.
^ Indicates chairmanship of a committee at the date of this report.
* Attendance is displayed showing the number of meetings attended out of the total directors were eligible to attend e.g. 10/10 means 10 out of 10 of the meetings held were attended.

Balance and independence: The non-executive directors complement the skills and experience of the executive directors, providing the requisite degree of independent judgement and scrutiny to the decision-making process at Board and committee level. All non-executive directors, including the Chairman, are determined by the Board to be independent. Mr JH Holt is the senior independent director.

During the year a selection process for two new independent non-executive directors has been conducted, and is reported on under “Nomination Committee” on page 24 below. The new independent non-executive directors were appointed on 1 December 2010, improving the balance and independence of the Board.

The Code contains a presumption that a director who has served on the Board for more than nine years has, by virtue of long service, ceased to be independent. However, this presumption is rebuttable. The Board has considered the independence of Mr JH Holt, who joined the Board in November 1999, finding that, notwithstanding his length of service, Mr Holt has, throughout the year, remained independent in character and judgement and remains fully committed to his role. Mr-Holt would normally retire from the Board on an annual basis and seek re-election. This year he retires and remains fully committed to his role. Mr Holt would normally retire from the Board on an annual basis and seek re-election. This year he retires and remains fully committed to his role.

The Board maintains and regularly reviews a register of all interests, offices and appointments which are material to be considered in the assessment of the independence of directors and 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.

Operation of the Board: The Board operates to a standing agenda which ensures that all matters reserved for its decision are dealt with in an appropriate manner; and all matters requiring regular or annual review receive adequate scrutiny and debate. Detailed information papers are circulated to directors before meetings. All meetings of the Board are structured to allow open discussion by all directors and to ensure that no single individual or group dominates the decision-making process. The Chairman holds meetings with the non-executive directors without the executive directors present when he deems it appropriate. In addition to formal meetings of the Board, informal meetings to familiarise with particular operations, address strategic matters or discuss new developments are held as appropriate. The Company Secretary attends all Board meetings and is responsible for advising the Board and its committees on corporate governance and matters of procedure, as well as facilitating the flow of information within the Board. All directors have access to the services of the Company Secretary and may take independent advice at the Company’s expense, as well as requesting information from the Company to enable informed judgements to be made and duties adequately discharged.

Performance Evaluation: The Board annually reviews its composition and that of its committees, together with the respective contribution of each director. The process for evaluating the performance of the Chairman and non-executive directors, the Board committees and the Board as a whole is well-established. It considers the adequacy and appropriateness of the skill-set of the Board, taking into account new developments in the Company’s business and strategy and the range of experience and expertise represented. The evaluation also considers the responsibilities of each director’s role as set out in the Code, including capability and time commitment. For the year under review, the non-executive directors, led by the senior non-executive director and assisted by the chief executive, have reviewed the performance of the other executive directors, the non-executive directors have reviewed the performance of the chief executive, and the Board has reviewed the performance of the non-executive directors. The senior non-executive director has met with the other non-executive directors without the Chairman present, to conduct the annual appraisal of the Chairman’s performance.
The latest Board evaluation process concluded that the Board and its committees were operating effectively, with clear demarcation of the respective responsibilities of individual directors and Board committees. The Board is satisfied that the Chairman and non-executive directors are each able to devote the amount of time required to attend to the Company’s affairs and his duties as a Board member.

Re-election of Directors: In accordance with the Company’s Articles of Association, all newly appointed directors are subject to election at the first Annual General Meeting following their appointment. Mr I D Coull and Mr M J Eggleton will therefore offer themselves for election at the 2011 AGM. All directors seek re-election by rotation at least once every three years.

Remuneration Committee: The Committee is composed of the non-executive directors. Until 4 October 2010 its chairman was Mr M T Davies. It is now chaired by Mr D A L Joyce. Mr Davies continues as a member of the Committee. Details of the work and approach adopted by the Committee are set out in the Directors’ Remuneration Report on pages 28 to 37.

Audit Committee: The Committee is chaired by Mr J H Holt, who is regarded by the Board as having recent and relevant financial experience. Its members are the non-executive directors (except the Chairman) and it meets at least four times a year. The Company’s finance director, head of internal audit and representatives of its external auditors attend its meetings, at the Committee Chairman’s discretion.

The Committee’s meetings in quarters one and three are timed to coincide with the Company’s reporting timetable for its audited financial statements and unaudited interim condensed financial statements respectively. The Committee considers the drafts of the financial statements and preliminary and interim results announcements. It also considers the reports of the external auditors on the unaudited interim condensed financial statements and the full-year audited Financial Statements. The meetings held in quarters two and four are concerned primarily with the review of the Company’s systems of control and their effectiveness, the external audit plan for the year, the audit fee and significant corporate governance issues, such as those relating to the regulation of financial services.

The Committee met five times in 2010. It has reviewed the effectiveness of the Company’s system of internal financial control and risk management during the year ended 31 December 2010. This review has included consideration of detailed reports from both the internal and external auditors and from the Company’s Risk Control Group, including the review of the Company’s key risks register. The Audit Committee has reported the results of its work to the Board, and the Board has considered these reports when reviewing the effectiveness of the Group’s system of internal control, which forms part of the Board’s high level risk review performed during the year.

The Audit Committee has reviewed the Company’s arrangements for its employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting, suspected fraud and dishonest acts or other similar matters, commonly known as “whistleblowing”. The Committee reviews at least twice a year all matters reported under the Company’s whistleblowing arrangements, together with any follow-up action taken.
It also reviews the effectiveness of the Company’s procedures for the reporting and recording of suspected improprieties, fraud and dishonest acts. As part of its regular monitoring activities during the year, the Committee reviewed and approved amendments to the Company’s procedures, in particular regulated activities in the areas of fraud, theft and bribery, whistleblowing and money laundering. The Company’s Anti-Fraud, Theft and Bribery Policy and Anti-Money Laundering Policy are available on the Company’s website.

The Committee has considered the Company’s policy on the use of the Company’s auditors to provide non-audit services. 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 Company does not exclude its auditors from tendering for and undertaking non-audit services in areas considered by the Committee to be appropriate. The Company does not award contracts for non-audit services to the Company’s auditors where there is any perceived conflict of interest. Where appropriate, procurement of non-audit services is market tested through a formal tender process.

During the year, the Committee chairman has carried out an evaluation of the Company’s external auditor KPMG Audit Plc, and reviewed the effectiveness of the external audit process and reported his findings to the Committee. The review concluded that the external auditors were performing their functions effectively and the Committee recommended to the Board that they be re-appointed.

The Committee has also reviewed the independence and objectivity of the external auditor, where engaged in the provision of non-audit services. A full statement of the fees paid to KPMG Audit Plc and KPMG LLP for audit and non-audit services is provided in note 3 to the Financial Statements on page 62. The Committee has concluded that the external auditor firm’s provision of non-audit services has not impaired audit independence.

The directors are satisfied that the Group is in a sound financial position, with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed budgets and other financial information. The financial statements of the Group have therefore been prepared on the basis that the Group is a going concern. For further information concerning the Group’s liquidity and financing risk, see page 17 of the Operating and Business Review and note 1 to the Financial Statements, together with the directors’ assessment of going concern.

The Board is responsible for risk management and internal control within the context of achieving the Group’s objectives. The Board has used a risk-based approach in establishing a robust internal control system. 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. Operational management is charged with responsibility for identifying and evaluating the risks facing the Group’s businesses on a day-to-day basis, considering all financial, transactional, technological, political, regulatory, reputational, socio-economic and physical risks. Operational management is supported in this role by the Risk Control Group which is made of three executive directors and the Group’s head of IT, and supplemented by co-option of senior audit, HR, IT and Compliance personnel, as required from time to time.

The Board has performed a high level risk assessment during the year. Major commercial, technological and financial risks are assessed, taking into account any adaptations made during the year to the Company’s business strategies. The Audit Committee monitors the work of the Risk Control Group, which oversees the effective implementation of new measures designed to mitigate or meet any specific commercial and other risks or threats. The Risk Control Group’s work during the year has not identified any weakness in controls which would have a material effect on the Group’s business.

The Group consists of two principal operating divisions, Evans Halshaw for volume franchises and Stratstone for luxury franchises, together with six ancillary divisions (Pinewood, Quickco, California, Chatfields, Leasing and Central). Evans Halshaw and Stratstone are divided by brand into distinct franchise groups, each headed by a National Franchise Director. National Franchise Directors participate in monthly operational meetings, chaired by the respective Evans Halshaw and Stratstone divisional managing directors. The Chief Operating Officer holds monthly operational meetings with the leaders of the non-motor business divisions. At each operational review meeting business performance and the effectiveness of key operating controls are considered.
**CORPORATE GOVERNANCE REPORT CONTINUED**

**MANAGEMENT STRUCTURE continued**

**Investor Relations:** The Board as a whole takes responsibility for ensuring that the Company is engaged in dialogue with shareholders which is constructive and fosters mutual understanding of the Company’s and shareholders’ objectives. In the main, shareholder communication is based around analyst/shareholder visits at key points in the financial reporting year, conducted by the Chief Executive and the Finance Director. The directors believe this to be the most practical and efficient way of communicating on matters such as strategic direction, financial performance, underlying market conditions and operational issues. The Chief Executive and Finance Director feed back any investor comments to the Board. The respective chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee are available to answer shareholders’ questions at the Company’s Annual General Meeting (“AGM”).

**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 questions from shareholders 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 are despatched to shareholders, together with the Notice of AGM, giving the requisite period of notice. The business being proposed at the AGM will be summarised in the Notice of AGM, which will be issued to shareholders giving not less than the requisite period of notice.

**CORPORATE SOCIAL RESPONSIBILITY**

**Involvement and Development:** The Group continues to recognise the importance of good communications and relations with its team members, since its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of team members throughout the Group. Team members are encouraged to develop their contribution to the business wherever they work. Programmes focused on quality and customer service provide an opportunity for everyone to be involved in making improvements and in developing their own skills to that end. The Company has been awarded Investors in People accreditation, first achieved in 1999, and renewed in 2006 and 2009.

**Share schemes and incentives:** Team members’ share ownership is encouraged through the Company’s Sharesave scheme, which attracts membership from all levels within the business. A variety of bonus schemes also provide team members with rewards linked to the growth and prosperity of the business. At 31 December 2010 a total of 1,840 team members (20.16%) participated in ownership of shares and/or schemes linked to the Company’s share performance (2009: 34.75%).

**Communication:** The challenges presented by the size of the Group and the importance of consistency drive the Company to devise and implement ever more innovative and timely means of communication. Video, internal website messaging and face to face presentations as well as electronic newsletters keep team members up-to-date with the Company’s strategy and performance. The Group’s leaders channel these communications. Regular briefings for all team members, held 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. During the year, the Company has increased the breadth and variety of incentive programmes aligned to its business objectives and experienced increased team member engagement with these programmes.

**Community:** As a multi-site, predominantly retail operator, the Group generates its community involvement through its local businesses. These contribute to their local areas in a variety of ways. At a national level, the Group is a sponsor and fundraiser for “Sparks”, the children’s medical research charity. In addition, individual team members and the Group’s local businesses organise charity events to support local schools, hospitals and a wide variety of charities as well as Comic Relief and the BBC’s Children in Need Appeal. The Company supports and encourages these activities and welcomes the opportunities they present for team-building within the businesses and engagement with the communities they serve.

**Environment:** 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. The Company’s 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 the Company has continued to be registered with and has complied with its obligations under the Department of the Environment’s carbon reduction commitment scheme. The Company’s statement of environment policy is available on the Pendragon PLC website.
The Company recognises its responsibility to all team members and others working in or visiting its facilities to provide, so far as is reasonably practicable, an environment which is safe and without risk to their health. The Company’s policy is to identify all potential hazards and assess the risks presented by its 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 to their own and others’ health and safety. The Company promotes awareness of potential risks and hazards and implementation of corresponding preventative or remedial actions through its online health and safety systems, operations manuals and regular communication on topical issues. A clear hierarchy of responsibility is published to team members and reinforced through regular monitoring by a variety of means. The Company’s health and safety policy is available on the Pendragon PLC website.

The Company encourages its team members to report all accidents and near misses, whether serious or not. This allows the Company to conduct suitable investigations, carry out any relevant corrective action and to assess the need for any new (or adaptations to existing) controls.

Diversity and Equal Opportunities: The Company is an equal opportunity employer and is committed to ensuring that our workplaces are free from unlawful or unfair discrimination within the framework of the law.

Pendragon aims to ensure that its team members achieve their full potential and that all employment decisions are taken without reference to irrelevant or discriminatory criteria throughout the whole of the recruitment, selection and employment. The Company’s diversity and equal opportunities policy is available on the Pendragon PLC website.
REMUNERATION COMMITTEE

At 31 December 2010, the Remuneration Committee was composed of the non-executive directors Mr D A L Joyce (Chairman), Mr M T Davies, Mr J H Holt, Mr M J Le May, Mr I D Coull and Mr M J Egglenton (the “Committee”). The Committee meets at least once a year and otherwise as often as is necessary to discharge its duties. During 2010, it met twice. Within the policy set by the Board, the Committee determines the remuneration packages of the executive directors and of the Chairman. It liaises with the Nomination Committee to ensure that the remuneration packages for any new directors are consistent with the Company’s overall remuneration policy. No director participates in deliberations concerning his own remuneration. The Committee also sets the performance targets for any performance related incentives applicable to executive directors, and determines the policy for, and scope of, their pension arrangements and service contract terms relating to benefits in kind and severance. The Committee is also responsible for ensuring the Company gives due regard to best practice and complies with all applicable regulation in matters of executive remuneration. Members’ attendance is set out on page 23 of the Corporate Governance Report. The Committee operates within specific terms of reference, which are available on the Company’s website.

During the year, the Committee considered all aspects of executive directors’ remuneration and also determined the remuneration of the incoming Chairman of the Company.

REMUNERATION POLICY

Executive directors’ remuneration policy

The Company’s policy on executive directors’ remuneration recognises the need to attract and retain directors with levels of remuneration that are arrived at responsibly and also reflect their individual contribution and value to the Company.

The remuneration policy is designed to ensure that executive directors’ incentive arrangements have the potential to provide a greater reward than base salary in return for demonstrable performance.

To ensure an ongoing strong connection between reward and performance, all incentive arrangements are linked directly to business specific measures and the performance criteria set for full vesting of incentives are suitably challenging.

Executive directors’ remuneration is made up of several elements, some of which are a fixed entitlement and some performance related. Every year the Committee reviews the balance of fixed and variable pay. In 2010 it remained satisfied that the appropriate balance has been achieved.

Fixed remuneration: The fixed elements of the remuneration package are:

- Base salary: set by the Committee on appointment and thereafter reviewed annually. The levels are set, and any changes upon review are determined, by reference to the individual’s skill, experience, responsibilities and contribution.

- Benefits: the executive directors receive life assurance, private health cover, professional subscription costs, a contribution to home telephone costs and the provision of one fully expensed car. They can also opt to receive a second car, provided at the Company’s expense, save as to fuel costs.

- Pensions: new executive directors are eligible to participate in the Company’s defined contribution pension scheme. The Company’s contribution is set in individual cases and for the current eligible director, Mr T P Holden, continues to be 10% of his basic salary. Mr Finn, Mr Casha and Miss Sykes participated in the Company’s defined benefits pension scheme before withdrawing from it in 2006. Each of them continues to receive a payment in lieu of pension contribution equivalent to circa 26% of their base salary. This payment is not consolidated into the base salary for the purposes of any incentive or variable pay arrangements, and will be monitored as a percentage of base salary. Mr Casha and Miss Sykes remain entitled to a deferred pension, calculated up to the date of leaving the pension scheme, as set out on page 36.

2010 summary

The base salary review in 2010 decided that, in view of the continued difficult economic climate, it was not appropriate to increase executive directors’ base salaries. The Committee remained satisfied that the salaries (which remain at 2007 levels) are appropriate. No changes to benefits or pension-related entitlements were made during the year under review.

Variable remuneration

Executive directors’ variable remuneration, all of which is performance related, may be made up of a combination of elements.

Each year, the Committee’s work involves:

(a) assessing the extent to which performance measures for existing performance-related awards have been met, and determining the extent to which such awards should vest, according to their terms, and having regard to the Company’s short and long term business objectives

(b) selecting the types and proportions of performance-related rewards which best incentivise the achievement of those objectives, setting appropriate performance measures and vesting periods, and making awards accordingly.

Within the Company’s remuneration policy, the following types of variable remuneration are available: annual performance related pay, market value share options and a long-term incentive plan entailing the award of fully-paid shares. Each is described in detail on page 29 below.
Annual performance related pay (“PRP”): there was no change to the policy established in 2009, performance related pay awards being limited to a maximum of 100% of salary, payable on achievement of the two declared performance measures: EBITDA (50%); and year end closing net debt (50%). These targets have been set in the context of the Company’s business plan for 2010, adopted for the purposes of its April 2009 refinancing exercise and which, as such, underwent external scrutiny at that time. The Committee remains of the view that for 2010, the two performance measures remained appropriate, as they continued to align executive performance with the 2010 business plan. EBITDA and debt continue to be key annual performance indicators for the Company. These reflect the interests of shareholders in the short term and are aligned to the business plan adopted in 2009.

The performance for 2010 reflected full achievement of the EBITDA target and partial achievement of the net debt target within the anticipated range, and accordingly, the executives were awarded 75% of the available performance-related award.

The Committee is comfortable with the level of bonuses being payable, given the rigour, detailed analysis and external scrutiny applied in setting the basis for the targets and the level of stretch applied for achievement of the maximum available entitlement.

Market Value Share Option Awards: as explained in the 2009 Report, consideration of long term incentive awards linked to the market value of the Company’s shares was deferred until 2010, owing to the unusual levels of share price volatility experienced in 2009. In addition to the conventional executive share option schemes traditionally available within the Company, shareholder approval was gained in 2009 for a new executive shared ownership plan, known as the ExSOP. In 2010, the Company made ExSOP awards for the first time. No awards were made in 2010 to executive directors under the Company’s conventional executive share option schemes, as each opted for an ExSOP award. The Company offers these as two alternative award types, not cumulatively. The ExSOP operates to align executive director incentives to the Company’s longer term strategic goals. ExSOP awards granted in 2010 are detailed on page 33 below.

Long Term Incentive Plan: Although the Company currently still has available its long term incentive plan (“LTIP”), first adopted in 2006, the Committee has concluded that market value share options should be the currency of long term incentive awards. Accordingly, no awards under the Company’s LTIP have been made since 2008. Details of the LTIP together with information on outstanding awards made in previous years, appear on pages 31 to 32.

TAKEOVER TERMINATION PAYMENTS

As signalled in the 2009 Report, during the year the Committee reviewed the Company’s policy on executive directors’ contracts, under which a termination payment is to be made in the event their employment ends as a consequence of a take-over. It was concluded that the inclusion of such a provision in future appointment terms does not accord with best practice. The Committee has recommended to the Board that contracts for new appointees, whether in an executive or non-executive capacity, should not include such a provision.

NON-EXECUTIVE DIRECTORS’ REMUNERATION POLICY

The Board reviews annually the Company’s policy on non-executive directors’ remuneration and did so during 2010. Non-executive remuneration continues to be confined to payment of fees. There is no performance related element of non-executive directors’ remuneration. Any non-executive director may opt to receive the provision of a motor vehicle for his use, fully expensed save as to fuel, as a benefit in kind instead of part of his annual fees.

Following the 2010 review, and in conjunction with the appointment of two new non-executive directors, fees for non-executive directors were increased to £40,000 a year, effective from 1 December 2010. In line with accepted practice, additional annual fees are paid to the respective chairmen of the Audit Committee and Remuneration Committee and to the senior independent director, reflecting the additional work required of these roles.

The Board considers the remuneration of each of the non-executive directors to be consistent with the time commitments associated with their functions and duties and wider market practice among companies of a comparable size. Committee chairmen’s annual fees, and the fees payable to the Chairman of the Company, were considered to be appropriate for 2010.

CHAIRMAN’S ANNUAL FEES

Led by the senior independent director, the Committee determined the level of annual fees for the office of Chairman of the Company, effective on the appointment of Mr M T Davies to the role in October 2010. Mr Davies played no part in the discussion of the level of his fees.

Details of all fees paid to non-executive directors in 2010 appear in the table on page 35.
The performance related award scheme to which the Company has operated in recent years allows executive directors to earn up to 100% of basic salary in any one year, calculated on a sliding scale, depending on achievement of the targets set for the year in question. Performance related pay is not pensionable. No change to the basic design of the scheme was made in 2010, with 50% being available for achieving a defined EBITDA target and a further 50% for achieving a year end net debt target.

The Company’s policy on equity-based incentive awards for executive directors and below Board executives was formed following the Committee’s 2009 review of the range of award schemes available to the Company. It concluded that the Company should maintain the flexibility to make incentive awards to executive directors under conventional approved and unapproved market value share option schemes, subject to suitably stretching performance targets. With shareholder approval, obtained at the 2009 AGM, the Company refreshed its conventional market value share option plans and added a new joint ownership share plan, the "ExSOP". Summary details of each of these plans appear on page 31 below.

The Committee’s grant policy is to enable executive directors to choose to receive awards under either the conventional market value option plan ("the 2009 Pendragon Approved and Unapproved Option Plans") or the ExSOP (which has a similar economic effect to a market value option). Irrespective of the plan used, the same challenging performance targets will apply.

In 2009 the Company reported its decision not to make any market value share incentive awards to executive directors that year, owing to the unusual volatility of the Company’s share price in that period. As a result, the making of such awards was delayed until March 2010. Use of market value options is still considered appropriate, as it focuses executives on achieving share price growth in tandem with challenging targets linked to the long term business plan of the Company. Performance conditions for any equity incentive awards will continue to be set at the time of the award, at levels which ensure that the incentives encourage enhanced performance in the short and medium term, as well as the achievement of the Company’s longer term strategic goals.

Following consultation with shareholders, the 2010 awards to executive directors were made subject to a challenging sliding scale of EPS targets designed to ensure that executives are incentivised to grow earnings and the share price in tandem. Executive directors were offered the choice of awards either under the conventional share option plans or the ExSOP and each chose the latter. The targets adopted are set out in the table below, with the awards made recorded in the table below at page 33.

<table>
<thead>
<tr>
<th>ExSOP Performance Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Cumulative Adjusted EPS</td>
</tr>
<tr>
<td>Below 9.7p</td>
</tr>
<tr>
<td>9.7p</td>
</tr>
<tr>
<td>11.7p</td>
</tr>
</tbody>
</table>

Straight-line vesting between performance points. Cumulative Adjusted EPS will be calculated by adding together the adjusted EPS for each of the financial years ending 31 December 2010, 2011 and 2012. If the performance condition is not satisfied, none of the ExSOP shares will vest.

During the year, both Sir Nigel Rudd (until his retirement in October 2010) and thereafter Mr M T Davies, as well as Mr T G Finn, provided internal advice to the Committee but not in respect of their own pay. In addition, throughout the year, external advice was received from Pinsent Masons LLP and Hewitt New Bridge Street. The secretary to the Committee is Richard Maloney, the Group Solicitor.
When assessing the extent to which awards of any type of incentive vest, the audited results of the Company are considered in relation to targets set against internal financial measures of performance (typically EPS). Any adjustments are reviewed by the Company’s auditors and relative TSR (which is relevant to LTIP performance), is tested by an external provider. The results are reviewed by the Committee.

The Company operates two distinct types of market value share plan: conventional executive share options, which have featured throughout the Company’s history, the current plans having been approved by shareholders at the Company’s 2009 AGM; and the new ExSOP joint ownership share plan, first introduced after receiving shareholder approval in 2009. Each is described below.

**Share Options** All senior team members are eligible to participate in the Pendragon 2009 Approved Executive Share Option Scheme and the Pendragon 2009 Unapproved Executive Share Option Scheme (“Schemes”).

The Pendragon 2009 Approved Share Option Scheme is a HM Revenue & Customs (“HMRC”) approved discretionary share option plan. Under this, share options can be granted to team members over shares with an initial market value of up to £30,000. The earliest exercise date is usually three years from grant. Upon exercise, if there has been growth in value of the shares in the period since the date of grant, any gain made qualifies for exemption from income tax and national insurance contributions.

The Pendragon 2009 Unapproved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under a HMRC approved scheme up to the £30,000 limit.

The executive directors continue to be eligible to participate in the Schemes, although none has received awards under the Schemes in 2010. The executive directors also continue to be eligible to participate in the Company’s all-employee sharesave scheme on the same terms as all other team members. Details of executive directors’ outstanding and unexercised share option and sharesave awards appear on page 33 below.

**The Pendragon 2009 Approved Share Option Scheme** The Pendragon 2009 Approved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under a HMRC approved scheme up to the £30,000 limit.

The executive directors continue to be eligible to participate in the Schemes, although none has received awards under the Schemes in 2010. The executive directors also continue to be eligible to participate in the Company’s all-employee sharesave scheme on the same terms as all other team members. Details of executive directors’ outstanding and unexercised share option and sharesave awards appear on page 33 below.

**The Pendragon 2009 Unapproved Executive Share Option Scheme** The Pendragon 2009 Unapproved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under a HMRC approved scheme up to the £30,000 limit.

The executive directors continue to be eligible to participate in the Schemes, although none has received awards under the Schemes in 2010. The executive directors also continue to be eligible to participate in the Company’s all-employee sharesave scheme on the same terms as all other team members. Details of executive directors’ outstanding and unexercised share option and sharesave awards appear on page 33 below.

**Pendragon 2009 Executive Shared Ownership Plan (“ExSOP”)** The ExSOP is a new form of selective incentive plan approved by shareholders in 2009 under which the first awards were made in 2010. The ExSOP enables the grant of awards in a potentially more tax-efficient manner for participants, as referred to in last year’s Report.

The Pendragon 2009 Approved Executive Share Option Scheme is a HM Revenue & Customs (“HMRC”) approved discretionary share option plan. Under this, share options can be granted to team members over shares with an initial market value of up to £30,000. The earliest exercise date is usually three years from grant. Upon exercise, if there has been growth in value of the shares in the period since the date of grant, any gain made qualifies for exemption from income tax and national insurance contributions.

The Pendragon 2009 Unapproved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under a HMRC approved scheme up to the £30,000 limit. The executive directors continue to be eligible to participate in the Schemes, although none has received awards under the Schemes in 2010. The executive directors also continue to be eligible to participate in the Company’s all-employee sharesave scheme on the same terms as all other team members. Details of executive directors’ outstanding and unexercised share option and sharesave awards appear on page 33 below.

**MARKET VALUE SHARE INCENTIVES**

The Pendragon 2009 Approved Share Option Scheme is a HM Revenue & Customs (“HMRC”) approved discretionary share option plan. Under this, share options can be granted to team members over shares with an initial market value of up to £30,000. The earliest exercise date is usually three years from grant. Upon exercise, if there has been growth in value of the shares in the period since the date of grant, any gain made qualifies for exemption from income tax and national insurance contributions.

**POLICY ON VESTING OF AWARDS**

When assessing the extent to which awards of any type of incentive vest, the audited results of the Company are considered in relation to targets set against internal financial measures of performance (typically EPS). Any adjustments are reviewed by the Company’s auditors and relative TSR (which is relevant to LTIP performance), is tested by an external provider. The results are reviewed by the Committee.

**The Pendragon 2009 Approved Executive Share Option Scheme** The Pendragon 2009 Approved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under a HMRC approved scheme up to the £30,000 limit.

The executive directors continue to be eligible to participate in the Schemes, although none has received awards under the Schemes in 2010. The executive directors also continue to be eligible to participate in the Company’s all-employee sharesave scheme on the same terms as all other team members. Details of executive directors’ outstanding and unexercised share option and sharesave awards appear on page 33 below.

**Pendragon 2009 Executive Shared Ownership Plan (“ExSOP”)** The ExSOP is a new form of selective incentive plan approved by shareholders in 2009 under which the first awards were made in 2010. The ExSOP enables the grant of awards in a potentially more tax-efficient manner for participants, as referred to in last year’s Report.

**LONG TERM INCENTIVE PLAN (“LTIP”)**

The Pendragon Long Term Incentive Plan (“LTIP”), first adopted in 2006, affords executive directors the potential to receive, after a pre-set vesting period, fully paid shares in the Company (“Performance Shares”); and to enhance the number of shares they receive, by making their own investment in the Company’s shares, up to the total amount of their performance related pay awards for the preceding year; which the Company’s award will then match (“Matching Shares”), in each case after successful completion of a prescribed performance period. The extraordinary market and economic conditions of 2008 and 2009 have rendered the performance conditions for all LTIP awards made to date either difficult or unattainable.

The maximum Performance Share award is the equivalent of 100% of the executive’s annual base salary. Performance Share awards may be made irrespective of whether the executive chooses to invest in the Company’s shares to achieve a Matching Shares award.

Eligibility for Matching Shares under the LTIP arises if the executive invests his annual performance related pay or other personal resources in Pendragon shares (“Investment Shares”). The maximum permitted executive investment is 100% of salary. The Company then “matches” any Investment Shares purchased, by making an award over shares with the same pre-tax value as the amount used to buy the Investment Shares. The maximum amount of Performance Share and Matching Share awards that can be made in one year is therefore 200% of base salary.
Both types of LTIP Award are subject to the same adjusted earnings per share ("EPS") growth targets:

<table>
<thead>
<tr>
<th>EPS growth per annum</th>
<th>Vesting percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than RPI + 4%</td>
<td>0%</td>
</tr>
<tr>
<td>RPI + 4%</td>
<td>30%</td>
</tr>
<tr>
<td>RPI + 10% or more</td>
<td>100%</td>
</tr>
<tr>
<td>between RPI + 4% and RPI + 10%</td>
<td>straight-line vesting between 30% and 100%</td>
</tr>
</tbody>
</table>

Adjusted EPS has been used because it is a key internal measure of long term company performance.

Vesting conditions relating to EPS performance achievement are the same for awards of both Performance Shares and Matching Shares: awards vest on the third anniversary of their grant date (a) provided the executive is still employed by Pendragon; and (b) to the extent that the relevant EPS performance conditions have been satisfied.

If these are fulfilled:
- Matching Shares only vest to the extent that the Investment Shares purchased by the executive have been retained for the three year vesting period; and
- Performance Shares only vest if the Company outperforms the total shareholder return ("TSR") of the FTSE 350 total return index over the performance period. TSR calculations are averaged over a three monthly period prior to both the beginning and end of the performance period.
**DIRECTORS’ INTERESTS IN SHARE OPTIONS, LONG TERM INCENTIVE PLAN AND EXSOP**

<table>
<thead>
<tr>
<th>Scheme Type</th>
<th>Award shares interest at 01.01.10</th>
<th>Award shares lapsed during year</th>
<th>Award shares granted during year</th>
<th>Award shares interest at 31.12.10</th>
<th>Exercise price (pence)</th>
<th>Earliest date on which exercisable/exercise period (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>T G Finn</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharesave Scheme 1</td>
<td>7,357</td>
<td>-</td>
<td>-</td>
<td>7,357</td>
<td>24.67</td>
<td>01.08.12 – 31.12.12</td>
</tr>
<tr>
<td>ExSOP 2010 2</td>
<td>-</td>
<td>-</td>
<td>3,836,921</td>
<td>3,836,921</td>
<td>n/a</td>
<td>16.03.13</td>
</tr>
<tr>
<td>Investment Shares 2008 3</td>
<td>191,017</td>
<td>-</td>
<td>-</td>
<td>191,017</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Matching Shares 2008 4,5</td>
<td>336,828</td>
<td>-</td>
<td>-</td>
<td>336,828</td>
<td>n/a</td>
<td>31.03.12</td>
</tr>
<tr>
<td>Performance Shares 2008 4,5</td>
<td>1,439,440</td>
<td>-</td>
<td>-</td>
<td>1,439,440</td>
<td>n/a</td>
<td>31.03.12</td>
</tr>
<tr>
<td>Investment Shares 2007 4</td>
<td>100,731</td>
<td>-</td>
<td>-</td>
<td>100,731</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Matching Shares 2007 4,5</td>
<td>176,222</td>
<td>176,222</td>
<td>-</td>
<td>-</td>
<td>n/a</td>
<td>15.03.10</td>
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<tr>
<td>Performance Shares 2007 4,5</td>
<td>419,580</td>
<td>419,580</td>
<td>-</td>
<td>-</td>
<td>n/a</td>
<td>15.03.10</td>
</tr>
<tr>
<td><strong>M S Casha</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharesave Scheme 1</td>
<td>27,355</td>
<td>27,355</td>
<td>-</td>
<td>-</td>
<td>60.4</td>
<td>01.07.10 – 31.12.10</td>
</tr>
<tr>
<td>ExSOP 2010 2</td>
<td>-</td>
<td>-</td>
<td>2,131,623</td>
<td>2,131,623</td>
<td>n/a</td>
<td>16.03.13</td>
</tr>
<tr>
<td>Investment Shares 2008 3</td>
<td>106,122</td>
<td>-</td>
<td>-</td>
<td>106,122</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Matching Shares 2008 4,5</td>
<td>187,129</td>
<td>-</td>
<td>-</td>
<td>187,129</td>
<td>n/a</td>
<td>31.03.12</td>
</tr>
<tr>
<td>Performance Shares 2008 4,5</td>
<td>799,689</td>
<td>-</td>
<td>-</td>
<td>799,689</td>
<td>n/a</td>
<td>31.03.12</td>
</tr>
<tr>
<td>Investment Shares 2007 4</td>
<td>55,962</td>
<td>-</td>
<td>-</td>
<td>55,962</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Matching Shares 2007 4,5</td>
<td>97,901</td>
<td>97,901</td>
<td>-</td>
<td>-</td>
<td>n/a</td>
<td>15.03.10</td>
</tr>
<tr>
<td>Performance Shares 2007 4,5</td>
<td>233,100</td>
<td>233,100</td>
<td>-</td>
<td>-</td>
<td>n/a</td>
<td>15.03.10</td>
</tr>
<tr>
<td><strong>H C Sykes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharesave Scheme 1</td>
<td>14,450</td>
<td>14,450</td>
<td>-</td>
<td>-</td>
<td>24.56</td>
<td>01.07.10 – 31.12.10</td>
</tr>
<tr>
<td>Sharesave Scheme 1</td>
<td>21,880</td>
<td>21,880</td>
<td>-</td>
<td>-</td>
<td>60.4</td>
<td>01.07.10 – 31.12.10</td>
</tr>
<tr>
<td>Sharesave Scheme 1</td>
<td>7,357</td>
<td>7,357</td>
<td>-</td>
<td>-</td>
<td>24.67</td>
<td>01.08.12 – 31.12.12</td>
</tr>
<tr>
<td>ExSOP 2010 2</td>
<td>-</td>
<td>-</td>
<td>532,906</td>
<td>532,906</td>
<td>n/a</td>
<td>16.03.13</td>
</tr>
<tr>
<td>Investment Shares 2008 3</td>
<td>53,062</td>
<td>-</td>
<td>-</td>
<td>53,062</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Matching Shares 2008 4,5</td>
<td>93,566</td>
<td>-</td>
<td>-</td>
<td>93,566</td>
<td>n/a</td>
<td>31.03.12</td>
</tr>
<tr>
<td>Performance Shares 2008 4,5</td>
<td>399,844</td>
<td>-</td>
<td>-</td>
<td>399,844</td>
<td>n/a</td>
<td>31.03.12</td>
</tr>
<tr>
<td>Investment Shares 2007 4</td>
<td>27,981</td>
<td>-</td>
<td>-</td>
<td>27,981</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Matching Shares 2007 4,5</td>
<td>48,950</td>
<td>48,950</td>
<td>-</td>
<td>-</td>
<td>n/a</td>
<td>15.03.10</td>
</tr>
<tr>
<td>Performance Shares 2007 4,5</td>
<td>116,550</td>
<td>116,550</td>
<td>-</td>
<td>-</td>
<td>n/a</td>
<td>15.03.10</td>
</tr>
<tr>
<td><strong>T P Holden</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approved Executive Share Option Scheme 4</td>
<td>75,000</td>
<td>-</td>
<td>-</td>
<td>75,000</td>
<td>10.39</td>
<td>19.09.11 – 18.09.18</td>
</tr>
<tr>
<td>Sharesave Scheme 1</td>
<td>7,357</td>
<td>7,357</td>
<td>-</td>
<td>-</td>
<td>24.67</td>
<td>01.08.12 – 31.12.12</td>
</tr>
<tr>
<td>ExSOP 2010 2</td>
<td>-</td>
<td>-</td>
<td>1,510,762</td>
<td>1,510,762</td>
<td>n/a</td>
<td>16.03.13</td>
</tr>
</tbody>
</table>

1. Sharesave options under the Pendragon 1998 or 2008 Sharesave Schemes that have no performance conditions. Sharesave options were granted for nil consideration.

2. ExSOP awards involve the acquisition of shares jointly by the participant and the Company’s Employee Trust on terms that, to the extent that the performance condition described on page 30 is satisfied, the participant can benefit from any growth in the market value of the jointly-owned shares in excess of a pre-determined hurdle.

3. LTIP Investment Shares purchased by executive directors from annual performance related pay up to 100% of salary. These are owned outright by the participant.

4,5 LTIP Matching Shares match LTIP Investment Shares with an award over shares with the same pre-tax value as monies used to purchase the Investment Shares. To the extent that the performance condition described on page 32 is satisfied, LTIP Performance Shares and LTIP Matching Shares (where held) vest on the third anniversary of the grant date.

6. Awarded under the Pendragon 1999 Approved Executive Share Option Scheme prior to appointment to the Board.
The graph below shows the growth in total shareholder return on the Company’s shares in comparison to the FTSE 350 Index (excluding investment companies). 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. The relevant period is the five years ending 31 December 2010. The notes at the foot of the graph give more details of the TSR calculation.

1. This report is required, pursuant to the Regulations, to contain this graph as a visual interpretation of the share price performance against a comparator stock market index.

2. Total Shareholder Return (“TSR”) is calculated over the period of five years ended 31 December 2010 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends are reinvested in shares in the company. The price at which the 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 the TSR growth of the relevant index over the chosen period, the weighted average TSR growth for all the companies in the index is calculated. In this case, it is the FTSE 350 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 350 Index has been selected as it represents the equity market in which the Company was a constituent member for the majority of the period from date of grant of the first to be made of the outstanding LTIP awards to the date of this report.

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 2010 was 20.5 pence and the range during the year was 16.5 pence to 33.5 pence.
## Directors' Remuneration Report (continued)

### Directors' Emoluments for the Year to 31 December 2010

<table>
<thead>
<tr>
<th></th>
<th>Salary fees</th>
<th>Committee Chair Fees</th>
<th>Performance Related Pay</th>
<th>Benefits*</th>
<th>Salary supplement in lieu of pension Contribution £000</th>
<th>Total emoluments 2010 (excluding pensions) £000</th>
<th>Total emoluments 2009 (excluding pensions) £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T G Finn</td>
<td>464</td>
<td>-</td>
<td>348</td>
<td>11</td>
<td>121</td>
<td>944</td>
<td>1,078</td>
</tr>
<tr>
<td>M S Casha</td>
<td>258</td>
<td>-</td>
<td>193</td>
<td>7</td>
<td>67</td>
<td>525</td>
<td>616</td>
</tr>
<tr>
<td>T P Holden</td>
<td>183</td>
<td>-</td>
<td>137</td>
<td>22</td>
<td>-</td>
<td>342</td>
<td>12</td>
</tr>
<tr>
<td>H C Sykes</td>
<td>129</td>
<td>-</td>
<td>97</td>
<td>6</td>
<td>33</td>
<td>265</td>
<td>311</td>
</tr>
<tr>
<td><strong>Non-executive directors retiring from the Board during the year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir Nigel Rudd</td>
<td>121†</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>121</td>
<td>160</td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>J H Holt</td>
<td>35</td>
<td>10**</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>M T Davies*</td>
<td>62</td>
<td>4‡</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>66</td>
<td>40</td>
</tr>
<tr>
<td>D A L Joyce</td>
<td>35</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>M J Le May</td>
<td>35</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>M J Egglington</td>
<td>3††</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>I D Coull</td>
<td>3††</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,328</td>
<td>14</td>
<td>775</td>
<td>46</td>
<td>221</td>
<td>2,384</td>
<td>2,342†</td>
</tr>
</tbody>
</table>

† Sir Nigel Rudd retired from his position as Chairman on 4 October 2010. Accordingly, his emoluments are for the period 01.01.10 – 04.10.10.
‡‡ M J Egglington and I D Coull were appointed to the Board on 1 December 2010. Accordingly, their emoluments are calculated for the period 01.12.10 – 31.12.10.
* Benefits include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of up to two cars (at the Director’s election) one of which is fully expensed, and, in the case of Mr T P Holden, a one-off relocation allowance of £12,000.
** In relation to chairmanship of Audit Committee (£7,500) and senior non-executive director (£2,500).
† In relation to chairmanship of the Remuneration Committee.
‡ Mr Davies was appointed Chairman on 4 October 2010, accordingly, his emoluments include fees as Chairman for the period 04.10.10 – 31.12.10.
†† Excludes emoluments of £596,000 for D R Forsyth, who left his office and his employment with the Company on 10 December 2009.

### 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. Management of the Pension Plan’s assets is delegated to specialist investment managers. There is no direct investment in Pendragon PLC. Mr T G Finn, Mr M S Casha and Miss H C Sykes ceased to be active members of the Pension Plan in 2006. The non-executive directors are not eligible to participate in the Pension Plan. Whereas Mr M S Casha and Miss H C Sykes remain as deferred members, entitled to a deferred pension calculated up to the date of their leaving the Pension Plan, Mr T G Finn elected to take early retirement benefits from 8 February 2008 and is a therefore a pensioner member; hence there is no remaining accrued entitlement for Mr Finn.
**DIRECTORS' REMUNERATION REPORT CONTINUED**

### DIRECTORS' PENSION ENTITLEMENTS (audited information)

<table>
<thead>
<tr>
<th>£000</th>
<th>M S Casha</th>
<th>H C Sykes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total annual accrued pension entitlement at 31.12.09 (p.a.)</td>
<td>149</td>
<td>48</td>
</tr>
<tr>
<td>Total annual accrued pension entitlement at 31.12.10 (p.a.)</td>
<td>147</td>
<td>47</td>
</tr>
<tr>
<td>Increase in accrued pension during the year excluding inflation (p.a.)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Increase in accrued pension during the year including inflation (p.a.)</td>
<td>(2)</td>
<td>(1)</td>
</tr>
<tr>
<td>Transfer value of increase excluding inflation</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transfer value of accrued benefit at 31.12.09</td>
<td>3,127</td>
<td>589</td>
</tr>
<tr>
<td>Transfer value of accrued benefit at 31.12.10</td>
<td>3,261</td>
<td>615</td>
</tr>
<tr>
<td>Increase in transfer value over the year</td>
<td>134</td>
<td>26</td>
</tr>
</tbody>
</table>

The pension benefits shown are those which would be paid annually on retirement, based on service until the date the director withdrew from the Pension Plan. The transfer values have been calculated in accordance with actuarial advice and exclude directors’ contributions and any additional pension purchased by additional voluntary contributions.

Mr T P Holden participates in the Pendragon Group Pension Scheme, a defined contribution pension scheme, to which the Company makes a contribution of 10% (£18,300) of his basic salary, for his benefit.

### DIRECTORS’ TERMS OF APPOINTMENT

Executive directors are appointed under service contracts of indefinite duration, whereas non-executive directors each have a fixed term appointment renewable upon expiry, at the Company’s discretion. From 2010, appointments of new non-executive directors and renewals of existing appointments are on three-year fixed terms.

<table>
<thead>
<tr>
<th>Name</th>
<th>Commencement</th>
<th>Expiry</th>
<th>Unexpired term at date of Report (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M T Davies</td>
<td>04.10.10</td>
<td>31.12.12</td>
<td>22</td>
</tr>
<tr>
<td>J H Holt</td>
<td>01.01.10</td>
<td>31.12.11</td>
<td>10</td>
</tr>
<tr>
<td>D A L Joyce</td>
<td>01.01.10</td>
<td>31.12.11</td>
<td>10</td>
</tr>
<tr>
<td>M J Le May</td>
<td>01.01.10</td>
<td>31.12.11</td>
<td>10</td>
</tr>
<tr>
<td>I D Coull</td>
<td>01.12.10</td>
<td>31.12.13</td>
<td>34</td>
</tr>
<tr>
<td>M J Egglenton</td>
<td>01.12.10</td>
<td>31.12.13</td>
<td>34</td>
</tr>
</tbody>
</table>

The service contracts of Mr T G Finn, Mr M S Casha and Miss H C Sykes commenced on 20 December 1999. Mr 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.

Copies of all directors’ service contracts and letter of appointment are available at the Company’s AGM for shareholders to view.

Each executive director’s service contract includes provisions for his protection in the event of a termination arising from a change of control. Non-executive directors’ appointments also include protection in the event of termination arising from a take-over. Details of the respective entitlements of both executive and non-executive directors in this regard are set out on page 18 of the Report of the Directors.

Having reviewed these provisions during 2010, in the light of the 2008 joint statement on service contracts and severance, the Company has changed its policy on change of control termination and will not include such a provision in the terms of future appointments, whether of executive or non-executive directors.
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.

The Company recognises the importance of executive directors’ building significant holdings of the Company’s shares. To encourage this among the next generation of executive directors, the Company has adopted share ownership guidelines which require those, other than the chief executive, to aim within three years of joining the Board to have built a stake equal in value to 100% of their annual salary. A future chief executive’s expected holding would be 200% of his annual salary.

Whilst commenting on share ownership, I am pleased to report that, at 31 December 2010, 20.16% of the Company’s team members were participants in one or more of its share-based incentive plans. In addition, the performance culture that exists throughout the Company’s businesses is reflected in the variable pay element of remuneration for employees below Board level, which, for 2010 represented 20.52% of their total cost of employment.

David Joyce
Chairman of the Remuneration Committee
22 February 2011
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 and applicable law (UK Generally Accepted Accounting Practice).

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 a 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 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.

Directors’ responsibility statement in respect of the financial statements

We confirm that to the best of our knowledge:-

- the group and parent company financial statements in the Annual Report, which have been prepared in accordance with applicable UK law and with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial provision and profit or loss of the company and the group as a whole; and
- the management report (which comprises the Directors' Report and the Operational and Business Review) includes a fair review of the development and performance of the business and the position of the company and group as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

KPMG Audit Plc has indicated its willingness to continue as independent auditor and in accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by order of the Board

Tim Holden
Finance Director
22 February 2011
INDEPENDENT AUDITOR’S REPORT TO
THE MEMBERS OF PENDRAGON PLC

We have audited the financial statements of Pendragon PLC for the year
ended 31 December 2010 set out on pages 40 to 102. The financial
reporting framework that has been applied in the preparation of the group
financial statements is applicable law and International Financial Reporting
Standards (IFRSs) as adopted by the EU. The financial reporting framework
that has been applied in the preparation of the parent company financial
statements is applicable law and UK Accounting Standards (UK Generally
Accepted Accounting Practice).

This report is made solely to the company’s members, as a body, in
accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our
audit work has been undertaken so that we might state to the company’s
members those matters we are required to state to them in an auditor’s
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
and the company’s members, as a body, for our audit work for this report,
or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors’ Responsibilities Statement set
out on page 38, the Directors are responsible for the preparation of the
financial statements and for being satisfied that they give a true and fair
view. Our responsibility is to audit, and express an opinion on, the financial
statements in accordance with applicable law and International Standards
on Auditing (UK and Ireland). Those standards require us to comply with
the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on
the APB’s web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- 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.

- the financial statements have been prepared in accordance with
  the requirements of the Companies Act 2006;

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors’ Remuneration Report to be audited has been
  properly prepared in accordance with the Companies Act 2006;

- the information given in the Directors’ Report for the financial year
  for which the financial statements are prepared is consistent with the
  financial statements and

- the information given in the Corporate Governance Statement set
  out on page 25 with respect to internal control and risk management
  systems in relation to financial reporting processes and about share
  capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or

- a Corporate Governance Statement has not been prepared by the
  company.

Under the Listing Rules we are required to review:

- the Directors’ statement, set out on page 25, in relation to going concern;

- the part of the Corporate Governance Statement on page 22 relating
  to the company’s compliance with the nine provisions of the June 2008
  Combined Code specified for our review; and

- certain elements of the report to the shareholders by the Board on
  Directors remuneration.

G WATTS
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants, One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH
22 February 2011
## CONSOLIDATED INCOME STATEMENT

**Year ended 31 December 2010**

<table>
<thead>
<tr>
<th>Notes</th>
<th>Underlying £m</th>
<th>Non-Underlying £m</th>
<th>2010 £m</th>
<th>Underlying £m</th>
<th>Non-Underlying £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1</td>
<td>3,534.3</td>
<td>40.7</td>
<td>3,575.0</td>
<td>3,172.7</td>
<td>19.0</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>(3,037.8)</td>
<td>(37.8)</td>
<td>(3,075.6)</td>
<td>(2,683.5)</td>
<td>(16.1)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>496.5</td>
<td>2.9</td>
<td>499.4</td>
<td>489.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3</td>
<td>(421.4)</td>
<td>(15.1)</td>
<td>(436.5)</td>
<td>(435.8)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Operating profit before other income</td>
<td></td>
<td>75.1</td>
<td>(12.2)</td>
<td>62.9</td>
<td>53.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Other income - gains on the sales of businesses and property</td>
<td>3</td>
<td>-</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td>75.1</td>
<td>(11.9)</td>
<td>63.2</td>
<td>53.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Finance expense</td>
<td>6</td>
<td>(50.8)</td>
<td>(21.2)</td>
<td>(72.0)</td>
<td>(45.0)</td>
<td>(27.7)</td>
</tr>
<tr>
<td>Finance income</td>
<td>7</td>
<td>0.9</td>
<td>18.9</td>
<td>19.8</td>
<td>1.7</td>
<td>15.6</td>
</tr>
<tr>
<td>Net finance costs</td>
<td></td>
<td>(49.9)</td>
<td>(2.3)</td>
<td>(52.2)</td>
<td>(43.3)</td>
<td>(12.1)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td></td>
<td>25.2</td>
<td>(14.2)</td>
<td>11.0</td>
<td>10.1</td>
<td>(8.8)</td>
</tr>
<tr>
<td>Income tax (expense) / credit</td>
<td>8</td>
<td>(9.1)</td>
<td>3.7</td>
<td>(5.4)</td>
<td>(2.9)</td>
<td>2.4</td>
</tr>
<tr>
<td>Profit for the year attributable to the shareholders of the parent</td>
<td></td>
<td>16.1</td>
<td>(10.5)</td>
<td>5.6</td>
<td>7.2</td>
<td>(6.4)</td>
</tr>
</tbody>
</table>

### Earnings per share

- **Basic earnings per share**
  - Notes 9
  - Underlying: 0.9p
  - Diluted: 0.8p

- **Diluted earnings per share**
  - Notes 9
  - Underlying: 0.1p

### Non GAAP measure:

- **Underlying basic earnings per share**
  - Notes 9
  - Underlying: 2.5p
  - Diluted: 2.4p

- **Underlying diluted earnings per share**
  - Notes 9
  - Underlying: 1.1p

---

The notes on pages 44 to 94 form part of these financial statements.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  Year ended 31 December 2010

The notes on pages 44 to 94 form part of these financial statements

<table>
<thead>
<tr>
<th>Notes</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>5.6</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Other comprehensive income:
- Foreign currency translation differences of foreign operations | 0.1 | 1.1 |
- Defined benefit plan actuarial gains and losses | 27 | 19.9 (28.2) |
- Income tax relating to defined benefit plan actuarial gains and losses | 8 | (5.6) 7.9 |
- Adjustment in respect of minimum funding requirement on defined benefit plans | 27 | (21.3) 2.9 |
- Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans | 8 | 6.0 (0.8) |
- Other comprehensive income for the year, net of tax | (0.9) | (17.1) |
- Total comprehensive income for the year attributable to the shareholders of the parent | 4.7 | (16.3) |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th>Share capital £m</th>
<th>Share premium £m</th>
<th>Capital redemption reserve £m</th>
<th>Other reserves £m</th>
<th>Translation reserve £m</th>
<th>Retained earnings £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2009</td>
<td>32.8</td>
<td>56.8</td>
<td>2.5</td>
<td>12.6</td>
<td>(1.7)</td>
<td>10.7</td>
</tr>
<tr>
<td>Total comprehensive income for 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Other comprehensive income for the year, net of tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.1</td>
<td>(18.2)</td>
</tr>
<tr>
<td>Total comprehensive income for the year attributable to the shareholders of the parent</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.1</td>
<td>(17.4)</td>
</tr>
<tr>
<td>Issue of ordinary shares (note 21)</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Share based payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8.5</td>
</tr>
<tr>
<td>Balance at 31 December 2009</td>
<td>33.1</td>
<td>56.8</td>
<td>2.5</td>
<td>12.6</td>
<td>(0.6)</td>
<td>1.5</td>
</tr>
<tr>
<td>Balance at 1 January 2010</td>
<td>33.1</td>
<td>56.8</td>
<td>2.5</td>
<td>12.6</td>
<td>(0.6)</td>
<td>1.5</td>
</tr>
<tr>
<td>Total comprehensive income for 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5.6</td>
</tr>
<tr>
<td>Other comprehensive income for the year, net of tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Total comprehensive income for the year attributable to the shareholders of the parent</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Issue of ordinary shares (note 21)</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Share based payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>Balance at 31 December 2010</td>
<td>33.4</td>
<td>56.8</td>
<td>2.5</td>
<td>12.6</td>
<td>(0.5)</td>
<td>6.4</td>
</tr>
</tbody>
</table>

The loss included in retained earnings for 2009 of £17.4m represents a profit attributable to owners of the parent of £0.8m and actuarial losses and minimum funding adjustments on defined benefit pension plans of £18.2m (£25.3m less tax £7.1m).

The profit included in retained earnings for 2010 of £4.6m represents a profit attributable to owners of the parent of £5.6m and actuarial gains and minimum funding adjustments on defined benefit pension plans of £1.0m (£1.4m less tax £0.4m).
### CONSOLIDATED BALANCE SHEET  
**At 31 December 2010**

<table>
<thead>
<tr>
<th>Notes</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11</td>
<td>284.5</td>
</tr>
<tr>
<td>Goodwill</td>
<td>10</td>
<td>367.7</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>10</td>
<td>3.5</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>19</td>
<td>27.0</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>8</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td><strong>682.8</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>13</td>
<td>492.8</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>14</td>
<td>110.2</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>18</td>
<td>91.2</td>
</tr>
<tr>
<td>Non-current assets classified as held for sale</td>
<td>30</td>
<td>25.1</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td><strong>719.3</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>1,402.1</strong></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest bearing loans and borrowings</td>
<td>16</td>
<td>(67.4)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>15</td>
<td>(714.4)</td>
</tr>
<tr>
<td>Deferred income</td>
<td>29</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Current tax payable</td>
<td></td>
<td>(25.0)</td>
</tr>
<tr>
<td>Provisions</td>
<td>20</td>
<td>(10.9)</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td><strong>(817.8)</strong></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest bearing loans and borrowings</td>
<td>16</td>
<td>(376.3)</td>
</tr>
<tr>
<td>Deferred income</td>
<td>29</td>
<td>(18.9)</td>
</tr>
<tr>
<td>Retirement benefit obligations</td>
<td>27</td>
<td>(69.7)</td>
</tr>
<tr>
<td>Provisions</td>
<td>20</td>
<td>(8.2)</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td></td>
<td><strong>(473.1)</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td><strong>(1,290.9)</strong></td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td><strong>111.2</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called up share capital</td>
<td>21</td>
<td>33.4</td>
</tr>
<tr>
<td>Share premium account</td>
<td>21</td>
<td>56.8</td>
</tr>
<tr>
<td>Capital redemption reserve</td>
<td>21</td>
<td>2.5</td>
</tr>
<tr>
<td>Other reserves</td>
<td>21</td>
<td>12.6</td>
</tr>
<tr>
<td>Translation reserve</td>
<td>21</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>21</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>Total equity attributable to equity shareholders of the Company</strong></td>
<td></td>
<td><strong>111.2</strong></td>
</tr>
</tbody>
</table>

Approved by the Board of directors on 22 February 2011 and signed on its behalf by:

**T G Finn**  
Chief Executive  

**T P Holden**  
Finance Director

The notes on pages 44 to 94 form part of these financial statements.
CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2010

<table>
<thead>
<tr>
<th>Notes</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>5.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Adjustment for taxation</td>
<td>5.4</td>
<td>0.5</td>
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<tr>
<td>Adjustment for net financing expense</td>
<td>52.2</td>
<td>55.4</td>
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<tr>
<td></td>
<td>63.2</td>
<td>56.7</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>40.0</td>
<td>47.8</td>
</tr>
<tr>
<td>Share based payments</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Profit on sale of businesses and property</td>
<td>(0.3)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Impairment of assets held for sale</td>
<td>0.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Reversal of impairment of assets held for sale</td>
<td>-</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Changes in inventories</td>
<td>13</td>
<td>(41.1)</td>
</tr>
<tr>
<td>Changes in trade and other receivables</td>
<td>-</td>
<td>(3.1)</td>
</tr>
<tr>
<td>Changes in trade and other payables</td>
<td>-</td>
<td>1.9</td>
</tr>
<tr>
<td>Changes in retirement benefit obligations</td>
<td>-</td>
<td>(15.8)</td>
</tr>
<tr>
<td>Changes in provisions</td>
<td>-</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>-</td>
<td>44.8</td>
</tr>
<tr>
<td>Taxation (paid) / refunds received</td>
<td>-</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Interest received</td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>Interest paid</td>
<td>-</td>
<td>(37.8)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>-</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of businesses</td>
<td>-</td>
<td>4.9</td>
</tr>
<tr>
<td>Purchase of property, plant, equipment and intangible assets</td>
<td>10, 11</td>
<td>(99.3)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment</td>
<td>10, 11</td>
<td>83.6</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
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<td>(10.8)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of capital element of finance lease rentals</td>
<td>-</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Repayment of bank loans</td>
<td>19</td>
<td>(40.0)</td>
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<tr>
<td>Proceeds from issue of loans</td>
<td>19</td>
<td>50.0</td>
</tr>
<tr>
<td>Payment of transaction costs related to loans and borrowings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash inflow / (outflow) from financing activities</strong></td>
<td>-</td>
<td>7.7</td>
</tr>
<tr>
<td>Effects of exchange rate changes on cash held</td>
<td>-</td>
<td>1.0</td>
</tr>
<tr>
<td>Net increase / (decrease) in cash and cash equivalents</td>
<td>-</td>
<td>4.4</td>
</tr>
<tr>
<td>Cash and cash equivalents at 1 January</td>
<td>-</td>
<td>86.8</td>
</tr>
<tr>
<td>Cash and cash equivalents at 31 December</td>
<td>-</td>
<td>91.2</td>
</tr>
</tbody>
</table>

The notes on pages 44 to 94 form part of these financial statements.
NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group’s interest in jointly controlled entities.

(a) Statement of compliance 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 95 to 102.

(b) Basis of preparation 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 except for certain financial instruments which are stated at their fair value. In addition non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Further information in relation to the Group’s business activities, together with the factors likely to affect its future development, performance and position is set out in the Operational and Business Review on pages 2 to 14.

The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Operational and Business Review and Note 19 to the financial statements, which also 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, market and liquidity risk. Further details of the Group’s cash balances and borrowings are included in Notes 16, 17, 18, 19 and 25 of the financial statements.

The majority of the Group’s borrowing facilities expire on 30 April 2012. The Group has begun preliminary discussions on renewal of these facilities. At this stage, the expectation is that the facilities will be renewed in 2011. Current forecasts and projections taking account of potential changes in market circumstances show that the Group should be able to operate within the level of the current facilities.

The directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

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. 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:
• note 1 - revenue recognition
• note 13 - inclusion of consignment inventories
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 8 - utilisation of tax losses and recognition of deferred tax assets
- note 10 - key assumptions used in discounted cash flows for impairment testing
- note 15 - assessment of repurchase commitments
- note 20 - assessment of expected future warranty costs
- note 20 - estimation of vacant property provisions
- note 20 - estimation of VAT provision
- note 27 - measurement of defined benefit obligations
- note 30 - valuation of properties held for resale

(c) Basis of consolidation
The consolidated financial statements include the financial statements of Pendragon PLC, all its subsidiary undertakings 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.

(i) Business combinations
The Group has changed its accounting policy with respect to accounting for business combinations. See policy note (d) for further details.

(ii) 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.

(iii) 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 that 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.

(iv) 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.

(d) Accounting for business combinations
From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

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.

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.
NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies (continued)

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.

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 acquiree’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

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.

(e) Accounting for business disposals

The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

(f) Revenue

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 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 being 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 and a residual amount of deferred revenue, both amounts being held within trade and other payables. 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.
1. Accounting policies (continued)

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, having made provision for the estimated cost of fulfilling future claims on unexpired warranties. The unrecognised income together with the provision for future costs are held within provisions (see policy p).

Incentives received from manufacturers in respect of target achievements are accounted for as a deduction from the cost of purchase of the vehicles or parts to which they relate.

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 subleased property is recognised as rents received in net operating expenses.

(g) ‘Non-underlying’ items

‘Non-underlying’ items, are those items that are unusual because of their size, nature or incidence. The directors consider that these items should be disclosed separately to enable a full understanding of the Group’s results.

(h) Intangible assets and goodwill

(i) 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.

(ii) Internally generated intangible assets relate to development activities that involve the development of dealer management software 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.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses and is amortised over a period of 5 years.

(iii) 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.

(iv) 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.
1. Accounting policies (continued)

(i) Property, plant and equipment  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 IFRS1, 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
- Motor vehicles held for contract hire 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.

(j) Non-current assets held for sale  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 remeasured 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.

(k) Impairment  The carrying amounts of the Group’s assets, other than inventories (see accounting policy l) and deferred tax assets (see accounting policy q), 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 divisions.

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.
NOTES TO THE FINANCIAL STATEMENTS  continued

1. Accounting policies (continued)

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 10.

(i) Inventories

(i) 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.

(ii) Motor vehicles (including consignment and demonstrator vehicles) and parts inventories are stated at the lower of cost and fair value less costs to sell. 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.

(m) Trade and other receivables

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.

(n) Trade and other payables

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.

(o) 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.

(p) Provisions

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 an outflow of economic benefits 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.

(i) Warranty service provision: A provision for warranties is recognised when the warranty service is sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Vacant property provision: A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a 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.

(ii) VAT: A provision is made for potential VAT liabilities following assessments raised by HM Customs and Excise.
NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies (continued)

(q) Income tax  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.

(r) Earnings per share  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 outstanding during the period. Diluted eps is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees.

(s) 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.

(t) Foreign currencies

(i) Foreign currency transactions. 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.

(ii) Financial statements of foreign operations. 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.

(iii) Net investment in foreign operations. 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.

(u) Financial instruments  The Group 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 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.
1. Accounting policies (continued)

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.

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.

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 expire. Financial liabilities are derecognised if the Group’s obligations specified in the contract expire or are discharged and cancelled. See also policy (o) and (n) above.

Cash and cash equivalents comprise cash on 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.

(v) Interest-bearing borrowings
Interest-bearing 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.

(w) Finance income and expense
Finance income comprises interest income on funds invested, return on 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 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.
NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

(x) Employee benefits – Pension obligations The Group operates a number of defined benefit and defined contribution plans, 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 credit for the expected return on plan assets separately for each plan. 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 recognised income and expense 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.

A defined benefit 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.

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 Company support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is an obligation for the Company to pay deficit funding, this is also recognised.

(y) Employee benefits – Share based payments The Group operates a number of employee share option schemes and an executive share ownership plan “exsop” awarded in 2010. Share warrants issued in 2008 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. In accordance with the transitional provisions of IFRS 2, no income statement expenses are recorded in respect of grants of share options made prior to 7 November 2002.

(z) Leases 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.

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.

(aa) 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.

(ab) Own shares held by ESOP trust Transactions of the Group-sponsored ESOP trust are included in the group financial statements. In particular, the trust’s purchases / sales of shares in the Company which are classified as own shares are debited / credited directly to equity. When own shares are sold or re-issued, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.
1. Accounting policies (continued)

(ac) 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:

- IFRS 3 (revised 2008), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the year ending 31 December 2010 but are not currently relevant for the Group.

- Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions
- Amendments to IAS 39 – Eligible Hedged Items
- Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives
- IFRIC 17 – Distribution of Non-Cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 31 December 2010, have been adopted in the year. None of these amendments have had a material impact on the Group’s financial statements.

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

- Amendments to IAS 32 ‘Classification of Rights Issues’ - requires that rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

- IFRIC 19 ‘Extinguishing Financial Liabilities with Equity Instruments’ - deals with how entities should measure equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.

- IFRIC 14 ‘Related parties’ - effective for periods commencing on or after 1 January 2011 - provides an exemption to all government related entities which is not applicable to the Group, however the revised standard also amends the definition of a related party which will be applicable.
2. 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 programme 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 luxury car brand encompassing the sale of new and used motor cars and motorbikes, together with associated aftersales activities of service, body repair and parts sales.

Evans Halshaw. This segment comprises the Group’s volume car brand encompassing the sale of new and used motor cars, together with associated aftersales activities of service, body repair and parts sales. This segment also includes the Quicks used and aftersales start-up business results within the non-underlying activities.

Chatfields. This segment comprises the Group’s truck and commercial vans brand encompassing the sale of new and used trucks and commercial vehicles, together with associated aftersales activities of service, body repair and parts sales.

California. This segment comprises the Group’s retail operation in California in the United States which comprises 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 activities.

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

Pinewood. This segment comprises the Group’s activities as a dealer management system provider and shared service centre.

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 Business Review on pages 2 to 14 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.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.
2. Operating segments (continued)

Year ended 31 December 2010

<table>
<thead>
<tr>
<th>Segment</th>
<th>Stratstone £m</th>
<th>Evans Halshaw £m</th>
<th>Chatfields £m</th>
<th>California £m</th>
<th>Leasing £m</th>
<th>Quickco £m</th>
<th>Pinewood £m</th>
<th>Central £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aftersales revenue</td>
<td>127.6</td>
<td>173.1</td>
<td>29.7</td>
<td>24.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>354.7</td>
</tr>
<tr>
<td>Used vehicle revenue</td>
<td>533.4</td>
<td>618.5</td>
<td>5.3</td>
<td>31.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,189.1</td>
</tr>
<tr>
<td>New vehicle revenue</td>
<td>606.7</td>
<td>938.5</td>
<td>36.1</td>
<td>97.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,678.7</td>
</tr>
<tr>
<td>Trade / wholesale revenue</td>
<td>50.0</td>
<td>172.8</td>
<td>39</td>
<td>5.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>232.6</td>
</tr>
<tr>
<td>Contract hire and support revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44.9</td>
<td>61.9</td>
<td>23.8</td>
<td>-</td>
<td>130.6</td>
</tr>
<tr>
<td>Total gross segment revenue</td>
<td>1,317.7</td>
<td>1,902.9</td>
<td>75.0</td>
<td>159.5</td>
<td>44.9</td>
<td>61.9</td>
<td>23.8</td>
<td>-</td>
<td>3,585.7</td>
</tr>
<tr>
<td>Inter-segment revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(17.3)</td>
<td>(19.3)</td>
<td>(14.8)</td>
<td>-</td>
<td>(51.4)</td>
</tr>
<tr>
<td>Revenue from non-underlying activites</td>
<td>21.5</td>
<td>15.0</td>
<td>42</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>40.7</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>1,339.2</td>
<td>1,917.9</td>
<td>79.2</td>
<td>159.5</td>
<td>27.6</td>
<td>42.6</td>
<td>90</td>
<td>-</td>
<td>3,575.0</td>
</tr>
<tr>
<td>Operating profit before other income and non-underlying items</td>
<td>31.9</td>
<td>24.1</td>
<td>1.8</td>
<td>5.8</td>
<td>7.8</td>
<td>1.8</td>
<td>9.4 (75)</td>
<td>75.1</td>
<td></td>
</tr>
<tr>
<td>Other income and non-underlying items</td>
<td>(3.0)</td>
<td>(0.2)</td>
<td>(1.5)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>- (72)</td>
<td>(11.9)</td>
<td></td>
</tr>
<tr>
<td>Operating profit / (loss)</td>
<td>28.9</td>
<td>23.9</td>
<td>0.3</td>
<td>5.8</td>
<td>7.8</td>
<td>1.8</td>
<td>94</td>
<td>(147)</td>
<td>63.2</td>
</tr>
<tr>
<td>Finance expense</td>
<td>(0.5)</td>
<td>(3.7)</td>
<td>-</td>
<td>(1.8)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(660)</td>
<td>(72.0)</td>
</tr>
<tr>
<td>Finance income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>-</td>
<td>0.1</td>
<td>19.6</td>
<td>19.8</td>
<td></td>
</tr>
<tr>
<td>Segmental profit / (loss) before tax</td>
<td>28.4</td>
<td>202</td>
<td>0.3</td>
<td>4.0</td>
<td>7.9</td>
<td>1.8</td>
<td>95</td>
<td>(61.1)</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Reconciliation to tables in Operational and Business review

| Operating profit as above        | 31.9          | 24.1             | 1.8          | 5.8           | 7.8        | 1.8        | 94          | (75)       | 75.1     |
| Allocation of central overheads  | (2.7)         | (3.5)            | (0.4)        | -             | (0.3)      | (0.3)      | (0.3)       | 7.5        | -        |
| Result as presented in Operational and Business review tables | 29.2 | 206 | 1.4 | 5.8 | 7.5 | 1.5 | 9.1 | - | 75.1 |

The results presented in the Operational and Business 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.
### Operating segments (continued)

#### Year ended 31 December 2010

<table>
<thead>
<tr>
<th>Segment</th>
<th>Stratstone £m</th>
<th>Evans Halshaw £m</th>
<th>Chatfields £m</th>
<th>California £m</th>
<th>Leasing £m</th>
<th>Quickco £m</th>
<th>Pinewood £m</th>
<th>Central £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(3.5)</td>
<td>(6.5)</td>
<td>(0.5)</td>
<td>(1.8)</td>
<td>(26.5)</td>
<td>(0.1)</td>
<td>-</td>
<td>-</td>
<td>(38.9)</td>
</tr>
<tr>
<td>Amortisation</td>
<td>(0.5)</td>
<td>(0.6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Share based payments</td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Operating losses and closure costs incurred on closed businesses</td>
<td>(3.0)</td>
<td>(0.2)</td>
<td>(1.5)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.9)</td>
<td>(6.6)</td>
</tr>
<tr>
<td>Operating expenses incurred in start up businesses</td>
<td>-</td>
<td>(2.8)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2.8)</td>
</tr>
<tr>
<td>Impairment of assets held for sale</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.9)</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Redundancy costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.9)</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Other income - gains on the sale of businesses and property</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.3</td>
<td>-</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Other items included in the income statement are as follows:

- Depreciation: £(38.9) million
- Amortisation: £(1.1) million
- Share based payments: £(0.6) million
- Operating losses and closure costs incurred on closed businesses: £(6.6) million
- Operating expenses incurred in start up businesses: £(2.8) million
- Impairment of assets held for sale: £(0.9) million
- Redundancy costs: £(1.9) million
- Other income - gains on the sale of businesses and property: £0.3 million
### 2. Operating segments (continued)

#### Year ended 31 December 2009

<table>
<thead>
<tr>
<th>Segment</th>
<th>Stratstone £m</th>
<th>Evans Halshaw £m</th>
<th>Chatfields £m</th>
<th>California £m</th>
<th>Leasing £m</th>
<th>Quickco £m</th>
<th>Pinewood £m</th>
<th>Central £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aftersales revenue</td>
<td>140.2</td>
<td>185.0</td>
<td>39.7</td>
<td>26.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>391.3</td>
</tr>
<tr>
<td>Used vehicle revenue</td>
<td>443.1</td>
<td>488.3</td>
<td>69.0</td>
<td>24.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>962.8</td>
</tr>
<tr>
<td>New vehicle revenue</td>
<td>518.8</td>
<td>894.2</td>
<td>58.7</td>
<td>86.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,558.2</td>
</tr>
<tr>
<td>Trade / wholesale revenue</td>
<td>47.0</td>
<td>142.3</td>
<td>23.0</td>
<td>23.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>193.9</td>
</tr>
<tr>
<td>Contract hire and support revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>54.4</td>
<td>67.9</td>
<td>21.2</td>
<td>-</td>
<td>143.5</td>
</tr>
<tr>
<td><strong>Total gross segment revenue</strong></td>
<td><strong>1,149.1</strong></td>
<td><strong>1,709.8</strong></td>
<td><strong>107.6</strong></td>
<td><strong>139.7</strong></td>
<td><strong>54.4</strong></td>
<td><strong>67.9</strong></td>
<td><strong>21.2</strong></td>
<td>-</td>
<td><strong>3,249.7</strong></td>
</tr>
<tr>
<td>Inter-segment revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(37.6)</td>
<td>(25.3)</td>
<td>(14.1)</td>
<td>-</td>
<td>(77.0)</td>
</tr>
<tr>
<td><strong>Revenue from non-underlying activities</strong></td>
<td>11.2</td>
<td>7.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>19.0</td>
</tr>
<tr>
<td><strong>Revenue from external customers</strong></td>
<td>1,160.3</td>
<td>1,717.6</td>
<td>107.6</td>
<td>139.7</td>
<td>16.8</td>
<td>42.6</td>
<td>7.1</td>
<td>-</td>
<td>3,191.7</td>
</tr>
<tr>
<td><strong>Operating profit before other income and non-underlying items</strong></td>
<td>24.2</td>
<td>19.9</td>
<td>1.6</td>
<td>1.3</td>
<td>8.3</td>
<td>20.0</td>
<td>8.7</td>
<td>(12.6)</td>
<td>53.4</td>
</tr>
<tr>
<td>Other income and non-underlying items</td>
<td>(4.1)</td>
<td>(1.6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Operating profit / (loss)</strong></td>
<td>20.1</td>
<td>18.3</td>
<td>1.6</td>
<td>1.3</td>
<td>8.3</td>
<td>20.0</td>
<td>8.7</td>
<td>(3.6)</td>
<td>56.7</td>
</tr>
<tr>
<td>Finance expense</td>
<td>(1.8)</td>
<td>(2.6)</td>
<td>(0.7)</td>
<td>(1.7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(65.9)</td>
</tr>
<tr>
<td>Finance income</td>
<td>-</td>
<td>-</td>
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<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>16.9</td>
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<td>17.3</td>
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<tr>
<td>Segmental profit / (loss) before tax</td>
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<td>15.7</td>
<td>0.9</td>
<td>(0.4)</td>
<td>8.5</td>
<td>2.1</td>
<td>8.8</td>
<td>(52.6)</td>
<td>1.3</td>
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</table>

Reconciliation to tables in Operational and Business review

<table>
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<tr>
<th>Reconciliation</th>
<th>Stratstone £m</th>
<th>Evans Halshaw £m</th>
<th>Chatfields £m</th>
<th>California £m</th>
<th>Leasing £m</th>
<th>Quickco £m</th>
<th>Pinewood £m</th>
<th>Central £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit before other income and non-underlying items (as above)</td>
<td>24.2</td>
<td>19.9</td>
<td>1.6</td>
<td>1.3</td>
<td>8.3</td>
<td>20.0</td>
<td>8.7</td>
<td>(12.6)</td>
<td>53.4</td>
</tr>
<tr>
<td>Allocation of central overheads</td>
<td>(5.6)</td>
<td>(5.7)</td>
<td>(0.4)</td>
<td>-</td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>12.6</td>
<td>-</td>
</tr>
<tr>
<td>Result as presented in Operational and Business review tables</td>
<td>18.6</td>
<td>14.2</td>
<td>1.2</td>
<td>1.3</td>
<td>8.0</td>
<td>1.7</td>
<td>8.4</td>
<td>-</td>
<td>53.4</td>
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</table>
2. Operating segments (continued)

Year ended 31 December 2009

<table>
<thead>
<tr>
<th>Segment</th>
<th>Stratstone</th>
<th>Evans Halshaw</th>
<th>Chatfields</th>
<th>California</th>
<th>Leasing</th>
<th>Quickco</th>
<th>Pinewood</th>
<th>Central</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Other items included in the income statement are as follows:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(4.4)</td>
<td>(7.3)</td>
<td>(0.6)</td>
<td>(1.7)</td>
<td>(33.0)</td>
<td>(0.1)</td>
<td></td>
<td></td>
<td>(47.1)</td>
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<tr>
<td>Amortisation</td>
<td>(0.3)</td>
<td>(0.4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Share based payments</td>
<td>(0.2)</td>
<td>(0.3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>(0.8)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Operating losses and closure costs incurred on closed businesses</td>
<td>(3.3)</td>
<td>(1.6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(8.6)</td>
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<tr>
<td>Impairment of assets held for sale</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Reversal of impairment and depreciation adjustment on assets de-classified as held for sale (see note 30)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
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<td>Redundancy costs</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.3)</td>
</tr>
<tr>
<td>VAT assessment provision</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>16.2</td>
</tr>
<tr>
<td>Other income - gains on the sale of businesses and property</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.1</td>
</tr>
</tbody>
</table>

NOTES TO THE FINANCIAL STATEMENTS continued
## 2. Operating segments (continued)

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Stratstone £m</th>
<th>Evans Halshaw £m</th>
<th>Chatfields £m</th>
<th>California £m</th>
<th>Leasing £m</th>
<th>Quickco £m</th>
<th>Pinewood £m</th>
<th>Central £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross assets per segment</td>
<td>405.0</td>
<td>687.3</td>
<td>30.5</td>
<td>56.9</td>
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<td>12.1</td>
<td>7.5</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27.0</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>0.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.1</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td>91.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>91.2</td>
</tr>
<tr>
<td>Total gross assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,402.1</td>
</tr>
<tr>
<td>Gross liabilities per segment</td>
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<td>(267.0)</td>
<td>(17.4)</td>
<td>(40.0)</td>
<td>(8.5)</td>
<td>(4.1)</td>
<td>(248.5)</td>
<td></td>
<td>(822.2)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(443.7)</td>
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<tr>
<td>Current taxation</td>
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<td></td>
<td>(25.0)</td>
</tr>
<tr>
<td>Total gross liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,290.9)</td>
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<tr>
<td>Net assets</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>0.2</td>
<td>1.7</td>
<td>-</td>
<td>99.4</td>
</tr>
</tbody>
</table>

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Stratstone £m</th>
<th>Evans Halshaw £m</th>
<th>Chatfields £m</th>
<th>California £m</th>
<th>Leasing £m</th>
<th>Quickco £m</th>
<th>Pinewood £m</th>
<th>Central £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross assets per segment</td>
<td>363.4</td>
<td>653.6</td>
<td>40.7</td>
<td>53.2</td>
<td>39.1</td>
<td>13.9</td>
<td>9.2</td>
<td>88.4</td>
<td>1,261.5</td>
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<td>Derivative financial instruments</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>23.3</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>3.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.5</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>86.8</td>
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<tr>
<td>Total gross assets</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,375.1</td>
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<tr>
<td>Gross liabilities per segment</td>
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<td>(21.5)</td>
<td>(33.4)</td>
<td>(105)</td>
<td>(79)</td>
<td>(52)</td>
<td>(226.8)</td>
<td>(818.9)</td>
</tr>
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<td>Interest bearing loans and borrowings</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(425.5)</td>
</tr>
<tr>
<td>Current taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(24.8)</td>
</tr>
<tr>
<td>Total gross liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,269.2)</td>
</tr>
<tr>
<td>Net assets</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td>105.9</td>
</tr>
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<td>0.4</td>
<td>1.3</td>
<td>49.3</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
<td>103.1</td>
</tr>
</tbody>
</table>

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

**Geographical information.**

All segments, with the exception of California in the United States originate in the United Kingdom.
### 3. Net operating expenses and non-underlying items

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Net operating expenses:</strong></td>
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<tr>
<td>Distribution costs</td>
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<td>(240.4)</td>
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<tr>
<td>Administrative expenses</td>
<td>(194.7)</td>
<td>(197.6)</td>
</tr>
<tr>
<td>Rents received</td>
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</tr>
<tr>
<td></td>
<td><strong>(436.5)</strong></td>
<td><strong>(436.5)</strong></td>
</tr>
</tbody>
</table>

Income and expenses incurred or received during the year, which due to their size, nature or incidence do not form part of underlying profit are drawn out for separate disclosure as non-underlying items.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Within turnover:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover from closed businesses</td>
<td>26.0</td>
<td>19.0</td>
</tr>
<tr>
<td>Turnover from start up business</td>
<td>14.7</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>40.7</strong></td>
<td><strong>19.0</strong></td>
</tr>
<tr>
<td><strong>Within cost of sales:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales of closed businesses</td>
<td>(23.7)</td>
<td>(16.1)</td>
</tr>
<tr>
<td>Cost of sales of start up business</td>
<td>(14.1)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>(37.8)</strong></td>
<td><strong>(16.1)</strong></td>
</tr>
<tr>
<td><strong>Within operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses and closure costs incurred on closed businesses</td>
<td>(8.9)</td>
<td>(11.5)</td>
</tr>
<tr>
<td>Operating expenses incurred in start up business</td>
<td>(3.4)</td>
<td>-</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>-</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>-</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Impairment of assets held for sale</td>
<td>(0.9)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Reversal of impairment on assets de-classified as held for sale (see note 30)</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Depreciation adjustment on assets de-classified as held for sale (see note 30)</td>
<td>-</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Redundancy costs</td>
<td>(1.9)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>(1.3)</td>
</tr>
<tr>
<td>VAT assessment provision</td>
<td>-</td>
<td>16.2</td>
</tr>
<tr>
<td></td>
<td><strong>(15.1)</strong></td>
<td><strong>(0.7)</strong></td>
</tr>
<tr>
<td><strong>Within other income - gains on the sale of businesses and property:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains on the sale of businesses</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td>Gains on the sale of property</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td><strong>0.3</strong></td>
<td><strong>1.1</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Within finance expense:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on pension scheme obligations</td>
<td>(21.2)</td>
<td>(19.4)</td>
</tr>
<tr>
<td>Net loss on refinancing</td>
<td>-</td>
<td>(8.3)</td>
</tr>
<tr>
<td></td>
<td><strong>(21.2)</strong></td>
<td><strong>(27.7)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Within finance income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on pension scheme assets</td>
<td>18.9</td>
<td>15.6</td>
</tr>
</tbody>
</table>
3. **Net operating expenses and non-underlying items (continued)**

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

No goodwill was impaired during the year (2009: £0.8m) (see note 10).

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 no impairment charge against tangible fixed assets during the year (2009: £0.8m). A £0.9m charge was recognised against assets held for sale (2009: £1.4m). During the previous year a release of £1.0m was also made on de-classification of assets held for sale.

Losses incurred on the closure of businesses amounted to £6.6m (2009: £8.6m). These costs include wind down expenses, recognised from the date of the announcement to close, losses on assets, redundancy and vacant property occupancy costs.

During the year the Group set up a new business of Used Car Supermarkets operating under the Quicks brand. During the year the initial costs and subsequent trading losses incurred as the Group develops and promotes the brand amounted to £2.8m which is presented as non-underlying.

The Group has also undertaken a programme of redundancies in its core businesses in light of market conditions as a result of the current economic situation, resulting in non-underlying payments of £1.9m (2009: £1.7m). In addition, during the previous year, a payment in respect of compensation for loss of office of £0.4m was made to D R Forsyth on the termination of his employment as a director of the Company.

In the previous year, during the refinancing process the Group investigated the possibility of an equity raising. This process was abandoned during 2009 prior to the successful refinancing of the Group and as a consequence £1.3m of professional fees were written off in 2009 as a non-underlying item.

In 2009 a provision in respect of the VAT treatment of partial exemption within our finance and insurance operations of £16.2m was released.

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 cost of £2.3m has been incurred during the year (2009: £3.8m).

Other income, being the profit on disposal of businesses and property, comprises a £0.3m profit on sale of properties (2009: £1.0m). There was no profit recorded on the disposal of motor vehicle dealerships (2009: £0.1m).

During the previous year, upon the successful completion of the refinancing of the Group, a net loss of £8.3m was recorded. This comprised refinancing related costs of £22.7m and a fair value gain on the inception of the loan of £14.4m.
### 3. Net operating expenses and non-underlying items (continued)

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

<table>
<thead>
<tr>
<th>Item</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation of property, plant and equipment - owned</td>
<td>38.2</td>
<td>45.8</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment - held under finance leases</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>0.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Reversal of impairment on assets de-classified as held for sale (see note 30)</td>
<td>-</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Depreciation adjustment on assets de-classified as held for sale (see note 30)</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>Amortisation of internally generated intangible assets</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Amortisation of other intangible assets</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Cost of inventories recognised as an expense</td>
<td>3,044.4</td>
<td>2,660.2</td>
</tr>
<tr>
<td>Research and development costs</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Operating lease rentals payable - hire of plant and machinery</td>
<td>2.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Operating lease rentals payable - property rentals</td>
<td>44.1</td>
<td>42.4</td>
</tr>
</tbody>
</table>

### Auditor’s remuneration:

<table>
<thead>
<tr>
<th>Item</th>
<th>2010 £000</th>
<th>2009 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of these financial statements</td>
<td>254.1</td>
<td>272.8</td>
</tr>
<tr>
<td>Amounts receivable by the auditors and their associates in respect of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit of financial statements of subsidiaries pursuant to legislation</td>
<td>230.9</td>
<td>281.2</td>
</tr>
<tr>
<td>Other services supplied pursuant to such legislation</td>
<td>45.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Other services relating to taxation</td>
<td>325.1</td>
<td>330.9</td>
</tr>
<tr>
<td>Services relating to corporate finance transactions entered into (including debt refinancing)</td>
<td>-</td>
<td>1,700.8</td>
</tr>
<tr>
<td>Pension valuation and actuarial services</td>
<td>25.6</td>
<td>61.0</td>
</tr>
<tr>
<td></td>
<td>880.7</td>
<td>2,691.7</td>
</tr>
</tbody>
</table>

### 4. Employees

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2010 number</th>
<th>2009 number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>2,876</td>
<td>3,052</td>
</tr>
<tr>
<td>Aftersales</td>
<td>4,392</td>
<td>4,659</td>
</tr>
<tr>
<td>Administration</td>
<td>2,430</td>
<td>2,578</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,698</strong></td>
<td><strong>10,289</strong></td>
</tr>
</tbody>
</table>

Costs incurred in respect of these employees were:

<table>
<thead>
<tr>
<th>Item</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>244.6</td>
<td>255.7</td>
</tr>
<tr>
<td>Social security costs</td>
<td>23.5</td>
<td>24.1</td>
</tr>
<tr>
<td>Contributions to defined contribution plans (see note 27)</td>
<td>4.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Expense recognised for defined benefit plans (see note 27)</td>
<td>2.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Share based payments (see note 27)</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td><strong>275.1</strong></td>
<td><strong>287.8</strong></td>
</tr>
</tbody>
</table>
### 5. Directors

Total emoluments of directors (including pension contributions) amounted to £2.5m (2009: £2.9m). Information relating to directors’ emoluments, share options and pension entitlements is set out in the Directors’ Remuneration Report on pages 28 to 37.

### 6. Finance expense

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognised in profit and loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest payable on bank borrowings and loan notes</td>
<td>39.0</td>
<td>31.7</td>
</tr>
<tr>
<td>Net loss on refinancing (non-underlying - see note 3)</td>
<td>-</td>
<td>8.3</td>
</tr>
<tr>
<td>Vehicle stocking plan interest</td>
<td>9.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Interest payable on finance leases</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Interest on pension scheme obligations (non-underlying - see note 3)</td>
<td>21.2</td>
<td>19.4</td>
</tr>
<tr>
<td>Less: interest capitalised</td>
<td>(0.1)</td>
<td>-</td>
</tr>
<tr>
<td>Total interest expense</td>
<td>70.0</td>
<td>70.7</td>
</tr>
<tr>
<td>Net fair value expense in respect of hedging relationships (see note 19)</td>
<td>0.4</td>
<td>-</td>
</tr>
<tr>
<td>Unwinding of discounts in contract hire residual values</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Total finance expense</td>
<td>72.0</td>
<td>72.7</td>
</tr>
</tbody>
</table>

Interest expense in respect of financial liabilities held at amortised cost

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable on bank borrowings and loan notes</td>
<td>70.0</td>
<td>70.7</td>
</tr>
<tr>
<td>Net loss on refinancing (non-underlying - see note 3)</td>
<td>0.4</td>
<td>-</td>
</tr>
<tr>
<td>Vehicle stocking plan interest</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Total finance expense</td>
<td>72.0</td>
<td>72.7</td>
</tr>
</tbody>
</table>

Interest of £0.1m has been capitalised during the year on assets under construction at an average rate of 3.79% (2009: £nil).

### 7. Finance income

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognised in profit and loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net fair value gain in respect of hedging relationships (see note 19)</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Interest receivable on bank deposits</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Interest on pension scheme assets (non-underlying - see note 3)</td>
<td>18.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Total finance income</td>
<td>19.8</td>
<td>17.3</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS  

8. Taxation

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK corporation tax:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax on profit for the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments in respect of prior periods</td>
<td>-</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.9</td>
</tr>
<tr>
<td>Overseas taxation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax on income for the year</td>
<td>1.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Adjustments in respect of prior periods</td>
<td>-</td>
<td>(0.6)</td>
</tr>
<tr>
<td></td>
<td>1.6</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Total current tax charge</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.6</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Deferred tax expense / (credit):

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origination and reversal of temporary differences</td>
<td>(14.4)</td>
<td>(3.5)</td>
</tr>
<tr>
<td>Benefit of tax losses recognised</td>
<td>18.2</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>5.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

The total aggregate tax charges recognised in the income statement are analysed as:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td>1.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>3.8</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Total income tax expense in the income statement</td>
<td>5.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Factors affecting the tax charge for the period:
The tax assessed is different from the standard rate of corporation tax in the UK of 28% (2009 : 28%)

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before taxation</td>
<td>11.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Tax on profit at UK rate of 28% (2009 : 28%)</td>
<td>3.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Differences:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting depreciation for which no tax relief is due</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Difference between accounts profits and taxable profits on capital asset disposals</td>
<td>1.0</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Other disallowables</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Tax rate differential on overseas income</td>
<td>0.6</td>
<td>-</td>
</tr>
<tr>
<td>Movement in rolled over and held over chargeable gains</td>
<td>(0.7)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Asset impairment charge</td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>Adjustments to tax charge in respect of previous periods</td>
<td>0.4</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Total tax charge</td>
<td>5.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Deferred tax credit recognised directly in equity

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial gains and losses</td>
<td>0.4</td>
<td>7.1</td>
</tr>
</tbody>
</table>
8. Taxation (continued)

Tax rate
The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. As such, the deferred tax balances outstanding at the balance sheet date are stated at 27%. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Group’s future current tax charge and reduce the Group’s deferred tax liabilities / assets accordingly.

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 past 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 prior year 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.

Factors affecting the future tax charge
The tax credit / charge is increased / decreased by the release of prior year provisions relating to UK tax returns and certain capital allowances that are treated as permanent differences. The tax credit / charge is decreased / increased by non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

Unrecognised deferred tax assets
There are unutilised tax losses within the Group of £18.6m (2009 : £18.6m) relating to overseas businesses for which no deferred tax asset has been recognised pending 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:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td>42.6</td>
<td>35.0</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(42.5)</td>
<td>(31.5)</td>
</tr>
<tr>
<td></td>
<td>0.1</td>
<td>3.5</td>
</tr>
</tbody>
</table>

A deferred tax asset has been recognised in respect of tax losses carried forward at 31 December 2010 to the extent that it is expected that the Group will generate taxable profits in the foreseeable future for these losses to be utilised against.
8. Taxation (continued)

The movements in temporary differences for the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Charged / (credited) to consolidated income statement £m</th>
<th>Credited to equity £m</th>
<th>At 31 December 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>33.0</td>
<td>(4.2)</td>
<td>28.8</td>
</tr>
<tr>
<td>Rolled over and held over gains</td>
<td>11.8</td>
<td>0.2</td>
<td>12.0</td>
</tr>
<tr>
<td>Retirement benefit obligations</td>
<td>(18.5)</td>
<td>2.4</td>
<td>(23.2)</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>(0.2)</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>(0.6)</td>
<td>(2.1)</td>
<td>(2.7)</td>
</tr>
<tr>
<td>Losses</td>
<td>(19.7)</td>
<td>1.3</td>
<td>(18.4)</td>
</tr>
<tr>
<td>Tax (assets) / liabilities</td>
<td>5.8</td>
<td>(2.2)</td>
<td>(3.5)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Charged / (credited) to consolidated income statement £m</th>
<th>Credited to equity £m</th>
<th>At 31 December 2010 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>28.8</td>
<td>(16.4)</td>
<td>12.4</td>
</tr>
<tr>
<td>Rolled over and held over gains</td>
<td>12.0</td>
<td>(0.6)</td>
<td>11.4</td>
</tr>
<tr>
<td>Retirement benefit obligations</td>
<td>(23.2)</td>
<td>3.8</td>
<td>(19.8)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(2.7)</td>
<td>(1.2)</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Losses</td>
<td>(18.4)</td>
<td>18.2</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Tax (assets) / liabilities</td>
<td>(3.5)</td>
<td>3.8</td>
<td>(0.1)</td>
</tr>
</tbody>
</table>
### 9. Earnings per share

<table>
<thead>
<tr>
<th></th>
<th>2010 Earnings per share</th>
<th>2010 Earnings Total</th>
<th>2009 Earnings per share</th>
<th>2009 Earnings Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings per share</td>
<td>0.9</td>
<td>5.6</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Adjusting items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Impairment of assets held for sale</td>
<td>0.1</td>
<td>0.9</td>
<td>0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Reversal of impairment and depreciation adjustment on assets de-classified as held for sale</td>
<td>-</td>
<td>-</td>
<td>(0.2)</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Losses incurred on closed businesses</td>
<td>1.0</td>
<td>6.6</td>
<td>1.4</td>
<td>8.6</td>
</tr>
<tr>
<td>Start up costs and losses incurred on start up of businesses</td>
<td>0.4</td>
<td>2.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Redundancy costs</td>
<td>0.3</td>
<td>1.9</td>
<td>0.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Profit on business and property disposals</td>
<td>-</td>
<td>(0.3)</td>
<td>(0.2)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Net loss on refinancing</td>
<td>-</td>
<td>-</td>
<td>1.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Net interest on pension schemes</td>
<td>0.4</td>
<td>2.3</td>
<td>0.6</td>
<td>3.8</td>
</tr>
<tr>
<td>VAT assessment provision</td>
<td>-</td>
<td>-</td>
<td>(2.5)</td>
<td>(16.2)</td>
</tr>
<tr>
<td>Tax effect of adjusting items</td>
<td>(0.6)</td>
<td>(3.7)</td>
<td>(0.4)</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Underlying earnings per share (Non GAAP measure)</td>
<td>2.5</td>
<td>16.1</td>
<td>1.1</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Diluted earnings per share: 0.8 (2010) 0.1 (2009) 0.8

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

<table>
<thead>
<tr>
<th></th>
<th>2010 number</th>
<th>2009 number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average number of ordinary shares in issue</td>
<td>644.4</td>
<td>639.4</td>
</tr>
<tr>
<td>Weighted average number of dilutive shares under option</td>
<td>30.2</td>
<td>36.8</td>
</tr>
<tr>
<td>Weighted average number of shares in issue taking account of applicable outstanding share options</td>
<td>674.6</td>
<td>676.2</td>
</tr>
</tbody>
</table>

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

There are 34.3m shares under option (2009: 20.4m) that are non-dilutive in accordance with IAS 33 ‘Earnings Per Share’.
### 10. Intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Goodwill £m</th>
<th>Development costs £m</th>
<th>Other intangibles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2009</td>
<td>441.8</td>
<td>1.9</td>
<td>13.0</td>
<td>456.7</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>1.0</td>
<td>0.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(0.1)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>At 31 December 2009</td>
<td>441.8</td>
<td>2.9</td>
<td>13.3</td>
<td>458.0</td>
</tr>
<tr>
<td>At 1 January 2010</td>
<td>441.8</td>
<td>2.9</td>
<td>13.3</td>
<td>458.0</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>1.2</td>
<td>0.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Disposal of businesses</td>
<td>(3.7)</td>
<td>-</td>
<td>-</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Other disposals</td>
<td>-</td>
<td>-</td>
<td>(0.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>438.1</td>
<td>4.1</td>
<td>13.4</td>
<td>455.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Goodwill £m</th>
<th>Development costs £m</th>
<th>Other intangibles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amortisation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2009</td>
<td>69.6</td>
<td>0.4</td>
<td>12.1</td>
<td>82.1</td>
</tr>
<tr>
<td>Amortised during the year</td>
<td>-</td>
<td>0.5</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td>Impairment</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(0.1)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>At 31 December 2009</td>
<td>70.4</td>
<td>0.9</td>
<td>12.2</td>
<td>83.5</td>
</tr>
<tr>
<td>At 1 January 2010</td>
<td>70.4</td>
<td>0.9</td>
<td>12.2</td>
<td>83.5</td>
</tr>
<tr>
<td>Amortised during the year</td>
<td>-</td>
<td>0.7</td>
<td>-</td>
<td>0.4</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(0.2)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>70.4</td>
<td>1.6</td>
<td>12.4</td>
<td>84.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Goodwill £m</th>
<th>Development costs £m</th>
<th>Other intangibles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying amounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2009</td>
<td>372.2</td>
<td>1.5</td>
<td>0.9</td>
<td>374.6</td>
</tr>
<tr>
<td>At 31 December 2009</td>
<td>371.4</td>
<td>2.0</td>
<td>1.1</td>
<td>374.5</td>
</tr>
<tr>
<td>At 1 January 2010</td>
<td>371.4</td>
<td>2.0</td>
<td>1.1</td>
<td>374.5</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>367.7</td>
<td>2.5</td>
<td>1.0</td>
<td>371.2</td>
</tr>
</tbody>
</table>

The amortisation charge in respect of other intangibles is recognised within operating expenses in the income statement.

Development costs are amortised over a period of 5 years; these constitute expenditure on development of the Group’s software products that is capitalised as incurred. Software is amortised over a period of 4 years.

There were no impairment losses arising during the year on goodwill attaching to Cash Generating Units (CGUs) where the future cash flows from these are not expected to recover the goodwill carrying value (2009: £0.8m) recognised within operating expenses in the income statement. The carrying value of goodwill is assessed for any impairment annually.
10. Intangible assets (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 based on actual operating results and the current business plan up to 2014 as approved by the directors, with regard to the long term strategy of the Group in terms of business representation. The business plan has been prepared based on detailed plans prepared by each CGU. The detailed plans were formulated based on vehicle manufacturer forecasts and other external sources of automotive industry forecasts, the experience of the impact of previous recessions and subsequent recovery in the automotive industry and consequent expectations for profit per unit performance. The cash flow projections included the benefit of cost saving actions already implemented.

It is anticipated that the units will grow revenues in the future, for the purpose of the impairment testing, a growth rate of 2% (2009 : nil) has been assumed beyond the business plan.

The discount rates are estimated based on the Group’s cost of capital which 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 13.2% has been applied (2009 : 13.8%).

The two key assumptions made by the directors are the discount rate used and growth rates beyond the business plan. 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 year the Group sold one of its Mercedes market areas. The market area disposed was the lowest performing at the point of acquisition and at the point of sale. The goodwill written off was in proportion to the remaining market areas. The goodwill relating to this disposal was £3.7m.

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

<table>
<thead>
<tr>
<th>Year ending 31 December 2009</th>
<th>At 1 January 2009 £m</th>
<th>Disposals £m</th>
<th>Impairments £m</th>
<th>At 31 December 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMW</td>
<td>31.1</td>
<td>-</td>
<td>-</td>
<td>31.1</td>
</tr>
<tr>
<td>Ford</td>
<td>71.6</td>
<td>-</td>
<td>-</td>
<td>71.6</td>
</tr>
<tr>
<td>Mercedes</td>
<td>51.5</td>
<td>-</td>
<td>-</td>
<td>51.5</td>
</tr>
<tr>
<td>Vauxhall</td>
<td>77.8</td>
<td>-</td>
<td>-</td>
<td>77.8</td>
</tr>
<tr>
<td>Others</td>
<td>140.2</td>
<td>-</td>
<td>(0.8)</td>
<td>139.4</td>
</tr>
<tr>
<td></td>
<td>372.2</td>
<td>-</td>
<td>(0.8)</td>
<td>371.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ending 31 December 2010</th>
<th>At 1 January 2010 £m</th>
<th>Disposals £m</th>
<th>Impairments £m</th>
<th>At 31 December 2010 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMW</td>
<td>31.1</td>
<td>-</td>
<td>-</td>
<td>31.1</td>
</tr>
<tr>
<td>Ford</td>
<td>71.6</td>
<td>-</td>
<td>-</td>
<td>71.6</td>
</tr>
<tr>
<td>Mercedes</td>
<td>51.5</td>
<td>(3.7)</td>
<td>-</td>
<td>47.8</td>
</tr>
<tr>
<td>Vauxhall</td>
<td>77.8</td>
<td>-</td>
<td>-</td>
<td>77.8</td>
</tr>
<tr>
<td>Others</td>
<td>139.4</td>
<td>-</td>
<td>-</td>
<td>139.4</td>
</tr>
<tr>
<td></td>
<td>371.4</td>
<td>(3.7)</td>
<td>-</td>
<td>367.7</td>
</tr>
</tbody>
</table>
10. Intangible assets (continued)

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, the cashflow projections of both the Land Rover CGU and USA CGU in 2011 now indicates that, if permitted, the impairments could have been reversed.

11. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings £m</th>
<th>Plant &amp; equipment £m</th>
<th>Motor vehicles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2010</td>
<td>202.1</td>
<td>71.2</td>
<td>169.1</td>
<td>442.4</td>
</tr>
<tr>
<td>Additions</td>
<td>6.6</td>
<td>12.4</td>
<td>78.7</td>
<td>97.7</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>1.0</td>
<td>0.3</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Disposal of businesses</td>
<td>-</td>
<td>(2.0)</td>
<td>-</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Other disposals</td>
<td>(0.2)</td>
<td>(18.3)</td>
<td>(113.2)</td>
<td>(131.7)</td>
</tr>
<tr>
<td>Classified as non-current assets held for sale</td>
<td>(4.2)</td>
<td>-</td>
<td>-</td>
<td>(4.2)</td>
</tr>
<tr>
<td>Reinstated from non-current assets held for sale</td>
<td>1.1</td>
<td>-</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>206.4</td>
<td>63.6</td>
<td>134.6</td>
<td>404.6</td>
</tr>
</tbody>
</table>
11. Property, plant and equipment (continued)

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings £m</th>
<th>Plant &amp; equipment £m</th>
<th>Motor vehicles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2009</td>
<td>21.1</td>
<td>42.9</td>
<td>69.6</td>
<td>133.6</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>(0.3)</td>
<td>(0.4)</td>
<td>-</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>3.7</td>
<td>7.9</td>
<td>35.5</td>
<td>47.1</td>
</tr>
<tr>
<td>Impairment</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2.0)</td>
<td>(1.8)</td>
<td>(44.7)</td>
<td>(48.5)</td>
</tr>
<tr>
<td>Classified as non-current assets held for sale</td>
<td>(0.4)</td>
<td>-</td>
<td>-</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Reinstated from non-current assets held for sale</td>
<td>2.7</td>
<td>-</td>
<td>-</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>At 31 December 2009</strong></td>
<td>25.6</td>
<td>48.6</td>
<td>60.4</td>
<td>134.6</td>
</tr>
<tr>
<td>At 1 January 2010</td>
<td>25.6</td>
<td>48.6</td>
<td>60.4</td>
<td>134.6</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>0.1</td>
<td>0.2</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>3.7</td>
<td>6.8</td>
<td>28.4</td>
<td>38.9</td>
</tr>
<tr>
<td>Disposal of businesses</td>
<td>-</td>
<td>(1.4)</td>
<td>-</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Other disposals</td>
<td>-</td>
<td>(11.2)</td>
<td>(41.0)</td>
<td>(52.2)</td>
</tr>
<tr>
<td>Classified as non-current assets held for sale</td>
<td>(0.2)</td>
<td>-</td>
<td>-</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Reinstated from non-current assets held for sale</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>At 31 December 2010</strong></td>
<td>29.3</td>
<td>43.0</td>
<td>47.8</td>
<td>120.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings £m</th>
<th>Motor vehicles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying amounts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2009</td>
<td>175.0</td>
<td>29.7</td>
<td>131.6</td>
</tr>
<tr>
<td>At 31 December 2009</td>
<td>176.5</td>
<td>22.6</td>
<td>108.7</td>
</tr>
<tr>
<td>At 1 January 2010</td>
<td>176.5</td>
<td>22.6</td>
<td>108.7</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>177.1</td>
<td>20.6</td>
<td>86.8</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings £m</th>
<th>Motor vehicles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charge for the year</td>
<td>-</td>
<td>0.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings £m</th>
<th>Motor vehicles £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying amounts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2009</td>
<td>0.3</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>0.3</td>
<td>0.8</td>
<td>1.1</td>
</tr>
</tbody>
</table>

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

Cumulative interest charges of £0.6m (2009 : £0.5m) have been capitalised as construction costs and included in land and buildings.

Land and buildings include £5.6m (2009 : £4.5m) in respect of building projects currently under construction for which no depreciation has been charged during the year.

Future capital expenditure which has been contracted for but not yet provided in the financial statements amounted to £1.6m (2009 : £0.7m). This is in respect of property development and refurbishment.
NOTES TO THE FINANCIAL STATEMENTS continued

12. Interest in joint venture

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, a company that is incorporated and trading in the United Kingdom. PPH0 Limited in turn owns 100% of PPH1 Limited whose principal activity is that of a property company. The joint venture is 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. During 2010, PPH1 Limited’s financing arrangements were restructured. The restructuring involved, inter alia, repricing of debt and debt for equity exchange and refinancing related costs of £15.3m. Warrants over a new class of shares were also issued so that, provided there is full take up of the warrants (which can not be exercised before 2013 except in specific circumstances) the Group’s holding will reduce to 30%. As part of the restructuring PPH1 Limited is required to repay a level of debt through asset disposals. As at the balance sheet date the value of the investment was assessed to still be impaired as set out below.

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.

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

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>271.4</td>
<td>266.7</td>
</tr>
<tr>
<td>Current assets</td>
<td>12.1</td>
<td>12.4</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(297.1)</td>
<td>(332.0)</td>
</tr>
<tr>
<td>Net liabilities of joint venture company</td>
<td>(13.6)</td>
<td>(52.9)</td>
</tr>
</tbody>
</table>

The carrying value of the Group’s investment in the joint venture remains impaired at 31 December 2010 due to the requirement to repay a level of debt through asset disposals which may not be achievable within the required period. 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 2010. The financial statements in respect of the year ended 31 December 2010 are yet to be finalised.

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

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>25.1</td>
<td>25.1</td>
</tr>
<tr>
<td>Expenses (20.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refinancing costs</td>
<td>(15.3)</td>
<td>-</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>*</td>
<td>(0.6)</td>
</tr>
<tr>
<td>(Loss) / profit after tax</td>
<td>(11.1)</td>
<td>3.6</td>
</tr>
</tbody>
</table>

PPH0 Limited has borrowings secured on its land and buildings.

At 31 December 2010 PPH0 Limited has no contractual capital commitments.
### 13. Inventories

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>New and used vehicles</td>
<td>419.6</td>
<td>376.9</td>
</tr>
<tr>
<td>Consignment vehicles</td>
<td>41.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Vehicle parts and other inventories</td>
<td>32.1</td>
<td>34.9</td>
</tr>
<tr>
<td></td>
<td>492.8</td>
<td>445.2</td>
</tr>
</tbody>
</table>

Inventories recognised as an expense during the year

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,044.4</td>
<td>2,660.2</td>
</tr>
</tbody>
</table>

Inventories stated at net realisable value

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>65.3</td>
<td>52.3</td>
</tr>
</tbody>
</table>

Carrying value of inventories subject to retention of title clauses

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>386.6</td>
<td>359.3</td>
</tr>
</tbody>
</table>

During the year £6.8m was recognised as a credit in respect of the write down of inventories (2009 : £11.3m).

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 vehicle inventories are stated at the lower of cost and fair value less costs to sell. Fair values are assessed using reputable industry valuation data which is based upon recent industry activity and forecasts. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied.

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.

### 14. Trade and other receivables

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>48.1</td>
<td>46.7</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>(0.5)</td>
<td>(0.5)</td>
</tr>
<tr>
<td></td>
<td>47.6</td>
<td>46.2</td>
</tr>
<tr>
<td>Other receivables</td>
<td>56.5</td>
<td>50.8</td>
</tr>
<tr>
<td>Prepayments</td>
<td>6.1</td>
<td>10.4</td>
</tr>
<tr>
<td></td>
<td>110.2</td>
<td>107.4</td>
</tr>
</tbody>
</table>

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 2010 was £47.6m (2009 : £46.2m). No trade receivables have been classified as held for sale (2009 : £nil). Receivables of the California segment are £5.8m (2009 : £6.6m).

The average credit period taken on sales of goods is 29 days (2009 : 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. At 31 December 2010 trade receivables are shown net of an allowance for impairment of £0.5m (2009 : £0.5m). An expense has been recognised in respect of impairment losses during the year of £0.5m (2009 : £nil). The impairment is in respect of items that are aged greater than 120 days.

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.
14. Trade and other receivables (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Trade receivables 2010 £m</th>
<th>Other receivables 2010 £m</th>
<th>Trade receivables 2009 £m</th>
<th>Other receivables 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not past due</td>
<td>34.8</td>
<td>52.2</td>
<td>32.5</td>
<td>45.5</td>
</tr>
<tr>
<td>Past due 0-30 days</td>
<td>10.2</td>
<td>2.5</td>
<td>10.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Past due 31-120 days</td>
<td>2.5</td>
<td>1.8</td>
<td>2.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Past due 120+ days subject to impairment</td>
<td>0.6</td>
<td>-</td>
<td>0.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48.1</strong></td>
<td><strong>56.5</strong></td>
<td><strong>46.7</strong></td>
<td><strong>50.8</strong></td>
</tr>
</tbody>
</table>

Provision for impairment

<table>
<thead>
<tr>
<th></th>
<th>Trade receivables 2010 £m</th>
<th>Other receivables 2010 £m</th>
<th>Trade receivables 2009 £m</th>
<th>Other receivables 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(0.5)</td>
<td>-</td>
<td>(0.5)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47.6</strong></td>
<td><strong>56.5</strong></td>
<td><strong>46.2</strong></td>
<td><strong>50.8</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Utilisation (0.5)</td>
<td>(0.5)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Impairment loss recognised</td>
<td>0.5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at 31 December</strong></td>
<td><strong>0.5</strong></td>
<td><strong>0.5</strong></td>
</tr>
</tbody>
</table>

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

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 and assets arising from transactions involving derivative financial instruments. 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.

15. Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>483.5</td>
<td>502.1</td>
</tr>
<tr>
<td>Consignment vehicle liabilities</td>
<td>41.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Payments received on account</td>
<td>15.1</td>
<td>10.8</td>
</tr>
<tr>
<td>Other taxation and social security</td>
<td>22.7</td>
<td>13.8</td>
</tr>
<tr>
<td>Accruals</td>
<td>152.0</td>
<td>131.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>714.4</strong></td>
<td><strong>691.6</strong></td>
</tr>
</tbody>
</table>

Trade and other payables are held at amortised cost and their contracted cashflows are expected to mature within 12 months of the balance sheet date. Trade payables are classified as other financial liabilities and fair value is deemed to be the same as carrying value.

The Group enters into leasing arrangements whereby it agrees to repurchase vehicles from lessees or 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. The repurchase commitment is included within trade payables.
16. Interest bearing loans and borrowings

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured bank loans</td>
<td>240.0</td>
<td>226.1</td>
</tr>
<tr>
<td>Unsecured loan notes</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Secured loan notes</td>
<td>134.5</td>
<td>129.7</td>
</tr>
<tr>
<td>Finance lease liabilities (see note 25)</td>
<td>1.6</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>376.3</td>
<td>358.6</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured bank loans</td>
<td>66.5</td>
<td>64.7</td>
</tr>
<tr>
<td>Finance lease liabilities (see note 25)</td>
<td>0.9</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>67.4</td>
<td>66.9</td>
</tr>
</tbody>
</table>

Note 19 sets out the maturity profile of non-current liabilities.

17. Net Borrowings

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>91.2</td>
<td>86.8</td>
</tr>
<tr>
<td>Current interest bearing loans and borrowings</td>
<td>(67.4)</td>
<td>(66.9)</td>
</tr>
<tr>
<td>Non-current interest bearing loans and borrowings</td>
<td>(376.3)</td>
<td>(358.6)</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>27.0</td>
<td>23.3</td>
</tr>
<tr>
<td></td>
<td>(325.5)</td>
<td>(315.4)</td>
</tr>
</tbody>
</table>

18. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balances and cash equivalents</td>
<td>91.2</td>
<td>86.8</td>
</tr>
<tr>
<td>Cash and cash equivalents in the statement of cash flows</td>
<td>91.2</td>
<td>86.8</td>
</tr>
</tbody>
</table>

19. Financial instruments and derivatives

**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.

<table>
<thead>
<tr>
<th></th>
<th>Carrying value &amp; fair value 2010 £m</th>
<th>Carrying value &amp; fair value 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balances and cash equivalents</td>
<td>91.2</td>
<td>86.8</td>
</tr>
</tbody>
</table>
### 19. Financial instruments and derivatives (continued)

#### Borrowings

<table>
<thead>
<tr>
<th></th>
<th>Carrying value 2010 £m</th>
<th>Fair value 2010 £m</th>
<th>Carrying value 2009 £m</th>
<th>Fair value 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non - current:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank borrowings</td>
<td>240.0</td>
<td>240.0</td>
<td>226.1</td>
<td>224.4</td>
</tr>
<tr>
<td>9.310% USD 110m loan notes 2012</td>
<td>70.0</td>
<td>76.0</td>
<td>68.7</td>
<td>76.5</td>
</tr>
<tr>
<td>9.310% USD 67m loan notes 2014</td>
<td>46.3</td>
<td>50.0</td>
<td>43.2</td>
<td>51.9</td>
</tr>
<tr>
<td>9.834% GBP 17m loan notes 2014</td>
<td>18.2</td>
<td>20.0</td>
<td>17.8</td>
<td>21.3</td>
</tr>
<tr>
<td>Other loan notes</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Finance leases</td>
<td>1.6</td>
<td>1.6</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Total non-current</td>
<td>376.3</td>
<td>387.8</td>
<td>358.6</td>
<td>376.9</td>
</tr>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank borrowings</td>
<td>66.5</td>
<td>66.5</td>
<td>64.7</td>
<td>64.7</td>
</tr>
<tr>
<td>Finance leases</td>
<td>0.9</td>
<td>0.9</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Total borrowings</td>
<td>443.7</td>
<td>455.2</td>
<td>425.5</td>
<td>443.8</td>
</tr>
</tbody>
</table>

### 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).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.
### 19. Financial instruments and derivatives (continued)

The effective interest rates for all borrowings after taking into account derivative financial instruments are all based on LIBOR for the relevant currency. 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 2010 and repricing periods, is set out in the table below:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Carrying value £m</th>
<th>Interest classification</th>
<th>Interest rate range</th>
<th>Effect of interest rate and currency swaps</th>
<th>Swapped interest rate range</th>
<th>Repricing periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balances and cash equivalents</td>
<td>Loans and receivables</td>
<td>£161.2</td>
<td>Amortised cost</td>
<td>Floating GBP</td>
<td>0.50% - 2.00%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

#### Borrowings

- **Non - current:**
  - Bank borrowings: Other financial liabilities: £223.9
    - Amortised cost: Fixed USD: 3.48% - 3.62%
    - Interest rate range: 6 months or less
  - 9.31% USD 110m loan notes 2012: Other financial liabilities: £70.0
    - Amortised cost: Fixed USD: 9.31%
    - Interest rate range: 6 months or less
  - 9.31% USD 87m loan notes 2014: Other financial liabilities: £46.3
    - Amortised cost: Fixed USD: 9.31%
    - Interest rate range: 6 months or less
  - 9.83% GBP 17m loan notes 2014: Other financial liabilities: £70.0
    - Amortised cost: Fixed GBP: 5.68% - 5.84%
    - Interest rate range: 6 months or less
  - Other loan notes: Other financial liabilities: £0.2
    - Amortised cost: Fixed GBP: 12.50%
    - Interest rate range: N/A

#### Total non-current

<table>
<thead>
<tr>
<th>Classification</th>
<th>Carrying value £m</th>
<th>Interest classification</th>
<th>Interest rate range</th>
<th>Effect of interest rate and currency swaps</th>
<th>Swapped interest rate range</th>
<th>Repricing periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total non-current</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>376.3</td>
</tr>
</tbody>
</table>

#### Current:

- Bank borrowings: Other financial liabilities: £56.8
  - Amortised cost: Fixed GBP: 3.75% - 4.15%
  - Interest rate range: 6 months or less
- Bank borrowings: Other financial liabilities: £9.7
  - Amortised cost: Fixed USD: 3.71% - 3.83%
  - Interest rate range: N/A
- Finance leases: Other financial liabilities: £0.9
  - Amortised cost: Fixed GBP: 5.29% - 7.15%
  - Interest rate range: N/A

#### Total borrowings

<table>
<thead>
<tr>
<th>Classification</th>
<th>Carrying value £m</th>
<th>Interest classification</th>
<th>Interest rate range</th>
<th>Effect of interest rate and currency swaps</th>
<th>Swapped interest rate range</th>
<th>Repricing periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total borrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>443.7</td>
</tr>
</tbody>
</table>

*The classification of these items is 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:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pound sterling</td>
<td>417.9</td>
<td>400.7</td>
</tr>
<tr>
<td>US dollar</td>
<td>25.8</td>
<td>24.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>443.7</td>
<td>425.5</td>
</tr>
</tbody>
</table>

#### Finance terms

**Margin and fees**

Term loan and revolving credit facility: 3.25%. A commitment fee in respect of undrawn amounts is payable at 1.625% of the undrawn amounts. At each anniversary of the facility agreements (30 April), a fee of 1% of the commitments at that date, is payable in cash or shares of the Company, or 0.25% if settlement is deferred. At repayment or maturity, a fee of 1% of the commitments at that date is payable pro-rata for the period of time elapsed between the most recent anniversary and the date of repayment or maturity, payable in cash or shares of the Company. At maturity or repayment, a fee of 2.50% of the commitments at that date is payable in cash or shares of the Company. The total amounts expensed in 2010 in respect of these fees amounted to £8.9m. Warrants were also issued as part of the Group refinancing in 2009 (see note 21).

#### Covenants

The term loan, revolving credit facility and loan notes are subject to covenants with respect to debt / EBITDA, absolute EBITDA, fixed charge cover and net capital expenditure.

#### Security

The Group has granted security over certain of its assets, not subject to any other arrangements, comprising property, plant and equipment of £197.7m, trade and other receivables of £104.1m and certain vehicle inventories of £7.4m.
NOTES TO THE FINANCIAL STATEMENTS  continued

19. Financial instruments and derivatives (continued)

Financing of overseas businesses

Current bank borrowings shown above include the following facilities used to fund our overseas businesses.

<table>
<thead>
<tr>
<th>Currency</th>
<th>Amount</th>
<th>Expiry date</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>Floating GBP</td>
<td>£20.8m</td>
<td>Earlier of April 2012 or on demand</td>
</tr>
<tr>
<td>USA</td>
<td>Floating USD</td>
<td>$18.0m</td>
<td>Earlier of December 2010 or on demand</td>
</tr>
</tbody>
</table>

An arrangement fee of 1% of the commitment at inception (£0.2m) has been capitalised and is amortised over the expected term to maturity. The total amount expensed during 2010 was £0.1m and the remaining amount left to amortise at 31 December 2010 is £0.1m. A fee of 5% of the average outstanding commitment over the term is payable at maturity or repayment of the facility. The total amount expensed during 2010 was £0.3m.

In December 2010 the expiry date in respect of the USA facility was amended to the earlier of July 2011 or on demand upon payment of a fee of $0.1m. An arrangement fee of 1% of the commitment was paid on inception ($0.2m). Both amounts are capitalised and amortised over the expected term to maturity. The total amount expensed during 2010 at the prevailing exchange rate was £0.3m and the remaining amount left to amortise at 31 December 2010 is £0.1m.

Both facilities are not subject to covenants but security over assets has been granted, mainly comprising property, receivables and certain vehicle inventories.

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 (see note 14)

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 loan notes, bank loans, vehicle stocking credit lines and operating cash flow. Committed facilities have a range of maturities, 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. Where our overseas subsidiaries borrow to fund their businesses they do so independently of and without recourse to the UK parent company.

The maturity of non-current borrowings is as follows:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2010  £m</th>
<th>2009  £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 1 and 2 years</td>
<td>310.0</td>
<td>41.0</td>
</tr>
<tr>
<td>Between 2 and 5 years</td>
<td>66.1</td>
<td>31.5</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>0.2</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>376.3</td>
<td>358.6</td>
</tr>
</tbody>
</table>
19. Financial instruments and derivatives (continued)

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:

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>Contractual cashflows</th>
<th>Within 6 months</th>
<th>6 - 12 months</th>
<th>1-2 years</th>
<th>2-5 years</th>
<th>over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank borrowings</td>
<td>306.5</td>
<td>325.5</td>
<td>51.5</td>
<td>20.3</td>
<td>253.7</td>
<td>-</td>
</tr>
<tr>
<td>Loan notes</td>
<td>134.7</td>
<td>151.6</td>
<td>3.7</td>
<td>3.7</td>
<td>79.5</td>
<td>64.5</td>
</tr>
<tr>
<td>Finance leases</td>
<td>2.5</td>
<td>8.0</td>
<td>-</td>
<td>1.3</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>443.7</strong></td>
<td><strong>485.1</strong></td>
<td><strong>55.2</strong></td>
<td><strong>25.3</strong></td>
<td><strong>333.2</strong></td>
<td><strong>66.3</strong></td>
</tr>
</tbody>
</table>

The holders of the 2014 loan notes have an option to require repayment in April 2012 and accordingly this date has been used as the contractual maturity date for the maturity analysis provided above.

The Group has the following undrawn borrowing facilities:

<table>
<thead>
<tr>
<th>Expiry date</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Expiring in more than one year but not more than two years</td>
<td>59.0</td>
</tr>
<tr>
<td>Expiring in more than two years</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>59.0</td>
</tr>
</tbody>
</table>

As at 31 December 2010, the Group has a £340m credit facility, expiring as set out below:

<table>
<thead>
<tr>
<th>Expiry date</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term loan</td>
<td></td>
</tr>
<tr>
<td>June 2011</td>
<td>20.0</td>
</tr>
<tr>
<td>December 2011</td>
<td>20.0</td>
</tr>
<tr>
<td>April 2012</td>
<td>90.0</td>
</tr>
<tr>
<td>Total term loan</td>
<td>130.0</td>
</tr>
<tr>
<td>Revolving credit facility</td>
<td>April 2012</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>340.0</td>
</tr>
</tbody>
</table>

During the year term loans amounting to £40.0m were repaid. Drawings under the revolving credit facility increased by £50.0m compared to the previous year end, largely to facilitate the repayment of term loans.

The Group also has the following expiry dates for its loan notes:

<table>
<thead>
<tr>
<th>Loan notes</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.310% USD 110m loan notes 2012</td>
<td>April 2012</td>
</tr>
<tr>
<td>9.310% USD 67m loan notes 2014</td>
<td>February 2014</td>
</tr>
<tr>
<td>9.834% GBP 17m loan notes 2014</td>
<td>February 2014</td>
</tr>
</tbody>
</table>

The holders of the 2014 loan notes have an option to require repayment in April 2012 and accordingly this date has been used as the contractual maturity date for the maturity analysis provided above. If this option is exercised, the contract provides for a make whole payment to also be made and £2.8m has been expensed in this period on account of the expected liability.
19. Financial instruments and derivatives (continued)

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 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 managed by swaps into floating rate.

Interest rate risk sensitivity analysis
As all of the Group's borrowings and vehicle stocking credit lines, after taking into account the effect of swaps, 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.

<table>
<thead>
<tr>
<th>Profit/(loss)</th>
<th>2010 £m</th>
<th>Profit/(loss)</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 bps increase</td>
<td>(6.9)</td>
<td>(5.6)</td>
<td></td>
</tr>
<tr>
<td>Tax effect</td>
<td>1.9</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Effect on net assets</td>
<td>(5.0)</td>
<td>(4.0)</td>
<td></td>
</tr>
<tr>
<td>100 bps decrease</td>
<td>6.9</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>Tax effect</td>
<td>(1.9)</td>
<td>(1.6)</td>
<td></td>
</tr>
<tr>
<td>Effect on net assets</td>
<td>5.0</td>
<td>4.0</td>
<td></td>
</tr>
</tbody>
</table>

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 25.0m (2009 : USD 25.0m) against its net assets held in overseas subsidiaries.

Where the Group borrows in a foreign currency to finance assets denominated in sterling the Group would generally seek to swap borrowings into sterling. Prior to refinancing in April 2009, 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 refinancing saw an increase in the coupon rates and the Group maintained the previous derivatives it had in place, with the following hedge designations:

<table>
<thead>
<tr>
<th>Hedged item</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9.310% USD 110m loan notes 2012</td>
<td>Principal and underlying changes in interest rates, excluding changes due to credit quality</td>
</tr>
<tr>
<td>9.310% USD 67m loan notes 2014</td>
<td>Principal and underlying changes in interest rates, excluding changes due to credit quality</td>
</tr>
<tr>
<td>9.834% GBP 17m loan notes 2014</td>
<td>Principal and underlying changes in interest rates, excluding changes due to credit quality</td>
</tr>
</tbody>
</table>

Foreign exchange rate risk sensitivity analysis
The effect of the above hedging strategy is to leave “unhedged” the additional coupon payable consequent to the refinancing. The only unhedged exposure is therefore the additional USD coupon payable. It is the Group’s current intention to settle these liabilities at spot rate when they fall due. The Group is therefore exposed to risk in respect of exchange rate movements affecting the sterling value of settling the coupon. The table below shows the effect of a 10% change in the GBP / USD exchange rate showing how profit or loss would have varied in the period on the assumption that the full additional coupon was payable for the entire period and settled at the average GBP / USD exchange rate prevailing for the period.
NOTES TO THE FINANCIAL STATEMENTS  continued

19. Financial instruments and derivatives (continued)

<table>
<thead>
<tr>
<th></th>
<th>Profit/(loss) 2010 £m</th>
<th>Profit/(loss) 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% increase</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Tax effect</td>
<td>(0.1)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Effect on net assets</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>10% decrease</td>
<td>(0.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Tax effect</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Effect on net assets</td>
<td>(0.3)</td>
<td>(0.3)</td>
</tr>
</tbody>
</table>

Accounting for derivative financial instruments and hedging activities
The Group holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are measured at fair value at each balance sheet date. Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in the income statement. 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 the income statement. This will result in variations in the balance sheet values of the hedged item and the offsetting derivatives as the market value fluctuates. 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.

Hedges
Fair value hedges of interest rate and currency risk
The Group classifies its interest rate and currency swaps as fair value hedges and states them at fair value. The net fair value of swaps used as hedges of the Group’s USD and GBP loan notes is set out below:

<table>
<thead>
<tr>
<th>Fair value hedge</th>
<th>Assets carrying value &amp; fair value 2010 £m</th>
<th>Assets carrying value &amp; fair value 2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency and interest swap (USD 110m / GBP : fixed rate to floating rate) expiring 2011</td>
<td>13.3</td>
<td>12.7</td>
</tr>
<tr>
<td>Currency and interest swap (USD 67m / GBP : fixed rate to floating rate) expiring 2014</td>
<td>12.1</td>
<td>9.4</td>
</tr>
<tr>
<td>Interest swap (GBP 17m : fixed rate to floating rate) expiring 2014</td>
<td>1.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>27.0</td>
<td>23.3</td>
</tr>
</tbody>
</table>

All derivative financial instrument assets and liabilities are non-current with the exception of the currency and interest swap expiring in 2011. The critical terms of the derivative financial instrument and the hedged item match (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 are expected to be offset by the hedging derivative financial instrument. Changes in the fair value of the risk being hedged, being changes in the fair value of the loan notes, amounted to £4.2m (2009: £16.0m), which was offset by changes in the fair value of the hedging derivative financial instrument of £3.8m (2009: £15.2m), giving a net fair value loss of £0.4m disclosed as a finance expense in note 6 (2009: fair value income of £0.8m disclosed in finance income in note 7). The contractual cashflows are due at the expiry of the instruments.

Hedges of net investments in overseas operations
Included within bank borrowings are balances denominated in US dollar which are designated as a hedge of the net investment in the Group’s US subsidiaries. The aggregate fair value of these borrowings was £16.1m at 31 December 2010. Foreign exchange losses of £0.6m on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange gains of £0.7m in respect of the net investments being hedged.
19. Financial instruments and derivatives (continued)

Capital management

The Group views its financial capital resources as primarily comprising share capital, loan notes, 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 residual element of debt from funding past acquisitions remains today and will be repaid over time through the operating cashflows of the business. 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 stocks is set out below:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer finance arm</td>
<td>338.5</td>
<td>295.3</td>
</tr>
<tr>
<td>Third party stock finance</td>
<td>128.8</td>
<td>126.2</td>
</tr>
<tr>
<td>Bank</td>
<td>25.5</td>
<td>23.7</td>
</tr>
<tr>
<td><strong>Total stocks</strong></td>
<td>492.8</td>
<td>445.2</td>
</tr>
</tbody>
</table>

The Group is also responsible for funding the pension deficit and thus the total financial resources required by the Group to fund itself at 31 December comprises:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>325.5</td>
<td>315.4</td>
</tr>
<tr>
<td>Stock finance</td>
<td>467.3</td>
<td>421.5</td>
</tr>
<tr>
<td>Pension deficit</td>
<td>69.7</td>
<td>81.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>862.5</td>
<td>818.7</td>
</tr>
</tbody>
</table>

When considering vehicle stocks from a funding risk viewpoint we split the funding into that which is funded by the vehicle manufacturers through their related finance arms and that funded by ourselves 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. Manufacturer financed stock has increased during the year in line with the improvements in new volumes.

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 whilst repaying the residual core acquisition debt described above. The Group’s former policy was to attempt to maintain an optimal balance between borrowings and equity whilst funding an aggressive acquisition growth strategy. The Group does not intend to continue this strategy but to seek to grow organically and reduce its debt requirement through generating cashflow. The former measure employed by the Group was based on achieving an optimum gearing level of between 70% to 100%. The new measure employed by the Group seeks an optimal debt:underlying EBITDA ratio. The target ratio in the medium term is to achieve a ratio of 2:1:0. Any surplus cash will therefore be used to reinvest in the business or repay debt rather than to buy back shares or pay dividends.

The key measures which management shall use to evaluate the Group’s use of its financial resources are set out below:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying profit before tax (£m)</td>
<td>25.2</td>
<td>10.1</td>
</tr>
<tr>
<td>Underlying earnings per Share (p)</td>
<td>2.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Debt:underlying EBITDA</td>
<td>2.8</td>
<td>3.1</td>
</tr>
</tbody>
</table>
19. 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 with the group wide provision of a sharesave scheme being one example.

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

Following the Group’s refinancing the Group changed its approach to capital management in the year by placing increasing emphasis on debt reduction, as explained above. There were no other changes to capital management in the year.


The movements in provisions for the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Warranty service provision £m</th>
<th>Vacant property £m</th>
<th>VAT assessment £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2009</td>
<td>6.0</td>
<td>9.1</td>
<td>10.6</td>
<td>25.7</td>
</tr>
<tr>
<td>Provisions made during the year</td>
<td>4.6</td>
<td>1.7</td>
<td>-</td>
<td>6.3</td>
</tr>
<tr>
<td>Provisions used during the year</td>
<td>(5.3)</td>
<td>(2.5)</td>
<td>(5.1)</td>
<td>(12.9)</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>5.3</td>
<td>8.3</td>
<td>5.5</td>
<td>19.1</td>
</tr>
</tbody>
</table>

Non-current

<table>
<thead>
<tr>
<th></th>
<th>Warranty service provision £m</th>
<th>Vacant property £m</th>
<th>VAT assessment £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>6.1</td>
<td>-</td>
<td>5.5</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Current

<table>
<thead>
<tr>
<th></th>
<th>Warranty service provision £m</th>
<th>Vacant property £m</th>
<th>VAT assessment £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2</td>
<td>2.2</td>
<td>5.5</td>
<td>10.9</td>
<td></td>
</tr>
</tbody>
</table>

5.3 8.3 5.5 19.1

The provision on warranty service contracts relates to future repair costs expected against income received in advance, on products sold during the last three years. It is expected this expenditure will be incurred within three years of the balance sheet date.

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments. The present value of future lease commitments is calculated using a 5% discount rate and assumes that any sub-let properties will remain so until the end of the sub-lease. It is expected that the majority of this expenditure will be incurred over the next three years.

The Group is in continuing discussions with HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers. £5.1m of this provision was utilised during the period in respect of VAT assessments settled and associated costs. The determination of the amount of provision in respect of the VAT assessments is based on the management’s best estimate and judgement in view of the most likely outcome. Management’s expectation is that this will be resolved within 12 months.
NOTES TO THE FINANCIAL STATEMENTS continued

21 Capital and reserves

Ordinary share capital

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised shares of 5p each at 31 December 2009 and at 31 December 2010</td>
<td>800,000,000</td>
<td>40.0</td>
</tr>
<tr>
<td>Allotted, called up and fully paid shares of 5p each at 31 December 2009</td>
<td>661,977,717</td>
<td>33.1</td>
</tr>
<tr>
<td>Issued during the year</td>
<td>6,091,282</td>
<td>0.3</td>
</tr>
<tr>
<td>Allotted, called up and fully paid shares of 5p each at 31 December 2010</td>
<td>668,068,999</td>
<td>33.4</td>
</tr>
</tbody>
</table>

During the year 6,091,282 (2009 : 5,950,367) 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 2,282,525 (2009 : 891,447) in settlement of consideration of £0.3m (2009 : £0.3m).

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. Movements in the outstanding warrants are shown on the table below:

<table>
<thead>
<tr>
<th>Exercise period</th>
<th>Date of grant</th>
<th>Exercise price per share</th>
<th>At 31 December 2009 Number</th>
<th>Exercised Number</th>
<th>Lapsed Number</th>
<th>At 31 December 2010 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 May 2009 to 14 May 2012</td>
<td>15 May 2009</td>
<td>5.00</td>
<td>28,240,151 (4,060,855)</td>
<td>(1,521,683)</td>
<td>22,657,613</td>
<td></td>
</tr>
<tr>
<td>26 June 2009 to 25 May 2012</td>
<td>26 June 2009</td>
<td>5.00</td>
<td>14,120,075 (2,030,427)</td>
<td>(760,842)</td>
<td>11,328,806</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>42,360,226 (6,091,282)</td>
<td>(2,282,525)</td>
<td>33,986,419</td>
<td></td>
</tr>
</tbody>
</table>

The weighted average share price at the date of exercise was 18.92 pence for warrants exercised in the year.

In 2009 a charge of £8.0m was made to profit and loss in respect of the issue of these warrants as part of the Group refinancing.

The warrants outstanding at 31 December 2010 all have an exercise price of 5.00 pence and a weighted contractual life of 3.0 years. All share warrants are settled in equity.

The average assumptions input into the models for warrants granted were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of share warrants granted in year</td>
<td>-</td>
<td>49,202,040</td>
</tr>
<tr>
<td>Weighted average share price (pence)</td>
<td>-</td>
<td>19.70</td>
</tr>
<tr>
<td>Weighted average exercise price (pence)</td>
<td>-</td>
<td>5.00</td>
</tr>
<tr>
<td>Weighted average fair value (pence)</td>
<td>-</td>
<td>16.2</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>-</td>
<td>84.1%</td>
</tr>
<tr>
<td>Expected life (years)</td>
<td>-</td>
<td>3.0</td>
</tr>
<tr>
<td>Risk free rate (%)</td>
<td>-</td>
<td>3.75%</td>
</tr>
<tr>
<td>Expected dividend yield (%)</td>
<td>-</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS continued

21. Capital and reserves (continued)

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.

Retained earnings
The market value of the investment in the Company’s own shares at 31 December 2010 was £3.8m (2009: £4.4m), being 18.6m (2009: 19.1m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2009: £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2010 was £8.0m (2009: £8.0m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which 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 and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors’ Remuneration Report on pages 28 to 37.

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.

22. Dividends

The Board are not recommending a final dividend for 2010.

23. Business combinations

There were no business combinations made during the year and during the previous period.

No business combinations have been made between the balance sheet date and the date of this report.

24. Business disposals

During the year the Group disposed of a Mercedes-Benz market area and one Ford franchise point.

Net assets at date of disposal:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Net book value £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>0.6</td>
</tr>
<tr>
<td>Intangible assets - goodwill</td>
<td>3.7</td>
</tr>
<tr>
<td>Inventories</td>
<td>0.9</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Total</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Proceeds on sale of businesses

Proceeds on sale satisfied by cash and cash equivalents

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 £0.6m.
25. Obligations under finance leases

<table>
<thead>
<tr>
<th></th>
<th>Minimum lease payments</th>
<th>Present value of minimum lease payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010 £m</td>
<td>2009 £m</td>
</tr>
<tr>
<td></td>
<td>2010 £m</td>
<td>2009 £m</td>
</tr>
<tr>
<td>Amounts payable under finance leases:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within one year</td>
<td>1.1</td>
<td>2.6</td>
</tr>
<tr>
<td>In the second to fifth years inclusive</td>
<td>0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>After five years</td>
<td>6.1</td>
<td>6.2</td>
</tr>
<tr>
<td></td>
<td>7.7</td>
<td>10.3</td>
</tr>
<tr>
<td>Less: future finance charges</td>
<td>(5.2)</td>
<td>(5.5)</td>
</tr>
<tr>
<td>Present value of lease obligations</td>
<td>2.5</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Amount due for settlement within one year: 0.9
Amount due for settlement in over one year: 1.6

2.5 4.8

The Group’s obligations under finance leases comprise certain items of plant and equipment, the average lease term of which is 2 to 3 years and two properties on long term leases with a lease term of between 57 and 82 years. The effective interest rates are shown in note 19 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.

26. Operating lease arrangements

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:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>45.8</td>
<td>43.6</td>
</tr>
<tr>
<td>In the second to fifth years inclusive</td>
<td>171.3</td>
<td>164.8</td>
</tr>
<tr>
<td>After five years</td>
<td>698.7</td>
<td>715.4</td>
</tr>
<tr>
<td></td>
<td>915.8</td>
<td>923.8</td>
</tr>
</tbody>
</table>

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 Group as lessor

Property rental income earned during the year was £2.0m (2009: £1.5m). No contingent rents were recognised in income (2009: £nil). The Group currently receives rental income on 25 (2009: 13) properties on short term leases.

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

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>3.1</td>
<td>1.4</td>
</tr>
<tr>
<td>In the second to fifth years inclusive</td>
<td>11.8</td>
<td>5.8</td>
</tr>
<tr>
<td>After five years</td>
<td>24.6</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td>39.5</td>
<td>14.9</td>
</tr>
</tbody>
</table>

In addition, the Group is a lessor in respect of vehicle sales with committed repurchase terms. There are no future minimum lease payments outstanding.
27. Employee benefits

Share Schemes

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

<table>
<thead>
<tr>
<th>Weighted average exercise price 2010</th>
<th>Number of options millions 2010</th>
<th>Weighted average exercise price 2009</th>
<th>Number of options millions 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at beginning of period</td>
<td>28.09p</td>
<td>29.1</td>
<td>38.85p</td>
</tr>
<tr>
<td>Lapsed during the period</td>
<td>30.70p</td>
<td>(5.6)</td>
<td>73.5p</td>
</tr>
<tr>
<td>Granted during the period</td>
<td>19.92p</td>
<td>7.1</td>
<td>24.67p</td>
</tr>
<tr>
<td>Outstanding at the end of the period</td>
<td>25.70p</td>
<td>30.6</td>
<td>28.09p</td>
</tr>
<tr>
<td>Exercisable at the end of the period</td>
<td>43.04p</td>
<td>6.2</td>
<td>42.97p</td>
</tr>
</tbody>
</table>

The options outstanding at 31 December 2010 have an exercise price in the range of 10.39 pence to 130.6 pence and a weighted contractual life of 5.1 years. All share options are settled in equity.

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 2010 were as follows:

<table>
<thead>
<tr>
<th>Exercise period</th>
<th>Date of grant</th>
<th>Scheme description</th>
<th>Exercise price per share</th>
<th>At 31 December 2009 Number</th>
<th>Granted Number</th>
<th>Lapsed Number</th>
<th>At 31 December 2010 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 March 2004 to 8 March 2011</td>
<td>9 March 2001</td>
<td>1999 Executive Scheme</td>
<td>18.7p</td>
<td>349,995</td>
<td>-</td>
<td>-</td>
<td>349,995</td>
</tr>
<tr>
<td>24 March 2006 to 23 March 2013</td>
<td>24 March 2003</td>
<td>1999 Executive Scheme</td>
<td>23.4p</td>
<td>493,900</td>
<td>-</td>
<td>-</td>
<td>493,900</td>
</tr>
<tr>
<td>24 March 2008 to 23 March 2013</td>
<td>24 March 2003</td>
<td>1999 Executive Scheme</td>
<td>23.4p</td>
<td>1,749,995</td>
<td>-</td>
<td>-</td>
<td>1,749,995</td>
</tr>
<tr>
<td>1 July 2010 to 31 December 2010</td>
<td>1 July 2003</td>
<td>1998 Sharesave Scheme</td>
<td>24.6p</td>
<td>167,610</td>
<td>-</td>
<td>(167,610)</td>
<td>-</td>
</tr>
<tr>
<td>30 September 2006 to 29 September 2013</td>
<td>30 September 2003</td>
<td>1999 Executive Scheme</td>
<td>40.2p</td>
<td>523,370</td>
<td>-</td>
<td>(65,000)</td>
<td>458,370</td>
</tr>
<tr>
<td>20 September 2009 to 19 September 2014</td>
<td>20 September 2004</td>
<td>1999 Executive Scheme</td>
<td>60.2p</td>
<td>3,075,000</td>
<td>-</td>
<td>-</td>
<td>3,075,000</td>
</tr>
<tr>
<td>1 July 2010 to 31 December 2010</td>
<td>1 July 2005</td>
<td>1998 Sharesave Scheme</td>
<td>60.4p</td>
<td>967,045</td>
<td>-</td>
<td>(970,965)</td>
<td>59,080</td>
</tr>
<tr>
<td>1 July 2012 to 31 December 2012</td>
<td>1 July 2005</td>
<td>1998 Sharesave Scheme</td>
<td>60.4p</td>
<td>172,775</td>
<td>-</td>
<td>(54,430)</td>
<td>118,345</td>
</tr>
<tr>
<td>1 July 2009 to 31 December 2009</td>
<td>1 July 2006</td>
<td>1998 Sharesave Scheme</td>
<td>130.6p</td>
<td>8,575</td>
<td>-</td>
<td>(8,575)</td>
<td>-</td>
</tr>
<tr>
<td>1 July 2011 to 31 December 2011</td>
<td>1 July 2006</td>
<td>1998 Sharesave Scheme</td>
<td>130.6p</td>
<td>251,310</td>
<td>-</td>
<td>(51,250)</td>
<td>200,060</td>
</tr>
<tr>
<td>1 July 2013 to 31 December 2013</td>
<td>1 July 2006</td>
<td>1998 Sharesave Scheme</td>
<td>130.6p</td>
<td>58,090</td>
<td>-</td>
<td>(520)</td>
<td>57,570</td>
</tr>
<tr>
<td>19 September 2011 to 18 September 2018</td>
<td>19 September 2008</td>
<td>1999 Executive Scheme</td>
<td>10.39p</td>
<td>6,130,000</td>
<td>-</td>
<td>(540,240)</td>
<td>5,589,760</td>
</tr>
<tr>
<td>1 August 2012 to 31 January 2013</td>
<td>13 July 2009</td>
<td>2008 Sharesave Scheme</td>
<td>24.67p</td>
<td>15,137,528</td>
<td>-</td>
<td>(3,853,539)</td>
<td>11,283,989</td>
</tr>
<tr>
<td>20 September 2013 to 19 September 2020</td>
<td>20 September 2010</td>
<td>1999 Executive Scheme</td>
<td>19.92p</td>
<td>7,135,099</td>
<td>-</td>
<td>-</td>
<td>7,135,099</td>
</tr>
</tbody>
</table>

| 29,085,193 | 7,135,099 | (5,649,129) | 30,571,163 |

The share option arrangements scheduled above include a number of arrangements granted before 7 November 2002. The recognition and measurement principles in IFRS 2 have not been applied to those grants in accordance with the transitional provisions of IFRS 1 and IFRS 2.

On 20 September 2010 options over 7,135,099 ordinary shares of 5p were granted pursuant to the 1999 Executive Option Scheme at an exercise price of 19.92p per share.

The grants of share options under the 1999 Scheme prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 1999 Scheme 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.

There were no exercises of share options during the year (2009: nil).
27. Employee benefits (continued)

The vesting conditions attaching to the 1998 Pendragon Sharesave schemes are that the option holder must contribute monthly from 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 share save schemes is measured using the Black-Scholes option pricing model. 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. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2010 is 12.4 pence (2009: 12.1 pence).

<table>
<thead>
<tr>
<th></th>
<th>1999 Executive Scheme 2010</th>
<th>2008 Sharesave Scheme 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of share options granted in year</td>
<td>7,135,099</td>
<td>15,792,291</td>
</tr>
<tr>
<td>Weighted average share price (pence)</td>
<td>19.92</td>
<td>24.67</td>
</tr>
<tr>
<td>Weighted average exercise price (pence)</td>
<td>19.92</td>
<td>24.67</td>
</tr>
<tr>
<td>Weighted average fair value (pence)</td>
<td>10.09</td>
<td>14.02</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>72.8%</td>
<td>84.1%</td>
</tr>
<tr>
<td>Expected life (years)</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Risk free rate (%)</td>
<td>4.47%</td>
<td>3.75%</td>
</tr>
<tr>
<td>Expected dividend yield (%)</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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 £0.6m as an employee benefit cost in respect of equity-settled share based payment transactions (2009: £0.5m) included within administration costs.

**Pension obligations**

The Group operates six defined benefit pension schemes (one of which has 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 equity. Actuarial gains and losses are the differences between actual and expected returns on scheme assets 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.

All six schemes have had formal actuarial valuations as at April 2009. All the actuarial valuations have been issued under the UK Government’s Scheme Specific Funding arrangements. The Group has agreed recovery plans with the six schemes which aim to eliminate the current deficits over a period of up to seven years and seven months from 5 April 2009.

**Pendragon Pension Plan**

The Pendragon Pension Plan is a funded defined benefit scheme with a defined contribution section. The last actuarial valuation of the Plan was carried out as at 5 April 2009 using the projected unit credit method. At this date the market value of the Plan’s assets relating to the defined benefit section was £9.1m; these assets represented 71.5% of the value of 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 6.85% and the annual rate of pension increases would be between 2.5% - 3%.

The Pendragon Pension Plan assumed all assets and obligations of the Stripestar Pension Scheme after it was merged on 6 April 2007.

The employer contributions paid to the defined benefit section of the Plan during the year were £4.8m, based upon actuarial advice.
27. Employee benefits (continued)

**CD Bramall Pension Scheme**
The CD Bramall Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2009 using the projected unit credit method. At the valuation date, the market value of assets was £21m; these assets represented 80.4% of the value of technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.5% and the annual rate of pension increases would be between 2.5% - 3%.

The employer contributions paid to the Scheme during the year were £1.6m, based upon actuarial advice.

**CD Bramall Dealerships Limited Pension Scheme**
The CD Bramall Dealerships Limited Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2009 using the projected unit credit method. At the valuation date, the market value of assets was £20.9m; these assets represented 68.5% of the value of accrued liabilities. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.8% and the annual rate of pension increases would be between 2.5% - 3%.

The employer contributions paid to the Scheme during the year were £1.6m, based upon actuarial advice.

**CD Bramall Retirement Benefits Scheme**
The CD Bramall Retirement Benefits Scheme is a funded defined benefit scheme. The defined contribution section has been wound up. The last actuarial valuation was carried out as at 5 April 2009 using the projected unit credit method. At the valuation date, the market value of assets relating to the defined benefit section was £5.1m; these assets represented 75.5% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.3% and the annual rate of pension increases would be between 2.5% - 3%.

The employer contributions paid to the Scheme during the year were £0.4m, based upon actuarial advice.

**Quicks Pension Scheme**
The Quicks Pension scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2009 using the projected unit credit method. At the valuation date, the market value of assets was £68.1m; these assets represented 71% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.4% and the annual rate of pension increases would be between 3.0% - 3.6%.

The employer contributions paid to the Scheme during the year were £5.4m, based upon actuarial advice.

**Reg Vardy Retirement Scheme**
The Reg Vardy Retirement Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2009 using the projected unit credit method. At the valuation date, the market value of assets was £36.6m; these assets represented 78% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 7% and the annual rate of pension increases would be between 2.0% - 3.0%.

The employer contributions paid to the Scheme during the year were £2.0m, based upon actuarial advice.

**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 2010 to the Legal & General arrangement were £4.1m (2009 : £3.7m).

The Group has determined, that in accordance with the terms and conditions of the defined benefit plans, there is a constructive obligation to make deficit funding contributions that have a net present value in excess of the difference between the value of scheme assets less the present value of funded defined benefit obligations. As such an adjustment in respect of minimum funding requirements of £21.3m has been made at 31 December 2010 (2009 : nil).
NOTES TO THE FINANCIAL STATEMENTS  continued

27. Employee benefits (continued)

IAS19 assumptions
The principal assumptions used by the independent qualified actuaries for the purposes of IAS19 for all schemes were:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation - RPI</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Inflation - CPI</td>
<td>3.00%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Rate of increase in salaries</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Rate of increase to pensions in payment</td>
<td>3.15%*</td>
<td>3.37%*</td>
<td>3.20%</td>
</tr>
<tr>
<td>Discount rate</td>
<td>5.40%</td>
<td>5.70%</td>
<td>6.30%</td>
</tr>
<tr>
<td>Mortality table assumption</td>
<td>S1PMA CMI 2009 M (1%) / S1PMA CMI 2009 F (1%)</td>
<td>YOB** mc min 1% imp / YOB** mc min 1% imp</td>
<td></td>
</tr>
</tbody>
</table>

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2010 valuation is as follows:

- RPI to max 5%: 3.50%
- RPI to max 3%: 2.80%
- RPI to min 3% to max 5%: 3.70%
- CPI to max 5%: 3.00%
- CPI to max 3%: 2.60%
- CPI to min 3% to max 5%: 3.30%

During the year the government announced a change to the index to be used for pension increases from RPI to CPI. This change applies 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 relevant changes have been reflected through the Consolidated Statement of Comprehensive Income during the year.

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Change in assumption</th>
<th>Impact on scheme liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>Increase / decrease by 0.1%</td>
<td>Decrease / increase of £7.0m</td>
</tr>
<tr>
<td>Rate of inflation</td>
<td>Increase / decrease by 0.1%</td>
<td>Increase / decrease of £4.6m</td>
</tr>
</tbody>
</table>

The expected long term rates of return on the main asset classes were:

<table>
<thead>
<tr>
<th>Asset</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>8.00%</td>
<td>7.50%</td>
<td>7.90%</td>
</tr>
<tr>
<td>Bonds</td>
<td>5.40%</td>
<td>5.70%</td>
<td>4.20%</td>
</tr>
<tr>
<td>Gilt</td>
<td>4.20%</td>
<td>4.50%</td>
<td>4.20%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.50%</td>
<td>0.50%</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

The weighted average expected long term rates of return were:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.53%</td>
<td>6.32%</td>
<td>6.18%</td>
</tr>
</tbody>
</table>

The overall expected return on assets reflects the directors’ long term view of future returns taking into account market conditions at the year end and asset allocation of the schemes.

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 2010 and differ from those used for the earlier independent statutory actuarial valuations explained above.
27. Employee benefits (continued)

** The mortality table assumption implies the following expected future lifetime from age 65:

<table>
<thead>
<tr>
<th></th>
<th>2010 years</th>
<th>2009 years</th>
<th>2008 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males aged 45</td>
<td>23.2</td>
<td>23.0</td>
<td>22.9</td>
</tr>
<tr>
<td>Females aged 45</td>
<td>25.4</td>
<td>25.8</td>
<td>25.7</td>
</tr>
<tr>
<td>Males aged 65</td>
<td>21.8</td>
<td>21.1</td>
<td>21.0</td>
</tr>
<tr>
<td>Females aged 65</td>
<td>23.8</td>
<td>23.9</td>
<td>23.8</td>
</tr>
</tbody>
</table>

The fair value of the schemes’ 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 schemes’ liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

<table>
<thead>
<tr>
<th>Scheme assets and liabilities</th>
<th>2010 £m</th>
<th>2009 £m</th>
<th>2008 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>212.5</td>
<td>182.2</td>
<td>140.8</td>
</tr>
<tr>
<td>Bonds</td>
<td>13.2</td>
<td>13.0</td>
<td>100.3</td>
</tr>
<tr>
<td>Gilts</td>
<td>108.0</td>
<td>95.9</td>
<td>-</td>
</tr>
<tr>
<td>Cash</td>
<td>7.8</td>
<td>5.4</td>
<td>10.2</td>
</tr>
<tr>
<td>Fair value of scheme assets</td>
<td>341.5</td>
<td>296.5</td>
<td>251.3</td>
</tr>
<tr>
<td>Present value of funded defined benefit obligations</td>
<td>(389.9)</td>
<td>(378.3)</td>
<td>(313.8)</td>
</tr>
<tr>
<td>Adjustment in respect of minimum funding requirement and non-recognition of surplus</td>
<td>(21.3)</td>
<td>(2.9)</td>
<td></td>
</tr>
<tr>
<td>Net liability on the balance sheet</td>
<td>(69.7)</td>
<td>(81.8)</td>
<td>(65.4)</td>
</tr>
</tbody>
</table>

Movements in the net liability for defined benefit obligations recognised in the balance sheet

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net liability for defined benefit obligations at 1 January</td>
<td>(81.8)</td>
<td>(65.4)</td>
</tr>
<tr>
<td>Contributions received</td>
<td>15.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Expense recognised in the income statement</td>
<td>(2.3)</td>
<td>(3.8)</td>
</tr>
<tr>
<td>Actuarial gains and losses recognised in equity</td>
<td>19.9</td>
<td>(28.2)</td>
</tr>
<tr>
<td>Adjustment in respect of minimum funding requirement and non-recognition of surplus</td>
<td>(21.3)</td>
<td>2.9</td>
</tr>
<tr>
<td>Net liability for defined benefit obligations at 31 December</td>
<td>(69.7)</td>
<td>(81.8)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual return on assets</td>
<td>40.3</td>
<td>44.6</td>
</tr>
<tr>
<td>Expected contributions in following year</td>
<td>19.0</td>
<td>15.8</td>
</tr>
</tbody>
</table>

Total in the income statement

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on obligation</td>
<td>21.2</td>
<td>19.4</td>
</tr>
<tr>
<td>Expected return on assets</td>
<td>(18.9)</td>
<td>(15.6)</td>
</tr>
<tr>
<td></td>
<td>2.3</td>
<td>3.8</td>
</tr>
</tbody>
</table>

The expense / (income) is recognised in the following line items in the income statement:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance costs</td>
<td>21.2</td>
<td>19.4</td>
</tr>
<tr>
<td>Finance income</td>
<td>(18.9)</td>
<td>(15.6)</td>
</tr>
<tr>
<td></td>
<td>2.3</td>
<td>3.8</td>
</tr>
</tbody>
</table>
27. Employee benefits (continued)

Actuarial gains and losses recognised directly in equity

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative amount at 1 January</td>
<td>(72.5)</td>
<td>(44.3)</td>
</tr>
<tr>
<td>Recognised during the period</td>
<td>19.9</td>
<td>(28.2)</td>
</tr>
<tr>
<td>Cumulative amount at 31 December</td>
<td>(52.6)</td>
<td>(72.5)</td>
</tr>
</tbody>
</table>

Amounts recognised in the consolidated statement of comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between actual and expected return on scheme assets</td>
<td>21.4</td>
<td>29.0</td>
</tr>
<tr>
<td>Experience loss on scheme liabilities</td>
<td>11.5</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Changes in assumptions underlying the present value of scheme obligations</td>
<td>(13.0)</td>
<td>(57.1)</td>
</tr>
<tr>
<td>Adjustment in respect of minimum funding requirement and non-recognition of surplus</td>
<td>19.9</td>
<td>(28.2)</td>
</tr>
<tr>
<td>Adjustments in respect of minimum funding requirement and non-recognition of surplus</td>
<td>(21.3)</td>
<td>2.9</td>
</tr>
<tr>
<td>(1.4)</td>
<td>(25.3)</td>
<td></td>
</tr>
</tbody>
</table>

Changes in the present value of the defined benefit obligation

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening present value of defined benefit obligation</td>
<td>378.3</td>
<td>313.8</td>
</tr>
<tr>
<td>Interest cost</td>
<td>21.2</td>
<td>19.4</td>
</tr>
<tr>
<td>Actuarial losses</td>
<td>1.5</td>
<td>57.2</td>
</tr>
<tr>
<td>Less benefits paid</td>
<td>(11.1)</td>
<td>(12.1)</td>
</tr>
<tr>
<td>Closing present value of defined benefit obligation</td>
<td>389.9</td>
<td>378.3</td>
</tr>
</tbody>
</table>

Movement in fair value of scheme assets during the period

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening fair value of assets</td>
<td>296.5</td>
<td>251.3</td>
</tr>
<tr>
<td>Expected return on assets</td>
<td>18.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Actuarial gains on assets</td>
<td>21.4</td>
<td>29.0</td>
</tr>
<tr>
<td>Contributions by employer</td>
<td>15.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Less benefits paid</td>
<td>(11.1)</td>
<td>(12.1)</td>
</tr>
<tr>
<td>End of period</td>
<td>341.5</td>
<td>296.5</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS  continued

27. Employee benefits (continued)

<table>
<thead>
<tr>
<th>History of experience adjustments</th>
<th>2010 £m</th>
<th>2009 £m</th>
<th>2008 £m</th>
<th>2007 £m</th>
<th>2006 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of defined benefit obligation</td>
<td>389.9</td>
<td>378.3</td>
<td>313.8</td>
<td>321.1</td>
<td>349.0</td>
</tr>
<tr>
<td>Fair value of scheme assets</td>
<td>341.5</td>
<td>296.5</td>
<td>251.3</td>
<td>307.3</td>
<td>283.8</td>
</tr>
<tr>
<td>Adjustment in respect of minimum funding requirement and non-recognition of surplus</td>
<td>(21.3)</td>
<td>-</td>
<td>(2.9)</td>
<td>(45.0)</td>
<td>(12.5)</td>
</tr>
<tr>
<td>Deficit in schemes</td>
<td>69.7</td>
<td>81.8</td>
<td>65.4</td>
<td>58.8</td>
<td>77.7</td>
</tr>
</tbody>
</table>

Experience adjustments on scheme liabilities:

<table>
<thead>
<tr>
<th>Amount</th>
<th>2010 £m</th>
<th>2009 £m</th>
<th>2008 £m</th>
<th>2007 £m</th>
<th>2006 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5</td>
<td>57.2</td>
<td>(9.7)</td>
<td>(37.6)</td>
<td>(8.0)</td>
<td></td>
</tr>
<tr>
<td>Percentage of scheme liabilities (%)</td>
<td>0.4%</td>
<td>15.1%</td>
<td>-3.1%</td>
<td>-11.7%</td>
<td>-2.3%</td>
</tr>
</tbody>
</table>

Experience adjustments on scheme assets:

<table>
<thead>
<tr>
<th>Amount</th>
<th>2010 £m</th>
<th>2009 £m</th>
<th>2008 £m</th>
<th>2007 £m</th>
<th>2006 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.4</td>
<td>29.0</td>
<td>(81.4)</td>
<td>(9.3)</td>
<td>10.1</td>
<td></td>
</tr>
<tr>
<td>Percentage of scheme liabilities (%)</td>
<td>5.5%</td>
<td>7.7%</td>
<td>-25.9%</td>
<td>-2.9%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

28. 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 98.

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 occupies properties owned by PPH0 Limited and its group on short term leases.

During the year the Group entered into transactions with its related party on an arms length basis and has balances outstanding at 31 December as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>24.2</td>
</tr>
<tr>
<td>2009</td>
<td>24.1</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>0.3</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>0.2</td>
</tr>
<tr>
<td>2009</td>
<td>0.2</td>
</tr>
</tbody>
</table>

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 28 to 37.

Directors of the Company and their immediate relatives control 5.35% of the ordinary shares of the Company.
NOTES TO THE FINANCIAL STATEMENTS  continued

28. Related party transactions (continued)

During the year key management personnel compensation was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term employee benefits</td>
<td>2.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Post-employment benefits</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Share based payments</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.5</strong></td>
<td><strong>2.9</strong></td>
</tr>
</tbody>
</table>

29. Deferred Income

The Group entered into a sale and leaseback arrangement in December 2006 with its joint venture Company PPH0 Limited, in which a number of properties were disposed of generating total proceeds of £250.1m. The arrangement entitles PPH0 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. At 31 December 2010 the unamortised amount of the deferred income was £12.1m, all shown within non-current liabilities. In addition, the leases include fixed rental increases. Deferred income also includes £6.9m in this respect, which is recorded within non-current liabilities (2009 total deferred revenue : £19.8m, all non-current).

30. Non-current assets classified as held for sale

The Group holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during 2011.

Properties held for sale are stated at the lower of cost and fair value less costs to sell. 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.

During the year impairment losses of £0.9m on the remeasurement of these assets to the lower of their carrying amount and their value less costs to sell were recognised in the income statement within Operating expenses (2009 : £1.4m). If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £0.5m would have been recognised.

During the year non-current assets classified as held for sale disposed of realised a profit of £0.3m which is included on the income statement under ‘Other income - gains on the sale of businesses and property’ (2009 : £0.9m).

Two properties previously classified as held for sale have now been de-classified following a decision to re-utilise one as a motor vehicle retail site and the other has been taken off the market to facilitate refurbishment. These assets have been re-classified as property, plant and equipment at their original carrying amount. There were no significant adjustments in the re-instatement for any depreciation that would have been charged had the assets not been classified as held for sale nor any reversals of impairment charges in relation to these assets.

These properties form part of central segment assets.

31. 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 2010 financial statements in respect of these issues.
## COMPANY BALANCE SHEET  
### At 31 December 2010

<table>
<thead>
<tr>
<th>Note</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>4</td>
<td>850.6</td>
</tr>
<tr>
<td>Loans to subsidiary undertakings</td>
<td></td>
<td>90.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>940.6</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>5</td>
<td>36.9</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td></td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>48.5</td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due within one year</strong></td>
<td>6</td>
<td>(485.5)</td>
</tr>
<tr>
<td><strong>Net current liabilities</strong></td>
<td></td>
<td>(437.0)</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td></td>
<td>503.6</td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due after more than one year</strong></td>
<td>7</td>
<td>(374.5)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td>129.1</td>
</tr>
</tbody>
</table>

### Capital and reserves

<table>
<thead>
<tr>
<th>Note</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Called up share capital</td>
<td>10</td>
<td>33.4</td>
</tr>
<tr>
<td>Share premium account</td>
<td>11</td>
<td>56.8</td>
</tr>
<tr>
<td>Capital redemption reserve</td>
<td>11</td>
<td>2.5</td>
</tr>
<tr>
<td>Other reserves</td>
<td>11</td>
<td>13.9</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>11</td>
<td>22.5</td>
</tr>
<tr>
<td><strong>Equity shareholders’ funds</strong></td>
<td></td>
<td>129.1</td>
</tr>
</tbody>
</table>

Approved by the Board of Directors on 22 February 2011 and signed on its behalf by:

**T G Finn**  
Chief Executive

**T P Holden**  
Finance Director

Registered Company Number: 2304195

The notes on pages 96 to 102 form part of these financial statements.
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS’ FUNDS Year ended 31 December 2010

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit / (loss) for the financial year</td>
<td>62.2</td>
<td>(26.2)</td>
</tr>
<tr>
<td>Share based payments</td>
<td>-</td>
<td>8.0</td>
</tr>
<tr>
<td>Net reduction to shareholders’ funds</td>
<td>62.2</td>
<td>(18.2)</td>
</tr>
<tr>
<td>Opening shareholders’ funds</td>
<td>66.9</td>
<td>85.1</td>
</tr>
<tr>
<td><strong>Closing shareholders’ funds</strong></td>
<td><strong>129.1</strong></td>
<td><strong>66.9</strong></td>
</tr>
</tbody>
</table>

The notes on pages 96 to 102 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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.

In accordance with its treasury policy, the Company has swapped its fixed rate USD liabilities into floating rate GBP liabilities by utilising cross currency interest rate swaps.

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. In accordance with the transitional provisions of FRS 20, no profit and loss expenses are recorded in respect of grants of share options made prior to 7 November 2002.
NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY  

1.  Accounting policies (continued)

   (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.

   (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 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.

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 profit after taxation attributable to the Company dealt with in its own accounts for the year ended 31 December 2010 is £62.2m (2009 : loss £26.2m).

3.  Directors

   Total emoluments of directors (including pension contributions) amounted to £2.5m (2009 : £2.9m).

   Information relating to directors’ emoluments, share options and pension entitlements is set out in the Directors’ Remuneration Report on pages 28 to 37.

   The directors are the only employees of the Company.

4.  Investments

<table>
<thead>
<tr>
<th>Shares in joint venture £m</th>
<th>Shares in subsidiary undertakings £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2009 and at 31 December 2010</td>
<td>-</td>
<td>850.6</td>
</tr>
</tbody>
</table>

   Shares in jointly controlled undertakings represent a 51 percent holding of the issued ordinary share capital of PPH0 Limited, a property company incorporated and trading in the United Kingdom.

   The investment in PPH0 Limited was fully impaired in 2008.
4. 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.

<table>
<thead>
<tr>
<th>Name</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Incorporated in Great Britain:</strong></td>
<td></td>
</tr>
<tr>
<td>Alloy Racing Equipment Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Bramall Quicks Dealerships Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>CD Bramall Dealerships Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>CD Bramall Motors Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Chatfield Martin Walters Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Derwent Vehicles Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>National Fleet Solutions Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pendragon Contracts Limited</td>
<td>Contract hire &amp; fleet management</td>
</tr>
<tr>
<td>Pendragon Finance &amp; Insurance Limited</td>
<td>Motor vehicle finance and insurance services</td>
</tr>
<tr>
<td>Pendragon Javelin Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pendragon Management Services Limited</td>
<td>Management services</td>
</tr>
<tr>
<td>Pendragon Motor Group Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pendragon Motorcycles Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pendragon Orient Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pendragon Premier Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pendragon Property Holdings Limited</td>
<td>Property holdings</td>
</tr>
<tr>
<td>Pendragon Sabre Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Pinewood Technologies PLC *</td>
<td>Computer systems and services</td>
</tr>
<tr>
<td>Quicks Car Supermarkets Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Quicks Motor Stores Limited</td>
<td>Motor vehicle repairs</td>
</tr>
<tr>
<td>Reg Vardy (MML) Limited</td>
<td>Motor vehicle repairs</td>
</tr>
<tr>
<td>Reg Vardy (VMC) Limited **</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Reg Vardy Limited *</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Stripestar Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Vardy Marketing Limited</td>
<td>Marketing services</td>
</tr>
<tr>
<td>Victoria (Bavaria) Limited</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td><strong>Incorporated in the United States of America:</strong></td>
<td></td>
</tr>
<tr>
<td>Bauer Motors Inc.</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Penegon West Inc.</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Penegon Mission Viejo Inc.</td>
<td>Motor vehicle dealer</td>
</tr>
<tr>
<td>Penegon Newport Beach Inc.</td>
<td>Motor vehicle dealer</td>
</tr>
</tbody>
</table>

* Direct subsidiary of Pendragon PLC

** Pendragon PLC owns 95% of the issued ordinary share capital
NOTES TO THE FINANCIAL STATEMENTS
OF THE COMPANY  continued

5. Debtors

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation tax</td>
<td>9.1</td>
<td>-</td>
</tr>
<tr>
<td>Other debtors</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>9.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Amounts due after more than one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax (see note 8)</td>
<td>0.6</td>
<td>8.7</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>27.0</td>
<td>23.3</td>
</tr>
<tr>
<td></td>
<td>27.6</td>
<td>32.0</td>
</tr>
<tr>
<td></td>
<td>36.9</td>
<td>32.2</td>
</tr>
</tbody>
</table>

Details of valuation techniques and fair values of derivative financial instruments are given above in note 19 to the consolidated financial statements on page 81.

6. Creditors: amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>36.0</td>
<td>34.6</td>
</tr>
<tr>
<td>Amounts due to subsidiary undertakings</td>
<td>437.5</td>
<td>534.2</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Other creditors and accruals</td>
<td>12.0</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>485.5</td>
<td>576.4</td>
</tr>
</tbody>
</table>

Full details of the Company’s borrowings including security and maturity are given in note 19 to the consolidated financial statements.

7. Creditors: amounts falling due after more than one year

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans (repayable between one and two years)</td>
<td>240.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Bank loans (repayable between two and five years)</td>
<td>-</td>
<td>186.1</td>
</tr>
<tr>
<td>9.310% USD 110m loan notes 2012 (repayable between two and five years)</td>
<td>70.0</td>
<td>68.7</td>
</tr>
<tr>
<td>9.310% USD 67m loan notes 2014</td>
<td>46.3</td>
<td>43.2</td>
</tr>
<tr>
<td>9.834% GBP 17m loan notes 2014</td>
<td>18.2</td>
<td>17.8</td>
</tr>
<tr>
<td></td>
<td>374.5</td>
<td>355.8</td>
</tr>
</tbody>
</table>

Full details of the Company’s borrowings including security and maturity are given in note 19 to the consolidated financial statements.

8. Deferred tax

The movements in the deferred tax asset for the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2009</td>
<td>8.7</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>(8.1)</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Deferred tax asset is shown within debtors (see note 5)
NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY continued

8. Deferred tax (continued)

The amount of deferred tax asset in the financial statements is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>-</td>
<td>8.1</td>
</tr>
<tr>
<td>Other timing differences</td>
<td><strong>0.6</strong></td>
<td><strong>0.6</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.6</strong></td>
<td><strong>8.7</strong></td>
</tr>
</tbody>
</table>

9. Share based payments

During 2009 as part of the Pendragon Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. Movements in the outstanding warrants are shown on the table below:

<table>
<thead>
<tr>
<th>Exercise period</th>
<th>Date of grant</th>
<th>Exercise price per share</th>
<th>At 31 December 2009 Number</th>
<th>Exercised Number</th>
<th>Lapsed Number</th>
<th>At 31 December 2010 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 May 2009 to 14 May 2012</td>
<td>15 May 2009</td>
<td>5.00</td>
<td>28,240,151</td>
<td>(4,060,855)</td>
<td>(1,521,683)</td>
<td>22,657,613</td>
</tr>
<tr>
<td>26 June 2009 to 25 May 2012</td>
<td>26 June 2009</td>
<td>5.00</td>
<td>14,120,075</td>
<td>(2,030,427)</td>
<td>(760,842)</td>
<td>11,328,806</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>42,360,226</td>
<td>(6,091,282)</td>
<td>(2,282,525)</td>
<td>33,986,419</td>
</tr>
</tbody>
</table>

The weighted average share price at the date of exercise was 18.92 pence for warrants exercised in the year.

During the previous year a charge of £8.0m was made to profit and loss in respect of the issue of these warrants in line with FRS26: Financial instruments; recognition and measurement.

The warrants outstanding at 31 December 2010 all have an exercise price of 5.00 pence and a weighted contractual life of 3.0 years. All share warrants are settled in equity.

The average assumptions input into the models for warrants granted were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of share warrants granted in year</td>
<td>-</td>
<td>49,202,040</td>
</tr>
<tr>
<td>Weighted average share price (pence)</td>
<td>-</td>
<td>19.7</td>
</tr>
<tr>
<td>Weighted average exercise price (pence)</td>
<td>-</td>
<td>5.00</td>
</tr>
<tr>
<td>Weighted average fair value (pence)</td>
<td>-</td>
<td>16.2</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>-</td>
<td>84.1%</td>
</tr>
<tr>
<td>Expected life (years)</td>
<td>-</td>
<td>3.0</td>
</tr>
<tr>
<td>Risk free rate (%)</td>
<td>-</td>
<td>3.75%</td>
</tr>
<tr>
<td>Expected dividend yield (%)</td>
<td>-</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

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 2010 is 16.2 pence (2009 : 16.2 pence).
# NOTES TO THE FINANCIAL STATEMENTS

## 10. Called up share capital

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised shares of 5p each at 31 December 2009 and at 31 December 2010</td>
<td>800,000,000</td>
<td>40.0</td>
</tr>
<tr>
<td>Allotted, called up and fully paid shares of 5p each at 31 December 2009</td>
<td>661,977,717</td>
<td>33.1</td>
</tr>
<tr>
<td>Issued during the year</td>
<td>6,091,282</td>
<td>0.3</td>
</tr>
<tr>
<td>Allotted, called up and fully paid shares of 5p each at 31 December 2010</td>
<td>668,068,999</td>
<td>33.4</td>
</tr>
</tbody>
</table>

During the year 6,091,282 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 2,282,525 in settlement of consideration of £0.3m.

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 2010 are fully disclosed above on page 87 of this report.

## 11. Reserves

<table>
<thead>
<tr>
<th>Description</th>
<th>Share premium account £m</th>
<th>Capital redemption reserve £m</th>
<th>Other reserves £m</th>
<th>Profit and loss account £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2009</td>
<td>56.8</td>
<td>2.5</td>
<td>13.9</td>
<td>(39.4)</td>
</tr>
<tr>
<td>Profit for the financial year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>62.2</td>
</tr>
<tr>
<td>On issue of shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.3)</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>56.8</td>
<td>2.5</td>
<td>13.9</td>
<td>22.5</td>
</tr>
</tbody>
</table>

The market value of the investment in the Company’s own shares at 31 December 2010 was £3.8m (2009 : £4.4m), being 18.6m (2009 : 19.1m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2009 : £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2010 was £8.0m (2009 : £8.0m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which 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 and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors’ Remuneration Report on pages 28 to 37.

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.

## 12. Financial instruments and derivatives

<table>
<thead>
<tr>
<th>Description</th>
<th>2010 £m</th>
<th>2009 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in fair value (expensed) / credited to profit and loss</td>
<td>(0.4)</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Details of valuation techniques and fair values of each category of financial instruments are given above in note 19 to the consolidated financial statements on page 81.
13. Pensions
The Company is a member of a funded Group wide pension scheme (Pendragon Pension Plan) 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 2010 the scheme had a deficit on an FRS 17 basis of £26.9m (2009 : £40.2m).

The latest full actuarial valuation was carried out at 5 April 2009 and was updated for FRS 17 purposes to 31 December 2010 by a qualified independent actuary.

The Company has no outstanding pension contributions (2009 : £nil).

14. Related party transactions
Identity of related parties
The Company has related party relationships with its subsidiaries, its joint venture (see note 12 to the consolidated financial statements on page 72), and with its key management personnel.

Transactions with related parties
The transactions with directors of the Company and the joint venture PPH0 Limited are set out in note 28 to the consolidated Financial Statements on pages 93 and 94 above.

15. 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 PDGL, and Bloomberg users by the code PDG LN.

**Share dealing service** The following companies offer private investors a quick and easy telephone share dealing service for dealings in the company’s shares.

Capita Share Dealing Services, a Trading Division of Capita IRG Trustees Limited, will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy where applicable. Online (via www.capitadeal.com) at commission of 1% of the value of the trade, minimum £20/maximum £75 dealing charge, or by telephone on 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open Mon-Fri 8am-4.30pm) at commission of 1.5% of the value of the trade, minimum £25/maximum £102.50 dealing charge.

Further details of the services including full Terms and Conditions may be obtained online at www.capitadeal.com by telephoning 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open Mon-Fri 8am-4.30pm).

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Barclays Stockbrokers can offer this service to you and can be contacted on 0845 601 7788*

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This is not a recommendation to buy, sell or hold shares in Pendragon PLC. If you are unsure of what action to take, you should contact a financial advisor authorised under the Financial Services and Markets Act 2000. Please note that share values may go down as well as up, which may result in you receiving less than the amount originally invested.

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