

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (the “FSMA”) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser in your own jurisdiction.

This document, which comprises (i) a circular prepared in compliance with the Listing Rules and (ii) a prospectus relating to Pendragon, has been prepared in accordance with the Prospectus Rules of the UK Listing Authority (made under section 73A of FSMA) and has been approved by the Financial Services Authority (the “FSA”) in accordance with Part VI of FSMA. A copy of this document has been filed with the FSA in accordance with Prospectus Rule 3.2.1. This document, together with the documents incorporated into it by reference (as set out in Part X of this document) will be made available to the public in accordance with Prospectus Rule 3.2.1 by the same being made available, free of charge, at [www.pendragonplc.com](http://www.pendragonplc.com), at the Company’s registered office and at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London, EC1A 4DD.

Subject to the restrictions set out below, if you sell or have sold or otherwise transferred or do transfer all of your Existing Ordinary Shares (other than ex-rights) held in certificated form before 2 August 2011 (the “Ex-Rights Date”) please send this document, together with any Provisional Allotment Letter (duly renounced) but not the personalised Form of Proxy, if and when received, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be forwarded or sent into any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States and, subject to certain exceptions, any of the other Excluded Territories. If you sell or have sold or otherwise transferred or do transfer only part of your holding of Existing Ordinary Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part III of this document and in the Provisional Allotment Letter, if and when received. If you sell or have sold or otherwise transferred or do transfer all or some of your Existing Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear UK which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

**YOU SHOULD READ THIS PROSPECTUS AND ALL DOCUMENTS INCORPORATED INTO IT BY REFERENCE IN THEIR ENTIRETY. YOUR ATTENTION IS SPECIFICALLY DRAWN TO THE DISCUSSION OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE CONSIDERED WHEN DECIDING WHETHER TO PARTICIPATE IN THE RIGHTS ISSUE, AS SET OUT IN THE SECTION OF THIS DOCUMENT ENTITLED “RISK FACTORS”.**

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## **PENDRAGON PLC**

*(Incorporated and registered in England and Wales under the Companies Act 1985, with registered number 2304195)*



**Proposed 9 for 8 Rights Issue  
of 751,577,623 New Ordinary Shares at 10 pence  
per New Ordinary Share  
and  
Notice of General Meeting**

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**RBS Hoare Govett Limited**

*Joint Financial Adviser and Joint Sponsor  
Joint Bookrunner, Joint Underwriter and  
Joint Corporate Broker*

**Rothschild**

*Joint Financial Adviser and Joint Sponsor*

**Barclays Capital**

*Joint Bookrunner and Joint Underwriter*

**Arden Partners**

*Joint Underwriter,  
Co-Bookrunner and Joint Corporate Broker*

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The distribution of this document and/or the accompanying documents and/or the Provisional Allotment Letters, and/or the transfer of Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares through CREST or otherwise into jurisdictions outside the United Kingdom may be restricted by law and therefore persons into whose possession this document and/or the accompanying documents and/or the Provisional Allotment Letters come should inform themselves about and observe any of those restrictions. Any failure to comply with any of these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, this document, the Form of Proxy, the Provisional Allotment Letter and any other such documents should not be distributed, forwarded to or transmitted in or into the United States or any of the other Excluded Territories.

The Existing Ordinary Shares are admitted to the premium segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities. Applications will be made for the New Ordinary Shares to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Ordinary Shares (nil paid) will commence at 8.00 a.m. (London time) on 2 August 2011.

Your attention is drawn to the letter from the Chairman which is set out on pages 28 to 38 of this document, recommending you to vote in favour of the Resolution to be proposed at the General Meeting. You should read the whole of this document and any documents incorporated herein by reference. Shareholders and any other persons contemplating a purchase of the Nil Paid Rights, Fully Paid Rights or the New Ordinary Shares should review the risk factors set out on pages 10 to 16 of this document for a discussion of certain factors that should be considered when deciding what action to take in relation to the Rights Issue and deciding whether or not to purchase the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares.

**The latest time and date for acceptance and payment in full for the New Ordinary Shares by holders of Nil Paid Rights is 11.00 a.m. on 16 August 2011. The procedures for delivery of the Nil Paid Rights, acceptance and payment are set out in Part III of this document and for Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) only, also in the Provisional Allotment Letter which is due to be sent subsequently. Qualifying CREST Shareholders should refer to paragraph 4 of Part III of this document.**

Subject to the passing of the Resolution at the General Meeting, it is expected that Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) will be sent a Provisional Allotment Letter on 1 August 2011. Qualifying CREST Shareholders will not be receiving Provisional Allotment Letters. Instead, Qualifying CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 2 August 2011. The Nil Paid Rights so credited are expected to be enabled for settlement by Euroclear UK as soon as practicable after Admission has become effective. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue.

**Notice of the General Meeting of Pendragon to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 1 August 2011 is set out at the end of this document. A Form of Proxy for use at the General Meeting is enclosed and, to be valid, should be completed, signed and returned so as to be received by Pendragon's Registrar, Capita as soon as possible but, in any event, so as to arrive no later than 10.00 a.m. on 30 July 2011 at the address set out therein. Completion and return of a Form of Proxy will not prevent members from attending and voting in person should they wish to do so.**

Each of Rothschild, RBS Hoare Govett, Barclays Bank PLC and Arden Partners plc are authorised and regulated in the UK by the FSA and are acting exclusively for the Company in connection with the Rights Issue and not for any other person and will not be responsible to any other person for providing the protections afforded to their respective customers, or for providing advice in relation to the Rights Issue, the contents of this document and the accompanying documents or any arrangements referred to therein.

Apart from the responsibilities and liabilities, if any, which may be imposed on Rothschild, RBS Hoare Govett, Barclays Bank PLC and Arden Partners plc by FSMA or the regulatory regime established thereunder, none of Rothschild, RBS Hoare Govett, Barclays Bank PLC or Arden Partners plc accepts any responsibility whatsoever and make no representation or warranty, express or implied, for the contents of this document including its accuracy, completeness or verification or for any other statement made or purported to be made by any of them, or on behalf of them, in connection with the Company, the New Ordinary Shares or the Rights Issue and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Accordingly Rothschild, RBS Hoare Govett, Barclays Bank PLC and Arden Partners plc disclaim all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which any of them might otherwise have in respect of this document.

This document is not being sent to Shareholders with registered addresses in the United States. This document is being sent to Shareholders with registered addresses in the other Excluded Territories for information only in connection with the General Meeting.

#### **Notice to US Investors**

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares have not been and will not be registered under the US Securities Act of 1933, as amended, (the "US Securities Act") or under any securities laws of any state or other jurisdiction of the US and may not be offered, sold, resold, taken up, exercised, renounced, transferred or delivered, directly or indirectly, within the US. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares in the United States. The Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and the Provisional Allotment Letters are being offered and sold only outside the United States in transactions exempt from the registration requirements of the US Securities Act in reliance on Regulation S under the US Securities Act.

14 July 2011

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## SUMMARY

*The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any decision to invest in the New Ordinary Shares should be based on a consideration of this document as a whole (including the information incorporated by reference into this document) and not solely on this summary. Where a claim relating to the information contained in this document and/or the documents incorporated herein by reference is brought before a court, a plaintiff investor may, under the national legislation of a European Economic Area state, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to the persons responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read with other parts of this document.*

### 1. Introduction

On 14 July 2011, the Company announced a proposed, fully underwritten share issue to raise gross proceeds of approximately £75.2 million (approximately £70.8 million net of expenses) by way of the Rights Issue, underwritten fully by the Joint Underwriters. Pendragon has also agreed to extend the maturity profile of its borrowing facilities to June 2014, on improved terms, conditional on the successful completion of the Rights Issue.

### 2. Information on Pendragon

Pendragon is the largest independent operator of franchised motor vehicle dealerships in the UK, with 237 franchise points, nine of which are in California. Pendragon sells and services 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.

### 3. Background to and reasons for the Rights Issue

In the face of extremely challenging markets in 2008 and 2009 the Group undertook a number of actions to lower costs, increase return on capital employed and sustain cash flow generation. The quick and decisive actions taken by management to improve business performance, close poorly performing sites and rationalise the cost base, yielding savings of £64 million in 2009, have ensured that Pendragon has emerged from that very difficult period a stronger business. Pendragon is now better placed to take advantage of recovering market conditions as demonstrated by the improved performance of the Group in 2010, and the encouraging start to 2011.

Despite these difficult market conditions, and the one-off costs associated with addressing the challenges faced by the business as a result, Pendragon has remained cash generative. Since the agreement of the Group's existing debt facilities in April 2009, the Group has at all times operated within its banking covenants, and continues to do so today.

Given the prevailing restricted environment in the UK lending market, and in particular as certain institutions seek to reduce their exposure to the UK market, the Directors anticipated challenges in renewing the Existing Facilities on acceptable terms and consequently began early discussions on the renewal of these facilities.

Despite the Group's improving operating and financial performance, it became clear from these discussions that, without a material reduction in the size of the Existing Facilities, it was unlikely that they could be revised on terms acceptable to the Lending Group as a whole. The Group has therefore entered into the Revised Facilities Agreement to revise the Existing Facilities and extend them to 30 June 2014 on improved terms conditional on receipt by the Lending Group of the proceeds of the Rights Issue.

The Directors believe that the combination of the Revised Facilities and the Rights Issue should have the following benefits for Pendragon:

- (a) The proceeds of the Rights Issue will allow the Group to improve its level of financial indebtedness towards the previously stated long-term Debt: Underlying EBITDA ratio target of 2:1, which the Directors believe will constitute an immediate and long-term benefit to Pendragon.

- (b) The reduction in debt and improved terms under the Revised Facilities significantly reduces the overall cost of debt finance.
- (c) The extended maturity profile of the Group's borrowing facilities together with the improving credit metrics of the Group should facilitate refinancing of the Revised Facilities ahead of the revised maturity date of 30 June 2014.
- (d) A more robust capital structure will enable the Group to continue to maintain investment in the profitable growth of the business.
- (e) Given the use of proceeds of the Rights Issue to improve the Debt: Underlying EBITDA ratio it should be possible for the Company to resume paying dividends in relation to its 2012 financial year onwards, which is earlier than would otherwise have been the case (see paragraph 6 of Part I for further detail on the Group's intentions as to dividends).

#### **4. Use of Rights Issue proceeds**

The Rights Issue will significantly strengthen the Group's balance sheet. Receipt of the funds from the Rights Issue will be applied immediately to prepay and cancel debt commitments in accordance with the terms of the Revised Facilities Agreement thus reducing overall debt facilities from £430 million to £360 million.

#### **5. Principal terms of the Rights Issue**

Pendragon is offering up to 751,577,623 New Ordinary Shares by way of rights to Qualifying Shareholders (other than, subject to certain exceptions, Restricted Shareholders) on the basis of

##### **9 New Ordinary Shares for every 8 Existing Ordinary Shares**

held on the Record Date at the Issue Price of 10 pence per New Ordinary Share, payable in full on acceptance by no later than 11.00 a.m. on 16 August 2011.

The Issue Price of 10 pence per New Ordinary Share represents:

- a 54.0 per cent. discount to the Closing Price of an Existing Ordinary Share on 13 July 2011 (being the latest practicable date prior to the date of publication of this document); and
- a 35.6 per cent. discount to the theoretical ex-rights price of 15.5 pence per Existing Ordinary Share, based on such Closing Price.

The Rights Issue is conditional, amongst other things, on the passing without material amendment of the Resolution at the General Meeting and the Underwriting Agreement having become unconditional.

It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on the London Stock Exchange, nil paid, at 8.00 a.m. on 2 August 2011.

The Rights Issue has been structured in a way that is expected to have the effect of creating distributable reserves of approximately 47 per cent. of the net proceeds of the Rights Issue. The Company and RBS Hoare Govett have agreed to subscribe for ordinary shares in Newco, a Jersey incorporated company. Capita will receive monies from Qualifying Shareholders or renouncees taking up New Ordinary Shares under the Rights Issue, as agent for and on behalf of RBS Hoare Govett. Provided certain conditions are met, RBS Hoare Govett will use the proceeds held by Capita on their behalf, to subscribe for redeemable preference shares in Newco. The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for RBS Hoare Govett transferring its holdings of ordinary shares and redeemable preference shares in Newco to the Company. At the conclusion of the Rights Issue, the Company will own the entire issued share capital of Newco, whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Rights Issue. The Company will be able to utilise this amount by Newco redeeming the redeemable preference shares that the Company will hold in Newco or, alternatively, by procuring either that Newco lends the amount to the Company prior to any redemption or that Newco pays a dividend to the Company.



## **6. Current trading and prospects**

Pendragon's encouraging performance in 2010 has continued into 2011 despite a challenging economic environment. Underlying profit before tax for the five months to 31 May 2011 was £9.0 million, £1.1 million ahead of the same period in the prior year, reflecting the benefits of further increases in new and used vehicle volumes, a strategy of focusing on higher margin business at the expense of, in particular, low margin fleet activity, and the positive impact of operational gearing as management continues to focus on controlling the Group's cost base.

Overall, Pendragon is performing in line with the Board's expectations for the full year.

## **7. Dividends**

No dividends were paid for the year ended 31 December 2010. Following the Rights Issue, the Debt: Underlying EBITDA ratio will immediately improve towards the Company's previously stated long-term target of 2:1. To reflect receipt of the net Rights Issue proceeds and the implementation of the Pension Deficit Reduction Plan, the Company has set a new target of below 1.5:1. It is the Board's current intention for the Company to resume paying dividends in relation to its 2012 financial year onwards, subject to the restrictions placed upon the Group by the terms of the Revised Facilities Agreement and taking into account the Group's underlying earnings, cash flows and capital investment plans, the requirement to maintain an appropriate level of dividend cover and the then prevailing market outlook.

## **8. Information on debt facilities**

The Group has entered into the Revised Facilities Agreement to revise the Existing Facilities and extend them to 30 June 2014 on improved terms, conditional on receipt by the Lending Group of the proceeds of the Rights Issue.

## **9. Working capital statement**

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the available bank and other facilities, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

## **10. Importance of vote**

All of the Group's Existing Facilities of £430 million mature or can be terminated on 30 April 2012, and the Directors propose to refinance those Existing Facilities by entering into the Revised Facilities Agreement. The Rights Issue and Revised Facilities will significantly strengthen the Group's balance sheet and provide sufficient financial flexibility to maintain appropriate levels of investment in the Group's core businesses, which the Directors believe represent the best opportunities for return on investment through profitable growth, both as markets continue to recover and over the long term.

However, the Revised Facilities are conditional upon receipt by the Lending Group of the proceeds of the Rights Issue, which is itself conditional upon the Resolution being passed by Shareholders at the General Meeting. Therefore, if the Resolution is not passed at the General Meeting, the Rights Issue will not proceed and the Revised Facilities will not be made available to the Group.

In these circumstances, although the Group continues to operate within its banking covenants and is expected to do so through to maturity, the Company would need to secure alternative committed facilities to replace the Existing Facilities. The Directors believe, based on discussions with the Group's existing banks and other lenders, that the Company is likely to be able to secure these alternative facilities. However, there can be no certainty that the Company would be able to secure such alternative facilities, and such facilities may be on a shorter tenor, be significantly more expensive and/or result in the imposition of more restrictive covenants on the Group than would apply under the Revised Facilities.

Accordingly, the Board believes the Rights Issue is in Shareholders' best interests and that it is very important that Shareholders vote in favour of the Resolution so that the Rights Issue can proceed.

## 11. Information on General Meeting and Recommendation

The Rights Issue is subject to a number of conditions, including Shareholders' approval of the Resolution at the General Meeting. A notice convening the General Meeting to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 1 August 2011, is set out at the end of this document.

The General Meeting is being convened for the purposes of considering and, if thought fit, passing the Resolution, which is required to implement the Rights Issue. The Resolution will be proposed as a composite special resolution, which to be passed, requires the approval of not less than 75 per cent. in value of those voting (whether in person or by proxy) on the Resolution at the General Meeting.

The Board, which has received financial advice from Rothschild and RBS Hoare Govett in the context of the Rights Issue, considers the Rights Issue and the Resolution to be in the best interests of the Company and the Shareholders taken as a whole. In providing advice to the Board, Rothschild and RBS Hoare Govett have relied upon the Board's commercial assessments of the Rights Issue and the Group's funding requirements.

Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution to be put to the General Meeting as they intend to do, or procure, in respect of their own beneficial holdings, amounting to approximately 24,850,130 Ordinary Shares, representing approximately 3.72 per cent. of the Existing Ordinary Shares.

## 12. Summary financial and pro forma information

The following summary consolidated financial information on the Group has been prepared in accordance with IFRS and extracted without adjustment from the audited consolidated financial statements of the Group for the three years ended 31 December 2008, 31 December 2009 and 31 December 2010.

### Summary consolidated income statement

<i>Year ended 31 December</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Revenue	3,575.0	3,191.7	4,162.4
Gross profit	499.4	492.1	543.2
Operating profit before other income	62.9	55.6	(130.9)
Operating profit	63.2	56.7	(136.1)
Profit before taxation	11.0	1.3	(194.0)
Basic earnings/(loss) per share	0.9p	0.1p	(24.4)p
Diluted earnings/(loss) per share	0.8p	0.1p	(24.4)p

### Summary consolidated balance sheet

<i>As at 31 December</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Total non-current assets	682.8	709.1	749.4
Total current assets	719.3	666.0	981.3
<b>Total assets</b>	<b>1,402.1</b>	<b>1,375.1</b>	<b>1,730.7</b>
Total current liabilities	(817.8)	(801.1)	(1,051.3)
Total non-current liabilities	(473.1)	(468.1)	(565.7)
<b>Total liabilities</b>	<b>(1,290.9)</b>	<b>(1,269.2)</b>	<b>(1,617.0)</b>
Net assets	111.2	105.9	113.7
<b>Total equity</b>	<b>111.2</b>	<b>105.9</b>	<b>113.7</b>

## Summary consolidated cash flows

<i>Year ended 31 December</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net cash from operating activities	6.5	49.2	4.5
Net cash used in investing activities	(10.8)	(12.9)	(11.7)
Net cash inflow/(outflow) from financing activities	7.7	(100.0)	105.4
Cash and cash equivalents at 31 December	91.2	86.8	154.6

## 14. Summary of risk factors

The Group's business and the Rights Issue are subject to certain risks including:

### *Importance of the vote*

- If the Resolution is not passed or any other condition of the Rights Issue is not fulfilled, the Rights Issue will not proceed and the Revised Facilities will not become available to the Group

### *General risks*

- Business conditions and adverse economic conditions, including changes in consumer confidence, credit availability, government regulation and taxation
- Regulatory compliance risk, including environmental, health and safety laws, regulations and standards
- Funding risks relating to the Group's defined benefit pension schemes

### *Risk factors specific to the motor industry*

- Vehicle manufacturer and supplier dependencies
- Vehicle manufacturer sales targets failing to adjust
- Changes to, or discontinuance of, manufacturers' incentive programmes
- Cyclical demand for new vehicles
- Used vehicle prices, and therefore profit margins, can decline significantly

### *Risks relating to Pendragon's business*

- Impact on Pendragon of competition in its key markets
- Future earnings growth and shareholder value creation depend, *inter alia*, on the Group's strategic decisions
- Customer dissatisfaction and other factors may affect the Group's reputation
- The terms of the Group's insurance cover may be subject to unfavourable changes
- Failure of information systems
- Dependence on franchise agreements

### *Risks relating to the terms of the Company's Revised Facilities*

- The Revised Facilities contain provisions which require the consent of the Group's lenders to conduct certain transactions

### *Risks relating to the Rights Issue and the New Ordinary Shares*

- The price of the Ordinary Shares may be volatile, may decrease, and Shareholders may not be able to sell the Ordinary Shares at a favourable price after the Rights Issue



- An active trading market in the Nil Paid Rights may not develop
- The listing and admission to trading of the New Ordinary Shares on the London Stock Exchange may not occur when expected
- Shareholders who do not acquire New Ordinary Shares in the Rights Issue will experience dilution in their ownership of Pendragon
- If the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed
- Dividend payments are not guaranteed
- Overseas Shareholders may not be able to receive New Ordinary Shares in the Rights Issue and their ability to bring actions or enforce judgements against Pendragon or the Directors may be limited
- Shareholders may be subject to exchange rate risks

## RISK FACTORS

*The Rights Issue and any investment in the New Ordinary Shares is subject to a number of risks. Accordingly, Shareholders and prospective investors should carefully consider all the information contained in this document incorporated into it by reference and the risks attaching to an investment in the Company including, in particular, the risks described below, and their personal circumstances prior to making any investment decision. Some of the following factors relate principally to the Group's businesses. Other factors relate principally to the Rights Issue and an investment in the New Ordinary Shares. The Group's businesses, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of the Ordinary Shares, Nil Paid Rights and/or the Fully Paid Rights may decline significantly and investors may lose all or part of their investment.*

*The risks and uncertainties described below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Directors, or which they deem immaterial, may also have an adverse effect on the Group's operating results, financial condition and prospects.*

### 1. Importance of vote

***If the Resolution is not passed or any other condition of the Rights Issue is not fulfilled, the Rights Issue will not proceed and the Revised Facilities will not become available to the Group***

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the available bank and other facilities, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

All of the Group's Existing Facilities of £430 million mature or can be terminated on 30 April 2012, and the Directors propose to refinance those Existing Facilities by entering into the Revised Facilities. The Rights Issue and Revised Facilities will significantly strengthen the Group's balance sheet and provide sufficient financial flexibility to maintain appropriate levels of investment in the Group's core businesses, which the Directors believe represent the best opportunities for return on investment through profitable growth, both as markets continue to recover and over the long term.

However, the Revised Facilities are conditional upon receipt by the Lending Group of the proceeds of the Rights Issue, which is itself conditional upon the Resolution being passed by Shareholders at the General Meeting. Therefore, if the Resolution is not passed at the General Meeting, the Rights Issue will not proceed and the Revised Facilities will not be made available to the Group.

In these circumstances, although the Group continues to operate within its banking covenants and is expected to do so through to maturity, the Company would need to secure alternative committed facilities to replace the Existing Facilities. The Directors believe, based on discussions with the Group's existing banks and other lenders, that the Company is likely to be able to secure these alternative facilities. However, there can be no certainty that the Company would be able to secure such alternative facilities, and such facilities may be on a shorter tenor, be significantly more expensive and/or result in the imposition of more restrictive covenants on the Group than would apply under the Revised Facilities.

### 2. General risks

***Business conditions and adverse economic conditions, including changes in consumer confidence, credit availability, government regulation and taxation, could have a negative impact on the Group's markets***

The profitability of Pendragon's businesses is influenced by the economic environment in the United Kingdom, where over 90 per cent. of its revenues are generated, and could be adversely affected by a continued stagnation in, or worsening of, general economic conditions. Factors such as unemployment levels, the level and volatility of equity markets, consumer confidence, 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.

In the case of new car sales, during a period of economic downturn there is likely to be an oversupply of vehicles leading to reduced unit prices and lower profit margins. A continuation or deterioration of economic and financial conditions could cause the financial performance and/or financial condition of the Group to decline, including by causing a material decrease in the Group's cashflows or the value of the Group's assets. Such economic conditions and a decline in demand for the Group's products could have a material adverse impact on its businesses, financial condition and operating results.

***The Group is subject to regulation including environmental, health and safety laws, regulations and standards and non-compliance may result in investigations which would adversely affect its business***

The Group is subject to regulatory compliance risk which can arise from a failure to comply fully with applicable laws, regulations, codes or standards, including those relating to pollution, the health and safety of employees, protection of the public, protection of the environment and the storage and handling of hazardous substances and waste materials. Laws, regulations and standards are becoming increasingly stringent. Non-compliance can lead to fines, cessation of certain business activities, public reprimand or reputational damage.

Specifically, changes in regulation of carbon dioxide emission from cars could impact consumers' choices and impact the sales of certain brands of new and used vehicles. Pendragon sells and services a wide range of vehicle brands and models; therefore whilst the sales of some brands may be negatively impacted by increased regulation, sales of other models and brands may benefit as consumers turn to more fuel-efficient or cost-efficient types of vehicle. In addition, increases in fuel taxation and prices could lead to a reduction in the annual mileage of vehicles, leading to reductions in the frequency of repairs and servicing.

***The Group has defined benefit pension schemes that are in deficit and in respect of which it may be required to increase its contributions and/or to fund an increase in the cost of future benefits. Such increased contributions could have a material adverse impact on the Group's business, results of operations and financial condition***

Pendragon maintains several pension schemes including defined benefit schemes that are in deficit. The Group has agreed a pension deficit reduction plan with the schemes' trustees on the terms described at paragraph 7 of Section A of Part I of this document. However, that reduction plan does not necessarily mitigate the risk that the deficit in Pendragon's defined benefit pension plans may increase and there is no guarantee that Pendragon will not be required to increase its contributions in future.

The pension fund liabilities are partially matched by a portfolio of assets, which leaves potential risk around the mortality rate, wage inflation and return on assets. In addition, the pension schemes contain a significant proportion of equity assets that are expected to provide a better return in the long term than alternative investments such as bonds. However, in the short term, the difference between the value of liabilities and assets may vary significantly, potentially resulting in a large deficit having to be recognised on Pendragon's balance sheet.

In the event that the market value of the assets of such pension schemes declines or the value of the assessed liabilities increases or if the trustees determine that the Group's financial position requires a different approach to contributions and deficit reduction, Pendragon may be required to increase its contributions. Changes in investment strategy of the schemes may also result in a requirement to increase the Group's contributions to such schemes. In addition, under the provisions of the Pensions Act 2006, the Pensions Regulator has powers the exercise of which could require Pendragon to make additional contributions or to put in place other financial support. Any requirement to put cash into the pension schemes to cover any such deficits could have a material adverse effect on Pendragon's business, results of operations and overall financial condition.

### **3. Risk factors specific to the motor industry**

***The Group's financial performance and success depends on the success and financial strength of its vehicle manufacturers and suppliers***

The Group depends on the vehicle manufacturers' financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and industrial relations and provision of trade credit.

Although the Group does not depend on any single vehicle manufacturer, a failure by a manufacturer in the areas noted could, depending on the scale of Pendragon's representation of its brands, have a material adverse impact on the Group's business.

In addition, the Group's manufacturing partners and suppliers have been and may continue to be adversely affected by other factors such as economic downturns, fluctuations in currency exchange rates, significant declines in the sale of new vehicles, increases in interest rates, declines in their credit ratings, labour strikes or similar disruptions, supply shortages, rising material costs, rising employee costs, adverse publicity that may reduce consumer demand for their products, product defects, vehicle recalls, litigation, poor product range or vehicle design, or other adverse events. These and other risks could have a material adverse effect on any business or manufacturing partner or supplier and its ability to supply, design, market, produce or distribute new vehicles and parts, which in turn could have a material adverse effect on the business, results of operations, financial condition or prospects of the Group.

***A failure by vehicle manufacturers to adjust their sales targets promptly to reflect changing levels of demand may have a material adverse effect on the performance of the Group's business***

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. When demand levels decline (as they have done in recent years), manufacturers may not, or may not promptly, adjust their sales targets downwards to reflect the decline in demand. This may require dealers to reduce prices and/or pre-register new vehicles in order to meet the sales targets. Decreasing new car prices also has an adverse impact 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.

***Changes to, or discontinuances of, manufacturers' incentive programmes could have a material adverse impact on the Group's business***

Pendragon depends on manufacturers for sales incentives, warranties, credit programmes and other programmes that are intended to promote and support new vehicle sales at Pendragon's 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 a material adverse impact on the Group's business.

***Demand for new vehicles is cyclical and affected by general economic conditions, and any reduction in demand would have a material effect on the Group's business***

The demand for new vehicles is cyclical, which in some years will lead to reduced margins caused by oversupply. During economic downturns such as the one the motor industry and wider economy has recently experienced, new vehicle sales to customers tend to decline due to weak demand. Other economic factors such as a significant increase in the price of oil or the potential impact of environmental regulation, action taken by the UK Government relating to VAT and the taxation of engine emissions road usage or fuel for vehicles and the effects of a decline in residual values inflating the overall cost of vehicle ownership can all contribute to weak demand for new vehicles. Changes in fuel taxation and fuel prices could significantly impact the sales of new and used vehicles. In particular, increases in fuel taxation and prices could impact the sales of vehicles with high fuel consumption characteristics.

The UK market continues to experience problems caused by a combination of these factors. Despite the currently low interest rates, continued general economic uncertainty has resulted in new car registrations remaining flat. Further, although consumer demand for used cars and aftersales (repairs, servicing and parts) is generally considered to be less prone to cyclicity than the demand for new vehicles (as customers substitute new car purchases for nearly new or used cars, or spend more money keeping their existing vehicles roadworthy), a further deterioration in general economic conditions may also reduce demand for used car and aftersales services and such a reduction could have a material effect on the Group's business.

***Used vehicle prices, and therefore profit margins, can decline significantly***

Used vehicle prices can decline significantly, especially as a result of oversupply in the market and therefore reduced pricing in respect of new or nearly new vehicles. As a significant proportion of the Group's business comprises used vehicle sales, these declines can have a material impact on the Group's 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.

**4. Risks relating to Pendragon's business**

***The automotive industry is subject to a number of competitive factors, and the Group may be unable to maintain its market share***

Pendragon competes 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. Pendragon also competes for 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 range of manufacturers' brands and models and the quality of customer service. In addition, Pendragon competes with a range of financial institutions that finance customers' vehicle purchases directly. Some of the Group's competitors may have greater resources and lower overhead and sales costs. This could lead to a failure to be able to compete and result in a reduction in Pendragon's profitability.

***Future earnings growth and shareholder value creation depend, inter alia, on the Group's strategic decisions***

Significant resources are devoted to the formulation and implementation of the Group's strategy. The current difficult and uncertain economic conditions make the markets in which the Group operates more volatile, with the result that it is more difficult to determine strategic direction. In order to be able to react to that volatility, the Group may have to adopt a cautious strategic approach. Elements of the strategy may also not deliver the results intended, either as a consequence of internal factors such as poor implementation associated with strategic change, or external factors, such as competitor actions.

***Customer dissatisfaction may adversely affect the Group's reputation***

Failure to deliver on customer service level expectations could adversely affect the Group's reputation and/or expose the Group to financial liability. The Group's reputation is key to attracting new business and manufacturing partners and new employees. A deterioration of the Group's reputation could, therefore, have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The terms of the Group's insurance cover may not adequately cover all risks and may not in the future be renewable or obtainable on terms which are as favourable***

The Group cannot guarantee that it will be able to renew or obtain insurance on competitive terms in the future and this may have an adverse effect on the Group's business, results of operations, financial condition or prospects. Not all risks are insured and the Group cannot guarantee that its insurance adequately covers all risks.

***The Group's business is dependent on information systems, any failure of which might have a material adverse effect on the Group's operations***

Pendragon's businesses are dependent on the efficient and uninterrupted operation of its information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failure, sabotage, vandalism or similar misconduct. Whilst Pendragon has 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.

***Failure to renew one or more franchise agreements with vehicle manufacturers could have a material adverse effect on the Group's business***

Pendragon operates franchised motor vehicle dealerships. Franchises are awarded to Pendragon by the vehicle manufacturers. Some of these franchise agreements have been in place for many years. 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 to display vehicle manufacturer trademarks.

**5. Risks relating to the terms of the Company's Revised Facilities**

***The Company's revised debt facilities contain provisions which require the consent of the Group's lenders to conduct certain transactions***

Although the Revised Facilities allow for greater operational flexibility than the Existing Facilities, the terms of Pendragon's Revised Facilities include provisions which require the Group to obtain consents from its providers of finance in order to take steps which may otherwise be in the best interests of the Company and its business. Such provisions include:

- a guarantee and security package for the benefit of certain of Pendragon's providers of finance, restricting disposal rights in respect of the assets that are secured; and
- a suite of other operational covenants which oblige the Group to carry on its business and activities in a specified manner and within certain specified parameters, including (subject to certain agreed exceptions) restrictions on granting security, mergers or acquisitions, granting guarantees or altering the general nature of the Group's business.

**6. Risks relating to the Rights Issue and an investment in Ordinary Shares**

***The price of the Ordinary Shares may be volatile, may decrease, and Shareholders may not be able to sell the Ordinary Shares at a favourable price after the Rights Issue***

The price of the Ordinary Shares may decline below the Issue Price. Should that occur after rights are exercised, Qualifying Shareholders who exercised their rights will suffer an immediate loss as a result. Moreover, there can be no assurance that, following the exercise of rights Shareholders will be able to sell their New Ordinary Shares at a price equal to or greater than the Issue Price.

The price of the Ordinary Shares will fluctuate and may not always reflect the underlying asset value or the prospects of the Group. The price of the Ordinary Shares may fall in response to market appraisal of the Group's current strategy or if the Group's operating results and/or prospects from time to time are below the prior expectations of market analysts and investors. In addition, stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities and which may be unrelated to the Group's operating performance and prospects. A number of factors outside the control of the Group may impact on its performance and the price of the Ordinary Shares. The factors which may affect the Company's share price include (but are not limited to):

- the Group's expected and actual operating performance and the performance of other companies in the markets in which the Group operates;
- speculation about the Group's businesses, about mergers or acquisitions involving the Group and/or major divestments by the Group in the press, media or investment community;
- speculation and short-selling of Ordinary Shares relating to the intentions of the Company's major Shareholders or significant sales of Ordinary Shares by such Shareholders;
- the publication of credit ratings by rating agencies and of research reports by analysts;
- other rights issues in the market; and
- general economic and market conditions.

Although the Company has no current plans for an offering of Ordinary Shares subsequent to the Rights Issue, it is possible that it may decide to do so in the future. An additional offering or a significant sale of



Ordinary Shares by any of the Company's major Shareholders could have an adverse effect on the market price of the outstanding Ordinary Shares.

***An active trading market in the Nil Paid Rights may not develop***

An active trading market in the Nil Paid Rights may not develop on the London Stock Exchange during the trading period. In addition, because the trading price of the Nil Paid Rights depends on the trading price of Ordinary Shares, the Nil Paid Rights price may be volatile and is subject to the same risks as noted in the preceding risk factor. The volatility of the price of Ordinary Shares may also magnify the price volatility of the Nil Paid Rights.

***The listing and admission to trading of the New Ordinary Shares on the London Stock Exchange may not occur when expected***

There is no assurance that the listing and trading of the New Ordinary Shares on the London Stock Exchange will take place when anticipated. See "Expected Timetable of Principal Events" on page 18 of this document for further information on the expected dates of these events.

***Shareholders who do not acquire New Ordinary Shares in the Rights Issue will experience dilution in their ownership of Pendragon***

The Rights Issue offer period is expected to begin on 2 August 2011 and expire at 11:00 a.m. (London time) on 16 August 2011. If Qualifying Shareholders do not take up their entitlements under the Rights Issue, their proportionate ownership and voting interests in Pendragon will be reduced and the percentage that their shares will represent of the total share capital of Pendragon will be reduced accordingly. Even if a Shareholder elects to sell their unexercised Nil Paid Rights or such Nil Paid Rights are sold on their behalf, the consideration they receive may not be sufficient to compensate them fully for the dilution of their percentage ownership of Pendragon's share capital that may be caused as a result of the Rights Issue.

***If the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed and the Revised Facilities will not become available to the Group and other preferential banking facilities may not become available to the Group***

The Rights Issue is underwritten pursuant to the Underwriting Agreement, the scope and principal terms (including conditions and termination rights) of which are set out in paragraph 14 of Part IX of this document. The underwriting of the Rights Issue will become fully effective on 2 August 2011, provided that all of the conditions are satisfied or waived and none of the termination rights are exercised. The Underwriting Agreement grants the Joint Underwriters customary rights to terminate the Underwriting Agreement in certain circumstances. If the Joint Underwriters are entitled to terminate, and do terminate, the Underwriting Agreement before Admission occurs, then the Rights Issue will not proceed.

In addition, if the Resolution is not passed at the General Meeting, the Rights Issue will not proceed.

The Revised Facilities Agreement is conditional upon receipt by the Lending Group of the proceeds of the Rights Issue. Therefore, if the Rights Issue does not proceed, the Revised Facilities Agreement will not be completed and the Revised Facilities will not be made available to the Group. There is the risk that the Group might then face difficulties in refinancing the Existing Facilities and, in any event, any other refinancing terms obtained by the Company may be on a shorter tenor, be significantly more expensive and/or result in the imposition of more restrictive covenants on the Group than would apply under the Revised Facilities.

***The Company's ability to pay dividends is not guaranteed***

Future dividends will be restricted by the terms of the Revised Facilities Agreement and otherwise subject to the Group's financial condition, which the Board expects will be related to market conditions. Under UK company law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends from its subsidiaries. The payment of dividends to the Company by its subsidiaries is affected by their financial condition and, in turn, subject to restrictions, including certain regulatory requirements and the existence of sufficient distributable reserves and cash in those subsidiaries.

***Overseas Shareholders may not be able to receive New Ordinary Shares in the Rights Issue***

Securities laws of certain jurisdictions may restrict Pendragon's ability to allow participation by Shareholders in the Rights Issue. In particular, holders of Ordinary Shares with registered addresses, or resident or located, in the US may not be able to exercise their pre-emption rights unless a registration statement under the US Securities Act is effective with respect to such rights or an exemption from the registration requirements is available thereunder. The Rights Issue will not be registered under the US Securities Act. Securities laws of certain other jurisdictions may restrict Pendragon's ability to allow participation by Qualifying Shareholders in such jurisdictions in any future issue of shares carried out by the Company. Qualifying Shareholders who have a registered address in or who are resident or located in, any of the Excluded Territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to receive Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters and the New Ordinary Shares in the Rights Issue.

***The ability of Overseas Shareholders to bring actions or enforce judgments against Pendragon or the Directors may be limited***

The ability of an Overseas Shareholder to bring an action against the Company may be limited. The Company is a public limited company incorporated in England and Wales. The rights of holders of Ordinary Shares are governed by English law and by the Company's Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors. The Directors are residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors within the Overseas Shareholder's country of residence or to enforce against the Directors judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

***Shareholders may be subject to exchange rate risks***

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares are priced in pounds Sterling, and will be quoted and traded in pounds Sterling. In addition, any dividends the Company may pay will be declared and paid in pounds Sterling. Accordingly, Shareholders resident in non-UK jurisdictions are subject to risks arising from adverse movements in the value of their local currencies against the pound, which may reduce the value of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares, as well as that of any dividends paid.

## RIGHTS ISSUE STATISTICS<sup>(1)</sup>

Issue Price per New Ordinary Share	10 pence
Basis of Rights Issue	9 New Ordinary Shares for every 8 Existing Ordinary Shares
Number of Ordinary Shares in issue at the date of this document	668,068,999
Anticipated number of New Ordinary Shares to be issued in the Rights Issue <sup>(1)</sup>	751,577,623
Number of Ordinary Shares in issue immediately following the Rights Issue <sup>(1)</sup>	1,419,646,622
New Ordinary Shares as a percentage of the enlarged issued share capital of the Company immediately following completion of the Rights Issue <sup>(1)</sup>	52.9%
Estimated proceeds of the Rights Issue to be retained by the Company (net of expenses) <sup>(2)</sup>	£70.8 million
Estimated expenses of the Rights Issue (excluding VAT)	£4.4 million

**Notes:**

- (1) The numbers in this table are based on 668,068,999 Existing Ordinary Shares in issue as at 13 July 2011 (being the latest practicable date prior to the date of publication of this document) and assume that (a) no entitlements are exercised under the Share Schemes or in connection with the exercise of Warrants between the date of this document and the closing of the Rights Issue and (b) there are no fractional entitlements representing the New Ordinary Shares.
- (2) The estimated net proceeds are based on 751,577,623 New Ordinary Shares each being issued pursuant to the Rights Issue and on the assumptions set out in note (1) above, and the expression “net proceeds of the Rights Issue”, where used in this document, shall be qualified accordingly.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

*Each of the times and dates in the table below is indicative only and may be subject to change.*

Record Date	close of business on 28 July 2011
Latest time and date for receipt of Forms of Proxy for the General Meeting	10.00 a.m. on 30 July 2011
<b>General Meeting</b>	<b>10.00 a.m. on 1 August 2011</b>
Despatch of Provisional Allotment Letters (to Qualifying Non-CREST Shareholders only <sup>(1)</sup> )	<b>1 August 2011</b>
<b>Dealings in New Ordinary Shares, nil paid, commence on the London Stock Exchange</b>	<b>8.00 a.m. on 2 August 2011</b>
Start of the Rights Issue offer period	2 August 2011
Existing Ordinary Shares marked “ex” by the London Stock Exchange (expected to be)	8.00 a.m. on 2 August 2011
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only <sup>(1)</sup> )	as soon as possible after 8.00 a.m. on 2 August 2011
Nil Paid Rights and Fully Paid Rights enabled in CREST	8.00 a.m. on 2 August 2011
Recommended latest time for requesting withdrawal of Nil Paid Rights and Fully Paid Rights from CREST (i.e. if your Nil Paid Rights and Fully Paid Rights are in CREST and you wish to convert them to certificated form)	4.30 p.m. on 10 August 2011
Latest time for depositing renounced Provisional Allotment Letters, nil or fully paid, into CREST or for Nil Paid Rights or Fully Paid Rights into a CREST stock account (i.e. if your Nil Paid Rights and Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them to uncertificated form)	3.00 p.m. on 11 August 2011
Latest time and date for splitting Provisional Allotment Letters, nil or fully paid	3.00 p.m. on 12 August 2011
<b>Latest time and date for acceptance, payment in full and registration of renunciation of Provisional Allotment Letters</b>	<b>11.00 a.m. on 16 August 2011</b>
Results of Rights Issue to be announced	17 August 2011
<b>Dealings in New Ordinary Shares, fully paid, commence on the London Stock Exchange</b>	<b>8.00 a.m. on 17 August 2011</b>
New Ordinary Shares credited to CREST stock accounts	17 August 2011
Despatch of definitive share certificates for the New Ordinary Shares in certificated form	by no later than 26 August 2011

### Notes:

- (1) The ability to participate in the Rights Issue is subject to certain restrictions relating to Qualifying Shareholders with registered addresses or located or resident in countries outside the UK (particularly the Restricted Shareholders) details of which are set out in Part III of this document.

- (2) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Pendragon (in consultation with the Joint Bookrunners and the Co-Bookrunner), in which event details of the new times and dates will be notified to the UK Listing Authority, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
- (3) Different deadlines and procedures for applications may apply in certain cases. For example, if you hold your Existing Ordinary Shares through a CREST member or other nominee, that person may set an earlier date for application and payment than the dates noted above.
- (4) References to times in this document are to London times unless otherwise stated.

## DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

### ***Directors***

Mike Davies  
Trevor Finn  
Martin Casha  
Tim Holden  
Hilary Sykes  
Ian Coull  
Melvyn Egglenton  
David Joyce  
Malcolm Le May

### ***Principal functions***

*Chairman*  
*Chief Executive*  
*Chief Operating Officer*  
*Finance Director*  
*Corporate Services Director*  
*Non-executive Director*  
*Non-executive Director*  
*Non-executive Director*  
*Non-executive Director*

**Note:** The business address of each of the Directors is the Company's registered address, shown below.

### **Company Secretary**

Hilary Sykes

### **Registered office**

Loxley House  
2 Oakwood Court  
Little Oak Drive  
Annesley  
Nottingham NG15 0DR

### **Joint Financial Adviser and Joint Sponsor, Joint Bookrunner, Joint Underwriter and Joint Corporate Broker**

RBS Hoare Govett Limited  
250 Bishopsgate  
London EC2M 4AA

### **Joint Financial Adviser and Joint Sponsor**

NM Rothschild & Sons Limited  
New Court  
St. Swithin's Lane  
London EC4P 4DU

### **Joint Bookrunner and Joint Underwriter**

Barclays Bank PLC  
5 The North Colonnade  
Canary Wharf  
London  
E14 4BB

### **Joint Underwriter, Co-Bookrunner and Joint Corporate Broker**

Arden Partners PLC  
Arden House  
Highfield Road  
Edgbaston  
Birmingham B15 3DU

### **Legal advisers to the Company**

CMS Cameron McKenna LLP  
Mitre House  
160 Aldersgate Street  
London EC1A 4DD

### **Legal advisers to the Joint Sponsors, Joint Bookrunners and Joint Underwriters**

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY



**Auditors and Reporting  
Accountants to the Company**

KPMG Audit PLC  
One Snowhill  
Snow Hill Queensway  
Birmingham, B4 6GH

**Registrar**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0GA

**Receiving Agent**

Capita Registrars  
Corporate Actions  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## **IMPORTANT INFORMATION**

### **General information**

Each of Arden Partners plc, Barclays Bank PLC, Rothschild and RBS Hoare Govett may, in accordance with applicable legal and regulatory provisions, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and/or related instruments for its own account for the purpose of hedging its underwriting exposure or otherwise. Except as required by applicable law or regulation, none of Arden Partners plc, Barclays Bank PLC, Rothschild nor RBS Hoare Govett propose to make any public disclosure in relation to any such transactions.

### **Presentation of financial information**

The Company publishes its financial statements in pounds sterling (“£” or “Sterling”). The abbreviation “£m” represents millions of pounds sterling, and references to “pence” and “p” represent pence in the UK. References to “Euros”, “EUR” or “€” are to the single currency of the participating member states of the European Union.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a table may not conform exactly to the total figure given for that table. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

### **International Financial Reporting Standards**

As required by the Companies Act and Article 4 of the European Union IAS Regulation, the consolidated financial statements of the Group are prepared in accordance with IFRS issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union.

There are certain non-IFRS financial measures included in this document, including key performance indicators. The Directors have included these measures as they use them to measure business performance. These measures should not be considered as an alternative to measures based on IFRS, and may not be computed in the same manner as similar titled measures presented by other companies.

### **No incorporation of website information**

Pendragon’s website is [www.pendragonplc.com](http://www.pendragonplc.com) and this document is available on that website. The information on that website, any website mentioned in this document or any website directly or indirectly linked to these websites has not been verified and does not form part of this document and investors should not rely on it.

### **Forward looking statements**

Certain statements made in this document constitute forward looking statements. Forward looking statements can be identified by the use of words such as “may”, “will”, “should”, “predict”, “assurance”, “aim”, “hope”, “risk”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or other similar expressions that are predictive or indicative of future events. All statements other than statements of historical facts included in this document, including, without limitation, those regarding the Group’s expectations, intentions and beliefs concerning, amongst other things, the Group’s results of operations, financial position, growth strategy, prospects, dividend policy and the industries in which the Group operates, are forward looking statements. By their nature, such forward looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Group and its Directors, which may cause the actual results, performance, achievements, cash flows, dividends of the Group or industry results to be materially different from any future results, performance or

achievements expressed or implied by such forward looking statements. As such, forward looking statements are no guarantee of future performance.

Such forward looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, economic conditions in the relevant markets of the world, market position of the Company or its subsidiaries, earnings, financial position, cash flows, return on capital and operating margins, anticipated investments and capital expenditures, political uncertainty, the actions of competitors, activities by governmental authorities such as changes in taxation or regulation, changing business or other market conditions and general economic conditions and such other risk factors identified in the "Risk Factors" section of this document. Forward looking statements should, therefore, be construed in light of such risk factors and undue reliance should not be placed on forward looking statements. These forward looking statements speak only as of the date of this document and are not intended to give assurance as to future results. The Group will update this document as required by applicable law, including the Takeover Code, Listing Rules, Prospectus Rules and/or the Disclosure and Transparency Rules of the Financial Services Authority, but otherwise expressly disclaims any such obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained herein to reflect any change in Pendragon's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

You are advised to read this document and, in particular, the Summary, the Risk Factors, Part IV "Information on Pendragon" and Part V "Operating and Financial Review" for a further discussion of the risks and other factors that could affect the Group's future performance and the industries and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward looking statements in this document may or may not occur. Investors should note that the contents of these paragraphs relating to forward looking statements are not intended to qualify the statements made as to sufficiency of working capital in this document.

### **Enforcement of civil liabilities**

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated under the laws of England and Wales. The rights of holders of the Shares are governed by English law and by the Company's Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. In particular, even though the Companies Act has prescribed a range of circumstances under which shareholders of companies may bring derivative actions, English law significantly limits such circumstances. Under English law generally, only a company can be the proper pursuer or claimant in proceedings in respect of wrongful acts committed against it. In addition, it may be difficult for an Overseas Shareholder to prevail in a claim against the Company under, or to enforce liabilities predicated upon, non-UK securities laws.

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Company's Directors. The majority of the Directors of the Company are residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to affect service of process upon the Directors within the Overseas Shareholder's country of residence or to enforce against the Directors judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

### **Notice US Investors**

Securities may not be offered or sold in the United States unless they are registered under the US Securities Act or are exempt from such registration. The New Ordinary Shares, the Nil Paid Rights, the Fully Paid

Rights and the Provisional Allotment Letters have not been and will not be registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the United States and, accordingly, may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, in or into the United States at any time without registration or pursuant to an applicable exemption from the registration requirements of the US Securities Act and in compliance with state securities laws.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States. No part of this document nor the Provisional Allotment Letter constitutes, or will constitute, or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for the New Ordinary Shares, Nil Paid Rights or Fully Paid Rights to any Shareholder with a registered address in, or who is resident or located in, the United States.

The New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters are being offered and sold outside the United States in reliance on Regulation S.

Neither this document nor the Provisional Allotment Letter constitutes, or will constitute, or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or acquire the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights to any Shareholder with a registered address in or located in the United States. Notwithstanding the foregoing, the Company reserves the right to offer the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares in the United States in transactions exempt from, or not subject to, the registration requirements under the US Securities Act.

Any person exercising the Nil Paid Rights or the Fully Paid Rights will be required to represent that such person

- (a) is not within the United States;
- (b) is not in any jurisdiction in which it is unlawful to make or accept an offer to acquire the New Ordinary Shares;
- (c) is not exercising for the account of any person who is located in the United States, unless:
  - (i) the instruction to exercise was received from a person outside the United States; and
  - (ii) the person giving such instruction has confirmed that it has the authority to give such instruction, and either (A) has investment discretion over such account, or (B) is an investment manager or investment company that is acquiring the New Ordinary Shares in an “offshore transaction” within the meaning of Regulation S; and
- (d) is not acquiring the New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such New Ordinary Shares into the United States or any other jurisdiction referred to in (b) above.

Notwithstanding the representations above, where proof has been provided to the Company’s satisfaction that Nil Paid Rights or Fully Paid Rights are being exercised by a person that is, and each account for which it is acting is, or is acting on behalf of a person that is, a QIB and that such exercise will not result in the contravention of any applicable regulatory or legal requirements in any jurisdiction, the Company may allow such exercise on the terms and conditions and subject to the requirements set out in Part III of this document.

To the extent that New Ordinary Shares are not taken up in the Rights Issue, the Joint Underwriters may arrange for the offer of the New Ordinary Shares (a) in accordance with Regulation S under the US Securities Act or (b) to persons reasonably believed to be QIBs in reliance on an exemption from the registration requirements of section 5 of the US Securities Act. Any such persons are notified that such offers may be made in reliance on the exemption from the registration requirements of section 5 of the US Securities Act provided by Rule 144A or another exemption from registration.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights and the Provisional Allotment Letters within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the US Securities Act.

#### **Notice to investors in a European Economic Area member state**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “**relevant member state**”) (except for the UK), with effect from and including the date on which the Prospectus Directive was implemented in that relevant member state (the “relevant implementation date”) no Nil Paid Rights, Fully Paid Rights or New Ordinary Shares have been offered or will be offered pursuant to the Rights Issue to the public in that relevant member state prior to the publication of a prospectus in relation to the Nil Paid Rights, Fully Paid Rights or the New Ordinary Shares which has been approved by the competent authority in the relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state all in accordance with the Prospectus Directive, except that with effect from and including the relevant implementation date, offers of Nil Paid Rights, Fully Paid Rights and the New Ordinary Shares may be made to the public in that relevant member state at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than Euros 43 million; and (iii) an annual turnover of more than Euros 50 million, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Nil Paid Rights, Fully Paid Rights or the New Ordinary Shares shall result in a requirement for the publication by the Company or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For this purpose, the expression “an offer of any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares to the public” in relation to any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Rights Issue and any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares to be offered so as to enable an investor to decide to acquire any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

In the case of any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Nil Paid Rights, Fully Paid Rights or New Ordinary Shares acquired by it in the Rights Issue have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares to the public other than their offer or resale in a relevant member state to qualified investors as so defined or in circumstances in which the prior consent of the Company and each of the Joint Bookrunners and the Co-Bookrunner has been obtained to each such proposed offer or resale.

#### **Notice to all overseas investors**

All Overseas Shareholders and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter, if and when received, or other document to a jurisdiction outside the UK, should read paragraph 8 of Part III of this document.

**Notice to all investors**

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares will also not be registered under the securities laws of any other Excluded Territory and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within such jurisdictions except pursuant to an applicable exemption from and in compliance with any applicable securities laws. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares in any of the Excluded Territories.

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares is prohibited. By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares agrees to the foregoing.

The distribution of this document and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted in or into the United States or any of the other Excluded Territories or into any other jurisdiction where the extension or availability of the Rights Issue would breach any applicable law. For further information on the manner of distribution of the New Ordinary Shares, and transfer restrictions to which they are subject, see paragraph 8 of Part III of this document.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares are not transferable, except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 8 of Part III of this document. No action has been taken by Pendragon that would permit an offer of the New Ordinary Shares or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the UK.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by Pendragon. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Pendragon since the date of this document or that the information in this document is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved.

**General notice**

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

**Defined terms**

Certain terms used in this document, including all capitalised terms and other terms, are defined and explained in the section headed “Definitions and Glossary” in Part XI of this document.

**Market and industry information**

Market data and certain industry forecasts used in this document were obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications. Industry forecasts are forward-looking statements. See “Forward looking statements” above.



## WHERE TO FIND HELP

Part II of this document sets out answers to some of the questions most often asked by shareholders about rights issues. If you have further questions, please telephone the Shareholder Helpline on 0871 664 0321 from within the United Kingdom or on +44 20 8639 3399 if calling from outside the United Kingdom. The Shareholder Helpline is available from 8.30 a.m. to 5.00 p.m. (London time) Monday to Friday.

Calls to the Shareholder Helpline number are charged at 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Shareholder Helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

***PLEASE NOTE THAT, FOR LEGAL REASONS, THE SHAREHOLDER HELPLINE IS ONLY ABLE TO PROVIDE INFORMATION CONTAINED IN THIS DOCUMENT AND INFORMATION RELATING TO PENDRAGON PLC'S REGISTER OF MEMBERS AND IS UNABLE TO GIVE ADVICE ON THE MERITS OF THE RIGHTS ISSUE, OR PROVIDE LEGAL, FINANCIAL, TAX OR INVESTMENT ADVICE.***

## PART I

### LETTER FROM THE CHAIRMAN OF PENDRAGON

*(Incorporated under the Companies Act 1985 and registered in England & Wales with registered number 2304195)*

#### SECTION A

Loxley House  
2 Oakwood Court  
Little Oak Drive  
Annesley  
Nottingham NG15 0DR

14 July 2011

Dear Shareholder,

**Proposed 9 for 8 Rights Issue  
of 751,577,623 New Ordinary Shares at 10 pence  
per New Ordinary Share  
and  
Notice of General Meeting**

#### 1. Introduction

The Company has entered into the Revised Facilities Agreement, which will amend and extend its Existing Facilities. The Revised Facilities Agreement is conditional upon receipt by the Lending Group of the net proceeds of approximately £70.8 million of the proposed fully-underwritten Rights Issue which the Company announced today.

The Rights Issue will not proceed (and the Revised Facilities will therefore not be made available) unless the Resolution is passed by Shareholders at the General Meeting. The purpose of this letter is to provide you with details of the Revised Facilities, and explain the background to, and reasons for, the proposed Rights Issue and to explain why the Directors believe that the Rights Issue is in the best interests of the Company and of the Shareholders as a whole, and to recommend that you vote in favour of the Resolution to be proposed at the General Meeting.

The notice convening the General Meeting, to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 1 August 2011, is set out at the end of this document. The actions to be taken by the Shareholders in respect of the Resolution, and the Rights Issue are set out in Section B below.

The Directors are pleased to report that the Group has reached unanimous agreement with its pension trustees on measures to address its pension deficit. Further details are set out in paragraph 7 below.

#### 2. Summary information on the Company

##### ***Business and strategy***

Pendragon is the largest independent operator of franchised motor vehicle dealerships in the UK. The Group, which operates 237 franchise points (nine of which are in California), sells and services a broad range of new and used vehicles and has a substantial presence in the UK vehicle leasing, wholesale parts and dealership management system markets.

Pendragon's strategy is to have a diversified portfolio of activities including new vehicle franchises, representing both volume and luxury brands and used vehicle sales operations including both stand-alone and brand-related sites. These are sold through the Evans Halshaw and Stratstone brands. In conjunction with this diversified portfolio, the Group has identified certain brands that it wishes to continue to operate on a

significant scale. This scale gives multiple direct benefits by allowing Pendragon's businesses to realise economies of scale through the Group's shared services centre, central marketing, IT capability and purchasing, and to have significant manufacturer partnerships (where scale benefits both Pendragon and the manufacturer). The size of the Group also drives profitable functional integration in contract hire, wholesale parts distribution and dealership management systems.

### ***Current trading and prospects***

Pendragon's encouraging performance in 2010 has continued into 2011 despite a challenging economic environment. Underlying profit before tax for the five months to 31 May 2011 was £9.0 million, £1.1 million ahead of the same period in the prior year, reflecting the benefits of further increases in like for like, excluding scrappage, new retail and used vehicle volumes, a strategy of focusing on higher margin business at the expense of, in particular, low margin fleet activity, and the positive impact of operational gearing as management continues to focus on controlling the Group's cost base.

Overall, Pendragon is performing in line with the Board's expectations for the full year. Further details of the Group's current trading and prospects are set out in paragraph 6 of Part IV of this document.

## **3. Background to, and reasons for, the Revised Facilities and the Rights Issue**

### **3.1 *Background to the Revised Facilities and the Rights Issue***

#### *Overview of the Group's business and financial position*

In the face of extremely challenging markets in 2008 and 2009 the Group undertook a number of actions to lower costs, sustain cash flow generation and increase return on capital employed. The quick and decisive actions taken by management to improve business performance, close poorly performing sites and rationalise the cost base, yielding savings of £64 million in 2009, have ensured that Pendragon has emerged from that very difficult period a stronger business. Pendragon is now better placed to take advantage of recovering market conditions as demonstrated by the improved performance of the Group in 2010, and the encouraging start to 2011.

Despite these difficult market conditions, and the one-off costs associated with addressing the challenges faced by the business as a result, Pendragon has remained cash generative. Since the agreement of the Group's existing debt facilities in April 2009, the Group has at all times operated within its banking covenants, and continues to do so today. Following the Rights Issue, the Debt: Underlying EBITDA ratio will improve towards the Company's stated long-term target of 2:1.

#### *Refinancing of the Group's Existing Facilities*

The Group's Existing Facilities comprise senior bank debt of £320 million and private placement notes of \$177 million and £17 million, which amount to total committed facilities (net of hedging derivatives) of £430 million, all of which mature or can be terminated on 30 April 2012.

Given the prevailing restricted environment in the UK lending market, and in particular as certain institutions seek to reduce their exposure to the UK market, the Directors anticipated challenges in renewing the Existing Facilities on acceptable terms and consequently began early discussions on the renewal of these facilities.

Despite the Group's encouraging operating and financial performance, it became clear from these discussions that, without a material reduction in the size of the Existing Facilities, it was unlikely that they could be revised on acceptable terms. The Group has therefore entered into the Revised Facilities Agreement to revise the Existing Facilities and extend them to 30 June 2014 on improved terms conditional on receipt by the Lending Group of the proceeds of the Rights Issue.

### *Terms of the Revised Facilities*

In accordance with the Revised Facilities Agreement, the proceeds of the Rights Issue will be applied upon receipt to prepaying and cancelling the Group's debt facilities by £70 million to £360 million in aggregate, with the Group's bank facilities and loan notes being reduced on a *pro rata* basis. The Rights Issue will enable the Group to restructure its debt facilities, as set out below.

<i>Tranche</i>	<i>Existing Facilities</i>	<i>Revised Facilities</i>
Term Facility	£110 million Margin: LIBOR + 3.25% Maturity: 30 April 2012	£120 million Margin: LIBOR +3.25% Maturity: 30 June 2014
Revolving Credit Facility <sup>3</sup>	£210 million Margin: LIBOR + 3.25% Maturity: 30 April 2012	£147 million Margin: LIBOR +3.25% Maturity: 30 June 2014
US Dollar Notes – Series A	\$110 million Coupon: 9.310% Maturity: 30 April 2012	\$93 million <sup>2</sup> /£48.9 million hedged equivalent \$ Coupon: 9.310% Maturity: 30 June 2014
US Dollar Notes – Series B	\$67 million Coupon: 9.310% Put option: 30 April 2012 <sup>1</sup>	\$57 million <sup>2</sup> /£29.9 million hedged equivalent \$ Coupon: 9.310% Maturity: 30 June 2014
Sterling Notes – Series C	£17 million Coupon: 9.834% Put option: 30 April 2012 <sup>1</sup>	£14.2 million Coupon: 9.834% Maturity: 30 June 2014
Total debt facilities	£430 million	£360 million

### **Notes**

- 1 The holders of the US Dollar Notes Series B and Sterling Notes have a put option on 30 April 2012 under the Existing Facilities, with final maturity in February 2014
- 2 Effective hedged US\$/£ exchange rate of 1.902 on US dollar denominated facilities
- 3 A commitment fee of 50 per cent. of the margins above is payable on unutilised bank facilities available under the RCF

The pricing shown above is on the basis that total amortisation payments of £20 million will continue to be made every six months, starting on 30 June 2012, to all debt providers *pro rata* to their commitment under the Revised Facilities. Debt providers representing 16.2 per cent./£58.3 million of the Revised Facilities have elected not to receive future amortisation payments and will consequently receive enhanced pricing on their commitment, representing an additional 25 basis points on the margins shown above.

### **Covenants**

The Term Facility, RCF and Notes are subject to covenants with respect to debt/EBITDA, absolute EBITDA, fixed charge cover and capital expenditure, further details of which are set out in paragraph 15.4 of Part IX of this document.

### **Fees**

No annual or termination fees are payable under the Revised Facilities.

An annual Stabilisation Fee of 1 per cent. and a one-off Success Fee of 2.5 per cent. of the total commitments under the Existing Facilities are payable on the earlier of refinancing or maturity. Assuming the Final Effective Date (as defined in paragraph 15.4 of Part IX of this document) is 19 August 2011, these fees total

approximately £10.3 million. These fees include the pro rating of the annual Stabilisation Fee for the period from 30 April 2011 (the most recent anniversary) until 19 August 2011. This represents a saving of £4.2 million on the fees payable were the Existing Facilities to be refinanced at maturity. This saving is due to refinancing through the Revised Facilities effectively occurring eight and a half months prior to maturity and agreement being reached with all lenders that fees be calculated on total commitments net of equity proceeds (being £360 million), rather than the commitments which would be outstanding at maturity of £410 million.

An arrangement fee is payable on the Revised Facilities Agreement becoming effective. This fee is 1.5 per cent. of the total commitments under the Revised Facilities. Members of the Lending Group electing, irrevocably, not to receive future amortisation payments will receive an additional arrangement fee of 0.5 per cent. of the amount of their commitments.

#### **Make-whole payments to noteholders**

Under the Existing Facilities, make-whole payments will be due on the principal repaid of the Series B and Series C Notes consequent on the Rights Issue, to be satisfied by the issue of further notes with the same maturity as the respective underlying notes. There will be make-whole payments due if the Company voluntarily prepays (excluding scheduled pre-payments) any of the Notes under the Revised Facilities prior to 30 June 2014.

Further details of the Revised Facilities are available in paragraph 15.4 of Part IX of this document.

#### **Sources of vehicle liquidity available to the Group**

As is common in the UK motor retail sector, in addition to senior bank debt and private placement notes, the Group's other sources of credit and liquidity are uncommitted stock funding arrangements provided by manufacturers primarily in relation to the supply of new vehicles; and a further uncommitted stock funding arrangement unrelated to any manufacturer provided by a third party asset-backed finance provider which is utilised by Pendragon to fund used vehicle stock (the "Stock Funding Arrangements"). The terms of the Stock Funding Arrangements are unaffected by the revision of the borrowing facilities and the Rights Issue.

New vehicles are typically supplied by manufacturers on an interest free period of up to 180 days. Following this, there is typically a period of up to 90 days, during which the dealer is required to pay a display charge, after which full payment by the dealerships is required. Full payments are made by dealerships, in any event, at the time of registration of the vehicle. Across the industry, manufacturers provide these arrangements which enable the supply of vehicles by manufacturers to their distribution networks. Pendragon has utilised vehicle Stock Funding Arrangements since before its flotation in 1989. The Directors have no reason to believe that the uncommitted Stock Funding Arrangements will not continue and they expect to be able to increase the number of vehicles obtained on such terms. The Stock Funding Arrangements are classified as trade creditors in the Group's balance sheet.

### **3.2 *Reasons for the Revised Facilities and the Rights Issue***

The Directors believe that the combination of the Revised Facilities and the Rights Issue should have the following benefits for Pendragon:

- (a) The proceeds of the Rights Issue will allow the Group to improve its level of financial indebtedness towards the previously stated long-term Debt: Underlying EBITDA ratio target of 2:1, which the Directors believe will constitute an immediate and long-term benefit to Pendragon.
- (b) The reduction in debt and improved terms under the Revised Facilities significantly reduces the overall cost of debt finance.

- (c) The extended maturity profile of the Group's borrowing facilities together with the improving credit metrics of the Group should facilitate refinancing of the Revised Facilities ahead of the revised maturity date of 30 June 2014.
- (d) A more robust capital structure will enable the Group to continue to maintain investment in the profitable growth of the business.
- (e) Given the use of proceeds of the Rights Issue to improve the Debt: Underlying EBITDA ratio it should be possible for the Company to resume paying dividends in relation to its 2012 financial year onwards, which is earlier than would otherwise have been the case (see paragraph 6 of Part I for further detail on the Group's intention as to dividends).

#### **4. Use of Rights Issue proceeds**

The Rights Issue will significantly strengthen the Group's balance sheet. Receipt of the funds from the Rights Issue will be applied immediately to prepay and cancel debt commitments in accordance with the terms of the Revised Facilities Agreement, thus reducing the Group's overall debt facilities from £430 million to £360 million.

#### **5. Financial effects of the Rights Issue**

Upon completion of the Rights Issue, the New Ordinary Shares will represent 52.9 per cent. of the Enlarged Issued Share Capital. The New Ordinary Shares will be issued pursuant to authorities to be sought at the General Meeting. Following the issue of the New Ordinary Shares, a Qualifying Shareholder who does not take up any of their Rights will suffer a dilution of 52.9 per cent. to their economic interests in the Company. A Qualifying Shareholder acquiring their Rights in full will not suffer any dilution of their economic interests in the Company. The Rights Issue will result in a decrease in borrowings of £70.8 million.

The Directors expect that the proceeds of the Rights Issue will make a positive contribution to total earnings in the financial year ending 31 December 2011 as a result of lower interest payments arising from reduced levels of net financial indebtedness. However, even after this saving on interest expense, the Directors expect the Rights Issue to have a negative effect on Pendragon's reported earnings per share for the year ending 31 December 2011 due to the increased number of Ordinary Shares in issue following the Rights Issue. These statements do not constitute a profit forecast and should not be interpreted to mean that the earnings per share in any financial period will necessarily be less than or greater than those for the relevant preceding period.

#### **6. Dividends**

No dividends were paid for the year ended 31 December 2010. Following the Rights Issue, the Debt: Underlying EBITDA ratio will immediately improve towards the Company's previously stated long-term target of 2:1. To reflect receipt of the net Rights Issue proceeds and the implementation of the Pension Deficit Reduction Plan, the Company has set a new target of below 1.5:1. It is the Board's current intention for the Company to resume paying dividends in relation to its 2012 financial year onwards, subject to the restrictions placed upon the Group by the terms of the Revised Facilities Agreement and taking into account the Group's underlying earnings, cash flows and capital investment plans, the requirement to maintain an appropriate level of dividend cover and the then prevailing market outlook.

#### **7. Pensions arrangements**

The Group has reached unanimous agreement with its pensions trustees on the terms of its most recent triennial valuation and has entered into agreements that implement measures to address the current deficit in the defined benefit schemes, further details of which can be found at paragraph 15.9 of Part IX of this document.

Annual updates have been produced by the Scheme Actuary for the six defined benefit schemes (the "Pension Schemes") operated by Pendragon as at April 2011. These show a significant reduction in the



combined deficit since April 2010 (from £97 million to £40 million as at April 2011) due to contributions from Pendragon, the impact of RPI/CPI movements and improved market conditions.

Under the previous deficit reduction plan, Pendragon had committed to pay total deficit contributions, currently of £19 million, to the Pension Schemes, based on deficits as at April 2009. Pendragon has recently agreed with the trustees of the Pension Schemes a revised deficit reduction plan, which is intended to address the remaining deficit whilst reducing the current cash contributions made by the Group. The revised deficit reduction plan will unlock significant pension cash flow savings of over £46 million by December 2014.

Under the revised arrangements, the Group will provide the Pension Schemes with an investment which generates a predictable asset-backed income for the Pension Schemes. The investment will be in the form of an interest in a Central Asset Reserve (“CAR”) created by Pendragon which will own properties which are leased back to Pendragon on long-term leases. The interest in the CAR will entitle the Pension Schemes to the rental income of the CAR for a period of 20 years. The interest is an asset of the Pension Schemes which is recorded at the present value of the income rights. The CAR will involve the creation of a partnership between the Group and the Pension Schemes. The Pension Schemes will have recourse to the value of the properties in the event of insolvency of Pendragon.

It is estimated that the current pensions deficit of £40 million will be eliminated by cash contributions made from April 2011 to 19 July 2011 and by the CAR with assets valued at £35 million and with a rental income of £2.5 million per annum. The Group will therefore transfer to the CAR properties valued at £35 million and lease them back from the CAR at an initial annual rental of £2.5 million payable by Pendragon to the CAR. The rentals will increase each year by a fixed amount of 2.25 per cent. As the current combined deficit of the Pension Schemes will be eliminated by the Pension Schemes’ interest in the CAR, no further contributions will be made by the Group until the next valuation, expected to be undertaken in April 2012, is taken into consideration. The new arrangements will therefore enable the Group to benefit from lower annual cash contributions than the present arrangements (for example, a reduction in the scheduled payment in 2012 from £18.5 million to £2.5 million) and the Pension Schemes benefit by the immediate reduction in the deficit by the injection of ring-fenced property assets.

The CAR will be fully consolidated within the Group’s financial statements. The IAS19 deficit will be largely eliminated by the arrangements. The underlying income statement will remain largely unaffected by the arrangements.

The Group will retain full operational flexibility over the properties.

## **8. Principal terms of the Rights Issue**

Subject to the Resolution being passed, the Directors propose to offer New Ordinary Shares by way of rights to all Qualifying Shareholders (other than, subject to certain exceptions, Restricted Shareholders), payable in full on acceptance, on the following basis:

### **9 New Ordinary Shares for every 8 Existing Ordinary Shares at 10 pence per New Ordinary Share**

held and registered in their name on the Record Date.

The Issue Price of 10 pence per New Ordinary Share represents,:

- a 54.0 per cent. discount to the Closing Price of an Existing Ordinary Share on 13 July 2011 (being the latest practicable date prior to the date of publication of this document); and
- a 35.6 per cent. discount to the theoretical ex-rights price of 15.5 pence per Existing Ordinary Share, based on such Closing Price.

However, if a Qualifying Shareholder takes up their rights in full, they will, following the Rights Issue being completed and subject to the treatment of fractions, have the same proportional voting rights and entitlements to distributions as they had on the Record Date.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to all future dividends and other distributions declared, made or paid.

In determining the Issue Price the Directors have considered the price at which the New Ordinary Shares need to be offered to investors with a view to ensuring the success of the Rights Issue, which involves raising a significant amount of equity compared with the current market capitalisation of the Company. The Directors believe that both the Issue Price and the discount are appropriate.

The Company has arranged for the Rights Issue to be fully underwritten (on a several basis) by the Joint Underwriters in order to provide certainty as to the amount of capital to be raised. See paragraph 14 of Part IX of this document for a summary of the material terms of the underwriting arrangements.

The Rights Issue is conditional, amongst other things, on:

- (a) the passing without material amendment of the Resolution at the General Meeting;
- (b) Admission becoming effective by not later than 8.00 a.m. on 2 August 2011 (or such later time and/or date as the Banks and the Company may agree (being not later than 16 August 2011)); and
- (c) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission.

Some questions and answers, together with details of further terms and conditions of the Rights Issue, including the procedure for acceptance and payment and the procedure in respect of rights not taken up, are set out in Parts II and III of this document, and where relevant, will also be set out in the Provisional Allotment Letter.

## **9. Structure of the Rights Issue**

The Rights Issue has been structured in a way that is expected to have the effect of creating distributable reserves of approximately 47 per cent. of the net proceeds of the Rights Issue less the par value of the New Ordinary Shares issued by the Company. The Company and RBS Hoare Govett have agreed to subscribe for ordinary shares in Newco, a Jersey incorporated company that is a subsidiary of the Company. Capita will receive, into an account set up specifically for the purpose, monies from Qualifying Shareholders or renounees taking up New Ordinary Shares under the Rights Issue, as agent for and on behalf of RBS Hoare Govett. Provided certain conditions are met, RBS Hoare Govett will use the proceeds held by Capita on their behalf, to subscribe for redeemable preference shares in Newco.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for RBS Hoare Govett transferring its holdings of ordinary shares and redeemable preference shares in Newco to the Company. Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Rights Issue the Company will own the entire issued share capital of Newco, whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Rights Issue. The Company will be able to utilise this amount (including for the payment of the costs and expenses of the Rights Issue) by Newco redeeming the redeemable preference shares that the Company will hold in Newco or, alternatively, by procuring either that Newco lends the amount to the Company prior to any redemption or that Newco pays a dividend to the Company.

For a description of the Rights Issue structure, see paragraph 1 of Part III of this document.

The Directors may elect to implement the Rights Issue without using the structure described above if they deem it to be in the Company's interests to do so.

## **10. Share Schemes and outstanding Warrants**

The Directors will make such adjustments as they deem appropriate as a result of the Rights Issue, including to the number of Shares under options or awards granted under the Share Schemes and to the exercise price, if any, of those options and awards, to compensate participants for the impact of the Rights Issue on their options. Any such adjustments shall be made in accordance with the rules of the relevant plan. Where

required by relevant plan rules, adjustments shall be made with the prior approval of HMRC and/or the Company's auditors. Participants will be notified in due course of the adjustments to be made to the options or awards.

The Company will give written notice of the Warrant Adjustments to holders of Warrants as required by the terms of the Warrant Instrument and Subsequent Warrant Instrument, respectively.

## **11. General Meeting**

The Rights Issue is subject to a number of conditions, including Shareholders' approval of the Resolution at the General Meeting. A notice convening the General Meeting to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 1 August 2011, is set out at the end of this document.

The General Meeting is being convened for the purposes of considering and, if thought fit, passing the Resolution. Shareholders are being asked to vote on the Resolution in order to provide the Directors with the necessary authority and power under the Companies Act to proceed with the Rights Issue. The Resolution will be proposed as a composite special resolution, which to be passed, requires the approval of not less than 75 per cent. in value of those voting (whether in person or by proxy) on the Resolution at the General Meeting.

The Rights Issue is conditional on the passing of the Resolution. If the Resolution is not approved at the General Meeting, the Company will be unable to complete the Rights Issue. As completion of the Revised Facilities Agreement is conditional upon receipt by the Lending Group of the proceeds of the Rights Issue, the Revised Facilities Agreement will not be completed, and therefore the Revised Facilities will not be available, if the Resolution is not approved at the General Meeting.

A summary of the Resolution to be proposed at the General Meeting is set out in paragraph 2 of the Appendix to this letter.

## **12. Taxation**

Information on UK taxation with regard to the Rights Issue is set out in paragraph 13 of Part IX of this document. This information is intended only as a general guide to the current UK tax position. If you are in any doubt as to your own tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your own independent professional adviser without delay.

## **13. Overseas Shareholders**

Overseas Shareholders (particularly Restricted Shareholders) and Qualifying Shareholders (including, without limitation, custodians, nominees and trustees) who have a contractual or legal obligation to forward this document into a jurisdiction outside the UK or who hold Ordinary Shares for the account or benefit of any such person, should refer to paragraph 8 of Part III of this document for further information on their ability to participate in the Rights Issue.

## **14. Action to be taken, risk factors and further information**

Your attention is drawn to the Appendix to this letter which provides further details of (1) the Rights Issue; (2) the contents of the Notice of General Meeting; and (3) the action to be taken in respect of (i) the General Meeting and (ii) the Rights Issue.

Qualifying Shareholders should read the whole of this document and not rely solely on the information set out in this letter. Shareholders should consider fully and carefully the risk factors set out in the section headed "Risk Factors" on pages 10 to 16 of this document. Your attention is also drawn to the further information set out in Parts II to X of this document.

## **15. Directors' intentions regarding the Rights Issue**

The Directors are fully supportive of the Rights Issue. Each of the Directors who holds Ordinary Shares intends either to acquire New Ordinary Shares in full or to sell sufficient Nil Paid Rights during the nil paid dealing period to meet the costs of taking up the balance of their entitlement to New Ordinary Shares under the Rights Issue.

## **16. Importance of the vote**

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the available bank and other facilities, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

All of the Group's Existing Facilities of £430 million mature or can be terminated on 30 April 2012, and the Directors propose to refinance those Existing Facilities by entering into the Revised Facilities. The Rights Issue and Revised Facilities will significantly strengthen the Group's balance sheet and provide sufficient financial flexibility to maintain appropriate levels of investment in the Group's core businesses, which the Directors believe represent the best opportunities for return on investment through profitable growth, both as markets continue to recover and over the long term.

However, the Revised Facilities are conditional upon receipt by the Lending Group of the proceeds of the Rights Issue, which is itself conditional upon the Resolution being passed by Shareholders at the General Meeting. Therefore, if the Resolution is not passed at the General Meeting, the Rights Issue will not proceed and the Revised Facilities will not be made available to the Group.

In these circumstances, although the Group continues to operate within its banking covenants and is expected to do so through to maturity, the Company would need to secure alternative committed facilities to replace the Existing Facilities. The Directors believe, based on discussions with the Group's existing banks and other lenders, that the Company is likely to be able to secure these alternative facilities. However, there can be no certainty that the Company would be able to secure such alternative facilities, and such facilities may be on a shorter tenor, be significantly more expensive and/or result in the imposition of more restrictive covenants on the Group than would apply under the Revised Facilities.

## **17. Directors' recommendation and intentions**

The Board, which has received financial advice from Rothschild and RBS Hoare Govett in the context of the Rights Issue, considers the Rights Issue and the Resolution to be in the best interests of the Company and the Shareholders taken as a whole. In providing advice to the Board, Rothschild and RBS Hoare Govett have relied upon the Board's commercial assessments of the Rights Issue and the Group's funding requirements.

Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution to be put to the General Meeting as they intend to do, or procure, in respect of their own beneficial holdings, amounting to 24,850,130 Ordinary Shares, representing approximately 3.72 per cent. of the Existing Ordinary Shares.

Yours faithfully,

**Mike Davies**  
*Chairman*

## SECTION B

### APPENDIX TO THE LETTER FROM THE CHAIRMAN OF PENDRAGON

#### 1. Summary of the Notice of General Meeting

The purpose of the General Meeting is to seek Shareholders' approval of the Rights Issue in order to permit the Rights Issue to proceed and the Revised Facilities to become available to the Company.

Set out below is a summary of the Resolution to be proposed at the General Meeting:

- (a) the first paragraph of the Resolution will grant the Directors authority to: (i) allot the New Ordinary Shares in connection with the Rights Issue up to an aggregate nominal amount of £37,578,881 (representing approximately 112.5 per cent. of the existing issued share capital of the Company); and (ii) grant additional warrants to subscribe for Ordinary Shares which are required under the terms of the anti-dilution provisions in the Warrant Instrument and the Subsequent Warrant Instrument to reflect the Enlarged Share Capital following the Rights Issue. This authority will expire on the earlier of the date of the Company's annual general meeting in 2012 and 15 months after the date of the passing of the Resolution, save that the Company may allot relevant securities after this authority ends if the allotment is made pursuant to an agreement or offer which is made before this authority ends. The Directors at present intend to allot up to 751,577,623 New Ordinary Shares in connection with the Rights Issue but save as required under the Share Schemes or in connection with the exercise of outstanding Warrants, do not at present, intend to allot any further Ordinary Shares; and
- (b) the second paragraph of the Resolution will empower the Directors to allot, pursuant to section 571 of the Companies Act, New Ordinary Shares up to an aggregate nominal value of £37,578,881 in connection with the Rights Issue, as if the statutory pre-emption rights in section 561(1) of the Companies Act did not apply to such allotment. This authority will expire on the earlier of the date of the Company's annual general meeting in 2012 and 15 months after the date of the passing of the Resolution, save that the Company may allot relevant securities after this authority ends if the allotment is made pursuant to an agreement or offer which is made before this authority ends. The purpose of this second paragraph of the Resolution is to provide the Company with the flexibility to deal with legal or other difficulties in making the Rights Issue available to certain Restricted Shareholders.

The authorities and approvals described in the first and second paragraphs of the Resolution will be in addition to and not in substitution for all such existing authorities and approvals.

#### 2. Action to be taken

##### *In respect of the General Meeting*

You will find enclosed with this document a Form of Proxy for use by Shareholders at the General Meeting or any adjournment thereof. Whether or not you intend to be present at the General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by the Company's Registrars, Capita Registrars PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, no later than 10.00 a.m. on 30 July 2011. The return of a Form of Proxy will not prevent you from attending the meeting and voting in person if you wish.

##### *In respect of the Rights Issue*

You are not required to take any action at present in relation to the Rights Issue. If the Resolution is passed at the General Meeting, it is intended that:

- (a) Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) will be sent a Provisional Allotment Letter providing details of the number of New Ordinary Shares that they are entitled to take up and the procedure for acceptance and payment, renunciation, splitting and registration in respect of the New Ordinary Shares: and
- (b) Qualifying CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) will receive a credit to the appropriate stock accounts in CREST in respect of the Nil Paid Rights to

which they are entitled, as soon as is practicable after 8.00 a.m. on 2 August 2011. Qualifying CREST Shareholders will not be sent a Provisional Allotment Letter.

If you sell or have sold or otherwise transferred all of your Existing Ordinary Shares held (other than ex-rights) in certificated form before 2 August 2011, please forward this document and any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to the US or any of the other Excluded Territories. If you sell or have sold or otherwise transferred only part of your holding of Existing Ordinary Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part III of this document and in the Provisional Allotment Letter.

If you sell or have sold or otherwise transferred all or some of your Existing Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear UK which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

The procedure for acceptance and payment depends on whether, at the time at which acceptance and payment is made, the Nil Paid Rights are in certificated form (that is, are represented by a Provisional Allotment Letter) or are in uncertificated form (that is, are in CREST). The latest time and date for acceptance and payment in full in respect of the Rights Issue is expected to be 11.00 a.m. on 16 August 2011, unless the Company notifies Qualifying Shareholders, through publication of a supplementary prospectus of a later date or unless otherwise announced by the Company. The procedure for acceptance and payment is set out in Part III of this document and, in respect of Qualifying Non-CREST Shareholders only, in the Provisional Allotment Letter.

For Qualifying Non-CREST Shareholders, the New Ordinary Shares will be issued in certificated form and will be represented by definitive share certificates, which are expected to be despatched to the registered address of the person(s) entitled to them by no later than 26 August 2011 (or such later date as may be notified by the Company through publication of a supplementary prospectus).

For Qualifying CREST Shareholders, Capita Registrars will instruct CREST to credit the stock accounts of Qualifying CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) with their entitlements to New Ordinary Shares. It is expected that this will take place as soon as practicable after 8.00 a.m. on 17 August 2011 (or such later date as may be notified by the Company through publication of a supplementary prospectus).

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Rights Issue.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the FSMA or, if you are outside the UK, by another appropriately authorised independent financial adviser.



## PART II

### SOME QUESTIONS AND ANSWERS ON THE RIGHTS ISSUE

*The questions and answers set out in this Part II are intended to be general guidance only and, as such, you should read Part III of this document for full details of what action you should take. If you are in any doubt as to what action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser, duly authorised under the FSMA if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser. If you are an Overseas Shareholder, you should read paragraph 8 of Part III of this document and you should take professional advice as to whether you are eligible and/or you need to observe any formalities to enable you to take up your rights.*

*Ordinary Shares can be held in certificated form (that is, represented by a share certificate) or in uncertificated form (that is, through CREST). Accordingly, the questions and answers in this Part II are split into five sections:*

- Section 1 (“**General**”) answers general questions relating to the Rights Issue.
- Section 2 (“**Ordinary Shares in certificated form**”) answers questions you may have in respect of the procedures for Qualifying Shareholders who hold their Ordinary Shares in certificated form. You should note that Section 4 may still apply to you.
- Section 3 (“**Ordinary Shares in CREST**”) answers questions you may have in respect of the equivalent procedures for Qualifying Shareholders who hold their Ordinary Shares in CREST. If you are a CREST sponsored member, you should also consult your CREST sponsor. You should note that Section 4 may still apply to you.
- Section 4 (“**Further procedures for Ordinary Shares whether in certificated form or in CREST**”) answers some detailed questions about your rights and the actions you may need to take and is applicable to Ordinary Shares whether held in certificated form or in CREST.

*If you are a Qualifying CREST Shareholder who is a CREST sponsored member, you should also consult your CREST sponsor. If you do not know whether your Ordinary Shares are in certificated or uncertificated form, please call Capita on 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to the Capita 0871 664 0321 number are charged at up to 10 pence per minute (including VAT) plus any of your service provider’s network extras. Calls to the Capita +44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. Capita cannot provide advice on the merits of the Rights Issue nor give any financial, legal or tax advice.*

**Timetable dates in this Part II have been included on the basis of the expected timetable set out on page 18 of this document.**

#### **1. General**

##### ***What is a rights issue?***

Rights issues are one way for companies to raise money. Companies do this by issuing shares for cash and giving their existing shareholders a right of first refusal to buy further shares in proportion to their existing shareholdings.

This Rights Issue is an offer by Pendragon of up to 751,577,623 New Ordinary Shares at a price of 10 pence per New Ordinary Share to Qualifying Shareholders (other than, subject to certain exceptions, Restricted Shareholders). If you hold Ordinary Shares on the register of members of the Company at the close of business on 28 July 2011 (the Record Date) and are not a Restricted Shareholder, you will be a Qualifying Shareholder. Restricted Shareholders are those Qualifying Shareholders who (subject to certain exceptions)

have a registered address in, or are resident in or located in, the United States or any other Excluded Territories. If you hold your Ordinary Shares in certificated form, your entitlement will be set out in your Provisional Allotment Letter (which is due to be sent to you after the General Meeting assuming that the Resolution is approved).

New Ordinary Shares are typically offered in a rights issue at a discount to the current share price. While the market value of the Existing Ordinary Shares exceeds the Issue Price, the right to buy the New Ordinary Shares is potentially valuable. In this Rights Issue, the New Ordinary Shares are being offered to Qualifying Shareholders (other than, subject to certain exceptions, Restricted Shareholders) in the Rights Issue at a discount to the share price as at 13 July 2011, which was the last business day before the details of the Rights Issue was announced. The Issue Price of 10 pence per New Ordinary Share represents a 54.0 per cent. discount to the Closing Price of 21.75 pence on 13 July 2011 (being the latest practicable date prior to the publication of this document).

If you do not want to buy the New Ordinary Shares to which you are entitled, you can instead sell or transfer your rights (called “Nil Paid Rights”) to those New Ordinary Shares and receive the net proceeds, if any, of the sale or transfer in cash. This is referred to as dealing “nil paid”.

## **2. Ordinary Shares in certificated form**

### **2.1 *How do I know if I am eligible to participate in the Rights Issue?***

If you receive a Provisional Allotment Letter, then you should be eligible to participate in the Rights Issue (provided that you are not a holder with a registered address in, or located or resident in any of the Excluded Territories and/or as long as you have not sold all of your Ordinary Shares before 8.00 a.m. on 2 August 2011 (the time when the Ordinary Shares are expected to be marked “ex-rights” by the London Stock Exchange)).

Overseas Shareholders and any person having a registered address in, or who is resident in or located in, any of the Excluded Territories should refer to paragraph 8 of Part III of this document.

### **2.2 *What do I need to do in relation to the Rights Issue?***

Subject to Shareholders approving the Resolution at the General Meeting to be held on 1 August 2011, if you hold your Ordinary Shares in certificated form and do not have a registered address in, or are located in or resident in, any of the Excluded Territories, you will be sent a Provisional Allotment Letter that shows:

- how many Ordinary Shares you held at the close of business on the Record Date;
- how many New Ordinary Shares you are entitled to buy pursuant to the Rights Issue; and
- how much you need to pay if you want to take up your right to buy all the New Ordinary Shares provisionally allotted to you in full.

Subject to certain exceptions (as described in paragraph 8 of Part III of this document), if you have a registered address in, or are located in or resident in any of the Excluded Territories, you will not receive a Provisional Allotment Letter.

### **2.3 *I am a Qualifying Shareholder with a registered address in the UK. What are my choices and what should I do with the Provisional Allotment Letter?***

#### **(a) *If you wish to take up your rights in full***

If you wish to take up in full your rights to acquire the New Ordinary Shares to which you are entitled, all you need to do is return the Provisional Allotment Letter, together with your cheque or banker’s draft for the full amount shown in Box 3, payable to Capita Registrars Limited re Pendragon PLC – Rights Issue” and crossed “A/C payee only”, either by post or by hand to Capita Registrars (during normal business hours only) to arrive before 11.00 a.m. on 16 August 2011. Within the United Kingdom only, you can use the reply-paid envelope which will be

enclosed with the Provisional Allotment Letter. Paragraph 3 of Part III of this document has full instructions on how to accept and pay for your New Ordinary Shares and instructions will also be set out in the Provisional Allotment Letter. You will be required to pay in full for all the rights you take up. A definitive share certificate will be sent to you for the New Ordinary Shares for which you acquire and it is expected that such certificate(s) will be despatched by no later than 26 August 2011.

You will only need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights. Your Provisional Allotment Letter will not be returned to you unless you tick the appropriate box on the Provisional Allotment Letter.

Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

(b) *If you do not want to take up your rights at all*

If you do not want to take up any of your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter acquiring the New Ordinary Shares to which you are entitled by 11.00 a.m. on 16 August 2011, Pendragon has made arrangements under which the Joint Bookrunners and the Co-Bookrunner will try to find investors to take up your rights and the rights of others who have not taken them up. If the Joint Bookrunners and the Co-Bookrunner find investors and are able to achieve a premium over the Issue Price and the related fees and expenses of procuring those investors (including any value added tax), you will be sent a cheque for your share of the amount of that aggregate premium provided that this is £5.00 or more. Cheques are expected to be despatched on or around 26 August 2011 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold your Ordinary Shares jointly). If the Joint Bookrunners and the Co-Bookrunner cannot find investors who agree to pay a premium over the Issue Price and related expenses so that your entitlement would be £5.00 or more, you will not receive any payment.

If and to the extent that acquirers cannot be so procured, the Joint Underwriters shall as principal subscribe in the Due Underwriting Proportions, for the New Ordinary Shares not taken up. The proceeds of this subscription (less fees and expenses including any amounts in respect of value added tax) will be aggregated and paid to Newco as more fully described in paragraph 9 of Section A of the Chairman's Letter at Part I of this document.

Alternatively, if you do not want to take up your rights, you can sell or transfer your Nil Paid Rights (see paragraph (d) below).

(c) *If you want to take up some but not all of your rights*

If you want to take up some but not all of your rights and wish to sell some or all of those you do not want to take up, you should first apply to have your Provisional Allotment Letters split by completing Form X on page 4 of the Provisional Allotment Letter, and returning it by post or by hand to Capita Registrars (during normal business hours only) to be received by 3.00 p.m. on 12 August 2011, (the latest time and date for splitting Provisional Allotment Letters, nil paid), together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. You should then deliver the split Provisional Allotment Letter representing the rights to New Ordinary Shares you wish to accept, together with your cheque or banker's draft, to Capita (see paragraph (a) above) to be received by 11.00 a.m. on 16 August 2011 (the latest date and time for acceptance and payment in full).

Alternatively, if you want only to take up some of your rights (and do not wish to sell or transfer some or all of those rights you do not want to take up), you should complete Form X on page 4

of the Provisional Allotment Letter and return it by post or by hand (during normal business hours only) to Capita (see paragraph (a) above) with a covering letter confirming the number of New Ordinary Shares you wish to take up, together with a cheque or banker's draft to pay for the appropriate number of shares you wish to take up. In this case the Provisional Allotment Letter and the cheque or banker's draft must be received by Capita by 3.00 p.m. on 12 August 2011 (the latest time and date for splitting Provisional Allotment Letters, nil paid).

(d) *If you want to sell all of your rights*

If you want to sell all of your rights, you should complete and sign Form X on the Provisional Allotment Letter (if it is not already marked "Original Duly Renounced") and pass the entire letter to your stockbroker, bank manager or other appropriate financial adviser or to the transferee (provided they are not in any of the Excluded Territories). The latest time and date for selling all of your rights is 11.00 a.m. on 16 August 2011. Please ensure, however, that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 August 2011.

**2.4 *How do I transfer my rights into the CREST system?***

If you are a Qualifying Non-CREST Shareholder (other than, subject to certain exceptions, a Restricted Shareholder), but are a CREST member and want your New Ordinary Shares to be in uncertificated form, you should complete Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter), and ensure they are delivered to the CREST Courier and Sorting Service to be received by no later than 3.00 p.m. on 11 August 2011. CREST sponsored members should arrange for their CREST sponsors to do this.

If you have transferred your rights into the CREST system, you should refer to paragraph 4 of Part III of this document for details on how to pay for the New Ordinary Shares.

**2.5 *I acquired my Ordinary Shares prior to the Record Date. What if I have not received a Provisional Allotment Letter?***

If Shareholders approve the Resolution at the General Meeting to be held on 1 August 2011, and you do not receive a Provisional Allotment Letter but hold your Ordinary Shares in certificated form, this probably means you are not eligible to participate in the Rights Issue. This is likely to be because your registered address is in one of the Excluded Territories and you have not notified the Company of an address in the UK for the purpose of the service of notices. Overseas Shareholders and any person having a registered address in or who is resident in or located in any of the Excluded Territories should refer to paragraph 8 of Part III of this document. Some Qualifying Non-CREST Shareholders, however, will not receive a Provisional Allotment Letter but may still be eligible to take up their rights under the Rights Issue, namely:

- Qualifying CREST Shareholders who held their Ordinary Shares in uncertificated form on the Record Date and who have converted them to certificated form;
- Qualifying Non-CREST Shareholders who acquire Ordinary Shares before 28 July 2011 but were not registered as the holders of those Ordinary Shares at the close of business on the Record Date; and
- certain Overseas Shareholders who can demonstrate to the satisfaction of the Company that they can lawfully take up their rights under the Rights Issue without contravention of any relevant legal or regulatory requirements (see question 4.7 below).

If you do not receive a Provisional Allotment Letter but think that you should have received one, please contact Capita on 0871 664 0321 (or +44 20 8639 3399 calling from outside the United Kingdom) between 8.30 a.m. and 5.00 p.m. (London time) Monday to Friday (except bank and other public holidays). Calls to the Capita 0871 664 0321 number are charged at up to 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Capita

+44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. Capita cannot provide advice on the merits of the Rights Issue nor give any financial, legal or tax advice.

**2.6 *If I buy or have bought Ordinary Shares after the Record Date but before 2 August 2011 (the date the Ordinary Shares start trading ex-rights) will I be eligible to participate in the Rights Issue?***

If you buy or have bought Ordinary Shares before 8.00 a.m. on 2 August 2011 (the time when the Ordinary Shares are expected to start trading ex-rights on the London Stock Exchange) but were not registered as the holder of those Ordinary Shares at the Record Date (28 July 2011), you may still be eligible to participate in the Rights Issue. If you are in any doubt, please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, to ensure you claim your entitlement.

You will not be entitled to Nil Paid Rights in respect of any Ordinary Shares acquired on or after 2 August 2011, the Ex-Rights Date.

**2.7 *What should I do if I sell or have sold or transfer or have transferred all or some of the Ordinary Shares shown in Box 1 of the Provisional Allotment Letter before 2 August 2011 (the date the Ordinary Shares start trading ex-rights)?***

If you sell or have sold or transfer or have transferred all of your Ordinary Shares before 2 August 2011, you should complete Form X on page 4 of the Provisional Allotment Letter and send the entire Provisional Allotment Letter, together with this document and any accompanying documents, to the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer. However, you should not forward or transmit this document or the Provisional Allotment Letter into any Excluded Territory.

If you sell or have sold or transfer or have transferred only some of your holding of Ordinary Shares before 2 August 2011, you will need to complete Form X on page 4 of the Provisional Allotment Letter and send the entire Provisional Allotment Letter, together with this document and any accompanying documents, to the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer, before taking any action, with regard to the balance of rights due to you.

**2.8 *How many New Ordinary Shares am I entitled to acquire?***

Box 2 on page 1 of the Provisional Allotment Letter shows the number of New Ordinary Shares you are entitled to buy if you are a Qualifying Non-CREST Shareholder. You are entitled to 9 New Ordinary Shares for every 8 Existing Ordinary Shares held by you on 28 July 2011 (being the Record Date) (rounding down any fractions).

**2.9 *What should I do if I think my holding of Ordinary Shares (as shown in Box 1 on page 1 of the Provisional Allotment Letter) is incorrect?***

If you have bought or sold Ordinary Shares shortly before 28 July 2011, your transaction may not be entered on the register of members in time to appear on the register at the Record Date. See questions 2.6 and 2.7 above for what you should do in this case.

Otherwise, if you are concerned about the figure in Box 1, please call Capita on 0871 664 0321, or on +44 20 8639 3399 if you are calling from outside the United Kingdom. The Shareholder Helpline is available from 8.30 a.m. to 5.00 p.m. (London time) Monday to Friday.

Calls to the Shareholder Helpline number are charged at 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Shareholder Helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.



2.10 ***If I take up my rights, when will I receive my new share certificate?***

If you take up your rights under the Rights Issue, share certificates for the New Ordinary Shares are expected to be despatched by no later than 26 August 2011.

3. **Ordinary Shares in CREST**

3.1 ***How do I know if am eligible to participate in the Rights Issue? What do I need to do in relation to the Rights Issue?***

If you are a Qualifying CREST Shareholder (other than, subject to certain exceptions, a Restricted Shareholder) it is expected that your CREST stock account(s) will be credited with your entitlement to Nil Paid Rights and enabled on 2 August 2011. The stock account(s) to be credited will be the account(s) under the participant ID and member account ID that apply to your Ordinary Shares on the Record Date. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Restricted Shareholders (subject to certain exceptions) will not be credited with Nil Paid Rights. Overseas Shareholders (including Restricted Shareholders) should refer to paragraph 8 of Part III of this document.

3.2 ***How do I take up my rights using the CREST system?***

If you are a Qualifying CREST Shareholder (other than, subject to certain exceptions, a Restricted Shareholder) you should refer to paragraph 4 of Part III of this document for details on how to take up and pay for your rights.

If you are a Qualifying CREST Shareholder (other than, subject to certain exceptions, a Restricted Shareholder) and wish to take up your rights, you should ensure that a Many-to-Many instruction (a “**MTM instruction**”) has been input and has settled by 11.00 a.m. on 16 August 2011 in order to make a valid acceptance. If your Ordinary Shares are held by a nominee or you are a CREST sponsored member you should speak directly to the stockholder who looks after your stock or your CREST sponsor (as appropriate) who will be able to help you.

3.3 ***If I buy Ordinary Shares before 2 August 2011 (the date that the Ordinary Shares start trading ex-rights), will I be eligible to participate in the Rights Issue?***

If you buy or have bought Ordinary Shares before 8.00 a.m. on 2 August 2011 (the time when the Ordinary Shares are expected to start trading ex-rights on the London Stock Exchange) but were not registered as the holder of those Ordinary Shares at the Record Date (28 July 2011), you may still be eligible to participate in the Rights Issue. Euroclear UK will raise claims in the normal manner in respect of your purchase and your Nil Paid Rights will be credited to your stock account(s) on settlement of those claims.

You will not be entitled to Nil Paid Rights in respect of any Ordinary Shares acquired on or after 2 August 2011, the Ex-Rights Date.

3.4 ***What should I do if I sell or have sold or transfer or have transferred all or some of my Ordinary Shares before close of business on 2 August 2011 (the date the Ordinary Shares start trading ex-rights)?***

You do not have to take any action except, where you sell or transfer all of your Ordinary Shares before 2 August 2011, to send this document and any accompanying documents to the purchaser or transferee or to the stockbroker, bank or other financial adviser through whom you made the sale or transfer. However, you should not forward or transmit this document or the Provisional Allotment Letter into any Excluded Territory. A claim transaction in respect of that sale or transfer will automatically be generated by Euroclear UK which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.



**3.5 *How many New Ordinary Shares am I entitled to acquire?***

Save in the case of Restricted Shareholders (subject to certain exceptions), your stock account will be credited with Nil Paid Rights in respect of the number of New Ordinary Shares to which you are entitled based on the number of Existing Ordinary Shares you hold on the Record Date. You can also view the claim transactions in respect of purchases/sales effected after this date, but before the Ex-Rights Date. If you are a Qualifying CREST Shareholder (other than, subject to certain exceptions, a Restricted Shareholder) who is a CREST sponsored member, you should consult your CREST sponsor. You are entitled to 9 New Ordinary Shares for every 8 Existing Ordinary Shares held on 28 July 2011, the Record Date (rounding down any fractions).

**3.6 *What should I do if I think my holding of Ordinary Shares is incorrect?***

If you have bought or sold Ordinary Shares shortly before 28 July 2011, your transaction may not be entered on the register of members in time to appear on the register at the Record Date.

If you are concerned about the number of Nil Paid Rights with which your stock account has been credited, please call Capita on 0871 664 0321, or on +44 20 8639 3399 if you are calling from outside the United Kingdom. The Shareholder Helpline is available from 8.30 a.m. to 5.00 p.m. (London time) Monday to Friday.

Calls to the Shareholder Helpline number are charged at 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Shareholder Helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

**3.7 *If I take up my rights, when will New Ordinary Shares be credited to my CREST stock account(s)?***

If you validly take up your rights under the Rights Issue, New Ordinary Shares will be credited to the CREST stock account(s) in which you hold your Fully Paid Rights on 17 August 2011.

**4. *Further procedures for Ordinary Shares whether in certificated form or in CREST***

**4.1 *Am I entitled to fractions of the New Ordinary Shares? What happens if the number of Ordinary Shares I hold is not exactly divisible?***

Any fractions of Shares otherwise attributable to Shareholders as a result of the Rights Issue will be sold in the market nil paid for the benefit of the Company, save that Qualifying Shareholders will receive any net proceeds in respect of sale of any *pro-rata* fractional entitlements with a value of £5.00 or more.

**4.2 *Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?***

Information regarding the United Kingdom taxation is set out in paragraph 13 of Part IX of this document. Shareholders who are in any doubt as to their tax position, or who are subject to tax in any jurisdiction other than the United Kingdom, should consult their professional adviser as soon as possible. Please note that the Shareholder Helpline will not be able to assist you with taxation issues.

**4.3 *I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?***

If you do not want to buy the New Ordinary Shares being offered to you under the Rights Issue, you can instead sell or transfer your rights (Nil Paid Rights) to those New Ordinary Shares and receive the net proceeds of the sale or transfer in cash. This is referred to as dealing "nil paid". This means that during the Rights Issue offer period (i.e. between 2 August 2011 and 16 August 2011), you can purchase Ordinary Shares (which will not carry any entitlement to participate in the Rights Issue (sometimes referred to as trading "ex-")) and/or you can trade in the Nil Paid Rights.

If you sell or transfer all of your Nil Paid Rights and you hold your Ordinary Shares in certificated form, you will need to complete Form X, the form of renunciation, on page 4 of the Provisional Allotment Letter and send it to the stockbroker, bank or other agent, through or by whom the sale or transfer was effected, to be forwarded to the purchaser or transferee except that Provisional Allotment Letters should not be forwarded or transmitted into any of the Excluded Territories.

If you buy Nil Paid Rights, you are buying an entitlement to take up the New Ordinary Shares, subject to your paying for them in accordance with the terms of the Rights Issue. Any seller of Nil Paid Rights who holds his Ordinary Shares in certificated form will need to forward to you his Provisional Allotment Letter (with Form X completed) for you to complete and return, with your cheque, by 11.00 a.m. on 16 August 2011, in accordance with the instructions on the Provisional Allotment Letter. If you are a CREST member or CREST sponsored member and you wish to hold your Nil Paid Rights in uncertificated form in CREST then you are advised to send the Provisional Allotment Letter with Form X and the CREST Deposit Form on page 4 of the Provisional Allotment Letter completed (in the case of a CREST member) to the CREST Courier and Sorting Service or (in the case of a CREST sponsored member) to your CREST sponsor by 3.00 p.m. on 11 August 2011 at the latest.

Qualifying CREST Shareholders and, subject to dematerialisation of their Nil Paid Rights as set out in the Provisional Allotment Letter, Qualifying Non-CREST Shareholders who are CREST members or CREST sponsored members, can transfer Nil Paid Rights, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST. Please consult your CREST sponsor or stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

#### **4.4 *What if I want to sell the New Ordinary Shares I have paid for?***

If you are a Qualifying Non-CREST Shareholder, provided the New Ordinary Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter (by placing a cross in Box 4 on page 4 of the Provisional Allotment Letter), you can transfer the Fully Paid Rights by completing Form X, the form of renunciation, on page 4 of the receipted Provisional Allotment Letter in accordance with the instructions set out on page 3 of the Provisional Allotment Letter until 11.00 a.m. on 16 August 2011. See paragraph 3 of Part III of this document for more details. After that date, you will be able to sell your New Ordinary Shares in the normal way.

The share certificate relating to your New Ordinary Shares is expected to be despatched to you by no later than 26 August 2011. Pending despatch of share certificates, instruments of transfer may be certified by Capita against the register.

If you hold Fully Paid Rights in CREST, you may transfer the Fully Paid Rights in the same manner as any other security that is admitted to CREST. See paragraph 4 of Part III of this document for more details. Please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

#### **4.5 *Do I need to comply with the procedures in relation to the Money Laundering Regulations (as set out in paragraphs 3.4 and 4.3 of Part III of this document)?***

If you are a Qualifying Non-CREST Shareholder, you do not need to follow these procedures if the value of the New Ordinary Shares you are acquiring for is less than the sterling equivalent of €15,000 and if you pay for them by a cheque drawn on an account in your own name and that account is one which is held with an EU or UK regulated bank or building society. If you are a Qualifying CREST Shareholder, you will not generally need to comply with the Money Laundering Regulations unless you apply to take up all or some of your entitlement to Nil Paid Rights as agent for one or more persons and you are not an EU or UK regulated credit or financial institution.

Qualifying Non-CREST Shareholders and Qualifying CREST Shareholders should refer to paragraph 3.4 and paragraph 4.3, respectively of Part III of this document for a fuller description of the requirements of the Money Laundering Regulations.

**4.6 *What if I am entitled to Ordinary Shares under a Share Scheme?***

Participants in Share Schemes will be advised separately of adjustments (if any) to their rights or as to any entitlement to participate in the Rights Issue.

**4.7 *What should I do if I live outside the United Kingdom?***

Your ability to take up rights to New Ordinary Shares may be affected by the laws of the country in which you live and you should take professional advice as to whether you require any governmental or other consents or any formalities you need to observe to enable you to take up your rights. Overseas Shareholders (including Restricted Shareholders) should refer to paragraph 8 of Part III of this document. Your attention is drawn to the further terms and conditions of the Rights Issue contained in Part III of this document and (in the case of Qualifying Non-CREST Shareholders) also set out in the Provisional Allotment Letter.

## PART III

### TERMS AND CONDITIONS OF THE RIGHTS ISSUE

#### 1. Details of the Rights Issue

The Company is proposing to raise approximately £70.8 million, net of expenses, by way of a rights issue of up to 751,577,623 New Ordinary Shares. Subject to the fulfilment or waiver (as applicable) of the conditions referred to below, the Directors propose to offer New Ordinary Shares by way of rights to all Qualifying Shareholders (other than, subject to certain exceptions, Restricted Shareholders), payable in full on acceptance, on the following basis:

#### **9 New Ordinary Shares for every 8 Existing Ordinary Shares at 10 pence per New Ordinary Share**

held and registered in their name on the Record Date.

The Issue Price of 10 pence per New Ordinary Share represents:

- a 54.0 per cent. discount to the Closing Price of an Existing Ordinary Share on 13 July 2011 (being the latest practicable date prior to the date of publication of this document); and
- a 35.6 per cent. discount to the theoretical ex-rights price of 15.5 pence per Existing Ordinary Share, based on such Closing Price.

However, if a Qualifying Shareholder takes up their rights in full, they will, following the Rights Issue being completed and subject to the treatment of fractions, have the same proportional voting rights and entitlements to distributions as they had on the Record Date.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to all future dividends and other distributions declared, made or paid.

The Nil Paid Rights (also described as rights to acquire New Ordinary Shares, nil paid) are entitlements to acquire the New Ordinary Shares subject to payment of the Issue Price. The Fully Paid Rights are entitlements to receive the New Ordinary Shares, for which a subscription and payment has already been made.

Holdings of Ordinary Shares in certificated and uncertificated forms will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. New Ordinary Shares representing fractional entitlements will not be allotted to Qualifying Shareholders and, where necessary, entitlements will be rounded down to the nearest whole number of New Ordinary Shares. Such fractions will be aggregated and, if possible, sold as soon as practicable after the commencement of dealings in the New Ordinary Shares, nil paid. The net proceeds of such sales (after deduction of expenses) will be aggregated and will ultimately accrue for the benefit of the Company, save that Qualifying Shareholders will receive any net proceeds from the sale of their *pro-rata* fractional entitlements with a value of £5.00 or more.

The Rights Issue is conditional upon:

- (a) the passing of the Resolution at the General Meeting;
- (b) Admission becoming effective by not later than 8.00 a.m. on 2 August 2011 (or such later time and/or date as the Banks may agree (being not later than 16 August 2011)); and
- (c) the Underwriting Agreement becoming unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission.

The Rights Issue has been fully underwritten in respect of the Underwritten Shares on a several basis in the Due Underwriting Proportions by the Joint Underwriters and is conditional, *inter alia*, upon the Underwriting Agreement becoming unconditional in all respects and not being terminated in accordance with its terms, prior to Admission. The Underwriting Agreement is conditional *inter alia* upon Admission and upon certain matters being satisfied or not breached prior to Admission and upon the occurrence or non-occurrence of certain specified events prior to Admission.

If the Underwriting Agreement does not become unconditional in all respects by 8.00 a.m. on 2 August 2011 (or such later time and/or date as the Company and the Banks may agree (being not later than 16 August 2011)) or if it is terminated in accordance with its terms, the Rights Issue will be revoked and the Company will not proceed with it. Revocation cannot occur after nil paid dealings in the New Ordinary Shares have begun. The Underwriting Agreement may not be terminated after Admission including, without limitation, if a supplementary prospectus is required to be produced after Admission.

A summary of the principal terms of the Underwriting Agreement is set out in paragraph 14 of Part IX of this document.

Applications will be made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares (nil paid and fully paid) to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities respectively. It is expected that Admission will become effective on 2 August 2011 and that dealings in the New Ordinary Shares, nil paid, will commence on the London Stock Exchange by 8:00 a.m. on that date. Dealings in the New Ordinary Shares (fully paid) are expected to commence on the London Stock Exchange by 8.00 a.m. on 17 August 2011. The New Ordinary Shares and the Ordinary Shares are in registered form and can be held in certificated form or uncertificated form via CREST.

The Ordinary Shares are already admitted to CREST. No further application for admission to CREST is required for the New Ordinary Shares and all of the New Ordinary Shares when issued and fully paid may be held and transferred by means of CREST.

Applications will be made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST as separate securities. Euroclear UK requires the Company to confirm to it that certain conditions (imposed by the CREST Manual) are satisfied before Euroclear UK will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on Admission. As soon as practicable after satisfaction of these conditions, the Company will confirm this to Euroclear UK.

The ISIN for the Existing Ordinary Shares is GB00B1JQBT10. The ISIN for the New Ordinary Shares will be GB00B1JQBT10. The ISIN code for the Nil Paid Rights is GB00B46RJN86 and for the Fully Paid Rights is GB00B4KCXW68.

None of the New Ordinary Shares are being made available to the public other than pursuant to the Rights Issue.

Subject to the conditions referred to above being satisfied (other than the condition relating to Admission) and save as provided in paragraph 8 below, it is intended that:

- (a) Provisional Allotment Letters in respect of Nil Paid Rights will be despatched to Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) on 1 August 2011;
- (b) Capita will instruct Euroclear UK to credit the appropriate stock accounts of Qualifying CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) with such Shareholders' entitlements to Nil Paid Rights with effect from 8:00 a.m. on 2 August 2011;
- (c) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement in CREST by Euroclear UK on 2 August 2011, as soon as practicable after the Company has confirmed to Euroclear UK that all the conditions for Admission of such rights to CREST have been satisfied;

- (d) New Ordinary Shares will be credited to the appropriate stock accounts of the relevant Qualifying CREST Shareholders (or their renounees) who validly take up their rights as soon as practicable after 8:00 a.m. on 17 August 2011; and
- (e) share certificates for the New Ordinary Shares will be despatched to Qualifying Non-CREST Shareholders (or their renounees) who validly take up their rights by no later than 26 August 2011.

**The attention of Overseas Shareholders or any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the UK is drawn to paragraph 8 below. The offer of New Ordinary Shares and the Rights Issue will not be made into certain territories. Subject to the provisions of paragraph 8, Restricted Shareholders are not being sent this document and will not be sent Provisional Allotment Letters and will not have their CREST stock accounts credited with Nil Paid Rights.**

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Ordinary Shares now in issue, including the right to all future dividends and other distributions declared, made or paid.

All documents including Provisional Allotment Letters (which constitute temporary documents of title) and cheques and certificates posted to, by or from Qualifying Shareholders and/or their transferees or renounees (or their agents, as appropriate) will be posted at their own risk.

Shareholders taking up their rights by completing a Provisional Allotment Letter or by sending a MTM instruction to Euroclear UK will be deemed to have given the representations and warranties set out in paragraph 4.2(d) of this Part III.

## **2. Action to be taken – Introduction**

**The action to be taken in respect of New Ordinary Shares depends on whether, at the relevant time, the Nil Paid Rights or Fully Paid Rights in respect of which action is to be taken are in certificated form (that is, are represented by Provisional Allotment Letters) or are in uncertificated form (that is, are in CREST).**

If you are a Qualifying Non-CREST Shareholder please refer to paragraph 3 and paragraphs 5 to 9 (inclusive) of this Part III.

If you are a Qualifying CREST Shareholder, please refer to paragraph 4 and paragraphs 5 to 9 (inclusive) of this Part III and to the CREST Manual for further information on the CREST procedures referred to below.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary action specified below to take up their entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.

**All enquiries in relation to the Provisional Allotment Letters should be addressed to Capita on 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399 between 8.30 a.m. and 5.00 p.m. (London time) Monday to Friday (except bank and other public holidays). Calls to the Capita 0871 664 0321 number are charged at up to 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Capita +44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. Capita cannot provide advice on the merits of the Rights Issue nor give any financial, legal or tax advice.**



### **3. Action to be taken by Qualifying Non-CREST Shareholders in relation to Nil Paid Rights represented by Provisional Allotment Letters**

#### **3.1 General**

Subject to the Resolution being passed at the General Meeting, Provisional Allotment Letters are expected to be despatched to Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Restricted Shareholders) on 1 August 2011. Each Provisional Allotment Letter, which constitutes a temporary document of title, will set out:

- (a) the holding at the Record Date of Existing Ordinary Shares in certificated form on which a Qualifying Non-CREST Shareholder's entitlement to New Ordinary Shares has been based;
- (b) the aggregate number of New Ordinary Shares in certificated form which have been provisionally allotted to such Qualifying Non-CREST Shareholder;
- (c) the procedures to be followed if a Qualifying Non-CREST Shareholder wishes to dispose of all or part of his entitlement or to convert all or part of his entitlement into uncertificated form; and
- (d) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation.

#### **3.2 Procedure for acceptance and payment**

##### **(a) *Qualifying Non-CREST Shareholders who wish to accept in full***

Holders of Provisional Allotment Letters who wish to take up all of their entitlements must return the Provisional Allotment Letter, in accordance with the instructions thereon, together with a cheque or banker's draft in pounds sterling, made payable to "Capita Registrars Limited re Pendragon PLC – Rights Issue" and crossed "A/C payee only", for the full amount payable on acceptance, by post or by hand to Capita Registrars Limited (during normal business hours only) so as to arrive as soon as possible and in any event so as to be received no later than 11.00 a.m. on 16 August 2011. If you post the Provisional Allotment Letter within the United Kingdom by first class post, it is recommended that you allow at least three days for delivery. A reply-paid envelope will be enclosed with the Provisional Allotment Letter for use within the United Kingdom only for this purpose.

##### **(b) *Qualifying Non-CREST Shareholders who wish to accept in part***

Holders of Provisional Allotment Letters who wish to take up some but not all of their Nil Paid Rights should refer to paragraph 3.8 below.

##### **(c) *Company's discretion as to validity of acceptances***

If payment is not received in full by 11.00 a.m. on 16 August 2011, the provisional allotment will (unless the Company has exercised its right to treat as valid an acceptance as set out herein) be deemed to have been declined and will lapse.

The Company, the Joint Bookrunners and the Co-Bookrunner reserve the right, but shall not be obliged, to treat as valid (a) Provisional Allotment Letters and accompanying remittances for the full amounts due which are not received through the post prior to 11.00 a.m. on 16 August 2011 (the cover bearing a legible postmark not later than 11.00 a.m. on 16 August 2011) and (b) acceptances in respect of which a remittance is received prior to 11.00 a.m. on 16 August 2011 from an authorised person (as defined in section 31(2) of the FSMA) identifying the shares concerned and undertaking to lodge the relevant Provisional Allotment Letter duly completed by not later than 11.00 a.m. on 17 August 2011 and such Provisional Allotment Letter is lodged by that time.

The Company, the Joint Bookrunners and the Co-Bookrunner may also (in their absolute discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

The Company, the Joint Bookrunners and the Co-Bookrunner also reserve the right to treat as invalid any acceptance or purported acceptance of the New Ordinary Shares that appears to the Company to have been executed in, despatched from, or that provided an address for delivery of definitive share certificates for New Ordinary Shares in, any of the Excluded Territories.

A Qualifying Non-CREST Shareholder who makes a valid acceptance and payment in accordance with this paragraph 3.2 is deemed to request that the New Ordinary Shares to which they will become entitled be issued to them on the terms set out in this document and subject to the Company's Articles.

### 3.3 *Payments*

Payments must be made by cheque or banker's draft in pounds sterling drawn on a bank or building society or a branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of these companies. Such cheques or banker's drafts must bear the appropriate sort code in the top right hand corner. Cheques, which must be drawn on the personal account of the individual investor where they have a sole or joint title to the funds, should be made payable to "Capita Registrars Limited re Pendragon PLC – Rights Issue" and crossed "a/c payee only". Such payments will be held by Capita, who is acting as principal on receipt of such monies, on behalf of the Joint Underwriters, but subject to the requirement that the monies can only be applied in acquiring redeemable preference shares in Newco as provided in paragraph 9 of this Part III. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the cheque or banker's draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

The Company reserves the right to have cheques and banker's drafts presented for payment on receipt and to instruct Capita to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Interest will not be paid on payments made before they are due but will accrue for the benefit of the Company. Return of the Provisional Allotment Letter with a remittance in the form of a cheque will constitute a warranty that the cheque will be honoured on first presentation. The Company, the Joint Bookrunners and the Co-Bookrunner may elect to treat as invalid any acceptances in respect of which cheques or other remittances are notified to them or their agent as not having been so honoured. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If New Ordinary Shares have already been allotted to a Qualifying Non-CREST Shareholder prior to any payment not being so honoured upon first presentation or such acceptances being treated as invalid, the Company, the Joint Bookrunners and the Co-Bookrunner may (in their absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of such Qualifying Non-CREST Shareholders and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that it has suffered as a result of the same and of the expenses of the sale including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by such Qualifying Non-CREST Shareholders pursuant to these provisions in respect of the acquisition of such New Ordinary Shares) on behalf of such Qualifying Non-CREST Shareholders. None of the Company, the Joint Underwriters nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Non-CREST Shareholders as a result.

All enquiries in connection with Provisional Allotment Letters should be addressed to Capita on 0871 664 0321, (or +44 20 8639 3399 if you are calling from outside the United Kingdom). Calls to the Capita 0871 664 0321 number are charged at up to 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Capita +44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training

purposes. Capita cannot provide advice on the merits of the Rights Issue nor give any financial, legal or tax advice.

### 3.4 ***Money Laundering Regulations***

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering Regulations, the Registrar may require, in its absolute discretion, verification of the identity of the person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the “**verification of identity requirements**”). The person(s) (the “**acceptor**”) who, by lodging a Provisional Allotment Letter with payment, as described above, accept(s) the allotment of the New Ordinary Shares (the “**relevant shares**”) comprised in such Provisional Allotment Letter (being the provisional allottee or, in the case of renunciation, the person named in Form Y on such Provisional Allotment Letter) shall thereby be deemed to agree to provide the Company’s Registrar and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements.

If Capita Registrars determines that the verification of identity requirements apply to an acceptance of an allotment and the verification of identity requirements have not been satisfied (which Capita Registrars shall in its absolute discretion determine) by 11.00 a.m. on 16 August 2011, the Company may, in its absolute discretion, and without prejudice to any other rights of the Company, treat the acceptance as invalid or may confirm the allotment of the relevant shares to the acceptor but (notwithstanding any other term of the Rights Issue) such shares will not be issued to him or registered in his name until the verification of identity requirements have been satisfied (which Capita Registrars shall in its absolute discretion determine). If the acceptance is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the acceptor, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares (and for that purpose the Company will be expressly authorised to act as agent of the acceptor). Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. Capita Registrars is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied. Neither the Company nor Capita Registrars will be liable to any person for any loss suffered or incurred as a result of the exercise of any such discretion or as a result of any sale of relevant shares.

**Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the acceptor that the Money Laundering Regulations will not be breached by acceptance of such remittance. If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your acceptance being treated as invalid or in delays in the despatch of a receipted fully-paid Provisional Allotment Letter or a share certificate.**

The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the Money Laundering Directive 2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing; or
- (b) if the acceptor is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (c) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor through a financial or credit institution that is itself subject to the Money Laundering Regulations; or
- (d) if the aggregate acquisition price for the relevant shares is less than €15,000.

Where the verification of identity requirements apply, please note the following as this will assist in satisfying the requirements. Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (a) if payment is made by cheque or banker's draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society and bears a UK bank sort code number in the top right hand corner, the following applies. Cheques should be made payable to "Capita Registrars Limited re Pendragon PLC – Rights Issue". Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the building society cheque/banker's draft to such effect. The account name should be the same as that shown on the application;
- (b) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, the Russian Federation, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide written confirmation with the Provisional Allotment Letter that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrar or the relevant authority; or
- (c) if a Provisional Allotment Letter is lodged by hand by the acceptor in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address.

In order to confirm the acceptability of any written assurance referred to in (c) above or any other case, the acceptor should contact Capita.

### **3.5 *Dealings in Nil Paid Rights***

Subject to the fulfilment of the conditions set out in paragraph 1 above, dealings on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 a.m. on 2 August 2011. A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed on it or, in the case of any person in whose favour the rights have been renounced, by delivery of such letter to the transferee. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil paid, is expected to be 11.00 a.m. on 16 August 2011.

### **3.6 *Dealings in Fully Paid Rights***

After acceptance of the provisional allotment and receipt of payment in accordance with the provisions set out in this document and in the accompanying Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and delivery of the same by post or by hand (during normal business hours only) to Capita Registrars, by 11.00 a.m. on 16 August 2011. To do this, Qualifying Non-CREST Shareholders will need to have their fully paid Provisional Allotment Letters returned to them after acceptance has been effected by Capita Registrars. However, fully paid Provisional Allotment Letters will not be returned to such Shareholders unless their return is requested by placing a cross in Box 4 on page 4 of the Provisional Allotment Letter. After 16 August 2011, the New Ordinary Shares will be in registered form and will be transferable by written instrument of transfer in any usual or common form complying with the Articles or in any other written form which the Directors may approve.

### **3.7 *Registration in names of Qualifying Non-CREST Shareholders***

A Qualifying Non-CREST Shareholder who wishes to have all his entitlement to New Ordinary Shares registered in his name must accept and make payment for such allotment of the New Ordinary Shares in accordance with the provisions summarised in this document and set out in the Provisional Allotment Letter but need take no further action. A share certificate is expected to be despatched to such Qualifying Shareholders by no later than 26 August 2011.

### **3.8 *Renunciation and splitting of Provisional Allotment Letters and acceptance in part***

The Provisional Allotment Letters are fully renounceable (save as required by the laws of certain overseas jurisdictions as further described in paragraph 8 below) and may be split up to 3.00 p.m. on 12 August 2011, nil paid and fully paid.

A Qualifying Non-CREST Shareholder wishing to transfer all of their Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter (if it is not already marked “Original Duly Renounced”) and delivering (but not in or into any Excluded Territories or any other jurisdiction in which it would be illegal to do so) the Provisional Allotment Letter to the transferee or the broker or bank who acted for such Qualifying Non-CREST Shareholder in the transaction. Once so renounced, a Provisional Allotment Letter will become a negotiable instrument in bearer form and the Nil Paid Rights or Fully Paid Rights (as appropriate) comprised in the Provisional Allotment Letter may be transferred by delivery of the Provisional Allotment Letter to the transferee. The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 11.00 a.m. on 16 August 2011.

If a holder of a Provisional Allotment Letter wishes either to have only some of the New Ordinary Shares registered in his name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he may have the Provisional Allotment Letter split, for which purpose he or his agent must complete and sign Form X on the Provisional Allotment Letter. The Provisional Allotment letter must then be lodged, by post or by hand, with Capita Registrars (during normal business hours only) by not later than 3.00 p.m. on 12 August 2011, to be cancelled and exchanged for the split Provisional Allotment Letters required. The number of split Provisional Allotment Letters required and the number of Nil Paid Rights or (as appropriate) Fully Paid Rights to be comprised in each such letter should be stated in a covering letter. Form X on the split Provisional Allotment Letters will be marked “Original Duly Renounced” before issue.

A Qualifying Non-CREST Shareholder who wishes to take up only some of his rights, without selling or transferring the remainder, should complete Form X on the Provisional Allotment Letter and return it by post or by hand to Capita Registrars (during normal business hours only), together with a covering letter confirming the number of New Ordinary Shares to be taken up and a cheque to pay for this number of shares. In this case, the Provisional Allotment Letter and cheque must be received by Capita by 3.00 p.m. on 12 August 2011, being the latest time and date for splitting Nil Paid Rights. Capita, who is acting as principal, will hold such monies on behalf of the Joint Underwriters, but subject to the requirement that the monies can only be applied in acquiring redeemable preference shares in Newco as provided in paragraph 9 of this Part III.

The Company, the Joint Bookrunners and the Co-Bookrunner reserve the right to refuse to register any renunciation by or in favour of any person in respect of whom the Company, the Joint Bookrunners and the Co-Bookrunner believe such renunciation may violate applicable legal or regulatory requirements, including (without limitation) any renunciation in the name of any person with an address outside the UK.

### **3.9 *Registration in names of persons other than Qualifying Shareholders originally entitled***

In order to register Fully Paid Rights in certificated form in the name of someone other than the non-CREST Qualifying Shareholder(s) originally entitled, the renouncee or his agent(s) must complete



Form Y on the Provisional Allotment Letter (unless the renouncee is a CREST member who wishes to hold such shares in uncertificated form, in which case, Form X and the CREST Deposit Form must be completed – see paragraph 3.10 below) and lodge the entire Provisional Allotment Letter by post or by hand with Capita Registrars (during normal business hours only) not later than 11.00 a.m. on 16 August 2011, the latest time for registration of renunciations. Registration cannot be effected unless and until the New Ordinary Shares comprised in a Provisional Allotment Letter are fully paid.

The New Ordinary Shares comprised in several renounced Provisional Allotment Letters may be registered in the name of one holder (or joint holders) if Form Y on the Provisional Allotment Letter is completed on one Provisional Allotment Letter (the “Principal Letter”) and all the Provisional Allotment Letters are delivered in one batch. Details of each Provisional Allotment Letter (including the Principal Letter) should be listed in a letter attached to the Principal Letter and the allotment number of the Principal Letter should be entered in the space provided on each of the other Provisional Allotment Letters.

### **3.10 *Deposit of Nil Paid Rights or Fully Paid Rights into CREST***

Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether any such conversion arises as a result of a renunciation of those rights or otherwise). Similarly, Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Subject to the next paragraph (or the Provisional Allotment Letter), normal CREST procedures (including timings) apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter into CREST, depends on whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear(s) on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced. To deposit rights that are not to be renounced, only the CREST Deposit Form will need to be completed. To deposit rights that have been renounced, Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter) will need to be completed. In each case, the Provisional Allotment Letter must be deposited with the CCSS; in addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must first apply for split Provisional Allotment Letters in the manner described in paragraph 3.8 above. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (as defined in the Regulations) must not be used.

A holder of Nil Paid Rights or Fully Paid Rights represented by a Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights or Fully Paid Rights in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 August 2011. In particular, having regard to normal processing times in CREST and on the part of Capita, the latest recommended time for depositing a renounced Provisional Allotment Letter, with Form X and the CREST Deposit Form on page 4 of the Provisional Allotment Letter duly completed, with the CCSS (in order to enable the person acquiring the Nil Paid Rights or Fully Paid Rights in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 August 2011) is 3.00 p.m. on 11 August 2011.



When Form X and/or the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter) have been completed, the title to the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter will cease forthwith to be renounceable or transferable by delivery and, for the avoidance of doubt, any entries in Form Y will not subsequently be recognised or acted upon by Capita. All renunciations or transfers of the Nil Paid Rights or Fully Paid Rights must be effected through the means of CREST once such Nil Paid Rights or Fully Paid Rights have been deposited into CREST.

CREST sponsored members should contact their CREST sponsor as only their CREST sponsor will be able to take the necessary action to take up the entitlement or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of the CREST sponsored member.

### 3.11 *Issue of New Ordinary Shares in definitive form*

Definitive share certificates in respect of the New Ordinary Shares to be held in certificated form are expected to be dispatched by post by no later than 26 August 2011 to Qualifying Non-CREST Shareholders (or their transferees who hold Fully Paid Rights in certificated form), or in the case of joint holdings, to the first named Shareholders, at their registered address (unless lodging agent details have been completed on the Provisional Allotment Letter). All documents and cheques posted to or by Shareholders or renouncees or their agents will be posted at their risk. After the despatch of share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending the dispatch of share certificates, instruments of transfer of the New Ordinary Shares will be certified by Capita against the register.

## 4. **Action to be taken by Qualifying CREST Shareholders in relation to Nil Paid Rights and Fully Paid Rights in CREST**

### 4.1 *General*

Subject to the Resolution being passed at the General Meeting, it is expected that each Qualifying CREST Shareholder (other than, subject to certain exceptions, Restricted Shareholders) will receive a credit to his CREST stock account of his entitlement to Nil Paid Rights on 2 August 2011. It is expected that such rights will be enabled as soon as practicable after 8.00 a.m. on 2 August 2011. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Ordinary Shares in uncertificated form held on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The Nil Paid Rights will constitute a separate security for the purposes of CREST and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If the Rights Issue is delayed or if, for any other reason, it is impracticable to credit the stock accounts of Qualifying CREST Shareholders, or to enable the Nil Paid Rights, by 8.00 a.m. on 2 August 2011, the expected timetable as set out in this document may be adjusted. References to dates and times in this document should be read as subject to any such adjustment. The Company will make an appropriate announcement to a Regulatory Information Service giving details of the revised dates, but Qualifying CREST Shareholders may not receive any further written communication. Further, in such circumstances a Provisional Allotment Letter shall, unless the Company determines otherwise, be sent to each Qualifying CREST Shareholder in substitution for the Nil Paid Rights which would have been enabled or credited to its stock account in CREST and the expected timetable as set out in this document will be adjusted as appropriate.

**CREST members who wish to take up all or part of their entitlements in respect of, or otherwise to transfer, Nil Paid Rights or Fully Paid Rights held by them in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member and wish to take up your entitlement, you should consult your CREST sponsor, as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights.**

## 4.2 ***Procedure for acceptance and payment***

### (a) *Many-To-Many instructions*

CREST members who wish to take up all or part of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an MTM instruction to Euroclear UK which, on its settlement, will have the following effect:

- (i) the crediting of a stock account of Capita, under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;
- (ii) the creation of a settlement bank payment obligation (as defined in the CREST Manual), in accordance with the RTGS payment mechanism (as defined in the CREST Manual), in favour of the RTGS settlement bank of Capita in sterling, in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in sub-paragraph (i) above; and
- (iii) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in sub-paragraph (i) above.

### (b) *Contents of MTM instructions*

The MTM instruction must be properly authenticated in accordance with Euroclear UK's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of Nil Paid Rights to which the acceptance relates;
- (ii) the participant ID of the accepting CREST member;
- (iii) the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- (iv) the participant ID of Capita Registrars, in its capacity as a CREST Receiving Agent. This is 7RA33;
- (v) the member account ID of Capita Registrars, in its capacity as a CREST Receiving Agent. This is 27423PEN;
- (vi) the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;
- (vii) the amount payable by means of the settlement bank payment obligation (as defined in the CREST Manual) on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights to which the acceptance relates referred to in paragraph 4.2(b)(i) above;
- (viii) the intended settlement date. This must be at or before 11.00 a.m. on 16 August 2011;
- (ix) the Nil Paid Rights ISIN Number. This is GB00B46RJN86;
- (x) the Fully Paid Rights ISIN Number. This is GB00B4KCXW68;
- (xi) the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST; and
- (xii) contact name and telephone number in the shared contact field.

(c) *Valid acceptance*

An MTM instruction complying with each of the requirements as to authentication and contents set out in sub-paragraph (b) of this paragraph 4.2 above will constitute a valid acceptance where either:

- (i) the MTM instruction settles by not later than 11.00 a.m. on 16 August 2011; or
- (ii) at the discretion of the Company, the Joint Bookrunners and the Co-Bookrunner if:
  - (A) the MTM instruction is received by Euroclear UK by not later than 11.00 a.m. on 16 August 2011;
  - (B) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock account of the accepting CREST member specified in the MTM instruction at 11.00 a.m. on 16 August 2011; and
  - (C) the relevant MTM instruction settles by 2.00 p.m. on 16 August 2011 (or such later time as the Company may determine).

***An MTM instruction will be treated as having been received by Euroclear UK for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at Euroclear UK of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.***

(d) *Representations, warranties and undertakings of CREST members*

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with this paragraph 4.2 represents, warrants and undertakes to the Company and each of the Joint Bookrunners and the Co-Bookrunner that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 11.00 a.m. on 16 August 2011 and remains capable of settlement at all times after that until 2.00 p.m. on 16 August 2011 (or until such later time and date as the Company may determine). In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that, at 11.00 a.m. on 16 August 2011 and at all times thereafter until 2.00 p.m. on 16 August 2011 (or until such later time and date as the Company may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt.

If there is insufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account of a CREST member or CREST sponsored member for such amount to be debited or the CREST member's or CREST sponsored member's acceptance is otherwise treated as invalid and New Ordinary Shares have already been allotted to such CREST member or CREST sponsored member, the Company, the Joint Bookrunners and the Co-Bookrunner may (in their absolute discretion as to the manner, timing and terms) make arrangements for the sale of such shares on behalf of that CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that it has suffered as a result of the acceptance being treated as invalid and of the expenses of sale including, without limitation, any stamp duty or SDRT payable on the transfer of such shares, and of all amounts payable by the CREST member or CREST sponsored member pursuant to the provisions of this Part III in respect of the acquisition of such shares) on behalf of such CREST member or CREST sponsored member. None of the Company, any of the Joint Bookrunners, the Co-Bookrunner, or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such CREST member or CREST sponsored member as a result.

(e) *CREST procedures and timings*

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that Euroclear UK does not make available special procedures in CREST for any particular corporate action. Normal systems timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 a.m. on 16 August 2011. In this connection CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(f) *CREST member's undertaking to pay*

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this paragraph 4.2, (a) undertakes to pay to Capita, or procure the payment to Capita of, the amount payable in sterling on acceptance in accordance with the above procedures or in such other manner as Capita may require (it being acknowledged that, where payment is made by means of the CREST RTGS payment mechanism, the creation of a RTGS payment obligation in pounds sterling in favour of Capita's RTGS settlement bank (as defined in the CREST Manual) in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CREST member (or CREST sponsored member) to pay the amount payable on acceptance) and (b) requests that the Fully Paid Rights and/or New Ordinary Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Articles of Association of the Company. Such payment will be held by Capita acting as principal on receipt of such monies, on behalf of the Joint Underwriters, but subject to the requirement that the monies can only be applied in acquiring redeemable preference shares in Newco as provided in paragraph 9 of this Part III.

If the payment obligations of the relevant CREST member in relation to such New Ordinary Shares are not discharged in full and such New Ordinary Shares have already been allotted to the CREST member or CREST sponsored member, the Company, the Joint Bookrunners and the Co-Bookrunner may (in their absolute discretion as to the manner, timing and terms) make arrangements for the sale of such shares on behalf of that CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that it has suffered as a result of the same and of the expenses of sale including, without limitation, any stamp duty or SDRT payable on the transfer of such shares, and of all amounts payable by the CREST member or CREST sponsored member pursuant to the provisions of this Part III in respect of the acquisition of such shares) or any amount equal to the original payment of the CREST member or CREST sponsored member (whichever is lower) on trust for such CREST member or CREST sponsored member. None of the Company, any of the Joint Bookrunners, the Co-Bookrunner or any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such CREST member or CREST sponsored member as a result.

(g) *Discretion as to rejection and validity of acceptances*

The Company, the Joint Bookrunners and the Co-Bookrunner may in their absolute discretion:

- (i) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 4.2 of this Part III. Where an acceptance is made as described in this paragraph 4.2 of this Part III which is otherwise valid, and the MTM instruction concerned fails to settle by 2.00 p.m. on 16 August 2011 (or by such later time and date as the Company, the Joint Bookrunners and the Co-Bookrunner have

determined), the Company, the Joint Bookrunners and the Co-Bookrunner shall be entitled to assume, for the purposes of their right to reject an acceptance contained in this paragraph 4.2 of this Part III, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 4.2, unless the Company is aware of any reason outside the control of the CREST member or CREST sponsor (as appropriate) concerned for the failure of the MTM instruction to settle;

- (ii) treat as valid (and binding on the CREST member or CREST sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 4.2 of this Part III;
- (iii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company, the Joint Bookrunners and the Co-Bookrunner may determine;
- (iv) treat a properly authenticated dematerialised instruction (in this sub-paragraph (iv) the **“first instruction”**) as not constituting a valid acceptance if, at the time at which Capita receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or Capita has received actual notice from Euroclear UK of any of the matters specified in regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (v) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Capita in connection with CREST.

#### 4.3 *Money Laundering Regulations*

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK credit or financial institution), then, irrespective of the value of the application, Capita is entitled to take reasonable measures to establish the identity of the person or persons (or the ultimate controller of such person or persons) on whose behalf you are making the application. You must therefore contact Capita before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to Capita any information Capita may specify as being required for the purposes of the Money Laundering Regulations or the FSMA.

If Capita determines that the verification of identity requirements apply to a MTM instruction, the relevant Nil Paid Rights (notwithstanding any other term of the Rights Issue) will not be issued to the relevant applicant unless and until the verification of identity requirements have been satisfied in respect of that MTM instruction. Pending provision of such information and other evidence as Capita may require to satisfy the verification of identity requirements, Capita may at its absolute discretion



take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. Capita is entitled, in its absolute discretion, to determine whether the verification of identity requirements applies to a MTM instruction and whether such requirements have been satisfied. None of Capita, the Company, the Joint Bookrunners or the Co-Bookrunner will be liable to any person for any loss or damage suffered or incurred as a result of the exercise of any such discretion.

If satisfactory evidence of identity has not been provided within a reasonable time, then Capita will not permit the MTM instruction concerned to proceed to settlement, but without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure by the applicant to provide satisfactory evidence. Any monies will be returned (at the applicant's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn, or as applicable, the relevant account of the bank or building society from which the relevant funds were debited.

#### **4.4 *Dealings in Nil Paid Rights in CREST***

Assuming the Rights Issue becomes unconditional, dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence at 8.00 a.m. on 2 August 2011. A transfer (in whole or in part) of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST by 11.00 a.m. on 16 August 2011.

#### **4.5 *Dealings in Fully Paid Rights in CREST***

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document, the Fully Paid Rights may be transferred (in whole or in part) by means of CREST in the same manner as any other security that is admitted to CREST. The latest time and date for settlement of any transfer of Fully Paid Rights in CREST is expected to be 9.30 a.m. on 16 August 2011. The Fully Paid Rights are expected to be disabled in CREST by 11.00 a.m. on 16 August 2011. After 16 August 2011, the New Ordinary Shares will be registered in the name(s) of the person(s) entitled to them in the Company's register of members and will be transferable in the usual way (see paragraph 4.7 of this Part III).

#### **4.6 *Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST***

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by Euroclear UK of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights, or if appropriate, Fully Paid Rights from CREST is 4.30 p.m. on 10 August 2011, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights, or if appropriate, Fully Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 16 August 2011. You are recommended to refer to the CREST Manual for details of such procedures.

#### **4.7 *Issue of New Ordinary Shares in definitive form***

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 16 August 2011 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New Ordinary Shares (in definitive form) will be issued in uncertificated form to those persons registered as holding such Fully Paid Rights in CREST at the close of business on the date on which the Fully Paid Rights are disabled. Capita will instruct Euroclear UK to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to New Ordinary Shares with effect from the next business day (therefore, expected to be credited on 17 August 2011).



#### 4.8 ***Rights to allot/issue in certificated form***

Despite any other provision of this document, the Company reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by Capita in connection with CREST.

### **5. Procedure in respect of rights not taken up and withdrawal rights**

#### 5.1 ***Procedure in respect of New Ordinary Shares not taken up***

If an entitlement to New Ordinary Shares is not validly taken up by 11.00 a.m. on 16 August 2011, in accordance with the procedure set out for acceptance and payment, then that provisional allotment will be deemed to have been declined and will lapse. The Joint Bookrunners and the Co-Bookrunner will, as agents for the Company, endeavour to procure acquirers for such New Ordinary Shares by not later than 5.00 p.m. on 18 August 2011 at a price which is at least equal to the aggregate of the Issue Price and the related expenses of procuring such acquirers (including any value added tax thereon). Notwithstanding the above, if at any time after 11.00 a.m. on 16 August 2011 the Joint Bookrunners and the Co-Bookrunner are of the opinion that it is unlikely that acquirers can be procured on the terms described above, the Joint Bookrunners and the Co-Bookrunner may cease to endeavour to procure acquirers on such basis. If and to the extent acquirers cannot be so procured on the basis outlined above, the relevant Underwritten Shares will be acquired by the Joint Underwriters as principals on and subject to the terms of the Underwriting Agreement or by sub-underwriters procured by the Joint Underwriters at the Issue Price on the terms and subject to the conditions of the Underwriting Agreement.

It will be a term of such acquisition that any premium over the aggregate of the Issue Price and the related expenses of procuring such acquirers (including any value added tax thereon) shall be paid (subject as provided in this paragraph 5.1):

- (a) where Nil Paid Rights were, at the time they lapsed, represented by a Provisional Allotment Letter, to the person whose name and address appears on the Provisional Allotment Letter (or to the first named holder on the Provisional Allotment Letter if Ordinary Shares are held jointly);
- (b) where the Nil Paid Rights were, at the time they lapsed, in uncertificated form, to the person registered as the holder of such Nil Paid Rights at the time of their disablement in CREST; and
- (c) where an entitlement to the New Ordinary Shares was not taken up by an Overseas Shareholder and neither (a) nor (b) above applies, to that Overseas Shareholder.

New Ordinary Shares for which acquirers are procured on this basis will be reallocated at the Issue Price to such acquirers and the aggregate of any premiums (being the amount paid by the acquirers after deduction of the Issue Price and the fees and expenses related to the procuring of such acquirers, including any value added tax thereon), if any, will be paid (without interest) to those persons entitled (as referred to above) *pro rata* to their relevant lapsed provisional allotments, save that amounts of less than £5.00 per holding will not be paid to such persons but will be aggregated and retained by Capita, who is acting as principal on receipt of such monies, on behalf of the Joint Underwriters and will ultimately be paid to the Company. Cheques for the amounts due (if any) will be sent by post at the risk of such person(s) entitled, to their registered addresses (the registered address of the first named holder in the case of joint holders), provided that, where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the creation of an assured settlement bank payment obligation in favour of the relevant CREST member's (or CREST sponsored member's) RTGS settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism.

Any transactions undertaken pursuant to this paragraph 5.1 shall be deemed to have been undertaken at the request of person entitled to the lapsed provisional allotments, and none of the Company, any

of the Joint Bookrunners or the Co-Bookrunner or any person procuring or seeking to procure such acquirers shall be responsible or have any liability for any loss or damage (whether actual or alleged) arising from the terms, amount or timing of any such acquisition or any failure to procure such acquirers or the decision not to endeavour to procure such acquirers on the basis so outlined. The Joint Bookrunners and the Co-Bookrunner will be entitled to retain any brokerage fees, commissions or other benefits received in connection with these arrangements.

## **5.2 *Withdrawal rights***

Qualifying Shareholders or their renounees who have the right to withdraw their acceptances under section 87Q(4) of FSMA after a supplementary prospectus (if any) has been published and who wish to exercise such right of withdrawal must deposit a written notice of withdrawal, which must include the full name and address of the person wishing to exercise such right of withdrawal and, if such person is a CREST member, the participant ID and the member account ID of such CREST member, by post or by hand (during normal business hours only) to Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or email to [withdraw@capitaregistrars.com](mailto:withdraw@capitaregistrars.com) so as to be received no later than two business days after the date on which the supplementary prospectus was published. Notice of withdrawal given by any other means or which is deposited with or received by Capita after expiry of such period will not constitute a valid withdrawal save that the Company and Capita shall treat as valid any notice of withdrawal received through the post by not later than four business days after the date on which a supplementary prospectus is published provided that the cover bears a legible postmark not later than the date falling two business days after the date on which such supplementary prospectus was published. Withdrawal is effected at the time an investor posts the withdrawal form document and not at the point at which the document is received by the Company.

Furthermore, the exercise of withdrawal rights will not be permitted after payment by the relevant Shareholder of his acquisition price in full and the allotment of the New Ordinary Shares to such Shareholder becoming unconditional. In such circumstances, Shareholders are advised to consult their professional advisers. Provisional allotments of entitlements to New Ordinary Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Ordinary Shares will be subject to the provisions of paragraph 5.1 of this section above as if the entitlement had not been validly taken up.

## **6. *Share Schemes and outstanding Warrants***

The Directors will make such adjustments as they deem appropriate as a result of the Rights Issue, including to the number of Shares under options or awards granted under the Share Schemes and to the exercise price, if any, of those options and awards, to compensate participants for the impact of the Rights Issue on their options. Any such adjustments shall be made in accordance with the rules of the relevant plan. Where required by relevant plan rules, adjustments shall be made with the prior approval of HMRC and/or Company's auditors. Participants will be notified in due course of the adjustments to be made to the options. The Company will give written notice of the Warrant Adjustments to holders of Warrants as required by the terms of the Warrant Instrument and Subsequent Warrant Instrument, respectively.

## **7. *Taxation***

The information regarding United Kingdom taxation in respect of the New Ordinary Shares and the Rights Issue set out in paragraph 13 of Part IX of this document is intended only as a general guide to the current tax position in the UK. If you are in any doubt about your tax position or are subject to a tax in a jurisdiction other than the United Kingdom, you should consult your own tax advisers without delay.

## 8. Overseas Shareholders

This document has been approved by the FSA, being the competent authority in the UK.

The making of the proposed offer of New Ordinary Shares to persons located or resident in, or who have a registered address in countries other than the UK may be affected by the law or regulatory requirements of the relevant jurisdiction. Any Shareholder who is in any doubt as to his position should consult an appropriate professional adviser without delay.

### 8.1 General

**The making or acceptance of the offer of Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters and/or New Ordinary Shares to persons resident or located in, or who have registered addresses in, countries other than the United Kingdom may be affected by the laws of the relevant jurisdiction. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.**

It is the responsibility of all persons (including, without limitation, custodians, nominees and trustees) outside the United Kingdom receiving this document and/or a Provisional Allotment Letter and/or a credit of Nil Paid Rights to a stock account in CREST and wishing to accept the offer of New Ordinary Shares under the Rights Issue to satisfy themselves as to full observance of the laws of the relevant territory in connection therewith, including the obtaining of all necessary governmental or other consents which may be required, the compliance with all other requisite formalities and payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 8 are intended as a general guide only and any Overseas Shareholder who is in doubt as to his position should consult his professional adviser without delay.

This paragraph 8 sets out the restrictions applicable to Qualifying Shareholders who have registered addresses outside the UK, or are resident or located in countries other than the UK or who are persons (including, without limitation, custodians, nominees and trustees) who have a contractual or legal obligation to forward this document to a jurisdiction outside the UK or who hold Ordinary Shares for the account or benefit of any such person.

Receipt of this document and/or a Provisional Allotment Letter will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed. The crediting of Nil Paid Rights to a stock account in CREST does not constitute an offer to Shareholders in any jurisdiction.

New Ordinary Shares will be provisionally allotted (nil paid) to all Qualifying Shareholders (including Restricted Shareholders) on the register at the Record Date. However, Provisional Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST Stock accounts of, Restricted Shareholders or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person in any territory other than the United Kingdom receiving this document and/or a Provisional Allotment Letter and/or a credit of Nil Paid Rights to a stock account in CREST may treat the same as constituting an offer or invitation to him, nor should he in any event use a Provisional Allotment Letter or deal with Nil Paid Rights or Fully Paid Rights in CREST, unless in the relevant territory such an invitation or offer can lawfully be made to him and the Provisional Allotment Letter, Nil Paid Rights or Fully Paid Rights in CREST can lawfully be used or dealt with without contravention of any unfulfilled registration or other legal or regulatory requirements. In such circumstances, this document and the Provisional Allotment Letter are to be treated as sent for information only and should not be copied or redistributed.

Persons (including, without limitation, nominees, agents and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose stock account in CREST is credited with Nil Paid Rights or Fully Paid Rights should not distribute or send it or transfer Nil Paid Rights or Fully Paid Rights in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a Provisional Allotment Letter or credit of Nil Paid Rights or Fully Paid Rights in CREST is received by any person in any such territory (or by the agent or nominee of such a person), he must not seek to take up the rights referred to in the Provisional Allotment Letter or in this document or renounce the Provisional Allotment Letter or transfer the Nil Paid Rights or Fully Paid Rights unless such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, nominees, agents and trustees) who does forward this document or a Provisional Allotment Letter into any such territory (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 8.

The Company reserves the right to treat as invalid and will not be bound to allot or issue any New Ordinary Shares in respect of any acceptance or purported acceptance of the offer of New Ordinary Shares which:

- (a) appears to the Company or its agents to have been executed, effected or despatched from one of the Excluded Territories; or
- (b) in the case of a Provisional Allotment Letter, provides an address for delivery of definitive share certificates for New Ordinary Shares or, in the case of a credit of New Ordinary Shares in CREST, the CREST member or CREST sponsored member whose registered address would be in one of the Excluded Territories or any jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates or make such a credit.

The attention of Overseas Shareholders with registered addresses in any of the Excluded Territories is drawn to paragraphs 8.2 to 8.4 (inclusive) below.

Entitlements to Nil Paid Rights to which Qualifying Shareholders with registered addresses in any of the Excluded Territories would otherwise be entitled will be aggregated with entitlements to Nil Paid Rights which have not been taken up by other Qualifying Shareholders and sold as described in paragraph 5.1 above. The net proceeds of such sales (after deduction of expenses) will be paid to the relevant Qualifying Shareholders pro-rated to their holdings of Ordinary Shares at the Record Date as soon as practicable after receipt, except that (i) individual amounts of less than £5.00 per holding and (ii) amounts in respect of fractions will not be distributed but will be retained by Capita who is acting as principal on receipt of such monies, on trust for the Joint Underwriters and will ultimately be paid to the Company. None of the Company, any of the Joint Bookrunners, the Co-Bookrunner, or any other person shall be responsible or have any liability whatsoever for any loss or damage (actual or alleged) arising from the terms or the timing of the acquisition or the procuring of it or any failure to procure acquirers.

Despite any other provision of this document or a Provisional Allotment Letter, the Company reserves the right to permit any Qualifying Shareholder to take up rights on the terms and conditions set out in this document if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

Those Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 3.3 (Qualifying Non-CREST Shareholders) and 4.2 (Qualifying CREST Shareholders) above.

Overseas Non-CREST Shareholders should note that all acquisition monies must be paid in pounds sterling by cheque or banker's draft and should be drawn on a bank in the UK, made payable to "Capita Registrars Limited re Pendragon PLC – Rights Issue" and crossed "A/C payee only".

The provisions of this paragraph 8 shall override any other provision in this document and/or a Provisional Allotment Letter to the contrary.

## 8.2 *United States*

The Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares have not been and will not be registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the US and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the US except pursuant to an applicable exemption from the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the US.

Accordingly, the Company is not extending the Rights Issue into the US and none of this document and the Provisional Allotment Letter constitutes or will constitute or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or acquire, any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in the US. Subject to certain exceptions, neither this document nor a Provisional Allotment Letter will be sent to any Shareholder in, resident or located in or with a registered address in the US.

Provisional Allotment Letters or renunciations thereof sent from or post-marked in the US will be deemed to be invalid and all persons acquiring New Ordinary Shares and wishing to hold such Shares in registered form must provide an address outside the US for registration of the New Ordinary Shares issued upon exercise thereof. Although Nil Paid Rights may be credited to the CREST accounts of Qualifying CREST Shareholders who hold their Shares through nominees with a UK address, such crediting of Nil Paid Rights does not constitute an offer to such Shareholders and any such Qualifying CREST Shareholders will not be entitled to take up rights in the Rights Issue unless such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

Any person who acquires New Ordinary Shares, Nil Paid Rights or Fully Paid Rights will be deemed to have declared, warranted and agreed, by accepting delivery of this document or the Provisional Allotment Letter or delivery of the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights, that they are acquiring the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights in an offshore transaction outside the United States in a transaction which is in compliance with Regulation S.

The Company reserves the right to treat as invalid any Provisional Allotment Letter (or renunciation thereof) that appears to the Company or its agents to have been executed in or despatched from the US, or that provides an address in the US for the acceptance or renunciation of the Rights Issue, or which does not make the warranty set out in the Provisional Allotment Letter to the effect that the person accepting and/or renouncing the Provisional Allotment Letter does not have a registered address and is not otherwise located or resident in the US and is acquiring the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares and not with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in the US or where the Company believes acceptance of such Provisional Allotment Letter may infringe applicable legal or regulatory requirements. The Company will not be bound to allot (on a non-provisional basis) or issue any New Ordinary Shares, Nil Paid Rights, or Fully Paid Rights to any person with an address in, or who is otherwise located or resident in, the US in whose favour a Provisional Allotment Letter or any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares may be transferred or renounced. In addition, the Company, the Joint Bookrunners and the Co-Bookrunner reserve the right to reject any MTM instruction sent by or on behalf of any CREST member in or with a registered address in the US in respect of the Nil Paid Rights.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights within the US by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the US Securities Act.



### 8.3 *Other Excluded Territories*

Due to restrictions under the securities laws of the Excluded Territories and subject to certain exemptions, no Provisional Allotment Letters in relation to the New Ordinary Shares will be sent to Shareholders located in or resident in, or having registered addresses in the Excluded Territories (unless such Qualifying Shareholder can satisfy the Company, the Joint Bookrunners and the Co-Bookrunner that receipt, and acceptance, of the offer in such jurisdiction will not breach applicable securities laws as described in this paragraph 8.3) and their entitlements to New Ordinary Shares will be sold in the market as if they were New Ordinary Shares not taken up, in accordance with paragraph 5 of this Part III. Except as expressly permitted under this paragraph 8, the Provisional Allotment Letters, the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares may not be transferred or sold to or renounced or delivered in, any Excluded Territory. No offer of New Ordinary Shares is being made by virtue of this document, or the Provisional Allotment Letters into the Excluded Territories.

Although Nil Paid Rights may be credited to the CREST accounts of Qualifying CREST Shareholders who hold their Shares through a nominee with a UK registered address, such crediting of Nil Paid Rights does not constitute an offer to Shareholders. Qualifying Shareholders (i) with a registered address, or located or resident, in one of the Excluded Territories; (ii) with a registered address in, or who hold on behalf of, or for the account or benefit of persons in the US or located in the US, or who hold on behalf of, or for the account or benefit of, any person on a non-discretionary basis who is in the US, or any State of the US will not be entitled to take up rights in the Rights Issue, unless such action would not result in the contravention of any registration or other legal requirement in any jurisdiction, and their entitlements will be sold in accordance with the provisions of paragraph 5.1 above.

Notwithstanding the foregoing, if a Qualifying Shareholder with a registered address in, or resident in, any of the Excluded Territories can demonstrate to the satisfaction of the Company, the Joint Bookrunners and the Co-Bookrunner that receipt, or acceptance, of the offer in such jurisdiction will not breach applicable securities laws then the Company in its absolute discretion (and in consultation with the Joint Bookrunners and the Co-Bookrunner) may either arrange for such Qualifying Shareholder to be sent a Provisional Allotment Letter if he is a Qualifying Non-CREST Shareholder holding his Shares in certificated form (as the case may be) or, if he is a Qualifying CREST Shareholder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account. Such Qualifying Shareholders may, subject to the laws of the relevant jurisdictions, accept their rights under the Rights Issue in accordance with the instructions set out in this document and, if relevant, the Provisional Allotment Letter. Although Nil Paid Rights may be credited to the CREST accounts of such Qualifying CREST Shareholders, the crediting of Nil Paid Rights does not constitute an offer to Shareholders. Such Shareholders will not be entitled to take up rights in the Rights Issue if to do so would result in the contravention of any registration or other legal requirement in any jurisdiction. In cases where Overseas Shareholders are not able to, or do not, take up Nil Paid Rights, their entitlements will be sold in accordance with the provisions of paragraph 5.1 above.

### 8.4 *Overseas territories other than the United States and other Excluded Territories*

Qualifying Shareholders resident in overseas territories other than the United States and the other Excluded Territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

### 8.5 *Representations and warranties relating to Overseas Shareholders*

#### (a) *Qualifying non-CREST Shareholders*

Any person accepting and/or renouncing a Provisional Allotment Letter or requesting registration of the New Ordinary Shares comprised therein makes the representations and warranties set out below to the Company and each of the Joint Bookrunners and the Co-Bookrunner that, except where proof has been provided to the Company's satisfaction that



such person's use of the Provisional Allotment Letter will not result in the contravention of any applicable legal requirements in any jurisdiction. Documentation for establishing such proof may be obtained from Pendragon or Capita. In the absence of such proof, the representations and warranties referred to above are that: such person: (a) is not accepting and/or renouncing the Provisional Allotment Letter, or requesting registration of the relevant New Ordinary Shares, from within the United States or any of the other Excluded Territories; (b) is not in any territory in which it is unlawful to make or accept an offer to acquire New Ordinary Shares or to use the Provisional Allotment Letter in any manner in which such person has used or will use it; (c) such person is not acting on a non-discretionary basis for a person located within the United States or any of the other Excluded Territories or any territory referred to in (b) above at the time the instruction to accept or renounce was given; and (d) such person is not acquiring New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such New Ordinary Shares into the United States or any of the other Excluded Territories or any territory referred to in (b) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Ordinary Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter if it (a) appears to the Company to have been executed in or despatched from the United States or any of the other Excluded Territories or otherwise in a manner which may involve a breach of the laws of any jurisdiction, or if it believes the same may violate any applicable legal or regulatory requirement; (b) provides an address in the United States or any of the other Excluded Territories for delivery of definitive share certificates for New Ordinary Shares (or any jurisdiction outside the United Kingdom in which it would be unlawful to deliver such certificates), or (c) purports to exclude the warranty required by this paragraph.

(b) *Qualifying CREST Shareholders*

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part III makes the representations and warranties set out below to the Company and each of the Joint Bookrunners and the Co-Bookrunner that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction. Documentation for establishing such proof may be obtained from Pendragon or Capita. In the absence of such proof, the representations and warranties referred to above are that: such person (a) is not within the United States or any of the other Excluded Territories; (b) is not in any territory in which it is unlawful to make or accept an offer to acquire Fully Paid Rights or New Ordinary Shares; (c) is not accepting on a non-discretionary basis for a person located within the United States or any of the other Excluded Territories or any territory referred to in (b) above at the time the instruction to accept was given; and (d) is not acquiring Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, transfer, delivery or distribution, directly or indirectly, of any such Fully Paid Rights or New Ordinary Shares into the United States or any of the other Excluded Territories or any territory referred to in (b) above.

**The comments set out in this paragraph 8 are intended as a guide only and, if you are in any doubt as to your eligibility to take up rights under the Rights Issue, you should consult your professional adviser without delay.**

## **9. Rights Issue Structure**

The Rights Issue has been structured in a way that is expected to have the effect of creating distributable reserves approximately equal to the net proceeds of the Rights Issue less the par value of the New Ordinary Shares issued by the Company. The Company and RBS Hoare Govett have agreed to subscribe for ordinary shares in Newco, a Jersey incorporated company that is a subsidiary of the Company. Capita will receive, into an account set up specifically for the purpose, monies from Qualifying Shareholders or renounees taking up New Ordinary Shares under the Rights Issue, as agent for and on behalf of RBS Hoare Govett. Provided certain conditions are met, RBS Hoare Govett will use the proceeds held by Capita on their behalf, to subscribe for redeemable preference shares in Newco.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration for RBS Hoare Govett transferring its holdings of ordinary shares and redeemable preference shares in Newco to the Company. Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Rights Issue the Company will own the entire issued share capital of Newco, whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Rights Issue. The Company will be able to utilise this amount (including for the payment of the costs and expenses of the Rights Issue) by Newco redeeming the redeemable preference shares that the Company will hold in Newco or, alternatively, by procuring either that Newco lends the amount to the Company prior to any redemption or that Newco pays a dividend to the Company.

Accordingly, by taking up New Ordinary Shares under the Rights Issue and submitting a valid payment in respect thereof, a Qualifying Shareholder instructs Capita (i) to the extent of a successful application under the Rights Issue, to apply such payment on behalf of the Joint Underwriters solely to subscribe for redeemable preference shares in Newco and (ii) to the extent of an unsuccessful application under the Rights Issue, to return the relevant payment without interest to the applicant.

Further details of this structure are set out in paragraph 15.2 of Part IX of this document

## **10. General**

### **10.1 *Times and dates***

The Company shall, in its discretion and after consultation with its financial and legal advisers, be entitled to amend the dates that Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence or amend or extend the latest date for acceptance under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UK Listing Authority, and make an announcement via a Regulatory Information Service approved by the UK Listing Authority and, if appropriate, to Shareholders but Qualifying Shareholders may not receive any further written communication.

If a supplementary prospectus is issued by the Company two or fewer business days prior to the latest time and date for acceptance and payment in full under the Rights Issue specified in this document as the latest date for acceptance under the Rights Issue (or such later date as may be agreed between the Company, the Joint Bookrunners and the Co-Bookrunner), the latest date for acceptance under the Rights Issue shall be extended to the date that is three business days after the date of publication of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

### **10.2 *Governing law***

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter, and all other contractual and non-contractual rights, obligations and matters arising out of or in relation thereto, shall be governed by, and construed in accordance with, English law.

### **10.3 *Jurisdiction***

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Rights Issue, this document or the Provisional Allotment Letter. By accepting rights under the Rights Issue in accordance with the instruction set out in this document and, in the case of Qualifying Non-CREST Shareholders only, the Provisional Allotment Letter, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

## **PART IV**

### **INFORMATION ON PENDRAGON**

#### **1. Introduction**

Pendragon is the largest independent operator of franchised motor vehicle dealerships in the UK. The Group operates 237 franchise points, of which nine are in California. Pendragon sells and services 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.

Pendragon's motor car businesses operate under the brands of Stratstone (for luxury vehicles) and Evans Halshaw (for the volume brands). Chatfields is Pendragon's commercial van and truck business, selling and servicing vehicles within a range of commercial vehicle brands. Pendragon also operates motor car retail businesses in the USA.

Pendragon has a large leasing and contract hire business in the UK, operating under the brands of Pendragon Contracts and Vardy Contract Motoring. Pendragon also has a substantial presence in the UK wholesale parts distribution market through Quickco. Pendragon's software solutions business, Pinewood, provides software and services to dealers and fleet operators.

#### **2. History**

Pendragon was listed on the London Stock Exchange in 1989 when the vehicle division of Williams plc was de-merged. At that time it operated 19 car dealerships, representing specialist and luxury franchises, together with a small contract hire business. Since then, the Company has enhanced its portfolio and expanded considerably through a series of greenfield start-ups and acquisitions of dealerships from Lex Retail Group in 1997 and 2000, the acquisitions of the entire issued share capital of Evans Halshaw Motor Holdings plc in 1999, CD Bramall in 2004 and Reg Vardy Plc in 2006, and the acquisitions of dealerships formerly operated by the Dixon Motors Group in 2007.

#### **3. Group strategy**

The Group's strategy is to have a diversified portfolio of activities including new vehicle franchises representing both volume and luxury brands and used vehicle sales operations including both stand-alone and brand-related sites. These are sold through the Evans Halshaw and Stratstone brands. In conjunction with this diversified portfolio the Board has identified certain brands that it wishes to continue to operate on a significant scale. This scale gives multiple direct benefits to the Group by enabling the Group to realise economies of scale, to minimise fixed overheads and to have significant manufacturer partnerships (where scale benefits both Pendragon and the manufacturer). The size of the Group also drives profitable functional integration in contract hire, wholesale parts distribution and dealership management systems.

Aligned to this strategy the Board is constantly reviewing the Group's franchise portfolio and representation points to evaluate the performance and return that the Group is achieving. As a result of this review process, 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 where the Board has concluded that the long term prospects for a particular franchise are poor.

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 was a key strategy during the 2010 financial year and will continue to be for the foreseeable future. The aftersales sector is undergoing the Group-wide roll-out of the Vehicle Health Check programme and the Group is conducting direct marketing on a number of service plans and initiatives. The Group continues to focus on the used sector by assessing and accrediting its used car processes and through further used car supermarket start-ups under the Quickco brand.

#### **4. Principal markets**

Pendragon operates a total of 228 franchises in the UK. The UK market splits into four key sectors: aftersales services, used vehicle sales, new vehicle sales and contract hire and other support businesses (including computer software solutions and wholesale parts distribution services). Pendragon has motor vehicle franchises in the UK for Aston Martin, BMW Chevrolet, Citroen, Ferrari, Ford, Honda, Hyundai, Jaguar, Kia, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Nissan, Peugeot, Porsche, Renault, Saab, Smart and Vauxhall, together with franchises for motorcycles and heavy commercial vehicles. Pendragon's Californian operations consist of nine franchise points in Southern California, which operate Aston Martin, Jaguar and Land Rover brands.

The total car parc in the UK now stands at around 31 million with annual sales of new and used cars of around 9 million units. In 2010, the total number of new car registrations in the UK was 2 million.

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 UK Government scrappage scheme which caused a reduction in the car parc of 0.4 million vehicles. This occurred in the period 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 this is related to the profile of the car parc. For example, warranty and retail work is predominantly geared towards the under three year car parc.

The used vehicle sector in the UK has historically represented a market opportunity of around 7.5 million units per annum, in 2010 the used car market was 6.8 million. Of this total market opportunity, around 55 per cent. is typically sold via franchised points in the UK. The Group has outperformed a flat used vehicle market according to the latest data available from Experian. This performance has been helped by having higher levels of stock throughout 2010, compared to the somewhat constrained levels held in 2009 during the Group's refinancing process. Pendragon is confident that used car margins will remain stable and used car volumes will continue to grow during the remainder of 2011. The Group's performance from used cars is the result of the on-going used car initiatives and sales processes, national coverage and scale, the choice from our wide product offering and the continued improvements in our internet proposition and brand recognition.

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 the total market and it operates at lower volume and higher margin compared to the fleet market. Fleet business is transacted at higher risk and consumes higher working capital due to its high volume, low margin characteristics. Accordingly, the Group focuses primarily on the retail sector.

In 2010, the Group sold 220,000 new and used cars.

#### **5. Organisational structure**

Pendragon PLC is the parent company of the Pendragon Group, which is organised on a segmental basis. The Group has eight reportable segments, which are also the Group's strategic business units. The segments offer different ranges of products and services and are accordingly managed separately. 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 reviews 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 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.

### ***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. The leasing business operates under the Pendragon Contracts brand who offer a range of leasing and contract hire products mainly to the small corporate and fleet market and to local authorities. Profits are mainly generated through the sale of the vehicles at the end of the rental period.

### ***Quickco***

This segment comprises the Group's wholesale parts distribution businesses which trade under the Quickco name. Quickco's fleet operates nationwide, making deliveries on a same or next day basis.

### ***Pinewood***

This segment comprises the Group's activities as a Dealer Management Systems provider and shared service centre. Pinewood's principal product, Pinnacle, is a Dealer Management System which is a browser based, web delivered application. It manages most aspects of a franchised car dealer's business, including vehicle and parts stock control, job control and labour management in the workshop, customer relationship management, and the generation of management information. Pinewood's other product portfolio is marketed under the CFC Solutions brand to fleet operators and leasing companies for the management of car and commercial vehicle fleets. The Group also provides various IT support and communications services to the Pendragon Group.

### ***Central***

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

## **6. Current trading and prospects**

### **6.1 Principal markets**

Pendragon's encouraging performance in 2010 despite a challenging economic environment has continued in the first five months of 2011, reflecting the benefits of further increases in new retail vehicle and used vehicle volumes, on a like for like basis, excluding scrappage, a strategy of focusing on higher margin business at the expense of, in particular, low margin fleet activity, and the positive impact of operational gearing as management continues to focus on controlling the Group's cost base. The financial information contained in this paragraph 6 has been extracted from the unaudited underlying accounting records of Pendragon as at 31 May 2011.



### *Aftersales services*

In the first five months to 31 May 2011, Group aftersales revenue fell by 5.6 per cent. on a like for like basis relative to the first five months of 2010 reflecting the anticipated market reduction in the car parc and the reduction in warranty revenue. However, aftersales gross profit fell by just 1.2 per cent. on a like for like basis reflecting improved gross margin over the period and continued focus on the Vehicle Health Check and other aftersales initiatives.

### *Used vehicle sales*

Pendragon's used vehicle volumes continue to significantly outperform the market. On a like for like basis for the five months to 31 May 2011, used vehicle volumes were up by 12.8 per cent. relative to the first five months of 2010. The latest available data from Experian shows that used vehicle sales in Q1 of 2011 were up 3.8 per cent. Used vehicle revenues grew by 14.1 per cent. and, despite margins falling slightly, gross profit increased by 6.5 per cent.

### *New vehicle sales*

Prior to the downturn in 2008 the UK new car market was approximately 2.4 million vehicles. In the last three years, registrations have averaged over 2.0 million vehicles. During the five months to 31 May 2011, total new car registrations in the UK fell by 7.3 per cent. to 847,000 vehicles and for the brands Pendragon represents, total car registrations, including fleet and business activity, fell by 7.5 per cent.

The UK new car retail market, which is the primary focus for Group new car activity, decreased by 18.9 per cent. in the five months to 31 May 2011 and for the brands Pendragon represents, new car retail registrations nationally decreased by 21.5 per cent. Group new retail volume on a like for like basis has decreased by 6.2 per cent. for the five months to 31 May 2011.

The UK Government scrappage scheme which ran in 2009 and 2010 distorts the underlying registrations figures, as these registrations were incremental to the new car market. When scrappage registrations are removed, new car retail registrations for the brands Pendragon represents are flat year on year. The Group has increased retail units sold excluding scrappage by 3.7 per cent. on a like for like basis for the five months to May 2011.

Pendragon's new vehicle revenue is down by £75.0 million of which £23.9 million relates to closed businesses impacting the prior year comparative. In addition Pendragon reduced low margin fleet activity amounting to £60.3 million of revenue. On a like for like basis for the five months to 31 May 2011, retail revenue increased by 9.5 per cent., with like for like fleet revenues falling by 32.3 per cent. New vehicle gross margin on a like for like basis for the five months to 31 May 2011 has increased slightly. Gross profit on a like for like basis grew by 3.6 per cent. in retail and by 9.8 per cent. in fleet over the period.

The UK commercial vehicle market, consisting of vans and trucks, had a market size of 126,000 new units in the first five months of 2011, which was up 27.1 per cent. on the same period in 2010. The commercial vehicle market is showing signs of recovery, with vans up 26.7 per cent. to 31 May 2011 and trucks up 29.7 per cent. to 31 May 2011.

The Group has a small representation in California for Aston Martin, Jaguar and Land Rover, new and used vehicles, and aftersales. See below for further comment on the performance of the California operation.

### *Contract hire and other support businesses*

The Group operates in certain ancillary markets, including contract hire and leasing activities and dealer management software systems. These markets have remained broadly stable in the five months to 31 May 2011 although a reduction in fleet size in the contract hire business resulted in a marginal reduction in profit in that business. See below for further comment on the performance of these



operations. The figures below have been extracted from the unaudited underlying accounting records of Pendragon as at 31 May 2011.

## 6.2 *Operational review*

The unaudited operating results for the five months ended 31 May 2011 and 2010 are summarised below:

	2011 <i>Underlying</i> £m	2011 <i>Total</i> £m	2010 <i>Underlying</i> £m	2010 <i>Total</i> £m
<i>5 months ended 31 May</i>				
<b>Revenue</b>	1,484.1	1,484.1	1,522.8	1,530.7
Underlying operating profit	28.6	28.6	28.5	28.5
Non-underlying operating (costs)	–	–	–	(1.0)
<b>Operating profit before other income</b>	28.6	28.6	28.5	27.5
Other income – (losses)/gains on sales of property and businesses	–	(0.2)	–	0.4
<b>Operating profit</b>	28.6	28.4	28.5	27.9
Underlying net finance costs	(19.6)	(19.6)	(20.6)	(20.6)
<b>Profit before tax</b>	9.0	8.8	7.9	7.3
Tax		(2.8)		(2.7)
<b>Profit after tax</b>		6.0		4.6
<b>Underlying basic earnings per share</b>	0.9p		0.8p	

Underlying revenue and operating profit by division for the five months ended 31 May are shown below:

	2011 <i>Revenue</i> £m	2011 <i>Operating Profit</i> £m	2010 <i>Revenue</i> £m	2010 <i>Operating profit</i> £m
<i>5 months ended 31 May</i>				
<i>Underlying</i>				
Stratstone	528.1	10.8	557.9	12.6
Evans Halshaw	820.4	7.8	826.1	6.2
Chatfields	30.5	0.8	33.7	0.8
California	68.6	2.1	62.9	1.2
Support businesses	36.5	7.1	42.2	7.7
<b>Group</b>	<u>1,484.1</u>	<u>28.6</u>	<u>1,522.8</u>	<u>28.5</u>

### *Motor retail divisions*

**Stratstone** is the UK's leading prestige motor car retailer, with 95 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 as well as four motorcycle franchises.

Stratstone operating profit has fallen by £1.8 million for the five months to 31 May 2011 and £1.3 million on a like for like basis.

Aftersales as expected has been impacted by the reduced car parc but the Group's aftersales initiatives have ensured that gross margin remains strong and has slightly improved over the prior period. Overall aftersales departmental profit fell by 7.9 per cent. on a like for like basis primarily due to higher warranty revenue in the prior period.

Used volumes on a like for like basis are up 3.4 per cent. over the prior year for the 5 months to 31 May 2011 which is performing in line with the market. Used margin has fallen by around 1 per

cent. like for like over the prior period; however, this in part reflects the success of selling higher priced nearly new vehicles within certain franchises where demand is strong, for example, less than three year old Land Rovers.

Within the new sector, the luxury automotive sector was the first to enter the recession but was also the first to recover and the strong performance of 2010 has been maintained in the sector in 2011. New departmental profit is marginally behind the prior year; however, key product launches in the second half such as Land Rover Evoque and the smaller diesel Jaguar XF will assist profitability for the division over the full year.

**Evans Halshaw** is the UK's leading volume motor car retailer with 125 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

Evans Halshaw's operating profit has increased by 25.8 per cent. in the first five months of 2011 and on a like for like basis by 32.6 per cent. as a result of significant outperformance in used and improvements in aftersales performance.

Aftersales gross margin has increased from 57.7 per cent. to 63.5 per cent. as result of the Vehicle Health Check and other service initiatives that the Group has been implementing. Aftersales revenue fell by 7.1 per cent. but the combined impact of the increased gross margin and continuing cost control ensured that aftersales departmental profit increased by 3.1 per cent. in the five months to 31 May 2011.

Used car volumes in Evans Halshaw continue to significantly outperform the market. The division increased volume by 15.5 per cent. for the five months to 31 May 2011 on a like for like basis over the prior period against a market increase of just 3.8 per cent. Used vehicle gross margin was down by around 1 per cent. However, overall departmental profit on a like for like basis increased by 13.6 per cent. reflecting a combination of the significant over performance in volume and strong cost control.

New car volumes were impacted by a reduction in fleet activity. However, Pendragon's market focus is on higher margin retail activity. Pendragon new retail volumes have fallen over the prior year, in part reflecting the scrappage scheme impact which has had a greater impact in Evans Halshaw than in Stratstone. Despite this retail reduction, new vehicle gross margins have improved by 20 basis points to 5.7 per cent. from 5.5 per cent. in the prior period.

**Chatfields** is Pendragon's commercial vans and trucks retailer with eight franchise points. Chatfields holds franchises to retail and/or service DAF, LDV, Nissan and Renault. Operating profit for the segment has remained flat at £0.8 million in the first five months to 31 May 2011. The comparatives are impacted by the closure of our Iveco sales franchise points in the first half of 2010 which are included in the period for the five months to 31 May 2010.

Aftersales gross margins have decreased slightly over 2010 to 37.3 per cent. with overall departmental profit falling to £2.7 million from £2.9 million which in part reflects the closure of Iveco operations in the first half of 2010. Used and new performance is in line with expectations and encouragingly the used commercial volumes have increased over the prior period which indicates the division's recovery from the recession.

**California** consists of nine franchise points in Southern California which operate Aston Martin, Jaguar and Land Rover brands. Operating profit increased by £0.9 million versus the same period in 2010 to £2.1 million due to strong used and new vehicle sales, in particular of the Jaguar and Land Rover brands.

#### *Support businesses*

Pendragon's 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. The revenue of the support businesses has fallen by 13.1 per cent. and gross profit by 6.0 per cent. in the first five months to 31 May 2011.

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 twelve thousand units as at 31 May 2010 to ten thousand units in 2011. The stabilisation in used vehicle prices has benefited the profit on disposal of vehicles. Overall, the segment's operating profit has decreased to £2.6 million in the five months ended 31 May 2011 from £3.0 million in the same period in 2010.

Quickco is the Group's 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. Operating profit for the five months ended 31 May 2011 was £0.9 million versus £1.0 million in the same period in the prior year.

Pinewood Technologies, continues to grow year on year. Operating profit for the five months ended 31 May 2011 was £3.7 million versus £3.6 million in the same period in the prior year.

### 6.3 **Outlook**

Pendragon's encouraging performance in 2010 has continued into 2011 despite a challenging economic environment. Underlying profit before tax for the five months to 31 May 2011 was £9.0 million, £1.1 million ahead of the same period in the prior year, reflecting the benefits of further increases in like for like, excluding scrappage, new retail and used vehicle volumes, a strategy of focusing on higher margin business at the expense of, in particular, low margin fleet activity, and the positive impact of operational gearing as management continues to focus on controlling the Group's cost base.

Pendragon volumes continue to outperform the used car market, and the Board expects this trend to continue for the remainder of 2011.

New retail car volumes excluding scrappage were flat in the first five months of 2011. Pendragon expects that new retail car volumes excluding scrappage will be flat for the remainder of the year in line with the SMMT forecast.

Our aftersales department continues to be adversely effected by the reduction in the car parc for newer vehicles, although this impact is being mitigated significantly by increases in gross margin and the successful implementation of the aftersales initiatives designed to retain customers for longer and realise additional sales opportunities. The size of the car parc is expected to stabilise going forward as the market for new vehicle sales begins to improve.

Overall, Pendragon is performing in line with the Board's expectations for the full year.

## 7. **Sourcing and relationships with manufacturers**

Manufacturers have an important role in the distribution and marketing of new vehicles, sold on a franchise basis by the Group. Vehicle manufacturers provide sales incentive, warranty and other programmes that are intended to promote new vehicle sales. Manufacturers offer incentive bonuses based on the achievement of sales targets and customer satisfaction scores. The Group's relationship with manufacturers drives its ability to source attractive new and used stock at favourable prices.

Manufacturer standards require that dealers maintain demonstrator and courtesy vehicles for customers. The size of the fleet and the frequency with which it must be refreshed by the dealer is specified in the dealer sales franchise agreement. Manufacturers also provide funding for new vehicle stocks. Most manufacturers provide their vehicles on a funded basis. The terms of the funding arrangements differ by manufacturer and dealership.

New vehicles are typically supplied on an interest free period of up to 180 days. Following this, there is typically a period of up to 90 days, during which the dealer is required to pay a display charge, after which full payment by the dealerships is required. Full payments are made by dealerships, in any event, at the time of registration of the vehicle.

Consignment stock is similar to new vehicle stock held on a funded basis as consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet. The corresponding liability is included in trade and other payables. However, the manufacturer retains legal title. Once the stock is allocated to the Group, an interest charge will usually be incurred (although there will usually be an interest-free period). Although consigned, until stock is physically delivered to the Group, it may be reallocated to other dealerships where there are pending sales.

Once vehicles are registered, payment is made by the dealerships to manufacturers usually within five working days.

Vehicle manufacturers are currently reviewing their franchised representation across the EU in light of the forthcoming expiry of the Motor Vehicle Block Exemption Regulation (Commission Regulation EC 1400/2002). This is a process which occurs periodically (approximately every ten years) to reflect the cycle of EU regulation for the sector.

Manufacturers usually take a variety of approaches, which can include the termination and immediate re-appointment, on new terms, of their entire dealer network or, alternatively, the negotiation of fresh terms of appointment without any terminations.

Each vehicle manufacturer of the franchised brands held by the Group in the UK is adopting its own individual approach and most are expected to communicate their intentions to their UK dealer networks in the next six to twelve months. This process is not expected to alter materially the Group's tenure of franchise agreements, which typically have a duration of at least two years.

## **PART V**

### **OPERATING AND FINANCIAL REVIEW**

A narrative analysis of the Company's financial statements is presented for the financial years ended 31 December 2008, 2009 and 2010 in the "Operational and Business Review" section of the Company's annual report and accounts for these periods. The information on the following pages of the annual report and accounts in respect of these periods are incorporated into this document by reference:

- (A) the Operational and Business Review set out on pages 2 to 14 of the Company's annual report for the period ended 31 December 2010
- (B) the Operational and Business Review set out on pages 2 to 15 of the Company's annual report for the period ended 31 December 2009
- (C) the Operational and Business Review set out on pages 2 to 15 of the Company's annual report for the period ended 31 December 2008

The narrative presented in the Operational and Business Review sections incorporated by reference into the document includes certain forward looking statements that involve risks, uncertainties and assumptions. The Group's actual results may differ materially from those anticipated in these forward looking statements as a result of factors including, but not limited to, those set forth in the section of this document entitled "Risk Factors" and in "Forward Looking Statements", set forth in the section of this document entitled "Important Information".

The narrative presented in the Operational and Business Review sections incorporated by reference into this document should be read in conjunction with the Group's audited consolidated financial statements and the related notes to the financial statements, for each of the financial years ended 31 December 2008, 2009 and 2010, which are also incorporated by reference into Part VII of this document. Prospective investors should read the whole of this document and the documents incorporated herein by reference and should not just rely on the financial information set out in this Part V. See also "Presentation of financial information" and "International Financial Reporting Standards" set forth in the section of this document entitled "Important Information".

## PART VI

### CAPITAL RESOURCES

#### A. THE PENDRAGON GROUP – CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation of the Pendragon Group as at 31 December 2010 as extracted from the audited consolidated financial statements for the year ended 31 December 2010, and the indebtedness of the Pendragon Group as at 31 May 2011, which has been extracted without material adjustment from the unaudited underlying accounting records of Pendragon for the period ended 31 May 2011. There has been no material change to the capitalisation figures since 31 December 2010. The figures show the external net financial indebtedness of the Pendragon Group and exclude balances between entities that comprise the Pendragon Group.

The following table sets out the capitalisation of the Group, extracted without material adjustment from the Group's audited consolidated financial statements for the year ended 31 December 2010.

	<i>Audited £m</i>
<b>Capitalisation</b>	
<b>Shareholders' equity<sup>(1)</sup>:</b>	
Called up ordinary share capital	33.4
Called up cumulative preference stock	–
<b>Share premium account</b>	56.8
Other reserves	14.6
<b>Total capitalisation</b>	<u>104.8</u>

(1) Shareholders' equity does not include the retained earnings reserve.

The following table sets out the indebtedness of the Group, extracted without material adjustment from the unaudited underlying accounting records of Pendragon as at 31 May 2011:

	<i>Unaudited £m</i>
<b>Indebtedness</b>	
Guaranteed	–
Secured	(409.0)
Unguaranteed/unsecured	–
<b>Total current debt</b>	<u>(409.0)</u>
Guaranteed	–
Secured	(1.5)
Unguaranteed/unsecured	–
<b>Total non-current debt</b>	<u>(1.5)</u>
<b>Total gross indebtedness</b>	<u>(410.5)</u>



The following table sets out the unaudited net indebtedness of the Group as at 31 May 2011:

	<i>£m</i>
Cash and cash equivalents	71.6
Trading securities	—
<b>Liquidity</b>	<u>71.6</u>
Current bank debt	(298.5)
Current loan notes	(110.0)
Current financial leases	(0.5)
<b>Current financial indebtedness</b>	<u>(409.0)</u>
Non-current bank debt	—
Non-current loan notes	—
Non-current finance leases	(1.5)
<b>Non-current financial indebtedness</b>	<u>(1.5)</u>
<b>Net financial indebtedness</b>	<u>(338.9)</u>
Contingent indebtedness in respect of:	
Financial guarantees	(0.8)
Performance bonds	(1.5)
<b>Total contingent indebtedness</b>	<u>(2.3)</u>

Debt is classified as current for 2014 loan note holders who have an option to require repayment in April 2012.

## B. CAPITAL RESOURCES

The Group funds its operations through equity, retained earnings, loan notes, bank debt, vehicle stocking credit lines and operating cashflow.

Long term resources as at the date of this document consist of the Existing Facilities, comprising committed facilities of:

- £210 million revolving credit facility expiring April 2012;
- £110 million term loan, expiring in April 2012 and amortising by £20 million every six months;
- \$177 million and £17 million of loan notes in tranches expiring in April 2012 and February 2014 (notes expiring in February 2014 can be put to the Company in April 2012). The Sterling equivalent of the loan notes is £110 million taking into account hedging derivatives,

and Other Facilities comprising uncommitted facilities of £23.5 million and \$18 million.

Long term resources, immediately following the application of proceeds from the Rights Issue, under the proposed Revised Facilities will comprise:

- £147 million revolving credit facility, expiring in June 2014;
- £120 million term loan, expiring in June 2014 and amortising by *pro rata* share with loan notes of £20 million every six months from June 2012;
- \$150 million and £14 million of loan notes expiring in June 2014 and amortising by *pro rata* share with term loan of £20 million every six months from June 2012. The Sterling equivalent of the loan notes is £93 million taking into account hedging derivatives,

and Other Facilities comprising uncommitted facilities of £21.25 million and \$10 million.

The Existing Facilities and Revised Facilities are subject to the following restrictive covenants:

<i>Financial covenants</i>	<i>Existing Facilities</i>		<i>Revised Facilities</i>	
Leverage Ratio	4.50:1		31 December 2011	3.00:1
			30 June 2012	3.00:1
			31 December 2012	2.75:1
			30 June 2013	2.75:1
			31 December 2013	2.50:1
			30 June 2014	2.50:1
Fixed Charge Ratio	1.20:1		31 December 2011	1.50:1
			30 June 2012	1.50:1
			31 December 2012	1.55:1
			30 June 2013	1.55:1
			31 December 2013	1.70:1
			30 June 2014	1.70:1
LTM EBITDA	30 June 2011	£71.0m	£73.9m tested quarterly until 30 June 2014	
	31 October 2011	£72.9m		
	31 December 2011	£73.9m		
Maximum Capital Expenditure	31 December 2011	£29.0m	31 December 2011	£29.0m
			31 December 2012	£35.0m
			31 December 2013	£37.0m
			30 June 2014	£18.5m

The Existing Facilities and Revised Facilities relate to the UK business only. The Group's overseas subsidiaries borrow without recourse to the UK Group. The US business is funded primarily by a

US\$10 million loan with a review date of 30 June 2014 and the Group's Netherlands property company is funded by a loan of £21.25 million with a review date of 30 June 2014.

As at 31 May 2011, Pendragon had gross drawn borrowings of £410.5 million, and drawn borrowings net of cash and cash equivalents of £338.9 million.

As is common in the UK motor retail sector, in addition to senior bank debt and private placement notes, the Group's other sources of credit and liquidity are uncommitted Stock Funding Arrangements provided by manufacturers primarily in relation to the supply of new vehicles; and a further uncommitted Stock Funding Arrangement unrelated to any manufacturer provided by a third party asset-backed finance provider which is utilised by Pendragon to fund used vehicle stock. The terms of the Company's Stock Funding Arrangements are unaffected by the revision of the borrowing facilities and the Rights Issue.

New vehicles are typically supplied by manufacturers on an interest free period of up to 180 days. Following this, there is typically a period of up to 90 days, during which the dealer is required to pay a display charge, after which full payment by the dealerships is required. Full payments are made by dealerships, in any event, at the time of registration of the vehicle. Across the industry, manufacturers provide these arrangements which enable the supply of vehicles by manufacturers to their distribution networks. Pendragon has utilised vehicle Stock Funding Arrangements since before its flotation in 1989. The Directors have no reason to believe that the uncommitted Stock Funding Arrangement will not continue and they expect to be able to increase the number of vehicles obtained on such terms. The Stock Funding Arrangements are classified as trade creditors in the Group balance sheet.

As at 31 May 2011, the drawn level of vehicle stocking credit lines totalled:

	<i>Unaudited £m</i>
Manufacturer arm	(319.3)
Third party	(129.2)
<b>Total drawn</b>	<b>(448.5)</b>

## Cash flows

The cash flows of the business in the period ended 31 December 2010 and 2009 are summarised as follows:

	<i>2010 £m</i>	<i>2009 £m</i>
<b>Cash generated from operations</b>	44.8	93.3
Net interest paid	(36.9)	(46.4)
Tax (paid)/received	(1.4)	2.3
Replacement capital expenditure	(13.3)	(15.1)
<b>Free cash flow</b>	(6.8)	34.1
Acquisitions	(6.5)	(4.0)
Disposals	9.0	6.2
Other	(5.8)	5.6
<b>(Increase)/reduction in net debt</b>	<b>(10.1)</b>	<b>41.9</b>

In the period to 31 December 2010, cash flow generated from operations was £44.8 million, which compares with £93.3 million generated in 2009. This is made up of two key components, operating profit and working capital movements. The operating profit element after adding back depreciation, amortisation and other non-underlying cash flows was £104.4 million, up £13.4 million on £91.0 million in 2009. In respect of working capital Pendragon made a net investment of £59.6 million whereas in 2009 Pendragon had a net inflow of £2.3 million. The main contribution to the increase in investment in working capital in 2010 arose in December when a strategic decision was taken to invest in additional used car stock.

Net interest paid has reduced year on year by £9.5 million reflecting the cash outflow in 2009 relating to the refinancing completed in April 2009.

Replacement capital expenditure in the period ended 31 December 2010 was £13.3 million which includes plant and machinery, fixtures and fittings and motor vehicles. This compares to expenditure in the period ended 31 December 2009 of £15.1 million.

Acquisitions consist of property purchases and developments. During the period ended 31 December 2010, Pendragon spent £6.5 million on property developments compared to £4.0 million in 2009.

Business disposals raised £4.9 million in 2010 (2009: £0.6 million) which comprised the sale of a Mercedes-Benz market area and one Ford franchise point. Property disposals raised £4.1 million in the period ended 31 December 2010 (2009: £5.6 million).

## **PART VII**

### **HISTORICAL FINANCIAL INFORMATION ON THE GROUP**

The audited consolidated financial statements of the Group for each of the financial years ended 31 December 2008, 2009 and 2010 included in the annual reports and accounts of the Company for each of the financial years ended 31 December 2008, 2009 and 2010, together with the audit reports thereon, respectively, are incorporated by reference into this document.

KPMG Audit PLC of One Snowhill, Snow Hill Queensway, Birmingham B4 8EH, regulated by the Institute of Chartered Accountants in England and Wales, has issued unqualified audit opinions on the consolidated financial statements of the Group included in the annual report and accounts of the Company for each of the three financial years ended 31 December 2008, 2009 and 2010.

The audit opinion for the Group for the financial year ended 31 December 2008 is set on page 41 of the 2008 Annual Report and Accounts.

The audit opinion for the Group for the financial year ended 31 December 2009 is set on page 39 of the 2009 Annual Report and Accounts.

The audit opinion for the Group for the financial year ended 31 December 2010 is set on page 39 of the 2010 Annual Report and Accounts.

The consolidated financial statements for each of the financial years ended 31 December 2008, 2009 and 2010 have been prepared in accordance with IFRS.

See Part X of this document for further details about the information that has been incorporated by reference into this document.

## PART VIII

### UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

#### 1. Unaudited pro forma statement of net assets of the Group

The unaudited pro forma statement of net assets of the Group set out below has been prepared to illustrate the effect of the Rights Issue on the consolidated net assets of the Group as if the Rights Issue had taken place on 31 December 2010. The unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the actual financial position or results of the Group.

The unaudited pro forma statement of net assets is based on the consolidated balance sheet of the Group as at 31 December 2010 and has been prepared using the accounting policies adopted by Pendragon in preparing its financial statements for the period ended 31 December 2010 and on the basis of the notes set out below.

The unaudited pro forma statement of net assets has been prepared using IFRS as adopted in the EU (“**adopted IFRS**”).

	<i>Pendragon 31/12/10 £m Note 1</i>	<i>Issue of Equity Note 1 £m Note 2</i>	<i>Transaction Costs £m Note 3</i>	<i>Pro forma group £m</i>
<b>Non-current assets</b>		–	–	
Property, plant and equipment	284.5	–	–	284.5
Goodwill	367.7	–	–	367.7
Other intangible assets	3.5	–	–	3.5
Derivative financial instruments	27.0	–	–	27.0
Deferred tax assets	0.1	–	–	0.1
<b>Total non-current assets</b>	<b>682.8</b>	<b>–</b>	<b>–</b>	<b>682.8</b>
<b>Current assets</b>				
Inventories	492.8	–	–	492.8
Trade and other receivables	110.2	–	–	110.2
Cash and cash equivalents	91.2	–	–	91.2
Non-current assets classified as held for sale	25.1	–	–	25.1
<b>Total current assets</b>	<b>719.3</b>	<b>–</b>	<b>–</b>	<b>719.3</b>
<b>Total assets</b>	<b>1,402.1</b>	<b>–</b>	<b>–</b>	<b>1,402.1</b>
<b>Current liabilities</b>				
Interest bearing loans and borrowings	(67.4)	–	–	(67.4)
Trade and other payables	(714.4)	–	–	(714.4)
Deferred income	(0.1)	–	–	(0.1)
Current tax payable	(25.0)	–	–	(25.0)
Provisions	(10.9)	–	–	(10.9)
<b>Total current liabilities</b>	<b>(817.8)</b>	<b>–</b>	<b>–</b>	<b>(817.8)</b>



	<i>Pendragon 31/12/10 £m Note 1</i>	<i>Issue of Equity Note 1 £m Note 2</i>	<i>Transaction Costs £m Note 3</i>	<i>Pro forma group £m</i>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	(376.3)	75.2	(4.4)	(305.5)
Deferred income	(18.9)	–	–	(18.9)
Retirement benefit obligations	(69.7)	–	–	(69.7)
Provisions	(8.2)	–	–	(8.2)
<b>Total non-current liabilities</b>	<u>(473.1)</u>	<u>75.2</u>	<u>(4.4)</u>	<u>(402.3)</u>
<b>Total liabilities</b>	<u>(1,290.9)</u>	<u>75.2</u>	<u>(4.4)</u>	<u>(1,220.1)</u>
<b>Net assets</b>	<u>111.2</u>	<u>75.2</u>	<u>(4.4)</u>	<u>182.0</u>
<b>Capital and reserves</b>				
Called up share capital	(33.4)	(37.6)	–	(71.0)
Share premium account	(56.8)	–	–	(56.8)
Capital redemption reserve	(2.5)	–	–	(2.5)
Other reserves	(12.6)	(37.6)	4.4	(45.8)
Translation reserve	0.5	–	–	0.5
Retained earnings	(6.4)	–	–	(6.4)
<b>Total equity attributable to equity shareholders of the Company</b>	<u>(111.2)</u>	<u>(75.2)</u>	<u>4.4</u>	<u>(182.0)</u>

**Notes:**

1. The consolidated assets and liabilities of the Group have been extracted without material adjustment from the consolidated balance sheet of the Group as at 31 December 2010.
2. An adjustment has been made to reflect the Rights Issue proceeds of £75.2 million.
3. Transaction costs relate to professional fees in relation to the Rights Issue.
4. No adjustment has been made to reflect the trading results of the Group since 31 December 2010.
5. Costs associated with the refinancing are not included in the above table as they are not directly attributable to the transaction, see paragraph 3 of Section A of Part I of this document.

## **2. Report on the unaudited pro forma financial information of the Group**

The Directors  
Pendragon PLC  
Loxley House  
2 Oakwood Court  
Little Oak Drive  
Annesley  
Nottingham, NG15 0DR

NM Rothschild & Sons  
New Court  
St. Swithin's Lane  
London EC4P 4DU

RBS Hoare Govett Limited  
250 Bishopsgate  
London EC2M 4AA

14 July 2011

Dear Sirs

### **Pendragon PLC**

We report on the pro forma financial information (the “**Pro forma financial information**”) set out in Part VIII of the prospectus dated 14 July 2011, which has been prepared on the basis described in note 1, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Pendragon PLC in preparing the financial statements for the period ended 31 December 2010. This report is required by paragraph 20.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

### **Responsibilities**

It is the responsibility of the directors of Pendragon PLC to prepare the Pro forma financial information in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the

evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Pendragon PLC.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Pendragon PLC.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Pendragon PLC.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit PLC  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

## PART IX

### ADDITIONAL INFORMATION

#### 1. Responsibility

- 1.1 The Company and its Directors (whose names appear in paragraph 9 of this Part IX) accept responsibility for the information contained in this document. To the best of the knowledge of the Company and its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

#### 2. Incorporation and registered office

- 2.1 The Company was incorporated and registered in England and Wales on 12 October 1988 with registered number 2304195 under the Companies Act 1985 as a private company limited by shares with the name Trushelfco (No. 1313) Limited. The Company changed its name to Pendragon Limited on 4 October 1989 and re-registered as a public company limited by shares with the name Pendragon PLC on 6 October 1989. The principal legislation under which the Company operates, and under which its securities have been created, is the Companies Act (and regulations made thereunder). The Company is domiciled in the UK.
- 2.2 The registered office and the principal place of business of the Company is at Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottingham, Nottingham NG15 0DR (telephone number +44 (0)1623 725 200).

#### 3. Share capital

- 3.1 The issued share capital of the Company comprises 668,068,999 Existing Ordinary Shares in an aggregate nominal amount of £33.4 million.
- 3.2 The issued and fully paid share capital of the Company (i) as at 13 July 2011, being the latest practicable date prior to the date of publication of this document; and (ii) as it is expected to be following completion of the proposed Rights Issue (ignoring any Ordinary Shares which may be issued on the exercise of entitlements under the Share Schemes, pursuant to the exercise of outstanding Warrants and the effect of not allotting fractional entitlements to New Ordinary Shares under the Rights Issue) is as follows:

##### Existing Ordinary Share capital as at 13 July 2011

	<i>Number</i>	<i>Nominal Amount (£)</i>
<i>Ordinary Shares</i>	668,068,999	33,403,450

##### Expected Ordinary Share capital immediately following completion of the Rights Issue

	<i>Number</i>	<i>Amount (£)</i>
<i>Ordinary Shares</i>	1,419,646,622	70,982,331

- 3.3 The Company currently has one class of share capital, being Ordinary Shares with a nominal value of 5 pence each. Subject to the passing of the Resolution at the General Meeting and Admission, up to 751,577,623 New Ordinary Shares could be issued at a price of 10 pence per New Ordinary Share pursuant to the Rights Issue. This would result in the issued Ordinary Share capital of the Company increasing by approximately 112.5 per cent. If a Qualifying Shareholder does not take up in full the offer of New Ordinary Shares under the Rights Issue, such Qualifying Shareholder will suffer an immediate dilution, as a result of the Rights Issue, of up to 52.9 per cent. in the proportion of the issued share capital of the Company which they hold. Qualifying Shareholders who take up their rights in full will suffer no dilution to their interests in the Company.

- 3.4 As at 31 December 2010, being the date of the most recent balance sheet included in the historical financial information incorporated by reference in Part VII of this document, 668,068,999 Ordinary Shares had been issued by the Company.
- 3.5 Since 31 December 2010, there has been no issue of share capital by the Company, fully or partly paid, either in cash or for other consideration and, other than in connection with the Rights Issue and the exercise of entitlements under the Share Schemes or the exercise of outstanding Warrants, no such issues are proposed. Other than in connection with the Share Schemes or the exercise of outstanding Warrants, no share capital of Pendragon or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

#### **4. History of share capital**

- 4.1 During the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010 there have been the following changes in the share capital of the Company:
- (a) during the financial year ended 31 December 2008 no Ordinary Shares were issued. As at 31 December 2008, 656,027,350 Ordinary Shares were in issue;
  - (b) during the financial year ended 31 December 2009, the Company allotted 5,950,367 Ordinary Shares in aggregate pursuant to the exercise of Warrants. As at 31 December 2009, 661,977,717 Ordinary Shares were in issue; and
  - (c) during the financial year ended 31 December 2010, the Company allotted 6,091,282 Ordinary Shares in aggregate pursuant to the exercise of Warrants. As at 31 December 2010, 668,068,999 Ordinary Shares were in issue.
- 4.2 Details of the rights attached to Ordinary Shares in relation to attendance and voting at general meetings, entitlements on a winding-up of the Company and transferability of Ordinary Shares are set out in the summary of the Articles of Association in paragraph 6 of this Part IX.
- 4.3 As at 13 July 2011, being the last business day prior to the date of publication of this document, the Company held no treasury shares. No Ordinary Shares have been issued other than fully paid.

#### **5. The Resolution**

- 5.1 The Rights Issue is conditional, amongst other things, upon Shareholders passing the Resolution at the General Meeting. The full text of the Resolution, which will be proposed as a composite special resolution, is set out in the Notice of the General Meeting at the end of this document. Set out below is a summary of the Resolution:
- (a) the purpose of the first paragraph of the Resolution is to grant the Directors authority to: (i) allot the New Ordinary Shares in connection with the Rights Issue up to an aggregate nominal amount of £37,578,881 (representing approximately 112.5 per cent. of the existing issued share capital of the Company); and (ii) grant additional warrants to subscribe for Ordinary Shares which are required under the terms of the anti-dilution provisions in the Warrant Instrument and the Subsequent Warrant Instrument to reflect the Enlarged Share Capital following the Rights Issue. This authority will expire on the earlier of the date of the Company's annual general meeting in 2012 and 15 months after the date of the passing of the Resolution, save that the Company may allot relevant securities after this authority ends if the allotment is made pursuant to an agreement or offer which is made before this authority ends. The Directors at present intend to allot up to 751,577,623 New Ordinary Shares in connection with the Rights Issue but save as required under the Share Schemes or in connection with the exercise of Warrants, do not, at present, intend to allot any further Ordinary Shares; and
  - (b) the purpose of the second paragraph of the Resolution is to empower the Directors to allot, pursuant to section 571 of the Companies Act, New Ordinary Shares up to an aggregate nominal value of £37,578,881 in connection with the Rights Issue, as if the statutory pre-

emption rights in section 561(1) of the Companies Act did not apply to such allotment. This authority will expire on the earlier of the date of the Company's annual general meeting in 2012 and 15 months after the date of the passing of the Resolution, save that the Company may allot relevant securities after this authority ends if the allotment is made pursuant to an agreement or offer which is made before this authority ends.

- 5.2 Under section 561 of the Companies Act, if the Directors wish to allot any equity securities for cash they must first offer them to all existing shareholders in proportion to their existing shareholdings. The purpose of the second paragraph of the Resolution is to provide the Company with the flexibility to deal with legal or other difficulties in making the Rights Issue available to certain Restricted Shareholders.
- 5.3 The authorities and approvals described in the first and second paragraphs of the Resolution above are in addition to and not in substitution for all such existing authorities and approvals.
- 5.4 The Rights Issue is conditional, *inter alia*, on the passing of the Resolution.

## **6. Summary of the Memorandum and Articles of Association**

### ***Memorandum of Association***

- 6.1 The principal provisions of the Memorandum of Association (including the statement of the Company's objects) were incorporated in the Articles of Association by operation of law on 1 October 2009. Since removal of the statement of objects from the Articles of Association pursuant to a special resolution passed at an annual general meeting of the Company held on 29 April 2010 the Company has had unlimited capacity.

### ***Articles of Association***

- 6.2 The Articles of Association adopted pursuant to a special resolution passed at a general meeting of the Company held on 15 April 2008 and as amended by a special resolution passed at the annual general meeting of the Company held on 29 April 2010 contain provisions to the following effect:
  - 6.2.1 In general, all members who have properly registered their shares in time may participate in general meetings. If the notice of the meeting has specified a time (which is not more than 48 hours before the time fixed for the meeting) by which a person must be entered on the register of members in order to have the right to attend and vote at the meeting, no person registered after that time shall be eligible to attend and vote at the meeting by right of that registration, even if present at the meeting.
  - 6.2.2 Subject to any special terms as to voting for the time being attached to any shares in the Company, on a show of hands every member present in person or by duly appointed proxy at a general meeting and entitled to vote shall have one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every share held by him. In the case of joint holders, the person whose name stands first in the register of members and who votes in person or by proxy is entitled to vote to the exclusion of all other joint holders.
  - 6.2.3 No holder of a share shall, unless the Board otherwise determines, be entitled (except as a proxy for another member) to be present or vote at a general meeting either personally or by proxy if any call or other sum presently payable by him to the Company in respect of that share remains unpaid; or if he or any other person who appears to be interested in the share has been duly served pursuant to the Companies Act with a disclosure notice (see paragraphs entitled "Disclosure of interests in shares and restrictions for failure to provide information" below).
  - 6.2.4 A member in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised to do so on his behalf as long as evidence satisfactory to the Board of that person's authority is provided in accordance with the Articles.



### ***Dividends***

Subject to the Statutes, the Company may declare dividends by ordinary resolution, and interim dividends can be paid by the Board. No dividend may be paid in contravention of the special rights attaching to any share, and no dividend declared in general meeting shall be payable in excess of the amount recommended by the Board. Unless otherwise resolved, all dividends are apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. A dividend may, upon the recommendation of the Board and on being approved by ordinary resolution, be wholly or partly satisfied by the distribution of assets and, in particular, of paid up shares or debentures of any other company. No dividend shall bear interest against the Company unless otherwise provided by the rights attached to the share. Any dividend, interest or other sums payable and unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend, interest or other sums unclaimed for a period of 12 years from the date of such dividend having been declared, or such interest or other sums becoming payable, shall be forfeited and shall revert to the Company.

The Board may, if authorised by ordinary resolution, offer Shareholders, in respect of any dividend, the right to elect to receive shares by way of scrip dividend instead of cash. The Board may withhold payment of all or any part of any dividends or other monies payable in respect of any shares that represent at least 0.25 per cent. of the shares in issue (excluding any shares held as treasury shares) if a person who has, or appears to the Company to have an interest in those shares has failed to comply with a disclosure notice (see paragraphs entitled “Disclosure of interests in shares and restrictions for failure to provide information” below).

### ***Return of capital***

On a voluntary winding-up of the Company, the liquidator may, if authorised by special resolution and any other sanction required by law, divide among the members the whole or any part of the assets of the Company. For such purpose, the liquidator may set the value and may determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

### ***Redeemable shares***

Subject to the Statutes and to the rights attached to existing shares, shares may be issued that are to be redeemed or that are liable to be redeemed at the option of the Company or of the holder. Any such redemption may be on such terms and in such manner as the Company may by ordinary resolution determine or, in the absence of any such determination or in so far as such ordinary resolution does not make specific provision, as the Board may determine.

### ***Form of holding of shares***

The shares are in registered form and a register of members is maintained by the Group’s registrar. Shares may be held in either certificated or (subject to the Articles of Association) uncertificated form. The transferor of a share is deemed to remain the holder until the transferee’s name is entered in the register. No certificate will normally be issued in respect of securities held by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange.

### ***Transfers of shares***

Shares may be transferred, if in certificated form, by an instrument of transfer in writing in any usual form, or in such other form as the Board may approve or, if held in uncertificated form, in accordance with the CREST Regulations and the CREST rules or otherwise in such manner as the Board in its absolute discretion shall determine. Any instrument of transfer must be signed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. Subject to the Statutes, the Board may refuse to register any transfer of a share:

- (a) that is not fully paid up without giving any reason for so doing (except that such discretion may not be exercised so as to prevent dealings in shares of that class from taking place on an open and proper basis);

- (b) if it is in certificated form, unless it is lodged, duly stamped (if required), at the registered office of the Company and accompanied by the certificate for the shares to which it relates and/or evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (c) if the transfer is not in respect of one class of share only;
- (d) if the transfer is not in favour of four or fewer transferees;
- (e) if the transfer is in favour of a minor, bankrupt or person of mental ill-health;
- (f) if it is held in uncertificated form, in any other circumstances permitted by the CREST Regulations and/or the CREST rules; or
- (g) where the Board is obliged or entitled to refuse to do so where a person has failed to comply with a disclosure notice (see paragraphs entitled “Disclosure of interests in shares and restrictions for failure to provide information” below).

### ***Pre-emption rights***

Subject to the Statutes and any resolution passed by the Company, shares may be issued with such rights and restrictions as the Company may by ordinary resolution determine, or (if there is no determination) as the Board may determine. Subject to the Statutes, the Articles and any resolution passed the unissued shares are at the disposal of the Board.

Under the Statutes, if the Company issues shares or certain other securities, current Shareholders will generally have pre-emption rights to those shares or securities on a *pro-rata* basis. Shareholders may, by special resolution, grant authority to the Board to allot shares as if the pre-emption rights did not apply. This authority may be either specific or general and may not exceed a period of five years.

### ***Alteration of share capital***

- (a) The Company may by ordinary resolution:
  - (i) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
  - (ii) subject to the Statutes, sub-divide its shares, or any of them, into shares of a smaller amount and the resolution may determine that, as between the shares resulting from the sub-division, any of them may have any preference or other advantage or have qualified or deferred rights or be subject to any restrictions as compared to others; and
  - (iii) cancel any shares, which have not been taken, or agreed to be taken, by a person and diminish the amount of its share capital by the amount of the shares cancelled.
- (b) Subject to the Statutes, the Company may by special resolution:
  - (i) reduce its share capital, any capital redemption reserve, share premium account or other undistributable reserve; and
  - (ii) purchase or agree to purchase its own shares (including any redeemable shares).

### ***Variation of rights***

The rights attached to any class of shares may be altered or abrogated with the written consent of the holders of not less than three fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of that class.

### ***Lien and forfeiture***

The Company has a lien on every partly-paid up share for all monies called or payable in respect of that share. The Company may serve notice on the members in respect of any amounts unpaid on their shares. The

member shall be given not less than 14 clear days' notice to pay the unpaid amount. In the event of non-compliance, a share in respect of which the notice is given may be forfeited by resolution of the Board.

***Disclosure of interests in shares and restrictions for failure to provide information***

- (a) If a person appearing to have an interest in the issued share capital of the Company of a class carrying rights to vote in all circumstances at general meetings has failed to give the Company within 14 days information required by a notice requiring that information (a disclosure notice), the Board may, at its discretion, impose restrictions upon the relevant shares.
- (b) The restrictions available are the suspension of voting or other rights in relation to meetings of the Company in respect of the relevant shares and, additionally, in the case of shareholders representing at least 0.25 per cent. of that class of shares (excluding any shares of that class held as treasury shares), the withholding of payment on dividends on, and in certain cases the restriction of transfers of, the relevant shares. The restrictions shall cease to apply seven days after the earlier of receipt by the Company of notice of an excepted transfer (but only in relation to the shares transferred) and due compliance, subject to the satisfaction of the Board, with the disclosure notice. For these purposes, an excepted transfer means a transfer pursuant to acceptance of a takeover bid, or a sale of the whole beneficial interest in the shares on a recognised investment exchange or a stock exchange outside the United Kingdom on which the shares are normally traded, or a sale of the whole beneficial interest in the shares otherwise than on a stock exchange to a person whom the Board is satisfied is not connected with the transferor or with any person appearing to be interested in the shares.
- (c) The Disclosure and Transparency Rules require shareholders (subject to certain exceptions) to notify the Company if the voting rights directly or indirectly held (within the meaning of those rules) by such Shareholders reaches, exceeds or falls below 3 per cent. and each 1 per cent. threshold above that.

***General meetings***

- (a) The Companies Act requires annual general meetings to be held on a regular basis in addition to any other general meetings. The Board may call other general meetings whenever it thinks fit. The Board must also convene a meeting upon the valid request of members holding not less than 10 per cent. of the Company's paid up capital carrying voting rights at general meetings. If the Board fails to give notice of such meeting to members when required to do so, the members that requested the general meeting, or any of them representing more than one-half of the total voting rights of all members that requested the meeting, may themselves convene a meeting.
- (b) An annual general meeting shall be convened by at least 21 clear days' notice and all other general meetings shall be convened by at least 14 clear days' notice. Every notice calling a general meeting shall specify the place, the day and the time of the meeting and the general nature of the business to be transacted.
- (c) Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes. If a quorum is not present within five minutes of the commencement time of the meeting (or such longer time not exceeding one hour as the chairman of the meeting may decide to wait), the meeting, if requisitioned by members, shall be dissolved or, in any other case, adjourned to such time (not being less than 10 nor more than 28 days later) and place as the chairman of the meeting shall decide and at such adjourned meeting one member present in person or by proxy (whatever the number of shares held by him) and entitled to vote shall be a quorum.
- (d) Members may attend and vote in person or by duly appointed proxy. A member may appoint more than one proxy in relation to a general meeting, provided that such proxy is appointed to exercise the rights attached to a different share or shares held by the member. The Articles contain provisions for the appointment of proxies, including time limits for making such appointments ahead of the meeting and provisions for appointment by means of electronic communication.
- (e) A simple majority of members entitled to vote and who are present in person or by duly appointed proxy may pass an ordinary resolution. To pass a special resolution, a majority of not less than three-fourths of the members entitled to vote and who are present in person or by duly appointed proxy at the meeting is required.

- (f) The Board may direct that members or proxies wishing to attend any general meeting should submit to searches or other security arrangements or restrictions, and shall be entitled to refuse entry to a general meeting to any member or proxy who fails to submit to such searches or to otherwise comply with such security arrangements or restrictions. If a member or proxy has gained entry to a general meeting and refuses to comply with any such security arrangements or restrictions or disrupts the proper and orderly conduct of the general meeting, the chairman of the meeting may at any time, without the consent of the general meeting, require such member or proxy to leave or be removed from the meeting.

### ***Notices to overseas shareholders***

Shareholders with registered addresses outside the United Kingdom are not entitled to receive notices from the Company unless they have given the Company an address within the United Kingdom at which notices may be served. Such address may, if the Board agrees, be an address for the purposes of electronic communications.

### ***The Board***

Subject to the Statutes and the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company. No alteration of the Articles of Association, and no directions given by the Company in general meeting by special resolution, shall invalidate any prior act of the Board that would have been valid if that alteration had not been made or that resolution had not been passed.

The Board may establish any divisional, departmental, regional, local or area boards, divisions or managing agencies for introducing, conducting or managing all or any of the business or affairs of the Company, and may make regulations for the proceedings and activities of any such establishment. The Board may appoint any persons as regional directors, local directors, divisional directors, area directors, advisory directors, managers or agents or to service in any other capacity in connection with such establishment, and may fix their remuneration. The Board may delegate to any such establishment and to any such appointee any of the powers, authorities and discretions vested in the Board, with power to sub-delegate and authorise any such appointees to fill any vacancies in any such establishment and to act notwithstanding vacancies.

### ***Directors***

#### ***(a) Appointment and retirement of directors***

The directors (excluding alternate directors) shall not, unless otherwise determined by ordinary resolution, be fewer than two nor more than fifteen in number. A director need not be a member of the Company.

Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the end of the annual general meeting of the Company following his appointment, unless he is reappointed during the meeting, and shall not be taken into account in determining the directors or the number of directors who are to retire by rotation at the meeting.

At every annual general meeting one-third of the directors shall retire from office, having been determined by the composition of the Board at the start of business on the date of the notice convening the annual general meeting. If the number of directors from which the determination is to be made is not three or a multiple of three, the number to retire shall be that which is nearest to but not greater than one-third (unless their number is fewer than three, in which case one of them shall retire). Those to retire shall comprise: first, any director who wishes to retire and not to offer himself for re-election; and secondly, those who have been longest in office since their last appointment or reappointment.

The Company may fill any vacated office by re-electing the retiring director or some other person eligible for appointment. Each director shall retire at the annual general meeting unless he was appointed or re-appointed a director at either of the last two general meetings before that meeting.

No director may vote or be counted in the quorum on any resolution of the Board concerning his own appointment (including the settlement or variation of the terms, or the termination, of the appointment) as the holder of any office or place of profit within the Company or any other company in which the Company is interested.

(b) *Remuneration of directors*

The directors shall be entitled to receive fees for their services at a rate which shall not exceed an aggregate sum of £400,000 per annum or such higher amount as the Company, by ordinary resolution, may determine from time to time.

Any director who holds any executive office, or who serves on any committee or devotes special attention to the business of the Company, shall receive such remuneration or extra remuneration by way of salary, commission, participation in profits or otherwise as the Board, or any committee authorised by the Board, may determine.

The Company may pay the directors' expenses properly and reasonably incurred by them in connection with the business of the Company, including their reasonable expenses of travelling to and from meetings of the directors, committee meetings or general meetings.

(c) *Directors' interests*

In addition to complying with any other relevant obligations under the Statutes, a director who, to his knowledge, is in any way, whether directly or indirectly, interested in a contract with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract is first taken into consideration if he knows his interest then exists (or he ought reasonably to be aware of it) or, in any other case, at the first meeting of the Board after he knows or ought reasonably to be aware that he is or has become so interested.

Subject to the Statutes, provided the director has disclosed to the Board the nature and extent of any material interest of his, a director notwithstanding his office:

- (i) may hold any other office or place of profit with the Company (except that of auditor) in conjunction with the office of director and may act by himself or through his firm in a professional capacity for the Company;
- (ii) may be a party to, or otherwise interested in, any contract with the Company or in which the Company is otherwise interested;
- (iii) may be a director or other officer of, or employed by, or a party to any contract with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested or in relation to which the Company has power of appointment; and
- (iv) shall not, by reason of his office, be accountable to the Company for any remuneration or benefit that he derives from any such office or employment or from any such contract or from any interest in such body corporate and no such office, employment or contract shall be liable to be avoided on the ground of any such interest or benefit.

(d) *Restrictions on directors voting*

A director is not permitted to vote or be counted in the quorum on any resolution of the Board or of a committee of the Board concerning any matter in which he has, to his knowledge, directly or indirectly, an interest or duty that is material. This prohibition does not apply to any of the following matters:

- (i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;

- (ii) the giving by the Company of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part (whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
  - (iii) the director subscribing or agreeing to subscribe for, or purchasing or agreeing to purchase, any shares, debentures or other securities of the Company or any of its subsidiary undertakings;
  - (iv) any contract concerning any company (not being a company in which the director owns 1 per cent. or more) in which he is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise;
  - (v) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings under which he benefits in a similar manner as the employees; and
  - (vi) any contract concerning any insurance that the Company is empowered to purchase or maintain for, or for the benefit of, any directors or for persons who include directors.
- (e) *Conflicts of interest requiring Board authorisation*

The Board may, provided the quorum and voting requirements are satisfied, authorise any matter that would otherwise involve a director breaching his duty under the Companies Act to avoid conflicts of interest. Any director may propose that the director concerned be authorised in relation to any matter that is the subject of such a conflict and such proposal shall be resolved upon by the Board in the same manner as any other matter, except that the director who is the subject of the conflict (or any other director with a similar interest) shall not count towards the quorum or vote on the resolution authorising the conflict.

Any such authority may provide:

- (i) for the exclusion of such a director from the receipt of information or participation in discussion (whether at Board meetings or otherwise) related to the conflict;
- (ii) that such a director will be obliged to conduct himself in accordance with any terms imposed by the Board from time to time in relation to the conflict but will not be in breach of his duties as a director by reason of his doing so;
- (iii) that, where such a director obtains information that is confidential to a third party, the director will not be obliged to disclose that information to the Company, or to use the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence;
- (iv) that such a director shall not be accountable to the Company for any benefit that he receives as a result of the conflict;
- (v) that the receipt by such a director of any remuneration or benefit as a result of the conflict shall not constitute a breach of the duty under the Companies Act not to accept benefits from third parties;
- (vi) that the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and
- (vii) that the Board may withdraw the authority at any time.

### ***Company name***

Subject to the provisions of the Companies Act, the Board may from time to time change the name of the Company to any name considered by the Board to be advantageous, expedient or otherwise desirable.



### ***Borrowing powers***

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge all or part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board restricts the borrowing of the Company and exercises all its voting and other rights and powers of control exercisable by the Company in relation to the Group to ensure that the aggregate borrowings of the Group (excluding borrowings owed by one Group member to another) does not, without the previous sanction of an ordinary resolution, exceed an amount equal to five times the adjusted capital and reserves.

### ***Indemnity of officers***

Subject to the Statutes, any person who is or was at any time a director, secretary or other officer (unless the office is or was as auditor) of the Company or of any of its subsidiary undertakings may be indemnified out of the assets of the Company to whatever extent the Board may determine against losses incurred in the actual or purported execution of his duties or office, whether or not sustained or incurred in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company or the relevant subsidiary undertaking.

The Board also has power to provide funds to meet any expenditure incurred or to be incurred by any such person in defending any criminal or civil proceeding in which he is involved by reason of his office, or in connection with any application under the Companies Act 1985 or the Companies Act or in defending himself in an investigation, or action proposed to be taken by a regulatory authority in connection with his office, or in order to enable him to avoid incurring such expenditure.

### ***Power to insure***

The Board may purchase and maintain insurance at the expense of the Company for the benefit of any person in their capacity as a director, officer, employee or trustee of the Company or any member of the Group, or any entity or trust in which the Company or any other member of the Group has an interest.

### ***Untraceable shareholders***

The Company shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission if:

- (a) during a period of 12 years prior to the date of advertising its intention to sell such shares at least three cash dividends in respect of such shares have become payable but no dividend has been claimed;
- (b) after the expiry of that period, the Company has published a notice stating it intends to sell the shares in a leading national daily newspaper in the United Kingdom and in a newspaper circulating in the area of the last known address of the member or the person entitled by transmission, and by notice in writing to the FSA (if the shares are listed on the Official List); and
- (c) during that period or three months following the publication of the advertisements and prior to the exercise of the power of sale, the Company has not heard from the member or the person entitled to the shares by transmission.

The net proceeds of such sale shall belong to the Company, which shall be obliged to account to the former member or other person who would have been entitled to the shares for an amount equal to the proceeds as a creditor of the Company.

## 7. Employees

The table below sets out the average number of people employed by the Group during each of the last three financial years:

<i>Financial year ended 31 December</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
<b>Activity</b>			
Sales	2,876	3,052	3,760
Aftersales	4,392	4,659	5,742
Administration	2,430	2,578	3,177
<b>Total</b>	<u>9,698</u>	<u>10,289</u>	<u>12,679</u>

## 8. Pendragon Share Schemes

### *The Pendragon Employees' Share Trust*

The Pendragon Employees' Share Trust (the **"Pendragon EBT"**) is a discretionary settlement for the benefit of employees and former employees of companies within the Group and their respective dependants. The Pendragon EBT is controlled and managed outside the UK and has a single corporate trustee, which is an independent trustee services organisation. The right to remove the trustee and appoint a new trustee vests in the Company. There is a limit, of 5 per cent. of the ordinary share capital of the Company in issue, on the maximum number of Ordinary Shares which may be held by the Pendragon EBT at any time (excluding Ordinary Shares over which options have been granted or in respect of which a beneficial interest has been transferred).

#### (i) *2009 Executive Option Schemes*

The Pendragon 2009 Approved Executive Share Scheme (the **"2009 Approved Option Scheme"**) and the Pendragon 2009 Unapproved Executive Share Scheme (the **"2009 Unapproved Option Scheme"**) (together, the **"2009 Executive Option Schemes"**) provide for the grant of rights to acquire Ordinary Shares by way of purchase and, subject to the limitations set out below, by subscription, to eligible employees of the Group. Such options are not transferable and are not pensionable benefits.

The principal terms of the 2009 Executive Option Schemes are outlined below.

The terms of the 2009 Approved Option Scheme and the 2009 Unapproved Option Scheme are the same other than as identified in the relevant sections below.

#### *Eligibility*

Options may be granted to employees of the Company or any member of the Group. Actual participation in the 2009 Executive Option Schemes is at the discretion of the Board or, in the case of Executive Directors, the Remuneration Committee.

#### *Grant of options*

Options may be granted during the period of six weeks beginning with the fourth dealing day following the announcement of the Company's results for any period, or within 28 days of a person first joining the Group or, exceptionally, and subject to the Model Code and other relevant restrictions on dealings in shares, on any other day on which the Remuneration Committee determines that exceptional circumstances exist. No options may be granted more than 10 years after the passing of the resolution of shareholders approving the 2009 Executive Option Schemes.

#### *The exercise price*

The price per share at which Ordinary Shares may be acquired upon the exercise of an option shall be determined by the Remuneration Committee at the time of grant but shall be not less than the higher of:

- (a) the average of the middle market quotation of an Ordinary Share for the three dealing days immediately preceding the date of grant as derived from the London Stock Exchange Daily Official List; and

- (b) in the case of options to subscribe for Ordinary Shares, the nominal value of an Ordinary Share.

#### Performance-related conditions of exercise

An option will normally become vested in respect of any number or proportion of the Ordinary Shares over which it is granted only if, or to the extent that, the Company's performance exceeds one or more targets set by the Remuneration Committee at time of grant and which relate to a minimum three year period. In setting any such target, the Remuneration Committee has regard to the guidance issued from time to time by the bodies representing institutional shareholders and seeks to identify factors that represent a fair measure of the Group's performance and genuinely reflect the efforts and achievements of the Company's management.

The Remuneration Committee may from time to time vary any such performance-related conditions as they apply to outstanding options if in their opinion, to do so would more effectively achieve the objective of affording realistic incentives to optionholders or produce a fairer measure of performance.

#### Exercise of options

An option is exercisable normally only after the third anniversary of the date of grant (or such later time as the Remuneration Committee determines at the time of grant) and then only in respect of the number or proportion of the option shares which have become vested in consequence of the performance target(s) having been met. An option cannot in any event be exercised later than the day preceding the tenth anniversary of the date of grant.

#### Cessation of employment

If an optionholder ceases to be employed within the Group after the third anniversary of the date of grant, an option may only be exercised within six months after the leaving date but, in the case of a performance-linked option, only in respect of Ordinary Shares which vest in consequence of the performance target being met.

If the optionholder ceases to be employed within the Group at any earlier time by reason of disability, injury, redundancy or retirement or because the business or company in which he is employed is sold outside the Group, an option may be exercised within six months after the leaving date but only in respect of a proportion (corresponding to such proportion of the three-year option period as has then elapsed) of the option shares or, in the case of a performance-linked option, of such of the option shares as are deemed to be vested, having regard to the extent to which the performance target(s) is/are then considered by the Remuneration Committee to be likely to be met.

Early exercise is also permitted by an optionholder's personal representatives within 12 months of the optionholder's death in respect of a proportion (corresponding to such proportion of the three-year option period as had elapsed at the time of death) of the option shares.

If an optionholder ceases to be employed within the Group for any other reason before the end of the three-year option period, his or her options will lapse, except insofar as the Board or, in the case of an executive director or other senior executive, the Remuneration Committee may otherwise determine.

#### Demerger, reconstruction and winding-up

In the event of a demerger or statutory reconstruction of the Company, options may, if and insofar as the Remuneration Committee so determines, be exercised early within specified periods. The Remuneration Committee will determine the extent to which any performance target would have been likely to be met in the absence of the demerger or statutory reconstruction and the extent to which any option should be capable of exercise. If notice is given to shareholders of a resolution for the voluntary winding-up of the Company options may, if the Remuneration Committee so determines, be exercised (without the need to satisfy any performance target) at any time before the winding-up commences or within such other period as maybe notified to optionholders. All options lapse to the extent not exercised at the end of the relevant period.

#### Takeover of the Company

In the event of a change of control as a result of shareholders accepting a takeover offer for the Company, the Remuneration Committee will determine the extent to which any performance target would have been likely to be met in the absence of the change of control and hence the extent to which any option should then be capable of exercise. To the extent that options are not then exercised, they will lapse six months thereafter or, if earlier at the end of the period in which the acquiring company may compulsorily acquire the balance of shares in issue.

#### Rights attaching to shares

Shares issued or transferred upon the exercise of options will rank equally in all respects with all other Ordinary Shares for the time being in issue, save as regards any rights attaching to Ordinary Shares by reference to a record date prior to the allotment or transfer of such shares.

#### Variation of share capital

In the event of a variation in the Ordinary Share capital of the Company, the directors may adjust the number of Ordinary Shares subject to any option and/or the exercise price provided that:

- (a) no such adjustment to options granted under the 2009 Approved Option Scheme may be made without the prior approval of HMRC;
- (b) except in the case of a subdivision, consolidation or capitalisation issue, any such adjustment must be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable; and
- (c) except insofar as the directors agree to capitalise reserves, to pay up the difference between the exercise price and the nominal value of the shares, the exercise price shall not be reduced below the nominal value of an Ordinary Share.

#### Individual limitations

The aggregate market value of Ordinary Shares (as at the date of grant) over which options may be granted to any executive director or other senior executive in any year shall not, except in exceptional circumstances, exceed 200 per cent. of his base salary.

The aggregate market value of Ordinary Shares (as at the date(s) of grant) under outstanding options granted under the 2009 Approved Option Scheme (together with options granted under the 1999 Approved Option Scheme) that may be held by an employee at any time, may not exceed £30,000 or such other limit as may be specified by relevant legislation from time to time.

#### Limits on the issue of share capital

The number of Ordinary Shares which may be issued, or in respect of which rights to subscribe for new Ordinary Shares may be granted, on any day under or for the purposes of the 2009 Executive Option Schemes, or which have been issued or remain issuable under rights to subscribe for Ordinary Shares granted under or for the purposes of the 2009 Executive Option Schemes or any other employees' share scheme established by the Company, in the period of 10 years ending on that day, shall not exceed 10 per cent. of the issued Ordinary Share capital of the Company.

#### Amendment

The Remuneration Committee may amend the 2009 Executive Option Schemes. However, the provisions relating to the eligibility of participants, limitations on the number of Ordinary Shares, individual participation limits, the basis for determining a participant's entitlement to Ordinary Shares and the adjustment if there is a capitalisation rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any variation of capital, cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting except for minor amendments to benefit the administration of the 2009 Executive Option Schemes, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory

treatment for participants in the 2009 Executive Option Schemes or for any member of the Group. Any amendment to the 2009 Approved Option Scheme will not take effect until HMRC has confirmed that it will not affect the approved status of that scheme.

(ii) *The 1999 Executive Option Schemes*

The Pendragon 1999 Approved Executive Share Option Scheme (the “**1999 Approved Option Scheme**”) and the Pendragon 1999 Unapproved Executive Share Option Scheme (the “**1999 Unapproved Option Scheme**”) (together, the “**1999 Executive Option Schemes**”) are substantially the same as the 2009 Executive Option Schemes. However, although options are outstanding under these schemes, no further options may now be granted under them.

The principal terms of the 1999 Executive Option Schemes are substantially the same as the 2009 Executive Option Schemes save for the provisions in relation to the cessation of employment outlined below.

*Cessation of employment*

If an optionholder leaves the Group by reason of injury, disability, redundancy, retirement at or after normal retirement age, or the company in which he is employed being sold outside the Group, then an option may be exercised within three months after the end of the performance period or such later date which the Remuneration Committee specifies but only in respect of a proportion of the option shares which at the end of the performance period become vested corresponding to such proportion of the performance period as has elapsed at the time of leaving.

If an optionholder dies his options may be exercised by his personal representatives within 12 months thereafter, in respect of (a) vested shares and (b) a proportion of the option shares which are deemed to have vested corresponding to such proportion of the period over which performance is measured (the “**performance period**”) as elapsed before the date of death. Shares are deemed to vest only insofar as the Remuneration Committee determines that the performance of the Company, judged at the time of death, is such that the performance target(s) are likely to be met.

If an optionholder leaves the Group for any other reason, his option may be exercised only with the consent of the Remuneration Committee and within such period as the Remuneration Committee specifies, but, unless the Remuneration Committee is of the opinion that the performance targets are likely to be met in full, only in respect of not more than a proportion of the option shares corresponding to such proportion of the performance period as has then elapsed.

(iii) *The Pendragon 2008 Sharesave Scheme*

The Pendragon 2008 Sharesave Scheme (the “**2008 SAYE Scheme**”) is an HMRC approved SAYE share scheme which provides for the grant of options to acquire Ordinary Shares by way of purchase and, subject to the limitations described below, by subscription, to qualifying employees of the Company. Options granted under the 2008 SAYE Scheme are not transferable and are not pensionable benefits.

The principal terms of the 2008 SAYE Scheme are outlined below.

*Eligibility*

All employees or full-time directors of any member of the Group, resident or ordinarily resident in the UK who have been in employment for a minimum period determined by the Board (not exceeding five years), and any other employees nominated by the Board are eligible to participate in the 2008 SAYE Scheme.

*Invitations*

Invitations to participate in the 2008 SAYE Scheme and to making monthly savings between £5 and £250 may be issued within a 42 day period following the fourth day after any announcement of the Company’s results for any period apart from when there are exceptional circumstances.

#### Savings contract

Any eligible employee who applies for an option is required to enter into an HMRC approved “Save-as-you-earn” contract (the “**Savings Contract**”) with a savings body such as a bank or a building society which operates a SAYE contractual savings scheme and which has been approved by the Directors for the purposes of the 2008 SAYE Scheme. Under the Savings Contract, the eligible employee agrees to make 36 (in the case of a three year option) or 60 (in the case of a five or seven year option) monthly savings contributions of a fixed amount of not less than £10 or more than £250. After making such contributions, the eligible employee may apply for repayment of his or her savings contributions, in addition to which he or she will receive a tax-free bonus. In relation to a five year option, eligible employees are permitted to elect when applying for that option not to apply for the repayment of his or her savings contributions until after a further period of two years, when he or she will receive a further tax-free bonus. In any case, the eligible employee may apply the proceeds of the Savings Contract in exercising his or her option and acquiring shares.

#### The exercise price

The exercise price per share of an option is determined by the directors before options are granted on any occasion, but shall be not less than the higher of:

- (a) 80 per cent., of the market value of an Ordinary Share at the time of grant which, if Ordinary Shares are then listed on the Official List, will be the average of the middle market quotations of a Ordinary Share for the three consecutive dealing days immediately preceding the date of issue of invitations as derived from the London Stock Exchange Daily Official List; and
- (b) in the case of options to subscribe for Ordinary Shares, the, nominal value of an Ordinary Share.

#### Exercise of options

Options may only be exercised once and normally only during the period of six months after the date on which the optionholder first becomes entitled to repayment of his or her savings contributions plus bonus, i.e. at the end of three, five or seven years as appropriate (the “**Bonus Date**”).

#### Cessation of employment

If an optionholder ceases to be employed by any member of the Group before his or her option has been exercised or has lapsed, that option will normally lapse immediately. However, if the optionholder leaves the Group by reason of injury or disability or redundancy or by retirement on reaching age 65 or any other age at which he or she is bound to retire in accordance with the terms of his contract of employment or if the Company or business with which he or she holds office is sold outside the Group or ceases to be an associated company or by reason of early retirement more than three years after the date of grant, the option may be exercised within the period of six months immediately thereafter, and if it is not then exercised it will lapse.

If an optionholder dies before the Bonus Date, his or her personal representatives may exercise the option during the period of 12 months after the date of death. If the optionholder dies during the period of six months after the Bonus Date, the personal representatives may exercise the option during the period of 12 months after the Bonus Date.

#### Reconstruction, winding-up and takeover

Early exercise of options within specified periods is permitted in the event of a reconstruction or change of control of the Company in consequence of a general offer to shareholders. In the event of notice being given to shareholders of a resolution for the voluntary winding-up of the Company, options may be exercised within the period of six months beginning with the passing of the resolution to wind up the Company. Otherwise, all unexercised options will lapse upon the commencement of a winding-up. If the Company is the subject of a successful takeover bid optionholders may, with the consent of the acquiring company, exchange their unexercised options for corresponding rights to acquire shares in the new holding company instead of exercising their options early.



#### Limits on the issue of share capital

The number of Ordinary Shares in respect of which rights to subscribe may on any day be granted under or for the purposes of the 2008 SAYE Scheme when added to the number of Ordinary Shares issued or which remain issuable pursuant to rights to subscribe for Ordinary Shares granted under or for the purposes of any other employees' share scheme established by the Company in the period of 10 years ending on that day, shall not exceed 10 per cent. of the issued ordinary share capital of the Company. Rights to acquire Ordinary Shares issued or to be issued out of treasury will count towards this limit.

#### Variation of share capital

In the event of any alteration of the issued ordinary share capital of the Company by way of a capitalisation or rights issue, sub-division, consolidation or reduction or any other variation in the ordinary share capital of the Company, the directors (with the consent of the grantor, where appropriate) may make such adjustments as they consider appropriate to the total number of Ordinary Shares subject to any option and the exercise price payable upon the exercise of any option. However:

- (a) no such, adjustment may take effect unless HMRC has approved the adjustment; and
- (b) except in the case of a capitalisation issue, sub-division or consolidation, any such adjustment must be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable.

#### Amendment

The Remuneration Committee may amend the rules of the 2008 SAYE Scheme. However no amendments may be made to the definition of "employee", the individual or overall limits on the grant of Options, the basis on which Ordinary Shares may be acquired or the adjustment of rights upon a change in capital structure, to the advantage of participants without the prior approval of shareholders in a general meeting. Minor amendments are permissible to benefit the administration of the 2008 SAYE Scheme, to take account of a change of legislation or to obtain or maintain favourable tax or regulatory treatment for participants or any member of the Group. An amendment would also normally require the prior approval of HMRC.

#### (iv) *The Pendragon 1998 Sharesave Scheme*

The principal terms of the Pendragon 1998 Sharesave Scheme (the **"1998 SAYE Scheme"**) are substantially the same as the 2008 SAYE Scheme. However, although, no invitations can now be issued after 24 April 2008, options are still outstanding under the 1998 SAYE Scheme.

#### (v) *The Pendragon 2006 Long Term Incentive Plan*

The Pendragon 2006 Long Term Incentive Plan (the **"LTIP"**) allows Executive Directors either to re-invest their annual bonus in purchasing Ordinary Shares of an amount of up to 100 per cent. of salary (referred to as **"Investment Shares"**) which will then be matched with an award over shares with the same pre-tax value as the monies used to buy the shares.

All awards granted under the LTIP can take one or two forms: (i) conditional allocations, where a participant will receive shares automatically on the vesting of their award; or (ii) options, where a participant can decide when to exercise their award during a limited period of time after it has vested.

The Remuneration Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash.

No awards may be granted more than ten years after the passing of the resolution of shareholders approving the LTIP. Awards are not transferable and are not pensionable.

The principal terms of the LTIP are outlined below.

#### Matching Share Awards

Matching Share Awards are awards over a fixed number of shares that “matches” the gross number of investment shares that an executive director has chosen to purchase using his annual bonus.

Matching Share Awards will normally vest on the third anniversary of their grant date:

- (a) provided the executive director is still employed by Pendragon;
- (b) to the extent that a performance condition has been satisfied; and
- (c) to the extent that the Investment Shares purchased by the executive director have been retained for three years following their date of grant.

All awards are subject to adjusted earnings per share (“EPS”) growth targets; adjusted EPS is used because it is a key internal measure of long-term company performance.

#### Performance Share Awards

Executive Directors may also be granted awards worth up to 100 per cent. of base salary per annum (“**Performance Share Awards**”).

The vesting of Performance Share Awards will normally occur on the third anniversary of the date of grant provided that the executive director is still employed by Pendragon and the same performance conditions as described for the Matching Share Awards above have been satisfied.

#### Participant’s rights

Awards will not confer any shareholder rights until the awards have vested and the participants have received their Ordinary Shares. At the time of grant, the Remuneration Committee may decide that participants should be entitled to receive a payment (in cash and/or Ordinary Shares) on or shortly following the vesting of their awards, of an amount equivalent to the dividends that would have been paid on the vested Ordinary Shares between the time when the awards were granted and the time when they vest.

#### Reconstruction, winding-up and takeover

In the event of a takeover, scheme of arrangement or winding up of Pendragon (not being an internal corporate reorganisation), all awards will vest early to the extent that performance conditions have, in the opinion of the Remuneration Committee, been satisfied at that time. The awards will then be time pro-rated as determined by the Remuneration Committee.

#### Limits on the issue of share capital

The LTIP may operate over newly issued ordinary shares, treasury shares or ordinary shares purchased in the market. In any ten calendar year period Pendragon may not issue (or grant rights to issue) more than: (i) 10 per cent. of the issued ordinary share capital of the Company under the LTIP or any other employee share plan adopted by Pendragon; and (ii) 5 per cent. of the issued ordinary share capital of Pendragon under the LTIP or any other executive share plan adopted by Pendragon. Shares held in treasury will count as new issue shares for the purposes of these limits, in accordance with guidelines issued by the institutional investor bodies, unless those guidelines are changed.

#### Rights attaching to shares

Any Ordinary Shares allotted when an award vests will rank equally with all other Ordinary Shares then in issue, except for rights arising by reference to a record date prior to their allotment.

#### Variation of capital

In the event of any variation of Pendragon’s share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Ordinary Shares, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Ordinary Shares subject to an award and/or to the exercise price payable (if any).

In the event of an internal corporate reorganisation, awards will be replaced by equivalent new awards over shares in a new holding company, unless the Remuneration Committee decides that awards should vest on the same basis as described below.

#### Amendment

The Remuneration Committee may, at any time, amend the provisions of the LTIP in any respect, provided that the prior approval of the shareholders is obtained for any amendment that is to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Ordinary Shares (or the transfer of shares held in treasury), the basis for determining a participant's entitlement to and the terms of the Ordinary Shares to be acquired or the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group.

#### (vi) *The Pendragon 2009 Executive Share Ownership Plan*

The Pendragon 2009 Executive Shared Ownership Plan (the “**ExSOP**”) is an executive ownership plan under which certain employees may be invited to acquire (for a nominal payment), jointly with an employee share trust, the beneficial interest in a number of Ordinary Shares upon the terms of a joint ownership agreement (a “**JOA**”).

Under a JOA, the employee will (if or insofar as any performance targets are met) benefit from any growth in value of Ordinary Shares that exceeds their market value at the time of the award, less a ‘carrying cost’ fixed by the Board but which is not more than 5 per cent. p.a. (simple) accruing over a three-year period. ExSOP awards are not transferable or pensionable.

The principal terms of the ExSOP are outlined below.

#### Eligibility

A participant in the ExSOP must be an employee of the Company or any member of the Group. Actual participation in the ExSOP will be at the discretion of the Board, or, in the case of Executive Directors, the Remuneration Committee.

#### Grant of share awards

ExSOP awards may only be made during the period of six weeks beginning with the fourth dealing day following the announcement of the Company's results for any period, or within 28 days of a person first joining the Group or, exceptionally, and subject to the Model Code and other relevant restrictions on dealings in shares, on any other day on which the Remuneration Committee determines that exceptional circumstances exist. No ExSOP awards may be made more than ten years after the passing of the resolution of shareholders approving the ExSOP.

#### Structure of an ExSOP award

Under the ExSOP, selected employees are invited to acquire, jointly with an employee benefit trust and upon the terms of a JOA, a restricted beneficial interest in a given number of Ordinary Shares (an “**ExSOP Award**”) on the basis that, when such shares are sold, the participant will (if performance targets are set, to the extent that they are met), receive a proportion of the proceeds of sale equal to the growth in value of such shares above a threshold amount (as reduced by a contribution towards the cost of funding the initial acquisition of the ExSOP Award shares – referred to below as “**the Carrying Cost**” of such shares).

The threshold amount is fixed by the Remuneration Committee when an ExSOP Award is made, but is not less than the market value of the ExSOP Award shares at the time of their joint acquisition by the employee and the EBT. Market value is taken to be the average of the middle market quotations

of a Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the three consecutive dealing days last preceding the date of award. The balance of the proceeds of sale (i.e., the threshold amount and the Carrying Cost) accrue to the EBT and, to the extent that it is not used to repay loans to the EBT by members of the Group, is available to fund awards under the ExSOP or other share incentive plans. Except insofar as any performance targets are not met, participants benefit from the growth in value of the ExSOP Award shares as reduced by the Carrying Cost. By contrast with a traditional share option, a participant in the ExSOP, from the outset, has a restricted beneficial interest in the award shares. Participants are required to pay a nominal amount for their interests and, insofar as they do not pay the full taxable value of their interests, incur a charge to income tax and National Insurance contributions on the amount of the difference. The directors may choose to pay a cash bonus to fund any such tax payable by the employee on the making of an ExSOP Award.

ExSOP Award shares are either issued by the Company (as new Ordinary Shares or out of treasury) or may be purchased in the market. The issue of new Ordinary Shares is subject to the overall limits on the issue of Ordinary Shares described below. The price per share at which Ordinary Shares are issued for the purposes of the ExSOP is less than their market value at the time of issue. The extent to which a participant is able to benefit from growth in value of the ExSOP Award shares is dependent upon the extent to which performance targets are met. The EBT has the option to require a participant to sell, at a nominal price, a proportion of the ExSOP Award shares which varies according to the extent to which the performance target is met.

#### Realising the value of an ExSOP Award

From the time when an ExSOP Award is made, the employee and the EBT together own the ExSOP Award shares on unequal terms. At any time after the third anniversary of the date of award, the participant may invite the EBT to join in selling the jointly-owned shares or may, or may be called upon to, exchange with the EBT part of their respective interests (as co owners of the shares) so that the participant then holds a whole number of shares equal in value to the value of his interest as a co owner. By this means a participant acquires shares equal in value to the growth in value (less the Carrying Cost) of the award shares. This exchange of a participant's interest for a number of whole shares must take place (if the jointly owned shares have not previously been sold) before the tenth anniversary of the date of the ExSOP Award. After such an exchange has taken place the participant is free to retain, or dispose of the shares without restriction.

#### Cessation of employment

If a participant ceases employment within the Group before the third anniversary of the date of the award, the EBT will have the right to require the participant to sell, at a nominal price, his interest in all of the ExSOP Award shares. If he leaves before the third anniversary by reason of death, disability, ill health, or retirement or if the subsidiary in which he is employed is sold outside the Group, the EBT may exercise its right to require the participant to sell a proportion of the ExSOP Award shares. Such proportion of the ExSOP Award shares will vary according to the time of leaving and the extent to which the Remuneration Committee is of the view that any performance target is likely to be met.

#### Dividends on ExSOP Award shares

A participant and the EBT will together be entitled to dividends (if any) on the ExSOP Award shares. The proportion of any dividend payable to the participant will be equal to his or her proportional entitlement to share in the proceeds of sale of the ExSOP Award shares if the shares were sold at that time.

#### Company reorganisations and reconstructions

In the event of a reorganisation or reconstruction which results in a new holding being equated with the original holding for capital gains tax purposes, shares or other securities comprised in the new holding will be held subject to the terms of the JOA.

### Takeover of the Company

In the event of a change of control as a result of shareholders accepting a takeover offer for the Company, the Remuneration Committee will determine the extent to which any performance target would have been likely to be met in the absence of the change of control and hence the extent to which any ExSOP Award should then be capable of realisation.

### Rights attaching to shares

Shares issued upon the grant of an ExSOP Award will rank equally in all respects with all other Ordinary shares for the time being in issue (save as regards any rights attaching to Ordinary Shares by reference to a record date prior to allotment).

### Variation of share capital

In the event of any alteration of the issued ordinary share capital of the Company by way of a rights issue, the employee and the EBT together decide whether to put the EBT in funds sufficient to take up the rights in full or part. In the absence of agreement between the employee and the EBT, the EBT may sell sufficient of the rights (nil paid) to fund the exercise of the balance of such rights.

### Individual limitations

The aggregate market value of shares (as at the date of grant) over which ExSOP Awards may be made to any executive director or other senior executive in any year shall not, except in exceptional circumstances, exceed 200 per cent. of his base salary.

### Limits on the issue of share capital

The number of shares which may be issued upon the making of ExSOP Awards, or in respect of which rights to subscribe for new shares may be granted, on any day under or for the purposes of the ExSOP or which have been issued or remain issuable under rights to subscribe for shares granted under or for the purposes of the ExSOP or any other employees' share scheme established by the Company, in the period of ten years ending on that day, may not exceed 10 per cent. of the issued ordinary share capital of the Company.

### Amendment

The Remuneration Committee may amend the ExSOP. However, the provisions relating to the eligibility of participants, limitations on the number of shares subject to the ExSOP individual participation limits, the basis for determining a participant's entitlement to, and the terms of, shares or interests in shares and the adjustment thereof if there is a capitalisation, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any variation of capital cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting except for minor amendments to benefit the administration of the ExSOP to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the ExSOP or for any member of the Group.

## 9. Directors

### 9.1 Directors' details

#### (a) *Chairman (Non-executive)*

##### **Mike Davies**

Mike Davies was appointed Chairman in 2010 having joined Pendragon as a non-executive director in 2004. Mr. Davies is non-executive chairman of the Royal Mint and The Manchester Airports Group plc. Mr. Davies chairs the Company's Nomination Committee. Age 63.

#### (b) *Executive Directors*

##### **Trevor Finn, Chief Executive**

Trevor Finn joined the vehicle division of Williams plc in 1982 and subsequently became divisional managing director. Mr. Finn was appointed chief executive of Pendragon prior to the demerger from Williams. Age 54.

**Martin Casha, Chief Operating Officer**

Martin Casha joined the vehicle division of Williams plc in 1982 and subsequently became a group general manager. Mr. Casha was appointed operations director of Pendragon in September 1995 and chief operating officer in November 2001. Age 51.

**Tim Holden, Finance Director**

Tim Holden 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. Mr. Holden is a chartered accountant and became finance director of Pendragon in December 2009. Age 46.

**Hilary Sykes, Corporate Services Director**

Hilary Sykes is a solicitor and prior to joining Pendragon, advised the Company as a corporate lawyer with Geldards LLP. Miss Sykes joined Pendragon in 1994 as company secretary and became a director in April 1999. Age 51.

(c) *Non-executive Directors*

**David Joyce**

David Joyce joined Pendragon on 1 March 2006. Mr. Joyce 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. Age 63.

**Melvyn Egglenton**

Melvyn Egglenton joined Pendragon on 1 December 2010. Mr. Egglenton is a chartered accountant and was previously a partner in KPMG LLP, Regional Chairman of KPMG Midlands and Senior Partner of its Birmingham practice. Age 54.

**Malcolm Le May**

Malcolm Le May joined Pendragon on 1 March 2006. Mr. Le May is chief executive officer of Matrix Corporate Capital LLP. Mr. Le May's 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. Age 53.

**Ian Coull**

Ian Coull joined Pendragon on 1 December 2010. Mr. Coull is a chartered surveyor and is the former chief executive of Segro plc and is a non-executive Chairman of Galliford Try plc, the construction and house-building group. Age 61.

9.2 *External directorships and interests in transactions*

- (a) Save as set out below, none of the Directors has been a member of the administrative, management or supervisory bodies or partner, of any company or partnership (other than the Company and other members of the Group), at any time in the previous five years, preceding the date of this document:

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships in the previous five years</i>
Mr. Davies	<ul style="list-style-type: none"><li>• Imagine No.1 LLP (LLP Member)</li><li>• Leicestershire Independent Educational Trust</li><li>• The Manchester Airports Group plc</li></ul>	<ul style="list-style-type: none"><li>• Marshalls plc (resigned 12/05/10)</li><li>• Taylor Wimpey plc (resigned 01/09/09)</li><li>• Vi-Spring Limited (resigned 18/12/06)</li></ul>



<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships in the previous five years</i>
Mr. Davies (continued)	<ul style="list-style-type: none"> <li>• Brenmar Developments Limited</li> <li>• Prescience Media 1 Limited Liability Partnership (LLP member)</li> <li>• Royal Mint</li> </ul>	
Mr. Finn	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Automotive Skills Limited (resigned 23/02/07)</li> <li>• Falcon Investment Trust plc (resigned 20/10/09)</li> <li>• Retail Forum Limited (resigned 30/08/06)</li> <li>• N/A</li> <li>• N/A</li> </ul>
Mr. Holden	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
Miss Sykes	<ul style="list-style-type: none"> <li>• YMCA Derbyshire Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Renew Maintenance Limited (resigned 04/07/11)</li> </ul>
Mr. Joyce	<ul style="list-style-type: none"> <li>• C &amp; B Holdings Limited</li> <li>• Crispin &amp; Borst Limited</li> <li>• Fifehead Limited</li> <li>• Genflo Technology Limited</li> <li>• John Jones (Excavation) Limited</li> <li>• Norwest Holst International Limited</li> <li>• Norwest Holst Soil Engineering Limited</li> <li>• Pacific Durham &amp; Co. Limited</li> <li>• Pacific Durham Holdings Limited</li> <li>• Pel Interiors Limited</li> <li>• Rosser &amp; Russell Maintenance Limited</li> <li>• Stradform Limited</li> <li>• Stradform (Midlands) Ltd</li> <li>• Stradform (South West) Ltd</li> <li>• Taylor Woodrow Construction</li> <li>• Taylor Woodrow International Limited</li> <li>• Vinci Construction UK Limited</li> <li>• Vinci Education Limited</li> <li>• Vinci Investments Limited</li> <li>• Vinci Partnerships Limited</li> <li>• Vinci PLC</li> <li>• Vinci Project Development Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Avosdrive Plant Hire Limited (dissolved 05/11/08)</li> <li>• Hertel Technical Services Limited (resigned 21/12/07)</li> <li>• Tectonics Support Limited (dissolved 09/05/06)</li> <li>• Wales Millennium Centre (resigned 22/09/06)</li> </ul>

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships in the previous five years</i>
Mr. Le May	<ul style="list-style-type: none"> <li>• China Delta Export Limited</li> <li>• Eclipse Film Partners No.26 LLP (LLP Member)</li> <li>• European Film Partners LLP (LLP Member)</li> <li>• Matrix Corporate Capital LLP (LLP Member)</li> <li>• Matrix Group Limited</li> <li>• Matrix-Securities Limited</li> <li>• Preventative Health Care Company Limited (The)</li> <li>• RSA Group plc</li> <li>• Tall Ships Youth Trust</li> <li>• Twyford School</li> <li>• The Upham Brush Company Limited</li> </ul>	<ul style="list-style-type: none"> <li>• JER Real Estate Advisors (UK) Limited (resigned 04/03/09)</li> <li>• Le May Farming Limited (dissolved 25/03/09)</li> </ul>
Mr. Coull	<ul style="list-style-type: none"> <li>• Galliford Try Plc</li> <li>• Oaktree Capital Management LLP</li> <li>• London Scottish International Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Segro PLC (resigned 28/04/11)</li> <li>• British Property Federation (resigned September 2010)</li> <li>• Helioslough Limited (resigned 28/04/11)</li> <li>• Brixton Limited (resigned 28/04/11)</li> </ul>
Mr. Egglenton	<ul style="list-style-type: none"> <li>• Nottingham Ice Centre Limited</li> <li>• Paul Raymond Holdings Limited</li> <li>• Paul Raymond Organisation Limited</li> <li>• Soho Estates Limited</li> <li>• Soho Estates Holdings Limited</li> <li>• FIJ PTC Limited</li> </ul>	<ul style="list-style-type: none"> <li>• KPMG Audit PLC (resigned 31/03/2010)</li> <li>• KPMG LLP (resigned 31/03/2010)</li> </ul>

- (b) None of the Directors has been a member of the administrative, management or supervisory bodies or partner, of any company or partnership at the time of its bankruptcy, receivership or liquidation, in the previous five years, preceding the date of this document.
- (c) None of the Directors has, within the previous five years received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) and has not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.
- (d) With the exception of Messrs Le May and Holden, and Miss Sykes (as described below), none of the Directors has any potential conflicts of interests between his or her duties to the Company and his or her private interests or other duties. Where a perceived or potential conflict of interest exists in respect of a director, the Companies Act and the Articles of Association permit those directors who are not conflicted to authorise that director to have the perceived or potential conflict. Authorisation has previously been given in respect of Malcolm Le May, as a director of RSA Group PLC (“**RSA**”) and Hilary Sykes and Tim Holden, in their capacity as directors of the Group’s pension schemes, as in each of those instances the relevant Director indicated to the Board that they considered there to be a potential conflict of interest between those roles and their responsibilities as directors of the Company. A potential conflict arose in

respect of Mr. Le May by virtue of Pendragon in the past: (i) having provided new and used vehicles to RSA's employees as part of an affinity scheme; and (ii) having offered RSA's insurance products to its customers at point of sale.

- (e) None of the Directors has convictions relating to fraudulent offences within the last five years.

### 9.3 *Directors' service contracts, interests and remuneration*

(a) *Executive Directors Service contracts*

Each of the Executive Directors is employed on a rolling service contract that commenced on their appointment to the Board. The service contract of each of the Executive Directors is terminable on not less than 12 months' written notice given by the Company to the Director and on not less than six months' written notice given by the Director to the Company.

Any bonus awarded by the Board from time to time is in its absolute discretion and is not a contractual entitlement. The maximum bonus that will be payable in any one year is 100 per cent. of the Executive Director's salary.

In addition to the individual remuneration and bonus discretionary entitlement outlined above, each of the Executive Directors is entitled to the use of two company cars, one of which is fully expensed, and private medical cover.

(b) *Non-executive Directors*

Mr. Joyce has been appointed for a period of two years. Upon assuming the role of senior independent director Mr. Le May's appointment was extended to three years, expiring on 31 December 2012. Mr. Coull and Mr. Egglenton had been appointed for an initial period expiring on 31 December 2013 and were each elected at the annual general meeting of the Company held in 2011. Mr. Davies was re-appointed on 4 October 2010 and his appointment will expire on 31 December 2013.

Set out below are the dates of appointment of the Non-executive Directors to the Pendragon Board and the last dates of their re-appointment to the Board.

<i>Non-executive Directors</i>	<i>Date appointed</i>	<i>Last re-appointed</i>
Mr. Davies	18.10.04	04.10.10
Mr. Joyce	01.03.06	01.01.10
Mr. Le May	01.03.06	01.01.10
Mr. Egglenton	01.12.10	01.12.10
Mr. Coull	01.12.10	01.12.10

(c) *Termination payments*

In the event of early termination, each service contract provides for payment of accrued basic salary and payment in lieu of accrued holiday. In addition, each Executive Director's service contract includes provisions for his or her protection in the event of a termination arising from a change of control. A period of notice shorter than the six and twelve months' respectively referred to above may be given by either party to terminate the Executive Director's service contract in specified circumstances, subject to the Executive Director's enhanced entitlement to salary and bonus. These provisions apply during the period of six months following an acquisition by a third party of not less than 50 per cent. of the issued share capital of the Company (a "**Take-Over Offer**"). If, in the six month period following a Take-Over Offer, the Company terminates an Executive Director's employment by giving less than three months' notice, the Director shall be entitled to receive within 14 days of termination a sum equivalent to the aggregate of one times his existing salary, one times the annual performance related pay applicable to him or her at the maximum level applied immediately before the Take-Over Offer (the "**Available Bonus**") and a sum equal to such proportion of the Available Bonus as reflects the expired part of the measurement period for the annual performance related pay (calculated at the date when the Company's notice would have expired, had the Company given three

months' notice as a proportion of the whole measurement period). If the termination of the Executive Director's service contract in the six month period referred to above is by either the Company or the Executive Director giving to the other three months' notice, the components of the Executive Director's entitlement are 0.75 times his existing salary, 0.75 times his Available Bonus and such proportion of the Available Bonus as reflects the expired part of the measurement period for the annual performance related pay (calculated at the date of expiry of the three months' notice so given) as a proportion of the whole measurement period. Non-executive Directors' appointments also include protection in the event of a termination arising from a Take-Over Offer. In the event that notice of termination is given by or to a Non-executive Director pursuant to their contract of appointment in the six month period following a Take-Over Offer, that Non-executive Director shall be entitled to receive a sum equivalent to their annual fee, subject to adjustment where the Non-executive Director has elected to receive part of their remuneration in the form of vehicle provision.

(d) *Remuneration*<sup>(1)</sup>

The total remuneration paid and benefits in kind granted (including any contingent or deferred compensation) to each of the Directors (including pension contributions paid by Pendragon on their behalf, gains on the exercise of share options and compensation for loss of office) by Pendragon or any other member of the Group during the financial year ended 31 December 2010 were as follows:

	<i>Total emoluments 2010</i> <i>(excluding pensions)</i>	
	£	<i>Pension Benefits</i>
Mr. Finn	944,000	–
Mr. Casha	525,000	147,000
Mr. Holden	342,000	–
Miss Sykes	265,000	47,000
Sir Nigel Rudd <sup>(2)</sup>	121,000	–
Mr. Davies <sup>(4)</sup>	66,000	–
Mr. Joyce	35,000	–
Mr. Le May	35,000	–
Mr. Holt <sup>(2)</sup>	45,000	–
Mr. Egglenton <sup>(3)</sup>	3,000	–
Mr. Coull <sup>(3)</sup>	3,000	–
<b>Total</b>	<u>2,384,000</u>	<u>194,000</u>

**Notes:**

- (1) Benefits include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of up to two cars (at the Executive Director's election) one of which is fully expensed, and, in the case of Mr. Holden, a one-off relocation allowance of £12,000.
- (2) 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. Mr. Holt retired from the Board on 10 May 2011.
- (3) Mr. Egglenton and Mr. Coull were appointed to the Board on 1 December 2010. Accordingly their emoluments are calculated for the period 01.12.10 – 31.12.10.
- (4) 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.

The group 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 group pension plan's assets is delegated to specialist investment managers. There is no direct investment in Pendragon PLC. Mr. Finn, Mr. Casha and Miss Sykes ceased to be active members of the group pension plan in 2006. The Non-executive Directors are not eligible to participate in the group pension plan. Whereas Mr. Casha and Miss Sykes remain as deferred members, entitled to a deferred pension

calculated up to the date of their leaving the plan, Mr. Finn elected to take early retirement benefits from 8 February 2008 and is therefore a pensioner member, hence there is no remaining accrued entitlement for Mr. Finn. Mr. Holden participates in the Pendragon group pension scheme, a deferred contribution pension scheme, to which the Company makes a contribution of 10 per cent. (£18,300) of his base salary, for his benefit.

The transfer value of accrued pension benefit in respect of current Directors as at 31 December 2010 was £3,261,000.

## 10. Directors', and other significant interests

- 10.1 As at 13 July 2011 (being the latest practicable date prior to the date of publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors (as well as their immediate families) in the share capital of Pendragon or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director, as the case may be) interests of a person connected (within the meaning of section 252 of the Companies Act) with a Director (as the case may be) and the existence of which was known to or could, with reasonable due diligence, be ascertained by the Directors as at 13 July 2011 together with such interests as are expected to be held immediately following completion of the Rights Issue are as follows:

	<i>Number of Ordinary Shares held at present</i>	<i>Percentage of Ordinary Shares held at present</i>	<i>Number of Ordinary Shares held immediately following the Rights Issue</i>	<i>Percentage of Ordinary Shares held immediately following the Rights Issue</i>
Mr. Finn	17,384,496	2.60	36,942,054	2.60
Mr. Casha	5,101,972	0.76	10,841,690	0.76
Miss. Sykes	1,844,662	0.28	3,919,906	0.28
Mr. Holden	300,000	0.04	637,500	0.04
Mr. Davies	150,000	0.02	318,750	0.02
Mr. Joyce	50,000	0.01	106,250	0.01
Mr. Le May	19,000	0.00	40,375	0.00
Mr. Coull	Nil	0.00	—	0.00
Mr. Egglenton	Nil	0.00	—	0.00
<b>TOTAL</b>	<b>24,850,130</b>	<b>3.72</b>	<b>52,806,525</b>	<b>3.72</b>

### Note:

The number of Ordinary Shares issued assumes that (i) each Director takes up in full his entitlement under the Rights Issue to New Ordinary Shares, and (ii) no Ordinary Shares are issued pursuant to the exercise of entitlements under the Share Schemes or in connection with the exercise of Warrants in the period between 13 July 2011 (being the latest practicable date prior to the date of publication of this document) and completion of the Rights Issue.

Save as disclosed in this paragraph 10, none of the Directors has any interest (beneficial or non beneficial) in the share capital of the Company or any of its subsidiaries.

As at 13 July 2011 (being the latest practicable date prior to the date of publication of this document), the Directors' and interests in the Share Schemes are as follows:

	<i>Sharesave Scheme<sup>1</sup></i>	<i>ExSOP 2010<sup>2</sup></i>	<i>Investment Shares 2011</i>	<i>Matching Shares 2011</i>	<i>Performance Shares 2011</i>	<i>Investment Shares 2008<sup>3</sup></i>	<i>Matching Shares 2008<sup>4</sup></i>	<i>Performance Shares 2008</i>	<i>Approved Executive Share Scheme<sup>5</sup></i>
Mr. Finn	7,357	3,836,921	748,730	1,480,513	1,974,020	191,017	336,828	1,439,440	—
Mr. Casha	—	2,131,623	822,507	822,507	1,096,678	106,122	187,129	799,689	—
Miss Sykes	7,357	532,906	411,252	411,252	548,339	53,062	93,566	399,844	—
Mr. Holden	7,357	1,510,762	207,982	582,941	777,257	—	—	—	75,000
<b>TOTAL</b>	<b>22,071</b>	<b>8,012,212</b>	<b>2,190,471</b>	<b>3,297,213</b>	<b>4,396,294</b>	<b>350,201</b>	<b>617,523</b>	<b>2,638,973</b>	<b>75,000</b>

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 Pendragon EBT on terms that, to the extent that the performance condition described on page 30 of the 2010 Annual Report and Accounts 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 per cent. of salary. These are owned outright by the participant.
- 4 LTIP Matching Shares match LTIP Performance 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 of the 2010 Annual Report and Accounts is satisfied, the LTIP Performance Shares and LTIP Matching Shares (where held) vest on the third anniversary of the grant date.
- 5 Awarded under the Pendragon 1999 Approved Executive Share Option Scheme prior to appointment to the Board.

10.2 As at 13 July 2011 (being the latest practicable date prior to the date of publication of this document), and as it is expected to be immediately following the Rights Issue (assuming full take up by each person described below of their rights to New Ordinary Shares under the Rights Issue) and so far as is known to the Company by virtue of the notifications made pursuant to the Companies Act and/or Chapter 5 of the Disclosure and Transparency Rules, the name of each person (other than a Director) who directly or indirectly, is interested in 3 per cent. or more of the voting rights in the Company, and the amount of such person's interest, is as follows:

<i>Shareholder</i>	<i>Number of Ordinary Shares as at 13 July 2011</i>	<i>Percentage of voting rights as at 13 July 2011</i>	<i>Number of Ordinary Shares immediately following completion of the Rights Issue</i>	<i>Percentage of voting rights immediately following completion of the Rights Issue</i>
Odey Asset Management	114,234,630	17.10	242,748,588	17.10
Schroder Investment Management	83,327,456	12.47	177,070,844	12.47
Standard Life Investments	50,076,228	7.50	106,411,984	7.50
JP Morgan Asset Management	30,703,215	4.60	65,244,331	4.60
AXA Framlington	30,065,000	4.50	63,888,125	4.50
Threadneedle Investments	24,222,277	3.63	51,472,338	3.63
Legal & General Investment Management	23,918,907	3.58	50,827,677	3.58
			<u>757,663,887</u>	<u>53.37</u>

**Note:**

The number of Ordinary Shares issued assumes that each Shareholder takes up in full its entitlement to New Ordinary Shares under the Rights Issue.

Save as set out in this paragraph 10.2, the Company is not aware of any person who has or will immediately following Admission have a notifiable interest in 3 per cent. or more of the issued share capital of the Company.

The Company is not aware of any person who either as at the date of this document or immediately following Admission exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

None of the major Shareholders of the Company set out above has different voting rights from any other holder of Ordinary Shares in respect of any Ordinary Share held by them.

## 11. Corporate Governance

The Disclosure and Transparency Rules require UK listed companies to report on the manner in which they apply the principles of good governance and the extent to which they comply with the provisions set out in the UK Corporate Governance Code.

The Board is committed to the highest standards of corporate governance and to applying the principles of good governance set out in the revised UK Corporate Governance Code.



The Directors confirm compliance with the Combined Code throughout the year ended 31 December 2010 and with the UK Corporate Governance Code (which replaced the Combined Code for financial years beginning on or after 29 June 2010) subsequent thereto through to the date of this document.

The Board has established Nomination, Remuneration and Audit committees, with formally delegated duties and responsibilities, and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues should the need arise.

#### 11.1 *The Board*

The Company is led by a board of directors which currently consists of a non-executive chairman, four executive directors and four non-executive directors. Further detail on the composition of the Board, including brief biographies of all of the directors, is described in paragraph 9 of this Part IX.

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 available in full at [www.pendragonplc.com](http://www.pendragonplc.com).

A detailed description of the role and responsibilities of a non-executive director is set out in the letter of appointment, and all new non-executive directors confirm before they take up their appointment that they can allocate sufficient time to meet the expectations of the role.

The roles of the chairman and chief executive are separate. The chairman is responsible for the leadership and management of the Board and ensuring that it operates effectively, and the chief executive is responsible to the Board for the executive management of the Group. The chairman and the chief executive meet regularly to discuss the business and issues for the Board.

The non-executive directors complement the skills and experience of the executive directors, providing the requisite degree of independent judgment 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. Le May is the senior independent non-executive director.

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 between 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 judgments to be made and duties adequately discharged.

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 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.

The Board has established a strong control framework within which the Group operates. This contains the following elements:

#### *Executive Committee*

Day-to-day management of the Group is delegated to the Executive Committee which comprises the four executive directors and is chaired by the chief executive. The chief executive is responsible for implementation of the strategy set by the Board. The Executive Committee meets regularly and facilitates the communication and implementation of the Company's overall strategy and the Executive Committee's decisions within the Group.

#### *Operational oversight*

The Group is divided operationally into five divisions: Stratstone; Evans Halshaw; Chatfields (trucks) and the California operation (together the motor retail divisions); and support business divisions (Leasing, Quickco, Pinewood 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.

#### *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.

### **11.2 Internal control**

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 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 up 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 performed a high level risk assessment during the year ended 31 December 2010. 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 new measures designed to mitigate or meet any specific commercial and other risks or threats. The Risk Control Group's work during the year ending 31 December 2010 did not identify any weakness in controls which would have a material effect on the Group's business.

### 11.3 *Committees*

Specific responsibilities of the Board are delegated to the Audit Committee, Remuneration Committee and Nominations Committee; all of which have defined terms of reference, procedures, responsibilities and powers. The committees' terms of reference, are available on the Group's website [www.pendragonplc.com](http://www.pendragonplc.com). The committees, their members and a report on their activities are given below:

#### *The Nomination Committee*

The Nomination Committee's members are the Non-executive Directors. The Nomination Committee is responsible for leading the process for appointments to the Board. Its chairman is Mr. Davies. The Nomination Committee met four times in 2010, owing to the need to select and recruit to the Board a new non-executive chairman and two Non-executive Directors.

The Nomination Committee and the Board operate a protocol for the selection and appointment of executive and Non-executive Directors, which entails using professional executive recruitment agencies, save where the Board deems that an internal candidate meets all the agreed selection criteria and it is in the interests of the Company to proceed without an external search. Further rules for the appointment and replacement of the Company's directors are detailed in its Articles of Association.

The Nomination Committee's terms of reference include the following:

- regularly reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any adjustments that are deemed appropriate;
- the identification and nomination for the approval of the Board of candidates to fill Board vacancies as and when they arise;
- undertaking an annual performance evaluation to ensure that all members of the Board have devoted sufficient time to their duties;
- ensuring that candidates, on appointment and thereafter, have sufficient time to undertake the role and to periodically review their commitments; and
- ensuring that the Company Secretary, on behalf of the Board, has formally written to any appointee, detailing their role and time commitments and proposing an induction plan, produced in conjunction with the Chairman or, as the case may be, the senior Non-executive Director.

#### *Remuneration Committee:*

The Remuneration Committee is composed of the Non-executive Directors. Until 4 October 2010 its chairman was Mr. Davies. It is now chaired by Mr. Joyce. Mr. Davies continues as a member of the Remuneration Committee.

The Remuneration Committee meets at least once a year and is responsible for determining the remuneration packages of the Executive Directors in the context of the policy adopted by the Board.

The Remuneration Committee's terms of reference include the following:

- responsibility for determining and agreeing with the Board the framework for the remuneration of the Executive Directors and such other members of the Company's executive management as it is designated by the Board to consider;
- liaising with the Nomination Committee to ensure the remuneration packages set for new Executive Directors are consistent with the Company's overall remuneration policy;

- setting the target for any performance related pay schemes applicable to Executive Directors and determining the policy for and scope of pension arrangements, termination packages and compensation commitments for the Executive Directors; and
- responsibility for ensuring that due regard is given to best practice in matters of executive remuneration and that the Company complies with all applicable regulations relating to executive remuneration.

#### *Audit Committee:*

The Audit Committee is chaired by Mr. Eggleton, 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 three times a year. The Finance Director, head of internal audit and representatives of its external auditors attend its meetings, at the Audit Committee chairman's discretion.

The Audit 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 Audit 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. Its other meeting is 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 Audit Committee's terms of reference include the following:

- (i) to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and to review significant financial reporting judgements contained in them;
- (ii) to make recommendations to the Board for it to put to shareholders for their approval in general meeting, in relation to the appointment, resignation, removal or re-appointment of the Company's external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (iii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- (iv) to monitor and review the effectiveness of the Company's internal audit department and its activities including receiving reports and to ensure adequate levels of staffing within that department;
- (v) to ensure that the Company's systems of internal financial control are adequate and functioning properly; to commission investigations into any control weaknesses, to consider the results of any such investigations and to make recommendations to the Board to act upon any identified weaknesses;
- (vi) to ensure that the Company's systems of control as they relate to activities regulated by the FSA are adequate and functioning properly and are adequately resourced; to ensure that appropriate management information and means of monitoring are in place to test that, for its regulated business, the Company is treating its customers fairly; to commission investigations into any control weaknesses, to consider the results of any such investigations and to make recommendations to the Board to act upon any identified weaknesses;
- (vii) to ensure that the Company's approach to risk management and control is systematic and structured, that the Company's systems are appropriate to the levels of risk to which the Company is exposed, and to carry out monitoring of controls and risk management systems sufficient to satisfy itself that their implementation is effective; and

- (viii) to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

## **12. Mandatory bids, squeeze-out and sell-out rules in relation to Ordinary Shares**

Other than as provided by the Takeover Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

### **12.1 *Mandatory bid***

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of interests in Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to interests in Ordinary Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on circumstances, its concert parties would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in Ordinary Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in Ordinary Shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

### **12.2 *Squeeze-out***

Under the Companies Act, if an offeror were to make an offer to acquire all of the Ordinary Shares in the Company not already owned by it and was to acquire 90 per cent. of the Ordinary Shares to which such offer related it could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their Ordinary Shares and then, six weeks later, it would deliver a transfer of the outstanding Ordinary Shares in its favour to the Company which would execute the transfers on behalf of the relevant Shareholders, and pay the consideration to the Company which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose Ordinary Shares are compulsorily acquired under this procedure must in general, be the same as the consideration that was available under the original offer unless a Shareholder can show that the offer value is unfair.

### **12.3 *Sell-out***

The Companies Act would also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Ordinary Shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares, any holder of Ordinary Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Ordinary Shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on Shareholders notifying them of their sell-out rights. If a Shareholder exercises his rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

### **12.4 *Public takeover bids occurring in the last and current financial year***

There have been no public takeover bids by third parties in respect of the share capital of the Company in the last or current financial year.

## **13. United Kingdom taxation**

The following statements are intended as a general guide only to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of



New Ordinary Shares, Nil Paid Rights or Fully Paid Rights. The following statements are based on current United Kingdom tax legislation and on what is understood to be the current practice of the HMRC and may not apply to certain classes of Shareholder. They relate only to Qualifying Shareholders who are resident and, in the case of individuals, ordinarily resident in the United Kingdom for tax purposes (except where otherwise stated) and who hold their Ordinary Shares beneficially as investments. They are not addressed to certain categories of Shareholders who are subject to special rules, such as dealers in securities or those who have acquired (or are deemed for tax purposes to have acquired) their Ordinary Shares and/or New Ordinary Shares by reason of employment.

**Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the United Kingdom is strongly recommended to consult his professional advisers immediately.**

### 13.1 *Taxation of chargeable gains*

#### (a) *Acquisition of New Ordinary Shares*

For the purposes of United Kingdom taxation of chargeable gains, the issue of New Ordinary Shares to existing Shareholders who take up their rights under the Rights Issue should be regarded as a reorganisation of the Company's share capital. Accordingly, to the extent that a Qualifying Shareholder takes up all or part of his entitlement under the Rights Issue in respect of his existing holding of Ordinary Shares (the "**Existing Holding**"), he should not be treated as having disposed of any part of that Existing Holding. Instead, his Existing Holding and the New Ordinary Shares issued to him in respect of his Existing Holding should be treated as a single asset (the "**New Holding**") acquired at the time he acquired his Existing Holding. For the purpose of computing any gain or loss on a subsequent disposal by a Qualifying Shareholder of any shares comprised in his New Holding, the amount paid for the New Ordinary Shares will be added to the base cost of his Existing Holding.

#### (b) *Disposals*

If a Qualifying Shareholder disposes of all or some of his rights to acquire New Ordinary Shares under the Rights Issue, or if he allows all or part of those rights to lapse and receives a cash payment in respect of this, he may, depending on his circumstances, incur a liability to United Kingdom taxation of chargeable gains. If, however, the proceeds resulting from the disposal or lapse are "small" (currently interpreted by HMRC as not exceeding the greater of £3,000 or 5 per cent. of the value (as at the date of the disposal or lapse) of the Existing Holding) and are not greater than or equal to the Shareholder's allowable expenditure (being the amount of expenditure which would have been allowable as a deduction in computing a gain or loss on the disposal of the Existing Holding if it had been disposed of immediately before the receipt of the proceeds), the Shareholder will not, under present HMRC practice, be treated as making a disposal for the purposes of United Kingdom taxation of chargeable gains. Rather, the proceeds will be deducted from the acquisition cost of his Existing Holding. If the proceeds resulting from the disposal or lapse are greater than the Shareholder's allowable expenditure, the Shareholder will be treated as making a disposal but for the purpose of computing any chargeable gain he may elect for the proceeds to be reduced by the amount of the allowable expenditure (and, accordingly, that allowable expenditure will cease to be available as a deduction when computing any gain accruing on any subsequent disposal).

#### (c) *Non-UK tax resident Shareholders*

An individual Shareholder who has ceased to be resident or ordinarily resident in the UK for tax purposes for a period of less than five years of assessment and who disposes of all or part of his New Holding during that period of temporary non-residence may be liable to on his return to the UK to UK taxation of chargeable gains arising during the period of absence, subject to any available exemption or relief.

A Shareholder who is not resident or ordinarily resident for tax purposes in the UK will not otherwise generally be subject to UK taxation of chargeable gains on the disposal or deemed disposal of New Ordinary Shares unless the Shareholder is carrying on a trade, profession or



vocation in the UK through a branch or agency (or, in the case of a corporate Shareholder, a permanent establishment) in connection with which the New Ordinary Shares are held.

(d) *Indexation allowance and annual exemption*

The following paragraphs deal separately with Shareholders within the charge to corporation tax and Shareholders within the charge to capital gains tax.

(i) *Shareholders within the charge to corporation tax*

Shareholders within the charge to United Kingdom corporation tax will, for the purposes of computing gains but not losses, be allowed to claim an indexation allowance in respect of the amounts they have paid for their New Ordinary Shares. The indexation allowance will generally only apply from the date the money for the New Ordinary Shares is paid, not from the time the Existing Holding was acquired.

(ii) *Shareholders within the charge to capital gains tax*

For Shareholders within the charge to United Kingdom capital gains tax, indexation allowance and taper relief have been abolished and such Qualifying Shareholders will not be able to claim an indexation allowance in respect of amounts paid for New Ordinary Shares or taper relief in respect of disposals of New Ordinary Shares.

Shareholders within the charge to capital gains tax are generally liable to capital gains tax at the rate of 18 per cent. where they are basic rate tax payers and 28 per cent. where they are higher or additional rate tax payers on any chargeable gain in excess of the annual exempt amount (£10,600 for individuals in the 2011/2012 tax year).

## 13.2 *Taxation of dividends*

(a) *Company*

The Company will not be required to withhold tax at source on any dividends it pays to its Shareholders.

(b) *United Kingdom resident Shareholders*

Individuals resident in the United Kingdom for taxation purposes are generally liable to income tax on the aggregate amount of any dividend received and a tax credit equal to 10 per cent. of the gross dividend (or one-ninth of the dividend received). For example, on a dividend received of £90, the tax credit would be £10, and an individual would be liable to income tax on £100 but would also have the benefit of the tax credit to reduce this liability. Taking the tax credit into account, therefore, no further income tax is payable in respect of the dividend by UK resident individuals who are not liable to income tax at the higher rate (currently 40 per cent.). UK resident individuals who are subject to tax at the higher rate are subject to tax on dividends at the rate applicable to dividends (currently 32.5 per cent.) but are entitled to offset the 10 per cent. tax credit against such liability. For example, on a dividend received of £90 such a taxpayer would have to pay additional tax of £22.50 (representing 32.5 per cent. of the gross dividend less the 10 per cent. credit) which is equal to an effective rate of income tax of 25 per cent. of the net dividend. For this purpose, dividends are treated as the top slice of an individual's income.

From 6 April, 2010 a new rate of income tax (the “**additional rate**”) applies to taxable income above £150,000. Dividends liable to tax at the additional rate will be taxable at the rate of 42.5 per cent. Consequently, UK resident individuals who are liable to income tax at the additional rate and who receive dividends will be subject to tax on the gross dividend at the new rate of 42.5 per cent., to the extent that the gross dividend falls above the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the individual's income. After setting off the tax credit comprised in the gross dividend, the individual will, accordingly, have to account for income tax equal to 32.5 per cent. of the gross dividend (which equates to approximately 36.1 per cent. of the dividend received). For

example, a dividend received of £80 will carry a tax credit of £8.89; the income tax payable on the dividend by an individual liable to income tax at the additional rate would be 42.5 per cent. of £88.89, namely £37.78, less the tax credit of £8.89, leaving a net tax charge of £28.89.

United Kingdom resident Shareholders who are not liable to United Kingdom tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Subject to certain anti-avoidance rules corporate Shareholders resident in the United Kingdom for tax purposes should not be subject to corporation tax on dividends received on the Ordinary Shares from the Company.

(c) *Non-United Kingdom resident Shareholders*

Non-United Kingdom resident Shareholders are not generally entitled to claim any part of the tax credit, and any ability to do so will depend on the terms of any applicable double tax treaty between the UK and the country in which the Shareholder is resident. Non-United Kingdom resident Shareholders may also be subject to tax on dividend income under any law to which they are subject outside the UK. Such Shareholders should consult their own tax advisers concerning their tax liabilities.

### 13.3 *Stamp duty and SDRT*

**The statements below summarise the current position and are intended as a general guide only to stamp duty and SDRT. Special rules apply to agreements made by broker dealers and market makers in the ordinary course of their business and to certain categories of person (such as depositaries and clearance services) who may be liable to stamp duty or SDRT at a higher rate.**

(a) *The Rights Issue*

No stamp duty or SDRT will generally be payable on the issue of Provisional Allotment Letters or split Provisional Allotment Letters or on the issue of definitive share certificates or crediting of CREST member accounts with Nil Paid Rights. Similarly, no stamp duty or SDRT will be payable on the registration of Provisional Allotment Letters, whether by the original holders or their renounees.

A purchase of Nil Paid Rights or Fully Paid Rights, whether represented by a Provisional Allotment Letter or in CREST on or before the last time for registration of renunciation will not be liable to stamp duty but will be liable to SDRT, generally at the rate of 0.5 per cent. of the amount or value of the consideration payable.

Stamp duty and SDRT are normally a liability of the purchaser or transferee (although where such purchase is effected through a stockbroker or other financial intermediary, that person should normally account for the liability to SDRT and should indicate this has been done in any contract note issued to a buyer). In the case of transfers within CREST, any SDRT due will be collected through CREST in accordance with the CREST rules.

(b) *Subsequent transfers*

A transfer for value of Ordinary Shares will generally be subject to stamp duty or SDRT. Stamp duty will arise on the execution of an instrument to transfer Ordinary Shares and SDRT will arise on the entry into of an agreement to sell such Ordinary Shares.

The amount of stamp duty or SDRT payable on the transfer is generally calculated at the rate of 0.5 per cent. of the consideration paid. Stamp duty only applies where such consideration is £1,000 or more and is rounded up to the nearest £5. A liability to SDRT will be cancelled and any SDRT already paid will be repaid, generally with interest, where an instrument of transfer is executed and stamp duty is paid on that instrument within six years of the date on which the liability to SDRT arises.

(c) *Shares held through CREST*

Paperless transfers of Ordinary Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. SDRT on relevant transactions is generally settled within the CREST system. Deposits of shares into CREST will generally not be subject to SDRT, unless the transfer into CREST is itself for consideration.

#### **14. Underwriting Agreement**

The Company and the Banks have entered into the Underwriting Agreement, dated as at the date of this Prospectus, pursuant to which Rothschild and RBS Hoare Govett have been appointed as joint sponsors in connection with the Company's application for Admission and the Joint Underwriters have agreed severally, subject to certain conditions, to use reasonable endeavours to procure subscribers for, or failing which to subscribe in the Due Underwriting Proportions for, all of the New Ordinary Shares to the extent not taken up by Qualifying Shareholders under the Rights Issue, in each case at the Issue Price. In consideration of the services to be provided by the Joint Underwriters under the Underwriting Agreement, the Company will pay to the Joint Underwriters a commission of 2.5 per cent. of the value of the New Ordinary Shares at the Issue Price (such amount being shared in the Due Underwriting Proportions), out of which the Joint Underwriters shall pay sub-underwriting commissions of 1.25 per cent. Such commission shall be payable whether or not the Joint Underwriters are required to subscribe (or procure subscribers) for the Underwritten Shares, but shall be paid only in the event that the Underwriting Agreement is not terminated prior to Admission.

In addition to the commissions set out above (and whether or not the obligations of the Joint Underwriters become unconditional in all respects or the Underwriting Agreement is terminated), the Company shall pay all reasonable costs and expenses properly incurred in connection with the Underwriting Agreement, the Rights Issue, the General Meeting, the allotment, issue, registration and delivery of the Nil Paid Rights or the New Ordinary Shares, the crediting of Nil Paid Rights to any stock account in CREST or the registration of New Ordinary Shares (including without limitation such part of any such costs or expenses as relates to the VAT chargeable on any supply or supplies for which such costs or expenses are all or any part of the consideration). The obligations of the Joint Underwriters under the Underwriting Agreement are subject to certain conditions including, amongst others:

- (i) prior to Admission the Revised Facilities Agreement not having been terminated and all conditions precedent to the Revised Facilities Agreement other than receipt of the net proceeds of the Rights Issue (which must total at least £70 million) and fees related to the refinancing by the Lending Group having been satisfied;
- (ii) the Resolution being passed at the General Meeting;
- (iii) the fulfilment by the Company of certain of its obligations under the Underwriting Agreement, including the delivery of certain documents to the Banks, by the times and dates specified in the Underwriting Agreement; and
- (iv) Admission becoming effective by no later than 8.00 a.m. on the first dealing day after the General Meeting or such time and/or date (being not later than 11 August 2011) as the Company and the Banks may agree.

Under the terms of the Underwriting Agreement, the Company will prior to Admission give an irrevocable instruction to its bankers to pay to the Lending Group the refinancing fees and the net proceeds of the Rights Issue, receipt of which are the final conditions precedent to the completion of the Revised Facilities Agreement. To the extent that refinancing fees will not be met out of the Rights Issue proceeds, the Underwriting Agreement requires that the amount of the refinancing fees due under the irrevocable instruction will be placed in escrow prior to Admission such that those funds cannot be used other than to satisfy payment of those refinancing fees.

No Joint Underwriter is entitled to terminate the Underwriting Agreement after admission of the Nil Paid Rights. However, prior to Admission, any of the Banks may terminate the Underwriting Agreement in certain circumstances, including if (i) there has been a breach by the Company of any of the representations,

warranties or undertakings in the Underwriting Agreement or any of the same were untrue or inaccurate or misleading when made (or would be untrue, inaccurate or misleading if repeated in accordance with the Underwriting Agreement by reference to the facts then existing); or (ii) there has occurred any event which has or will or is reasonably likely to result in a material adverse change in or affecting the financial condition, trading position, results of operations or prospects of the Group taken as a whole.

The Underwriting Agreement also contains certain customary warranties by the Company including as to the accuracy of the information contained in the Prospectus and customary indemnities from the Company in favour of the Banks.

## **15. Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or a member of the Group (a) in the two years immediately preceding the date of this document and are, or may be, material or (b) contain provisions under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

### **15.1 Underwriting agreement**

Details of the Underwriting Agreement are set out in paragraph 14 of this Part IX.

### **15.2 Initial Put and Call Option Agreement and Subscription and Transfer Agreement**

In connection with the Rights Issue, the Company, Newco and RBS Hoare Govett have entered into an Initial Put and Call Option Agreement and a Subscription and Transfer Agreement each dated as at the date of this document, in respect of the subscription and transfer of ordinary shares and redeemable preference shares in Newco. Under the terms of the Initial Put and Call Option Agreement the Company and RBS Hoare Govett have agreed to subscribe for and acquire ordinary shares in Newco and enter into put and call options in respect of the ordinary shares in Newco acquired by RBS Hoare Govett that are exercisable if the Rights Issue does not proceed.

Under the Subscription and Transfer Agreement, RBS Hoare Govett will apply monies received from Qualifying Shareholders or renounees taking up New Ordinary Shares under the Rights Issue and held by Capita as the Receiving Agent on trust for RBS Hoare Govett (acting as principal on receipt of such monies) to subscribe for redeemable preference shares in Newco to an aggregate value equal to such Rights Issue monies, together with any relevant amounts in respect of any New Ordinary Shares subscribed for by the Joint Underwriters or for which the Joint Underwriters have procured subscribers pursuant to the Underwriting Agreement (after deducting relevant commissions and/or expenses). The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration of RBS Hoare Govett transferring its holdings of redeemable preference shares and ordinary shares in Newco to the Company.

Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Rights Issue the Company will own the entire issued ordinary and redeemable preference share capital of Newco whose only assets will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Rights Issue. The Company will be able to utilise this amount equivalent to the Rights Issue proceeds by exercising its right of redemption over the redeemable preference shares it holds in Newco. Qualifying Shareholders are not party to these arrangements and so will not acquire any direct right against RBS Hoare Govett pursuant to these arrangements. The Company will be responsible for enforcing the obligations of RBS Hoare Govett thereunder.

### **15.3 Existing Facilities Agreement (as subsequently amended)**

A facilities agreement dated 3 December 2005 (the “**Existing Facilities Agreement**”) (as subsequently amended, supplemented, restated or varied from time to time including but not limited to by way of an amendment and restatement agreement dated 8 March 2006 and the Override Agreement (as defined below)) between Pendragon and the Lending Group under which the Company’s lenders agreed to make available term and revolving facilities to Pendragon up to an original aggregate sum of £850,000,000.

The following note purchase agreements, the notes issued thereunder and related subsidiary guarantees (the **“Note Documents”**):

- (i) the separate note purchase agreements dated as of 25 February 2004 (as amended by a first amendment agreement dated as of 30 June 2006, a waiver and second amendment agreement dated as of 22 December 2008, a third amendment agreement dated as of 27 February 2009 and a waiver and fourth amendment agreement dated as of 27 March 2009 and the Override Agreement (as defined below)) between Pendragon and the noteholders listed in Annex 1 to the third amendment agreement, in respect of:
  - (A) US\$110,000,000 9.310 per cent. Guaranteed Senior Notes, Series A, due 30 April 2012 (the **“Series A Notes”**); and
  - (B) US\$67,000,000 9.310 per cent. Guaranteed Senior Notes, Series B, due 25 February 2014 (the **“Series B Notes”**);
- (ii) the note purchase agreement dated as of 25 February 2004 (as amended by a first amendment agreement dated as of 30 June 2006, a waiver and second amendment agreement dated as of 22 December 2008 and a third amendment agreement dated as of 27 February 2009 and a waiver and fourth amendment agreement dated as of 27 March 2009 and the Override Agreement (as defined below))) between Pendragon and the noteholders listed in Annex 1 to the third amendment agreement, in respect of £17,000,000 9.834 per cent. Guaranteed Senior Notes, Series C, due 25 February 2014 (the **“Series C Notes”**).

An override agreement dated 30 April 2009 (as amended from time to time, the **“Override Agreement”**) was entered into between, amongst others, Pendragon, various of Pendragon’s subsidiaries as original guarantors, the Original Creditors (as defined therein), The Royal Bank of Scotland plc as facility agent under the Syndicated Facilities Agreement (as defined below) (the **“Existing Agent”**), The Royal Bank of Scotland plc as override agent and security trustee under the Override Agreement (the **“Override Agent”**) and The Royal Bank of Scotland plc and Barclays Bank PLC as issuing banks.

The Override Agreement set out the terms and conditions upon which the Facility Lenders (as defined therein), the Noteholders (as defined therein) and the Bilateral Lenders (as defined therein) were prepared to amend and restructure the Syndicated Facilities Agreement (as defined below), the Note Documents and the Bilateral Facility (as defined below) in order for Pendragon and Pendragon’s subsidiaries to meet its ongoing financing and working capital requirements.

The principal terms of the Override Agreement are as follows:

- 15.3.1 a revolving credit facility of a total amount of £210,000,000 was made available (the **“Revolving Credit Facility”** or **“RCF”**);
- 15.3.2 a term loan facility of a total amount of £110,000,000 was made available (the **“Term Facility”**) (the Revolving Credit Facility together with the Term Facility and the Notes are the **“Existing Facilities”**); and
- 15.3.3 certain terms and conditions of the following documents were amended, varied, overridden and supplemented:
  - (a) the facilities agreement dated 3 December 2005 (the **“Syndicated Facilities Agreement”**) between, among others, Pendragon and the Existing Agent, as amended or novated, supplemented, extended or restated from time to time;
  - (b) Note Documents; and
  - (c) a bilateral facility (the **“Bilateral Facility”**) made available by The Royal Bank of Scotland plc as a bilateral lender to Pendragon.

The Override Agreement contains representations, warranties and undertakings in favour of the Original Creditors, including financial condition covenants. It also contains events of default upon the occurrence of which the Original Creditors may determine the Existing Facilities and demand



repayment. The final maturity date for all Existing Facilities (other than the Series B Notes) is 30 April 2012.

Interest is payable on the amounts of each loan under the Syndicated Facilities Agreement at the rate of 3.25 per cent. per annum plus LIBOR and the standard regulatory costs. In addition, interest is payable in respect of any bank guarantee made available by the issuing banks under the Syndicated Facilities Agreement at the rate of 1.00 per cent. per annum. Interest under the Bilateral Facility accrues at 3.25 per cent. per annum.

The Override Agreement contains an unlimited guarantee from Pendragon and certain of its subsidiaries as principal obligor in favour of the Finance Parties (as defined therein). In addition, Pendragon and certain of its subsidiaries have granted fixed and floating charge security over all of their assets (including legal mortgages over real property) in favour of the Override Agent, the terms of which are documented in various security agreements dated on or around 13 May 2009.

#### 15.4 *Revised Facilities Agreement*

The Existing Facilities and the Note Documents set out in the Override Agreement will, *inter alia*, be amended by way of an amendment and restatement agreement to the Override Agreement and a supplemental override agreement (the “**Supplemental Override Agreement**”) dated 5 July 2011 between Pendragon and the Lending Group (together, the “**Revised Facilities Agreement**”) so that the Group will have the following facilities in place:

- (i) a revolving credit facility in the amount confirmed by the Override Agent to Pendragon on the Final Effective Date (the “**New Revolving Credit Facility**”);
- (ii) a term facility in the amount of £120,000,000 (the “**New Term Facility**”);
- (iii) the Series A Notes, the Series B Notes and the Series C Notes, as amended (the “**Amended Notes**”),

(the New Revolving Credit Facility, the New Term Facility and the Amended Notes together being the “**Revised Facilities**”).

The Revised Facilities Agreement is unconditional except for receipt by the Lending Group of the net proceeds of the Rights Issue (which must total at least £70 million) and fees related to the refinancing (which are subject to the escrow arrangements referred to in paragraph 14 above), and the delivery of certain customary documentary evidence (the date on which such matters occur being the “**Final Effective Date**”).

The Bilateral Facility (as defined in paragraph 15.3.3) shall cease to be made available. A new guarantee facility will be provided by The Royal Bank of Scotland plc to Pendragon in an amount of £2,000,000 which will form part of the New Revolving Credit Facility.

#### *Termination Date of the Revised Facilities and the Amended Notes*

The termination date of the Revised Facilities shall be 30 June 2014 (the “**Final Maturity Date**”).

#### *Amendments to the Note Documents*

The terms of the Amended Notes shall principally remain as set out in the Note Documents, however the Note Documents will be overridden and amended pursuant to the Revised Facilities Agreement. The rate of interest payable on the principal amount of each series of the Notes shall remain as 9.310 per cent. for the Series A Notes and Series B Notes and 9.834 per cent. for the Series C Notes.

The maturity date of the Amended Notes shall be extended to the Final Maturity Date.

#### *Interest rates*

Subject to the enhanced pricing mechanism as set out below, the interest rate applicable to the Revised Facilities will be a cash margin of 3.25 per cent. per annum plus LIBOR and mandatory costs.



#### *Scheduled debt and note reductions*

On 3 June 2012, 3 December 2012, 3 June 2013 and 3 December 2013, the New Term Facility and the Amended Notes will be repaid in a maximum aggregate amount on each such date of £20,000,000.

Subject to the election to waive scheduled debt and note reduction referred to below, each Lender and each Noteholder will (as each such party is defined therein) be repaid its *pro rata* share of £20,000,000 on each repayment date based on the aggregate commitments under the Revised Facilities and on the principal amount of the Amended Notes on that repayment date.

The scheduled debt and note reduction will be applied to permanently reduce the New Term Facility and the Amended Notes.

#### *Enhanced pricing mechanism*

Each Lender and each Noteholder (each an “**Elective Creditor**”) may elect to postpone, either all of, or, in respect of a period between one scheduled debt reduction date and the following debt reduction date, its *pro rata* share of scheduled debt reduction. If such an election is made by a Lender, it shall receive an enhanced margin for the relevant period on the Revised Facilities of 3.50 per cent. per annum plus LIBOR and mandatory costs.

An Elective Creditor who makes such an election will receive such postponed amounts on the Final Maturity Date.

#### *Security and guarantees*

All existing guarantees granted in respect of the Existing Facilities and the Note Documents and under the Override Agreement shall remain in full force and effect. Pursuant to the terms of the Supplemental Override Agreement, existing guarantor under the Override Agreement shall confirm that its guarantee will remain in full force and effect notwithstanding the Revised Facilities Agreement.

Security confirmations in the Supplemental Override Agreement have been given by each obligor in the UK in respect of existing security or new security has been entered into. In overseas jurisdictions, security has been confirmed or supplemented.

#### *Covenants*

The Revised Facilities Agreement will contain covenants by and restrictions on the Group principally based on those in the Override Agreement, including (subject to certain agreed exceptions) restrictions on granting security, making disposals, mergers or acquisitions, changing the general nature of the business, incurring financial indebtedness, granting guarantees and making loans. Certain amendments will be made to the dividend restriction as set out below, the restrictions on shares and the provision of the cashflow forecast.

The financial covenants have been renegotiated to allow for greater operational flexibility which the directors of Pendragon believe will provide the Group with significantly greater financial flexibility than under the Override Agreement.

#### *Dividends*

Pendragon is not permitted to pay dividends unless: (i) it is declared in respect of a financial period ending on or after 30 June 2012, in respect of profits generated after 31 December 2011; (ii) there is no Default outstanding under the Revised Facilities Agreement or would result from the proposed action; (iii) the leverage ratio is no more than 2.5:1 on the last measurement date; and (iv) subject to a cap on the aggregate amount of dividends paid equal to 33.33 per cent. of adjusted profits after tax.

### 15.5 **PNAAI Facility**

On 29 April 2009, Barclays Bank PLC made available a US\$18,000,000 money market loan to Pendragon North America Automotive Inc (“**PNAAI**”) initially for a period of 15 months (the “**PNAAI Facility**”) which was extended to 31 August 2011 (the “**PNAAI Termination Date**”)

pursuant to three variation letters dated 23 December 2009, 19 January 2011 and 22 June 2011. The PNAAI Facility accrues interest at the rate of 3.50 per cent. per annum plus LIBOR plus mandatory costs. Fees are payable in respect of any undrawn portion of the PNAAI Facility at the rate of 1.75 per cent. per annum. The loan is repaid in two instalments: the first was payable on 31 October 2009 and the second is due on the PNAAI Termination Date. The PNAAI Facility is subject to certain provisions of the Override Agreement and benefits from the same security arrangements as detailed in the Override Agreement section above.

Conditional upon receipt of the proceeds of the Rights Issue by Pendragon, and certain documentary evidence (the **“PNAAI Effective Date”**), the PNAAI Facility will be amended by way of a letter of variation dated 6 July 2011 so that the amount of the facility is reduced from US\$18,000,000 to US\$10,000,000, and the interest shall accrue at a reduced rate of 2.75 per cent. per annum plus LIBOR plus mandatory costs. The PNAAI Facility is repayable in three instalments of US\$3,333,333.33 on each anniversary of the PNAAI Effective Date. The PNAAI Facility shall otherwise continue on substantially the same terms and on an uncommitted basis, with the PNAAI Termination Date being extended until the date falling three years after the PNAAI Effective Date.

#### 15.6 ***Penegon Facility***

On 29 April 2009, Barclays Bank PLC made available a £23,500,000 money market loan to Penegon Netherlands B.V. (**“Penegon”**) as amended by an amendment letter dated 14 May 2009 (being the **“Penegon Facility”**). The final maturity date for the Penegon Facility is 29 April 2012 (the **“Penegon Termination Date”**). The Penegon Facility accrues interest at the rate of 3.25 per cent. per annum plus LIBOR plus mandatory costs and, in addition, bears a fee of 5 per cent. (**“PIK Interest”**) of the average daily drawn balance from 29 April 2009 to the earlier of: (i) the Penegon Termination Date; (ii) the date on which the Penegon Facility becomes due and payable; and (iii) the date on which Penegon repays the loan in full. The loan is repaid in three instalments: 29 April 2010, 29 April 2011 with the final instalment due on the Penegon Termination Date. The Penegon Facility is subject to certain provisions of the Override Agreement and benefits from the same security arrangements as detailed in the Override Agreement section above.

Conditional upon receipt of the proceeds of the Rights Issue by Pendragon, and certain documentary evidence (the **“Penegon Effective Date”**), the Penegon Facility will be amended by way of a letter of variation dated 6 July 2011 so that the amount of the facility is reduced from £23,500,000 to £21,250,000. The Penegon Facility shall reduce by a further £5,000,000 on each anniversary of the Penegon Effective Date. Accrued PIK Interest in the amount of £1,076,790 will be payable in three instalments of £250,000 on the date of the letter of variation, 31 December 2011 and 30 June 2012 with the balance payable on 31 December 2012. From the Penegon Effective Date, PIK Interest will continue to accrue at a rate of 5 per cent. of the average daily balance but it will be calculated over the three year period regardless of when such PIK Interest becomes payable. The Penegon Facility shall otherwise continue on substantially the same terms and on an uncommitted basis, with the Penegon Termination Date being extended until the date falling three years after the Penegon Effective Date.

#### 15.7 ***Warrant Instrument***

In connection with the refinancing by the Company of its bank facilities in April 2009, the Company created 32,801,360 warrants pursuant to a warrant instrument dated 5 May 2009 (the **“Warrant Instrument”**) that were issued to certain Lenders and Noteholders (both terms as defined in the Override Agreement summarised at paragraph 15.3 above). Each warrant comprises the rights to subscribe for one Ordinary Share in cash at a subscription price equal to the nominal value for such Ordinary Share subject to adjustment on the occurrence of an Adjustment Event (as defined in the Warrant Instrument).

An Adjustment Event includes, *inter alia*, any allotment or issue of Ordinary Shares in connection with an offer or invitation to shareholders to subscribe for new Ordinary Shares by way of a rights issue or an open offer at a discount to the applicable market price. On the occurrence of an Adjustment Event, the Company’s auditors shall determine what adjustment (if any) to the number of Ordinary Shares each warrant carries the right to subscribe (a **“Warrant Share”**) for is required to reflect the

dilutive or concentrative effect (as applicable) of such an Adjustment Event (taking into account the difference between (a) the aggregate value of all the Warrant Shares which would have been issued upon the exercise of all outstanding warrants at the closing middle market quotation on the last day of trading “cum rights” and (b) the aggregate value of all the Warrant Shares which would have been issued upon the exercise of all outstanding warrants at the theoretical “ex-rights” price).

Warrants created under the Warrant Instrument must be exercised by the date which is six months after the final maturity of the Override Agreement and any shares issued pursuant to such warrants shall rank *pari passu* in all respect with Ordinary Shares in issue at the date of exercise. A warrant holder is entitled to elect for a cashless exercise of all or any number of the warrants held by him whereby such number of warrants shall be cancelled as will realise an amount which is as nearly as practicable equal (but not less than) the aggregate subscription price payable by such a warrant holder on the exercise of its remaining warrants that are not being cancelled.

The Company has provided customary undertakings to warrant holders in respect of warrants issued to them for such time as they remain unexercised.

The terms of the Warrant Instrument have been amended (with the requisite consent of the warrant holders) to reflect technical changes required as a result of the entering into of the Revised Facilities Agreement.

#### 15.8 ***Subsequent Warrant Instrument***

In addition to the warrants described above, the Company created an additional 16,400,682 warrants pursuant to a warrant instrument dated 3 July 2009 (the “**Subsequent Warrant Instrument**”) that were issued to certain Lenders and Noteholders (both terms as defined in the Override Agreement). The terms of the Subsequent Warrant Instrument are the same as those applicable to the Warrant Instrument summarised in paragraph 15.7 above and any warrants issued under the Subsequent Warrant Instrument shall rank *pari passu* with those issued under the Warrant Instrument.

The terms of the Subsequent Warrant Instrument have been amended (with the requisite consent of the warrant holders) to reflect technical changes required as a result of the entering into of the Revised Facilities Agreement.

#### 15.9 ***Pension Deficit Reduction Plan***

The Group sponsors six defined benefit pension schemes which are all closed to the future accrual of benefits but retain liabilities for past service benefits.

Pendragon has agreed with the trustees of these six pension schemes that it will make additional employer contributions to those schemes which in aggregate amount to £37.5 million.

In turn the trustees of those pension schemes have each agreed to invest the additional contributions by participating as limited partners in a limited partnership called the Pendragon Scottish Limited Partnership (the “Partnership”). Pendragon General Partner Limited is the general partner of the Partnership and both Pendragon Limited Partner Limited and Pendragon Property Holdings Limited are limited partners.

The Partnership has entered into a sale and leaseback agreement with, among others, Pendragon Property Holdings Limited by which the Partnership will acquire the freehold (or long leasehold) interests in 17 properties from the Group for £37.75 million. On completion of the transfer the Partnership will grant leases on market terms to Pendragon Property Holdings Limited, which in turn will permit other Group companies to occupy the properties. The agreement provides for certain title warranties to be given and an environmental indemnity to be given to the Partnership by each of the transferor companies in respect of the property that they are transferring.

The initial annual rents payable to the Partnership will amount to £2.5 million (increasing each year at 2.25 per cent. per annum). The rents received will be distributed in accordance with the Partnership agreement amongst the partners. The distribution rights are broadly that:

- (i) for the first 20 years of the Partnership the vast majority of the income will be distributed to the pension scheme trustees in their capacity as limited partners (pro rata according to their investment); and
- (ii) after that 20 year period the income rights switch so that the vast majority of income received is paid to Pendragon Limited Partner Limited (as a limited partner).

Should a pension scheme become funded to an agreed level (broadly 100 per cent. on its ongoing funding basis) then the distribution rights of that pension scheme trustee will instead be paid to Pendragon Limited Partner Limited.

If Pendragon were to undergo an insolvency event during the first 20 years of the Partnership (or there was a material breach of any of the leases which the Partnership did not attempt to rectify) the pension trustees could trigger a termination of the Partnership and the assets of the Partnership would be applied to meet any funding deficits under the pension schemes (on a statutory buy out basis). Any remaining assets would then be distributed to Pendragon Limited Partner Limited.

If the Partnership terminates after the 20th anniversary then the pension schemes receive a nominal payment for their Partnership interest and the remaining assets of the Partnership are distributed to Group.

The documentation implementing the above arrangements is unconditional save for Admission.

## 16. Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had, a significant effect on the financial position or profitability of the Group.

## 17. Subsidiaries

The Company acts as the holding company of the Group, is the largest independent operator of franchised motor vehicle dealerships in the UK. The Group now operates 237 franchise points of which nine are in California. Pendragon sells and services 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 systems market.

As at 13 July 2011 (being the latest practicable date prior to the date of publication of this document), the Company owns directly or indirectly 100 per cent. of the issued ordinary share capital of the following principal subsidiaries.

Incorporated in England & Wales:

<b>Name</b>	<b>Activity</b>
Alloy Racing Equipment Limited	Motor vehicle dealer
Bramall Quicks Dealerships Limited	Motor vehicle dealer
CD Bramall Dealerships Limited	Motor vehicle dealer
CD Bramall Motors Limited	Motor vehicle dealer
Chatfields-Martin Walter Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
National Fleet Solutions Limited	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire and fleet management
Pendragon Finance and Insurance Limited	Motor vehicle finance and insurance services
Pendragon Javelin Limited	Motor vehicle dealer
Pendragon Management Services Limited	Management services
Pendragon Motor Group Limited	Motor vehicle dealer
Pendragon Motorcycles Limited	Motor vehicle dealer
Pendragon Orient Limited	Motor vehicle dealer

<b>Name</b>	<b>Activity</b>
Pendragon Premier Limited	Motor vehicle dealer
Pendragon Property Holdings Limited	Property holdings
Pendragon Sabre Limited	Motor vehicle dealer
Pinewood Technologies plc*	Computer systems and services
Quicks Car Supermarket Limited	Motor vehicle dealer
Quicks Motor Stores Limited	Motor vehicle repairs
Reg Vardy (MML) Limited	Motor vehicle repairs
Reg Vardy (VMC) Limited**	Motor vehicle dealer
Reg Vardy Limited*	Motor vehicle dealer
Stripestar Limited	Motor vehicle dealer
Vardy Marketing Limited	Marketing services
Victoria (Bavaria) Limited	Motor vehicle dealer

Incorporated in the United States of America:

<b>Name</b>	<b>Activity</b>
Bauer Motors Inc.	Motor vehicle dealer
Penegon West Inc.	Motor vehicle dealer
Penegon Mission Viejo Inc.	Motor vehicle dealer
Penegon Newport Beach Inc.	Motor vehicle dealer
Penegon Santa Monica Inc.	Motor vehicle dealer
Penegon Properties Inc.	Property holdings
South County Inc.	Motor vehicle dealer
Lincoln Irvine Inc.	Motor vehicle dealer
Pendragon North America Inc.	US holding company

\* Direct subsidiary of Pendragon.

\*\* Pendragon owns 95 per cent. of the issued ordinary share capital.

## **18. Property, plant and equipment**

18.1 Save as set out below, there are no existing or planned material tangible fixed assets, including leased properties, owned by the Group.

*£m as at 31 December 2010*

Land and buildings	177.1
Plant and equipment	20.6
Motor vehicles	86.8
Total	<u>284.5</u>

18.2 For information on security granted in respect of the assets referred to in paragraph 18.1, see paragraph 15.3 of this Part IX. There are currently no known environmental issues which will materially affect the Group's use of its fixed assets.

## **19. Working capital**

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the available bank and other facilities, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

## **20. No significant change**

There has been no significant change in the financial or trading position of the Group since 31 December 2010, being the date to which the last audited published financial statements of the Group were prepared.



## **21. Related party transactions**

Save as disclosed in note 29 on page 91 of the audited consolidated financial statements of the Group for the financial year ended 31 December 2008, note 28 on page 96 of the audited consolidated financial statements of the Group for the financial year ended 31 December 2009 and note 28 on page 93 of the audited consolidated financial statements of the Group for the financial year ended 31 December 2010 (which have been incorporated herein by reference), there have been no related party transactions during the financial years ended 31 December 2008, 2009 and 2010. The Company confirms that there have been no related party transactions entered into by the Company in the period between 31 December 2010 and 13 July 2011 (being the latest practicable date prior to the date of publication of this document).

## **22. Miscellaneous**

- 22.1 The total costs and expenses of, and incidental to, the Rights Issue payable by the Company is estimated to amount to £4.4 million (excluding VAT). The total costs and expenses of, and incidental to refinancing the Existing Facilities with the Revised Facilities and the Rights Issue payable by the Company is estimated to amount to £24.7 million (excluding VAT).
- 22.2 RBS Hoare Govett has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of references to its name in the form and context in which they appear.
- 22.3 Rothschild has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of references to its name in the form and context in which they appear.
- 22.4 Barclays Bank PLC has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of references to its name in the form and context in which they appear.
- 22.5 Arden Partners has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of references to its name in the form and context in which they appear.
- 22.6 The Group's auditor, KPMG Audit PLC, whose registered address is One Snowhill, Snowhill, Queensway, Birmingham, B4 6GH, and which is a member of the Institute of Chartered Accountants of England and Wales, has given and not withdrawn its written consent to the inclusion in this document of its reports set out in Part VIII of this document in the form and context in which it appears and has authorised the contents of that report for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.
- 22.7 The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act. KPMG Audit PLC, whose address is One Snowhill, Snow Hill, Queensway, Birmingham B4 6GH, audited the statutory accounts of the companies comprising the Group for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010 and gave reports under section 235 of the Companies Act 1985 for the financial year ended 31 December 2008 and under section 495 of the Companies Act for the years ended 31 December 2009 and 2010 on such accounts which were not qualified and did not contain any such statement under sections 237(2) or (3) of the Companies Act 1985 or section 498 (2) or (3) of the Companies Act (respectively).
- 22.8 Certain information has been obtained from external publications and/or third parties and is sourced in this document where the information is included. The Company confirms that this information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.
- 22.9 The New Ordinary Shares will, when issued, be in registered form and will, on Admission, be capable of being held in certificated and uncertificated form. Title to the certificated New Ordinary Shares will be evidenced by entry in the register of members of the Company and title to uncertificated New Ordinary Shares will be evidenced by entry in the operator register maintained by Euroclear UK (which forms part of the register of members of the Company). The Fully Paid Rights will be admitted with the ISIN GB00B4KCXW68. The Nil Paid Rights will be admitted with the ISIN GB00B46RJN86. Once issued, the New Ordinary Shares will trade with the ISIN GB00B1JQBT10, the Existing Ordinary Shares currently trade with the ISIN GB00B1JQBT10.



- 22.10 The Ordinary Shares are in registered form and are capable of being held in certificated form and uncertificated form (that is, in CREST). The register of members is maintained by Capita Registrars.
- 22.11 Save in respect of the Rights Issue, none of the New Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to the premium segment of the Official List.
- 22.12 The Company will make appropriate announcements to a Regulatory Information Service giving details of the results of the Rights Issue and details of the sale of the New Ordinary Shares not taken up by Qualifying shareholders on or about 17 August 2011.
- 22.13 The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash).

### **23. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the registered office of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD until Admission and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

- (a) the Articles of Association;
- (b) the audited consolidated financial statements of the Company for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010;
- (c) the report on the unaudited pro forma financial information by KPMG Audit PLC set out in section 2 of Part VIII of this document;
- (d) the letters of consent referred to in paragraph 22 above; and
- (e) this document.

Dated: 14 July 2011

## PART X

### DOCUMENTS INCORPORATED BY REFERENCE

This document should be read and construed in conjunction with the following documents, which have been previously published and filed with the FSA, which were sent to Shareholders at the relevant time and which are available for inspection in accordance with paragraph 23 of Part IX of this document.

The table below sets out the various sections of those documents which are incorporated by reference into this document so as to provide the information required under the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of Pendragon, Nil Paid Rights, Fully Paid Rights and the New Ordinary Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Pendragon and of the rights attaching to the New Ordinary Shares.

<i>Reference document</i>	<i>Information incorporated by reference</i>	<i>Page numbers in the reference document</i>
Annual Report and Accounts for the financial year ended 31 December 2008:	Group Review	1
	Operational and Business Review	2
	Directors and Advisors	16
	Report of the Directors	17
	Corporate Governance Report	24
	Corporate Social Responsibility Report	30
	Directors' Remuneration Report	32
	Directors' Responsibilities Statement	40
	Independent Auditors' Report to the Members of Pendragon PLC	41
	Consolidated Income Statement	42
	Consolidated Balance Sheet	43
	Consolidated Cash Flow Statement	44
	Consolidated Statement of Recognised Income and Expense	45
	Notes to the Financial Statements	46
	Company Balance Sheet	95
	Notes to the Financial Statements of the Company	96
	Shareholder Information	103
Annual Report and Accounts for the financial year ended 31 December 2009:	Group Review	1
	Operational and Business Review	2
	Directors and Advisors	16
	Report of the Directors	17
	Corporate Governance Report	23
	Directors' Remuneration Report	28
	Directors' Responsibilities Statement	38
	Independent Auditors' Report to the Members of Pendragon PLC	39
	Consolidated Income Statement	40
	Consolidated Statement of Comprehensive Income	41
	Statement of Changes in Equity	41

<i>Reference document</i>	<i>Information incorporated by reference</i>	<i>Page numbers in the reference document</i>
	Consolidated Balance Sheet	42
	Consolidated Cash Flow Statement	43
	Notes to the Financial Statements	44
	Company Balance Sheet	100
	Notes to the Financial Statements of the Company	101
	Shareholder Information	110
Annual Report and Accounts for the financial year ended 31 December 2010:	Group Review	1
	Operational and Business Review	2
	Directors and Advisors	15
	Report of the Directors	16
	Corporate Governance Report	22
	Directors' Remuneration Report	28
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	Reconciliation of Movements in Shareholders' Funds	96
	Notes to the Financial Statements of the Company	96
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Copies of the documents of which part or all are incorporated herein are available free of charge in electronic format through Pendragon's website at [www.pendragonplc.com](http://www.pendragonplc.com) or in printed format for inspection as referred to in paragraph 23 of Part IX of this document.

Except to the extent expressly set out in this Part X, neither the content of Pendragon's website (nor any other website) nor the content of any website accessible from hyperlinks of Pendragon's website (nor any other website) is incorporated into, or forms part of, this document.

Information that is itself incorporated by reference in the above documents is not incorporated by reference into this document. It should be noted that, except as set forth above, no other part of the above documents is incorporated by reference into this document.

Any information which is incorporated by reference in this document shall be modified or superseded for the purposes of this document to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly or by implication).

## PART XI

### DEFINITIONS AND GLOSSARY

The following expressions have the following meaning throughout this document, unless the context otherwise requires:

<b>“Admission”</b>	the admission of the New Ordinary Shares (nil paid) to the premium segment of the Official List becoming effective in accordance with the Listing Rules and the admission of such shares (nil paid) to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with the Admission and Disclosure Standards;
<b>“Admission and Disclosure Standards”</b>	the Admission and Disclosure Standards of the London Stock Exchange containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities;
<b>“Arden Partners”</b>	Arden Partners plc;
<b>“Articles of Association” or “Articles”</b>	the articles of association of the Company, details of which are set out in paragraph 6 of Part IX of this document;
<b>“Audit Committee”</b>	the audit committee established by the Board;
<b>“Banks”</b>	Arden Partners, Barclays Bank PLC, RBS Hoare Govett and Rothschild;
<b>“Barclays Capital”</b>	Barclays Capital, the investment banking division of Barclays Bank PLC;
<b>“Board”</b>	the board of directors of the Company;
<b>“business day”</b>	any day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks are generally open in London for the transaction of normal banking business;
<b>“Capita” or “Capita Registrars”</b>	a trading name of Capita Registrars Limited;
<b>“CAR”</b>	as defined in paragraph 7 of Section A of Part I of this document;
<b>“CCSS” or “CREST Courier and Sorting Service”</b>	the CREST Courier and Sorting Service established by Euroclear UK to facilitate, amongst other things, the deposit and withdrawal of securities;
<b>“certificated” or “in certificated form”</b>	where a share or other security is not in uncertificated form;
<b>“Closing Price”</b>	the closing, middle market quotation of an Existing Ordinary Share, as published in the Daily Official List;
<b>“Co-Bookrunner”</b>	Arden Partners;
<b>“Combined Code”</b>	the Combined Code on corporate governance as issued by the Financial Reporting Council;

<b>“Communications Host”</b>	a network provider’s communication host (as defined in the CREST Glossary of Terms promulgated by Euroclear UK on 15 July 1996 and as amended since);
<b>“Companies Act”</b>	the Companies Act 2006 as amended from time to time;
<b>“Company” or “Pendragon”</b>	Pendragon PLC;
<b>“Consolidated EBITDA”</b>	the consolidated underlying profit before interest, tax, depreciation and amortisation of the Restricted Group and after deducting interest, fees and expenses under the stocking finance agreement;
<b>“Consolidated EBITDAR”</b>	the Consolidated EBITDA plus any amounts attributable to Rents;
<b>“Consolidated Fixed Charges”</b>	the Consolidated Interest Payable plus Rents;
<b>“Consolidated Interest Payable”</b>	the aggregate of all amounts of interest and recurrent financial expenses or charges of the Restricted Group in respect of borrowings (which excludes interest payable under any stocking finance agreements);
<b>“Consolidated Total Borrowings”</b>	the aggregate (calculated on a consolidated basis) of the amount of borrowings of the Restricted Group after deducting the aggregate amounts of cash at bank or cash equivalents of the Restricted Group;
<b>“CPI”</b>	means the consumer price index;
<b>“CREST”</b>	the relevant system, as defined in the CREST Regulations, for paperless settlement of share transfers and the holding of shares in uncertificated form (in respect of which Euroclear UK is the operator as defined in the CREST Regulations);
<b>“CREST Manual”</b>	the rules governing the operation of CREST consisting of the CREST Reference Manual, the CREST International Manual, the CREST Central Counterparty Service Manual, the CREST Rules, the Registrars Service Standards, the Settlement Discipline Rules, the CCSS Operations Manual, the Daily Timetable, the CREST Application Procedure and the CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear UK on 15 July 1996 and as amended since);
<b>“CREST member”</b>	a person who has been admitted to Euroclear UK as a system member (as defined in the CREST Regulations);
<b>“CREST participant”</b>	a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations);
<b>“CREST Regulations” or “Regulations”</b>	the Uncertified Securities Regulations 2001 (SI 2001 No.3755), as amended;
<b>“CREST rules”</b>	the rules, regulations, procedures, facilities and requirements of Euroclear UK and Ireland Limited as operator (within the meaning of the CREST Regulations) of the CREST system;
<b>“CREST sponsor”</b>	a CREST participant admitted to CREST as a CREST sponsor;
<b>“CREST sponsored member”</b>	a CREST member admitted to CREST as a sponsored member;
<b>“Daily Official List”</b>	the daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange;

<b>“dealing day”</b>	any day on which the London Stock Exchange is open for business in the trading of securities admitted to the premium segment of the Official List;
<b>“Directors”</b>	the current Executive Directors and Non-executive Directors of the Company whose names are set out on page 20 of this document;
<b>“Disclosure and Transparency Rules”</b>	the rules made by the FSA under Part VI of FSMA relating to the disclosure of information (as amended from time to time);
<b>“Due Underwriting Proportions”</b>	as regards RBS Hoare Govett, 46%, as regards Barclays Capital, 46% and as regards Arden Partners 6%;
<b>“Enlarged Share Capital”</b>	the issued share capital of the Company following completion of the Rights Issue;
<b>“EU” or “European Union”</b>	the European Union first established by the treaty made at Maastricht on 7 February 1992;
<b>“EUR” or “Euro” or “€”</b>	the lawful currency of the European Union;
<b>“Euroclear UK &amp; Ireland” or “Euroclear UK”</b>	Euroclear UK and Ireland Limited (formerly CRESTCO Limited), the operator of CREST;
<b>“European Economic Area”</b>	the European Union, Iceland, Norway and Liechtenstein;
<b>“Excluded Territories” and each an “Excluded Territory”</b>	the US, Canada, Japan, Australia and the Republic of South Africa and any other jurisdiction where the extension or availability of the Rights Issue (and any other transaction contemplated thereby) would breach any applicable law or regulation;
<b>“Executive Directors”</b>	the executive directors of Pendragon;
<b>“Existing Ordinary Shares”</b>	the fully paid Ordinary Shares of 5 pence each in the capital of the Company in issue at the Record Date;
<b>“Existing Facilities”</b>	as defined in paragraph 15.3 of Part IX of this document;
<b>“Existing Facilities Agreement”</b>	as defined in paragraph 15.4 of Part IX of this document;
<b>“Ex-Rights Date”</b>	the date on which the New Ordinary Shares are expected to commence trading ex-rights, being 2 August 2011;
<b>“Financial Services Authority” or “FSA”</b>	the Financial Services Authority of the UK in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of admission to the premium segment of the Official List otherwise than in accordance with Part VI of FSMA;
<b>“Fixed Charge Ratio”</b>	the Consolidated EBITDAR to Consolidated Fixed Charges;
<b>“Form of Proxy”</b>	form of proxy accompanying this document for use by Shareholders in relation to the General Meeting;
<b>“FSMA”</b>	as defined on page one of this document;
<b>“Fully Paid Rights”</b>	right to acquire the New Ordinary Shares, fully paid;
<b>“General Meeting”</b>	the general meeting of Pendragon to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD on 1 August 2011 at 10.00 a.m., notice of which is set out at the end of this document;



<b>“Group” or “Pendragon Group”</b>	the Company and each of its subsidiaries and subsidiary undertakings from time to time;
<b>“HMRC”</b>	Her Majesty’s Revenue and Customs and, where relevant, any predecessor body which carried out part of its functions and references to any approval by Her Majesty’s Revenue and Customs shall, where appropriate, include approval by an officer thereof;
<b>“IAS”</b>	International Accounting Standards;
<b>“IASB”</b>	the International Accounting Standards Board;
<b>“IFRS”</b>	International Financial Reporting Standards as issued by the International Accounting Standards Board;
<b>“Initial Put and Call Option Agreement”</b>	the agreement between the Company, Newco and RBS Hoare Govett, the principal terms of which are summarised in paragraph 15.2 of Part IX of this document;
<b>“Issue Price”</b>	10 pence per New Ordinary Share;
<b>“ISIN”</b>	the international securities identifying number;
<b>“Joint Financial Advisers”</b>	Rothschild and RBS Hoare Govett;
<b>“Joint Bookrunners”</b>	RBS Hoare Govett and Barclays Bank PLC;
<b>“Joint Underwriters”</b>	RBS Hoare Govett, Barclays Capital and Arden Partners;
<b>“Leverage Ratio”</b>	the Consolidated Total Borrowings to Consolidated EBITDA;
<b>“Lending Group”</b>	Barclays Bank PLC, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, Allied Irish Bank plc, National Australia Bank Limited a.b.n., Norddeutsche Landesbank Girozentrale, The Governor and Company of The Bank of Ireland, Alliance and Leicester Commercial Bank, DBS Bank Ltd, Mizuho Corporate Bank Ltd, Co-operative Bank plc, Banco Popolare s.c., Bayerische Landesbank Commerzbank Aktiengesellschaft, KBC Bank n.v., Sumitomo Mitsui Banking Corporation Europe Limited, Goldman Sachs, C.M. Life Insurance Company, Massachusetts Mutual Life Insurance Company, John Hancock Life Insurance Company, John Hancock Life & Health Insurance Company, Principal Life Insurance Company, Beneficial Life Insurance Company, The Prudential Insurance Company Limited, Prudential Retirement Insurance Annuity Company, Prudential Annuities Life Assurance Company, Pruco Life Insurance Company of New Jersey, The Prudential Assurance Company Limited and The North Western Mutual Life Insurance Company;
<b>“Listing Rules”</b>	the listing rules made by the FSA under Part VI of FSMA (as amended from time to time);
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Maximum Capital Expenditure”</b>	maximum of any expenditure which is treated as capital expenditure in accordance with GAAP other than capital expenditure relating to contract hire and own use motor vehicles;
<b>“member account ID”</b>	the identification code or number attached to any member account in CREST;

<b>“Money Laundering Regulations”</b>	the Money Laundering Regulations 2007, as amended from time to time;
<b>“MTM instruction”</b>	as defined in paragraph 3.2 of Part II of this document;
<b>“Newco”</b>	Pacific Funding (Jersey) Limited, a company incorporated in Jersey;
<b>“New Ordinary Shares”</b>	the new Ordinary Shares of 5 pence proposed to be issued by the Company pursuant to the Rights Issue;
<b>“Nil Paid Rights”</b>	rights to acquire New Ordinary Shares, nil paid, provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue;
<b>“Nominations Committee”</b>	the nominations committee established by the Board;
<b>“Non-CREST Shareholder”</b>	a Shareholder who does not hold his Ordinary Shares in CREST;
<b>“Non-executive Directors”</b>	the non-executive directors of the Company;
<b>“North America”</b>	the United States of America and Canada;
<b>“Note Documents”</b>	as defined in paragraph 15.3 of Part IX of this document;
<b>“Notes”</b>	the Series A Notes, the Series B Notes and the Series C Notes (each as defined in paragraph 15.3 of Part IX of this document);
<b>“Notice of the General Meeting”</b>	the notice of the General Meeting which is set out at the end of this document;
<b>“Official List”</b>	the Official List of the UK Listing Authority;
<b>“Ordinary Shares”</b>	ordinary shares of 5 pence each in the capital of the Company;
<b>“Other Facilities”</b>	together the PNAAI Facility (as defined in paragraph 15.5 of Part IX this document), the Penegon Facility (as defined in paragraph 15.6 of Part IX of this document) and certain other finance leases;
<b>“Override Agreement”</b>	as defined in paragraph 15.3 of Part IX of this document;
<b>“Overseas Shareholders”</b>	Shareholders who have registered addresses outside the UK or who are located or resident in, countries outside the UK;
<b>“Part VI Rules”</b>	the rules contained in Part VI of the FSMA;
<b>“participant ID”</b>	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant;
<b>“Pension Deficit Reduction Plan”</b>	the pension deficit reduction plan involving the creation of a CAR, as summarised at paragraph 7 of Section A of Part I of this document;
<b>“Pension Schemes”</b>	as defined in paragraph 7 of Section A of Part I of this document;
<b>“Prospectus” or “this document”</b>	this document, comprising a circular and a prospectus relating to the Company for the purpose of the Rights Issue (together with any supplements or amendments thereto);
<b>“Prospectus Rules”</b>	the rules made by the FSA under Part VI of FSMA in relation to offers of transferable securities to the public and admission of transferable securities to trading on a regulated market;

<b>“Provisional Allotment Letter” or “PAL”</b>	the renounceable provisional allotment letter expected to be sent to Qualifying Non-CREST Shareholders by the Company in respect of the New Ordinary Shares (nil paid) provisionally allotted to them pursuant to the Rights Issue;
<b>“QIB”</b>	a Qualified Institutional Buyer within the meaning of Rule 144A of the US Securities Act;
<b>“Qualifying CREST Shareholders”</b>	Qualifying Shareholders holding Ordinary Shares on the Record Date in uncertificated form;
<b>“Qualifying Non-CREST Shareholders”</b>	Qualifying Shareholders holding Ordinary Shares on the Record Date in certificated form;
<b>“Qualifying Shareholders”</b>	holders of Ordinary Shares on the register of members of the Company at the Record Date;
<b>“RBS Hoare Govett”</b>	RBS Hoare Govett Limited;
<b>“Receiving Agent”</b>	Capita Registrars Limited;
<b>“Record Date”</b>	close of business on 28 July 2011;
<b>“Regulation S”</b>	Regulation S under the US Securities Act;
<b>“Regulatory Information Service”</b>	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information in respect of listed companies;
<b>“Remuneration Committee”</b>	the remuneration committee established by the Board;
<b>“Rents”</b>	all payments made by the Restricted Group in respect of rents, licence fees and other similar moneys payable in respect of properties in which any member of the Restricted Group has an interest as lessee or licensee less all such payments made to the Restricted Group as lessor or licensee of such premises;
<b>“Resolution”</b>	the special resolution to be proposed at the General Meeting as set out in the Notice of the General Meeting;
<b>“Restricted Group”</b>	the Group and Reg Vardy (VMC) Limited but excluding Pendragon North America Automotive, Inc and Penegon Netherlands B.V. and their respective Subsidiaries (if any);
<b>“Restricted Shareholders”</b>	Qualifying Shareholders having registered addresses in, or resident or located in, any of the Excluded Territories;
<b>“Revised Facilities”</b>	as defined in paragraph 15.4 of Part IX of this document;
<b>“Revised Facilities Agreement”</b>	as defined in paragraph 15.4 of Part IX of this document;
<b>“Revolving Credit Facility” or “RCF”</b>	as defined in paragraph 15.3 of Part IX of this document;
<b>“Rights Issue”</b>	the offer by way of rights of the New Ordinary Shares to Qualifying Shareholders at the Issue Price on the terms and subject to the conditions set out in this document and, in the case of Qualifying Non-CREST Shareholders only (other than, subject to certain exceptions, Restricted Shareholders), the Provisional Allotment Letter;

<b>“Rothschild”</b>	NM Rothschild & Sons Limited;
<b>“RPI”</b>	means the retail price index;
<b>“RTGS”</b>	real time gross entitlement;
<b>“SDRT”</b>	UK stamp duty reserve tax;
<b>“Shareholders”</b>	holders of Ordinary Shares;
<b>“Share Schemes”</b>	the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme, the Pendragon 2009 Approved Executive Share Option Scheme, the Pendragon 2009 Unapproved Executive Share Option Scheme, the Pendragon 1998 Sharesave Scheme, the Pendragon 2008 Sharesave, the Pendragon 2006 Long Term Incentive Plan and the Pendragon 2009 Executive Shared Ownership Plan;
<b>“Shares”</b>	Ordinary Shares, or the New Ordinary Shares to be issued pursuant to the Rights Issue, as the context may require;
<b>“SMMT”</b>	the Society of Motor Manufacturers and Traders;
<b>“Statutes”</b>	every statute (including any statutory instrument, order, regulation or subordinate legislation made under it) concerning companies that are incorporated in England and Wales to the extent that it is for the time being in force or (where the context requires) was in force at a particular time including the Companies Act and the CREST Regulations;
<b>“Sterling” or “£” or “pence”</b>	the lawful currency of the UK;
<b>“stock account”</b>	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited;
<b>“Stock Funding Arrangements”</b>	as defined in paragraph 3 of Section A of Part I of this document;
<b>“Subscription and Transfer Agreement”</b>	the agreement between the Company, Newco and RBS Hoare Govett dated as of the date of this agreement, the principal terms of which are summarised in paragraph 15.2 of Part IX of this document;
<b>“Subsequent Warrant Instrument”</b>	as defined in paragraph 15.8 of Part IX of this document;
<b>“subsidiary”</b>	a subsidiary, as that term is defined in section 1159 of the Companies Act;
<b>“subsidiary undertaking”</b>	a subsidiary undertaking, as that term is defined in section 1162 of the Companies Act;
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers;
<b>“Term Facility”</b>	as defined in paragraph 15.3 of Part IX of this document;
<b>“UK Corporate Governance Code”</b>	the UK Corporate Governance published by the Financial Reporting Council in June 2010 (previously known as the combined code on Corporate Governance);
<b>“UK Listing Authority” or “UKLA”</b>	the FSA in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of

	the admission to the premium segment of the Official List otherwise than in accordance with Part VI of FSMA;
<b>“uncertificated” or “in uncertificated form”</b>	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“Underwriting Agreement”</b>	the agreement between the Company and the Banks dated 14 August 2011, the principal terms of which are summarised in paragraph 14 of Part IX of this document;
<b>“Underwritten Shares”</b>	the New Ordinary Shares to be offered under the Rights Issue which are the subject of the Underwriting Agreement;
<b>“United Kingdom” or “UK”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“United States” or “US”</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
<b>“US Securities Act”</b>	as defined on page two of this document;
<b>“US Securities and Exchange Commission”</b>	the US government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry/stock market;
<b>“VAT”</b>	value added tax;
<b>“VSF” (collectively “VSFs”)</b>	Vehicle Stocking Facility (collectively Vehicle Stocking Facilities);
<b>“Warrant Adjustments”</b>	the adjustments made to the number of outstanding Warrants pursuant to the terms of the Warrant Instrument and the Subsequent Warrant Instrument to reflect the impact of the Rights Issue;
<b>“Warrant Instrument”</b>	as defined in paragraph 15.7 of Part IX of this document; and
<b>“Warrants”</b>	warrants to subscribe for Ordinary Shares issued pursuant to the Warrant Instrument and the Subsequent Warrant Instrument, each executed in connection with the Override Agreement;

## NOTICE OF GENERAL MEETING

### PENDRAGON PLC

*Incorporated in England and Wales under the Companies Act 1985 with registered number 2304195*

#### NOTICE OF GENERAL MEETING

Notice is hereby given that a **GENERAL MEETING** of **PENDRAGON PLC** (the “**Company**”) will be held at 10.00 a.m. on 1 August 2011 at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

#### SPECIAL RESOLUTION

##### THAT:

- (a) the directors of the Company (the “**Directors**”) be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the “**Act**”) (in addition to, and not in substitution for any existing authority to allot) to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (together “**relevant securities**”) in connection with the Rights Issue (as defined in the circular and prospectus of the Company dated 14 July 2011 of which this notice forms part) (the “**Prospectus**”) and in connection with the Warrant Adjustments (as defined in the Prospectus) up to an aggregate nominal amount of £39,490,617, such authority to expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of fifteen months from the date this resolution is passed and the conclusion of the annual general meeting of the Company in 2012 (save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired); and
- (b) the Directors be and they are hereby empowered pursuant to section 571 of the Act (in addition to, and not in substitution for any existing power) to allot equity securities (as defined in section 560(1) of the Act) of the Company for cash in connection with the Rights Issue and the Warrant Adjustments (each as defined in the Prospectus) pursuant to the authority conferred by paragraph (i) above of this resolution as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall (i) be limited to the allotment of equity securities up to an aggregate nominal amount of £39,490,617 and (ii) shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of fifteen months from the date this resolution is passed and the conclusion of the annual general meeting of the Company in 2012, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

By order of the Board:

**H C Sykes**

*Company Secretary*

14 July 2011

*Registered office:*

Loxley House  
2 Oakwood Court  
Little Oak Drive  
Annesley  
Nottingham NG15 0DR



#### Notes:

1. A member who is an individual is entitled to attend, speak and vote at the meeting or to appoint one or more other persons as his proxy to exercise all or any of his rights on his behalf. Further details of how to appoint a proxy, and the rights of proxies, are given in the paragraphs below. A member that is a company can appoint one or more corporate representatives (such as a director or employee of the company) whose attendance at the meeting is treated as if the company were attending in person, or it can appoint one or more persons as its proxy to exercise all or any of its rights on its behalf. In each case, a person attending the meeting will need to provide the Company or its registrars, Capita, with evidence of their identity and, if applicable, their appointment as a proxy or corporate representative with authority to vote on behalf of a member.
2. A proxy need not be a shareholder of the Company. To appoint a proxy or proxies shareholders must complete: (a) a form of proxy, sign it and return it, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, to the Company's registrars, Capita Registrars, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; or (b) a CREST Proxy Instruction (as set out in paragraph 11 below); or (c) an online proxy appointment at [www.capitaregistrars.com](http://www.capitaregistrars.com), in each case so that it is received no later than 10.00 a.m. on 30 July 2011. To appoint more than one proxy, you will need to complete a separate form of proxy form in relation to each appointment. A form of proxy for use in connection with the General Meeting is enclosed with this document. If you do not have a form of proxy and believe that you should, please contact the Company's registrars, Capita Registrars on 0871 664 0300 or at Capita Registrars, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
3. You will need to state clearly on each form of proxy the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares each proxy appointment relates to or specifying a number of shares in excess of those held by the member will result in the proxy appointment being invalid.
4. The return of a completed form of proxy or any CREST Proxy Instruction (as described in paragraph 11 below) will not prevent a shareholder attending the General Meeting and voting in person if he/she wishes to do so.
5. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
6. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1, 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
8. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders included in the register of members of the Company at 6.00 p.m. on 30 July 2011 or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be entitled to attend and to vote at the General Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 p.m. on 30 July 2011, or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the General Meeting.
9. As at 9.00 a.m. on 13 July 2011, the Company's issued share capital comprised 668,068,999 ordinary shares of 5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 9.00 a.m. on 13 July 2011 was 668,068,999.
10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10), by the latest time for receipt of proxy appointments set out in paragraph 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and

limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

13. You may not use any electronic address provided in this Notice, or any related documents including the proxy form to communicate with the Company for any purposes other than those expressly stated.
14. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.pendragonplc.com](http://www.pendragonplc.com).