Results for year ended 31 December 2016
(Released 14 February 2017)

Pendragon | PLC

The UK's largest automotive online retailer continues to make significant progress

Summary of Results

	Gross Profit	Operating Profit	Profit Before Tax	Net Debt : EBITDA	EPS
Like for Like*	**£548.7m** (+4.9%)	**£104.3m** (+2.0%)	-	-	-
Underlying**	**£559.6m** (+1.9%)	**£101.2m** (+0.7%)	**£75.4m** (+7.6%)	**0.6** (+20.0%)	**3.9p** (+5.4%)
Total	**£559.6m** (+1.9%)	**£100.4m** (-17.5%)	**£73.0m** (-7.6%)	**0.6** (+20.0%)	**3.8p** (-24.0%)

*** 'Like for Like' results within this document include only current businesses which have a 12 month comparative history.**

**** Underlying results exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.**

NOTE: Throughout this document, Alternative Performance Measures have been used which are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure, see note 9 for details.

Strategic Highlights

- Our initiatives such as Move Me Closer™, Sell Your Car and our aftersales progress update portal are leading the evolution of automotive online retailing.
- The Evanshalshaw.com and Stratstone.com websites have developed further during the year generating 22.7 million visits in the year, up +14.4% - with 66% of our visitors from self-generated rather than paid sources.
- Used vehicle revenue growth is a key strategic goal and revenues have grown by 64% in 5 years at a compound annual growth rate of 10.4%.
- Investment in additional physical capacity for used vehicle sales continues so that we can achieve at least double digit growth in used vehicle revenue in 2017.
- Our strategy is focused on our four 'pillars' of Choice, Value, Customer Service and Convenience supported by our people and protected by ownership of our evolving intellectual property and IT.

Operational Highlights

- Pinewood (the Group's IT and Software division) established its first European customer user base and increased operating profit by +14.9%.
- Used vehicle revenue up +9.5% on a like for like basis (+5.6% total) as we continue to increase our market share.
- Aftersales revenue up +7.3% on a like for like basis (+4.1% total) as a result of market tailwinds and our initiatives.
- New vehicle revenue up +3.1% on a like for like basis (-1.4% total).
- Underlying operating margin 2.2% - in line with the prior year.

Trevor Finn, Chief Executive:

"Pendragon is leading the evolution of automotive online retailing. Our underlying profit before tax has increased by 7.6% in the year as our growth continues. The Group has doubled underlying profit before tax in four years as a result of our clear strategy of offering choice, value, customer service and convenience. Future growth will be driven by our initiatives, our investment in additional physical capacity for used car sales and by our strategic advantages in IT and intellectual property.

We believe that we can achieve at least double digit growth in used revenue in 2017 and our aspiration over the next five years is to double our used vehicle revenue.

In order to test this, during the final quarter of 2016 we invested in inventory and adjusted our algorithms and marketing initiatives with a view to driving growth in used vehicle activity levels to test the capacity of our current footprint.

The early results of this are very encouraging. Our growth in used vehicle revenue on a like for like basis in January 2017 exceeded the increase required to achieve our growth aspirations.

We anticipate our performance for 2017 will be in line with expectations."

Enquiries

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1. Strategy

Strategy

The Group is leading the change in the automotive online retail sector and has a clear strategic plan in response to changing customer needs. Our initiatives are focussed on growth in the following order of priority: used vehicles, aftersales and repair and new vehicle markets. Our strategy in each of these growth areas is underpinned by strategic pillars which are: Choice, Value, Customer Service and Convenience and is supported by our 'People' foundation. Our principal differentiator in the retail automotive market is our online and IT superiority and ownership of our intellectual property.

Systems and Intellectual Property

With Pinewood we have the advantage, of owning a software company, and having our proprietary intellectual property. This provides the Group with a significant advantage over our peers and other retailers. We have a clear plan for investment and evolution of the Evanshalshaw.com and Stratstone.com websites, which will ensure we maintain our online effectiveness and significant growth rate in web visitors – we have increased web visitors from 8.5 million in 2011 to 22.7 million in 2016.

Used

As the industry leader in providing value to customers with our transparent pricing methodology, we continue to see our used vehicle offering as the key strategic advantage compared to our competition. The Group has a detailed strategy to increase our market share in the UK via increased capacity at existing and new retail points across the country. These new retail points vary in size depending on the local market potential and our need to achieve the appropriate rate of return. Given that the Group has doubled market share in six years, we have continued our investment in additional physical capacity for used vehicles sales so that we can achieve at least double digit growth in used revenue in 2017. The Group sold 159,000 vehicles in 2016.

We are also working to expand our UK footprint by investing in additional physical footprint. We will be opening five sites in the first half of 2017 and have five sites actively being pursued for the second half of 2017. This investment will take place over the coming four year period and is expected to amount to approximately £100 million in total investment since initiation in 2015 (assuming all additional sites are freehold).

During the year we implemented our first pay online customer proposition. As part of our market leading Move Me Closer™ initiative, a customer can now self-serve on Evanshalshaw.com and Stratstone.com. A customer can make a refundable reservation fee via their credit card, a customer takes the vehicle off sale and automates the logistics for the vehicle movement, so they can view and collect the car in their local retailer at their convenience.

The deployment of our increased footprint in the UK coupled with our online and used vehicle initiatives provides the basis on which the group is targeting to double its used vehicle revenues over the next five years.

Our used vehicle strategy is focussed on the following strategic pillars:

- **Choice** – we provide the most extensive choice of used vehicles in the UK and this is helping drive sales via our Evanshalshaw.com and Stratstone.com websites. We have increased our choice and now have around 22,000 vehicles online. With Move Me Closer™ we provide the greatest choice to the customer as the online offering of all our vehicles can be delivered to the customers' nearest retail point.
- **Value** – daily monitoring of prices ensures that our customers get the best value every time. This is backed up with our price guarantee.

- **Customer Service** – the launch of payment online enables an online buying experience. Coupled with Move Me Closer™ this provides a seamless way to interact online. We continue to invest in developing the best web platform for our customers. In 2016, website visits to Evanshalshaw.com and Stratstone.com increased by 14.4% to 22.7 million annual visitors.
- **Convenience** – we provide convenience by having 218 retail points in the UK and USA. Our strategy is to increase our retail points further to enable more customers to benefit from our choice, value and customer service proposition. Our customers can also sell their car direct to us, whether they are purchasing a car or not, through our 'Sell Your Car' process. This enables the customer to choose to sell their car direct to us at Evanshalshaw.com (www.evanshalshaw.com/sell-your-car/). We guarantee to pay more than 'webuyanycar.com'. This initiative is enabling us to provide a greater selection of choice and value to customers and to turn stock more quickly. We now have 85 'Sell Your Car' locations from 42 in 2015 and plan to include these in all new store roll-outs.

Aftersales

We have been making significant investment in our productive resource as this area grows both from favourable market dynamics and from our used sales, as our retail aftersales activity increases. We have a number of initiatives. Our aftersales strategy is focussed on the following strategic pillars:

- **Choice** – we provide a range of customer propositions on price to suit all customers.
- **Value** – daily monitoring of prices ensures that our customers get the best value every time. This is backed up with our price guarantee on service and repair.
- **Customer Service** – we offer personal video health checks and a progress update portal so that customers are fully aware of the status of their vehicle and their service options throughout the aftersales process.
- **Convenience** – we provide convenience by having 218 retail points in the UK and USA. Our strategy is to increase our retail points further to enable more customers to benefit from our choice, value and service proposition.

New

Our strategy in new is to have a balanced portfolio of franchise representation. We work closely with our manufacturing partners to deliver outstanding customer service. We will manage and add franchise points and continue strategically planned investment as long as we achieve the required return on investment. We have many significant strong and long standing relationships with our manufacturing partners. Our new strategy is focussed on the following strategic pillars:

- **Choice** – we represent over 23 worldwide brands and benefit from the franchise marketing.
- **Value** – we are developing our new car offering to align to our current used vehicle initiatives.
- **Customer Service** – we are fully committed to enhancing customer satisfaction with our retail partners and survey and action our feedback accordingly.
- **Convenience** – we provide convenience by having 197 retail points in the UK and USA.

People

Our foundation for success is our people. We continue to invest in training and development of our extensive 9,700 strong team. We are fortunate to have a strong blend of experience and new talent which helps us deliver our strategy and achieve our planned business growth. Thank you to all the members of our team for your continued support and delivery of our results year after year.

2. Business Review

Our reporting segments are 'Evanshalshaw.com', 'Stratstone.com', 'USA Motor Group', 'Pinewood', 'Leasing' and 'Quickco'. The following business reviews are for years ended 31 December 2016 and 31 December 2015:

Motor Divisions Results (Stratstone, Evans Halshaw and USA Motor Group)

£m	2016	2015	Change (%)	L4L Change (%)
Revenue				
Aftersales	316.5	303.9	+4.1%	+7.3%
Used	1,923.6	1,821.3	+5.6%	+9.5%
New	2,186.5	2,218.6	-1.4%	+3.1%
	4,426.6	**4,343.8**	**+1.9%**	**+6.1%**
Gross Profit				
Aftersales	193.5	193.5	-	+3.3%
Used	162.0	156.3	+3.6%	+5.5%
New	168.4	166.6	+1.1%	+5.1%
	523.9	**516.4**	**+1.5%**	**+4.5%**
Operating Costs	(439.0)	(430.5)	+2.0%	+5.4%
Operating Profit	**84.9**	**85.9**	**-1.2%**	**+0.3%**
Gross Margin %	11.8%	11.9%	-0.1%	-0.2%
Operating Margin %	1.9%	2.0%	-0.1%	-0.2%

Evanshalshaw.com

£m	2016	2015	Change (%)	L4L Change (%)
Revenue				
Aftersales	155.7	149.4	+4.2%	+7.1%
Used	1,154.4	1,060.6	+8.8%	+10.2%
New	1,098.0	1,205.2	-8.9%	-4.9%
	2,408.1	**2,415.2**	**-0.3%**	**+2.5%**
Gross Profit				
Aftersales	106.2	106.6	-0.4%	+1.5%
Used	117.1	113.9	+2.8%	+3.9%
New	73.0	69.5	+5.0%	+8.2%
	296.3	**290.0**	**+2.2%**	**+4.1%**
Operating Costs	(251.2)	(248.0)	+1.3%	+3.5%
Operating Profit	**45.1**	**42.0**	**+7.4%**	**+7.2%**
Gross Margin %	12.3%	12.0%	+0.3%	+0.2%
Operating Margin %	1.9%	1.7%	+0.2%	+0.1%

Evanshalshaw.com is the UK's leading volume vehicle retailer with 118 franchise points representing: Citroen, Dacia, Ford, Honda, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall. The business has increased operating profit by 7.2% on a like for like basis demonstrating further operating leverage as a result of strong growth across all departments. We are particularly pleased with our drive to increase used activity in Evanshalshaw.com, with like for like revenues increasing by 10.2% in the year. Whilst we have seen some margin reduction in the second half, we are encouraged by our growth rate in used revenue in the second half which grew by 12.4%. We have achieved operating leverage within Evanshalshaw.com with our operating costs as percentage of gross profit falling from 85.5% in 2015 to 84.8% in 2016.

Stratstone.com

£m	2016	2015	Change (%)	L4L Change (%)
Revenue				
Aftersales	128.2	127.1	+0.9%	+4.8%
Used	690.9	693.0	-0.3%	+7.7%
New	841.4	851.0	-1.1%	+4.7%
	1,660.5	**1,671.1**	**-0.6%**	**+6.0%**
Gross Profit				
Aftersales	70.2	72.6	-3.3%	+2.5%
Used	40.5	38.3	+5.7%	+10.0%
New	69.3	75.7	-8.5%	-3.4%
	180.0	**186.6**	**-3.5%**	**+1.7%**
Operating Costs	(152.4)	(153.1)	-0.5%	+5.6%
Operating Profit	**27.6**	**33.5**	**-17.6%**	**-14.2%**
Gross Margin %	10.8%	11.2%	-0.4%	-0.4%
Operating Margin %	1.7%	2.0%	-0.3%	-0.4%

Stratstone.com is one of the UK's leading premium vehicle retailers with 70 franchise points representing: Aston Martin, BMW, Ferrari, Jaguar, Land Rover, Mercedes-Benz, MINI, Morgan, Porsche and Smart. The business has decreased operating profit by 14.2% on a like for like basis which is largely due to margin reduction in new vehicles across some franchises. Gross profit has increased significantly in used, +10.0% on a like for like basis, as we rolled out some of our used vehicle initiatives and improved used volume and margin.

USA Motor Group

£m	2016	2015	Change (%)	L4L Change (%)
Revenue				
Aftersales	32.6	27.4	+19.0%	+19.0%
Used	78.3	67.7	+15.7%	+15.7%
New	247.1	162.4	+52.2%	+52.2%
	358.0	**257.5**	**+39.0%**	**+39.0%**
Gross Profit				
Aftersales	17.1	14.3	+19.6%	+19.6%
Used	4.4	4.1	+7.3%	+7.3%
New	26.1	21.4	+22.0%	+22.0%
	47.6	**39.8**	**+19.6%**	**+19.6%**
Operating Costs	(35.4)	(29.4)	+20.4%	+20.4%
Operating Profit	**12.2**	**10.4**	**+17.3%**	**+17.3%**
Gross Margin %	13.3%	15.5%	-2.2%	-2.2%
Operating Margin %	3.4%	4.0%	-0.6%	-0.6%

Our retail business in the USA continues to deliver exceptional results from nine franchise points representing the Aston Martin, Jaguar and Land Rover brands based in California. The business has increased operating profit by 17.3% and continues to perform exceptionally. As a consequence of the impact of the UK decision to leave the EU, the average exchange rate for the year of the British Pound to US Dollar fell from 1.52 to 1.34, which has been favourable in 2016 for the USA profitability when reporting in British Pounds. On a US Dollar basis, operating profit increased by 3.3%. We continue to seek opportunities to grow our presence in the US.

Pinewood

£m	2016	2015	Change (%)	L4L Change (%)
Revenue	**14.4**	**12.6**	**+14.3%**	**+14.3%**
Operating Profit	**10.0**	**8.7**	**+14.9%**	**+14.9%**
Operating Margin %	69.4%	69.0%	+0.4%	+0.4%

Pinewood is our software division which gives the Group a superior IT platform and underpins our proprietary intellectual property ownership. This is a key differentiator to our competitors. The business is focused on software development and is uniquely placed to understand and interpret the challenges of automotive online retailing. The business has increased operating profit by +14.9% in 2016 due to fulfilment of significant orders in 2015 and 2016. During 2016 Pinewood implemented its first European users in the Netherlands and Ireland. Pinewood is seeing significant interest from Europe as dealers seek to replicate the Pendragon online business model. Further European expansion of its IT offering is expected in 2017.

Leasing and Quickco

£m	2016	2015	Change (%)	L4L Change (%)
Revenue				
Leasing	46.7	34.2	+36.5%	+36.5%
Quickco	49.3	63.3	-22.1%	-22.1%
	96.0	**97.5**	**-1.5%**	**-1.5%**
Operating Profit				
Leasing	5.0	4.1	+22.0%	+22.0%
Quickco	1.3	1.8	-27.8%	-27.8%
	6.3	**5.9**	**+6.8%**	**+6.8%**
Operating Margin %	6.6%	6.0%	+0.6%	+0.6%

Leasing comprises our fleet and contract hire vehicle activity. The leasing business operated in a stable used vehicle and light commercial vehicle market place and underlying growth increased operating profit by +22.0%. The fleet grew by 12.9% in the period. Quickco comprises our wholesale vehicle parts activity. We have seen a £0.5 million decline in Quickco profitability during the year as a result of lower activity and margin.

3. Industry Insight

Used Sector

The used vehicle sector comprises the selling of vehicles by one party to another for all vehicles except newly registered vehicles. The used car market was 7.9 million, with growth of 6.0% on the prior year. Around half of these transactions are conducted by franchised dealers, with the balance by independent dealers and private individuals.

Used Industry Insight

We have previously modelled the impact of the new market volumes on the used car market and continue to believe we will see growth of around 2% per annum over the next three years. When we segment the used market by age of vehicle, our analysis of the next three years shows that the supply of vehicles that are less than six years old will continue to grow more rapidly than those over six years old.

Aftersales Sector

Aftersales encompasses the servicing, maintenance and repair of motor vehicles, including bodyshop repairs, and the retailing of parts and other motor related accessories. The main determinant of the aftersales market is the number of vehicles on the road, known as the 'vehicle parc'. The vehicle parc in the UK has risen to 34 million vehicles (cars only), having been typically around 32 to 33 million vehicles in the prior three years. The car parc can also be segmented into markets representing different age groups. Typically, around 22% of the car parc is represented by less than three year old cars, around 17% is represented by four to six year old cars and 61% is greater than seven year old cars.

The size of each of these age groups within the car parc is determined by the number of new cars entering the parc and the number exiting the parc. The demand for servicing and repair activity is less impacted than other sectors by adverse economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

Aftersales Industry Insight

The aftersales servicing and repair business will benefit from increased new and used car activity. As a result of the increased new vehicle supply, we have seen growth in the less than three year old car parc of around 4% and expect this to grow by around 4% in 2017. Within the four to six year old vehicle parc, there was growth of 3%. We expect this segment of the vehicle parc to grow by 10% in 2017. Overall, we expect at least for the next three years to see good continuing growth in the vehicle parc for cars up to six years old.

New Sector

The new vehicle sector consists of the first registration of cars and commercial vehicles. In 2016, the UK new car market, the second largest market in Europe, increased by 2.3% over the prior year, with 2.693 million registrations (2015 : 2.634 million).

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

The following table summarises the UK new car vehicle market, separating the retail and fleet components for the twelve month periods ended 31 December 2016 and 31 December 2015:

New Car Registrations (Source : Society Of Motor Manufacturers and Traders)

'000	2016	2015	Change	Change (%)
UK New Market				
Retail	1,206.3	1,208.8	-2.5	-0.2%
Fleet	1,486.5	1,424.7	+61.8	+4.3%
Total	**2,692.8**	**2,633.5**	**+59.3**	**+2.3%**
Represented* Retail	811.1	815.8	-4.7	-0.6%
Represented* Fleet	1,052.3	996.3	56.0	+5.6%
Represented* Total	**1,863.4**	**1,812.1**	**51.3**	**+2.8%**

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

The Society of Motor Manufacturers and Traders expects the UK market to be 2.544 million new cars in 2017, a decrease of 5.0% on the prior year. The UK commercial vehicle market, consisting of light commercial vehicles and trucks, had a market size of 408 thousand units in 2016, which was flat on the prior year.

The Group has representation in California, USA. The USA new vehicle market was 17.5 million in 2016, an increase of 0.3% over 2015 and the highest vehicle market since 2006. The National Automobile Dealers' Association expects the USA market to be 17.1 million vehicles in 2017, a decrease of 2.3% on the prior year.

New Industry Insight

In our interim results announcement, we indicated that the new car market would be 2.67 million units which was just 20 thousand units below the final outturn in 2016. We maintain our view that the market will be relatively stable in the near term and we believe the new car market is more likely to be flat in 2017 than the 5% reduction that is forecast. This is due to the continuing ready availability of consumer finance and the fact that markets in the rest of the world are still comparatively weak. Moderate increases are expected in the long term due to increases in car ownership and population growth.

4. Financial Review

A summary of the reported results for the year ended 31 December 2016 and 31 December 2015 is set out below:

Summary of Financials

£m (unless stated)	Underlying*			Total		
	2016	2015	Change (%)	2016	2015	Change (%)
Revenue	**4,537.0**	**4,453.9**	**+1.9%**	**4,537.0**	**4,453.9**	**+1.9%**
Gross Profit	559.6	548.9	+1.9%	559.6	548.9	+1.9%
Operating Profit	**101.2**	**100.5**	**+0.7%**	**100.4**	**121.7**	**-17.5%**
Interest	(25.8)	(30.4)	-15.1%	(27.4)	(42.7)	-35.8%
Profit Before Tax	**75.4**	**70.1**	**+7.6%**	**73.0**	**79.0**	**-7.6%**
Tax	(19.1)	(17.0)	+12.4%	(17.5)	(6.1)	+186.9%
Profit After Tax	**56.3**	**53.1**	**+6.0%**	**55.5**	**72.9**	**-23.9%**
Earnings Per Share (p)	3.9p	3.7p	+5.4%	3.8p	5.0p	-24.0%
Dividend Per Share (p)	1.45p	1.3p	+11.5%	1.45p	1.3p	+11.5%
Capital Return – Buyback	7.5	-	n/a	7.5	-	n/a
Capital Return – Dividend**	20.8	18.9	+10.1%	20.8	18.9	+10.1%
Net Debt	91.7	79.6	+15.2%	91.7	79.6	+15.2%
Net Debt : EBITDA	0.6	0.5	+20.0%	0.6	0.5	+20.0%
Gross Margin (%)	12.3%	12.3%	-	12.3%	12.3%	-
Operating Margin (%)	2.2%	2.3%	-0.1%	2.2%	2.7%	-0.5%

* - Underlying results, where stated, exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.
** - Dividend paid at interim and proposed for final year dividend.

Financial Summary Highlights

Revenue increased by £83.1 million, up 1.9% on the prior year, mainly due to increased contributions from the used vehicle department. We improved like for like revenues by 5.9% of which used revenues increased by 9.5%, aftersales revenues by 7.3% and new revenues by 3.1%.

Underlying gross profit increased by £10.7 million (+1.9%) in the period and on a like for like basis by £25.4 million (+4.9%) over the prior year. The Group maintained gross margin at 12.3%. Operating costs increased on a like for like basis by £23.4 million (+5.6%), of which the majority relate to variable costs (+5.8%) and the remainder to indirect costs.

Underlying operating profit increased by £0.7 million in the period and by £2.0 million on a like for like basis. Underlying interest costs decreased by £4.6 million in the period, largely as a result of savings in the underlying bank interest offset by stocking interest as we continue to invest in used vehicle stock to drive our market share.

Non-Underlying Items

£m	2016	2015
(Losses) / Gains on Disposals Net of Property Impairments	(0.8)	10.6
Gain on Disposals of Investments	-	13.8
Pensions	(1.6)	(2.3)
VAT Provisions	-	(3.2)
Refinancing Charges	-	(10.0)
Total Non-Underlying Items	**(2.4)**	**8.9**

In the period, property and business disposal profits, net of impairments and associated property and business disposal costs, generated a non-underlying cost of £0.8 million (2015 : £10.6 million). The Group sold five franchise points in the period, yielding proceeds of £8.9 million.

Non-underlying pension costs relate to pension obligations in respect of defined benefit schemes closed to future accrual, shown as non-underlying due to the non-trading nature of these amounts.

Capital Allocation

Given the Group is currently trading below our target range for the net debt to underlying EBITDA ratio, the Board considered the Group's capital structure and capital allocation priorities with a view to a return of surplus cash to shareholders. The Board believes the Group will continue to generate strong cash flows and, after assessing the capital needs of the business and the current leverage position, concluded in May that there was scope to return surplus cash to shareholders. Accordingly, on 20 May 2016, the Board initiated a £20 million share buyback programme, which will increase capital efficiency whilst ensuring the balance sheet remains strong, enabling the Group to pursue its investment strategy and progressive dividend policy.

Over the last two years, the Group has demonstrated a disciplined approach to capital allocation. The Group's five year, £100 million investment programme initiated in 2015, aimed at expanding the Group's UK national footprint, continues on plan. The Board continues to look for further acquisition opportunities. However, the opportunities seen to date were at valuations which would not have delivered an acceptable level of return to justify investment by the Group.

The Board has ongoing capital expenditure requirements, and will continue to pursue organic and acquisitive growth and investment opportunities, including potential repurchase of leasehold properties and evaluate them against the returns generated via the share buyback programme. The buyback programme is capable of being stopped and restarted. This flexibility will enable the Group to pursue other, higher returning, capital allocation opportunities if they arise.

Balance Sheet and Cash Flow

The Group has a strong balance sheet and low debt level and is in a strong position to reinvest at the appropriate return on investment. The following table summarises the cash flows and net debt of the Group for the twelve month periods ended 31 December 2016 and 31 December 2015 as follows:

Summary Cashflow and Net Debt

£m	2016		2015	
Underlying Operating Profit Before Other Income		**101.2**		**100.5**
Depreciation and Amortisation		29.9		25.3
Non-Underlying Items		-		(3.2)
Share Based Payments		2.2		2.0
Working Capital and Contract Hire Vehicle Movement		(30.7)		1.0
Operating Cashflow		**102.6**		**125.6**
Tax Paid		(17.3)		(22.3)
Underling Net Interest Paid		(25.2)		(28.8)
Capital Expenditure – Franchise Specific and Acquisition	(23.5)		(19.0)	
Disposals – Former Franchise Property	8.1		4.3	
Disposals – Franchise Businesses	8.9		21.2	
Net Franchise Capital Expenditure	**(6.5)**		**6.5**	
Capital Expenditure – 40 Site Roll-Out		(7.0)		(3.3)
Capital Expenditure – Underlying Replacement		(26.2)		(33.1)
Capital Expenditure – Property Leases		(4.1)		(5.0)
Dividends		(20.3)		(17.4)
Proceeds from Sale Of Investments		-		23.8
Share Buybacks		(7.5)		-
Share Repurchases		(0.2)		(6.2)
Other		(0.4)		(10.6)
(Increase)/Reduction in Net Debt		**(12.1)**		**29.2**
Opening Net Debt		79.6		108.8
Closing Net Debt		**91.7**		**79.6**

The Group's net debt was £91.7 million at 31 December 2016, an increase of £12.1 million from 31 December 2015. We have demonstrated a strong record of cashflow generation and capital management and have adopted a target of maintaining our net debt : underlying EBITDA ratio between 1.0 and 1.5 times. At the year end our net debt : underlying EBITDA ratio was 0.6 (2015 : 0.5) and remains below our target range. We continue to expect strong cashflow generation and we have maintained a progressive dividend.

We are also working to expand our UK footprint by investing in additional physical footprint. We will be opening five sites in the first half of 2017 and have five sites actively being pursued for the second half of 2017. This investment will take place over the coming four year period and is expected to amount to approximately £100 million in total investment since initiation in 2015 (assuming all additional sites are freehold). We will also continue to seek investment opportunities that exceed our cost of capital, to add to our existing US operations.

Property and Investment, Acquisitions and Disposals
Our property portfolio provides a key strength for our business. At 31 December 2016, the Group had £199.3 million of land and property assets (2015 : £172.7 million) and property assets for sale of £6.6 million (2015 : £16.2 million). Business disposals resulted in a profit on disposal of £1.3 million and property disposals resulted in a loss of £1.0 million. During the last two years we have taken the opportunity to acquire the freehold on some existing leased premises.

Dividend
The Group is proposing a final dividend of 0.75p per share in respect of 2016, bringing the full year dividend to 1.45p per share. The Board is delighted to recommend this dividend increase, which will maintain our dividend cover at a similar level to the prior year. We intend to maintain a progressive dividend approach in the future.

The proposed final dividend will be paid on 23 May 2017 for those shares recorded on 21 April 2017.

Shares Repurchased and Buyback
During the year the Group repurchased £7.5 million of its own shares, after initiating a £20.0 million share buyback programme in May 2016. This programme is continuing in 2017. The Group also purchased £0.3 million (2015 : £7.8 million) of shares in respect of LTIP and options.

Pensions
The net liability for defined benefit pension scheme obligations has increased from £43.4 million at 31 December 2015 to £103.2 million at 31 December 2016. This increase in obligations of £59.8 million is largely due to the reduction in the discount rate applied to the scheme liabilities which has reduced by 120 basis points. The triennial valuation of the pension scheme reflecting the position as at 31 December 2015 has been agreed in principle with the trustees and is scheduled to be completed by 31 March 2017 at the latest. This will result in the Group raising its annual contribution to the pension scheme to £7.0 million from 1 January 2017 from £2.9 million in the prior year and will increase by 2.25% per annum.

5. Outlook

Outlook

Pendragon is leading the evolution of automotive online retailing. We are focussed on our strategy of gaining market share in the used and aftersales markets. We believe there will be growth in the used and aftersales markets with marginal growth in the new vehicle market in 2017.

The Group has doubled underlying profit before tax in four years as a result of our clear strategy of offering choice, value, customer service and convenience. Future growth will be driven by our initiatives, our investment in additional physical capacity for used car sales and by our strategic advantages in IT and intellectual property.

We believe that we can achieve at least double digit growth in used revenue in 2017 and our aspiration over the next five years is to double our used vehicle revenue. In order to test this, during the final quarter of 2016 we invested in inventory and adjusted our algorithms and marketing initiatives. This was with a view to driving growth in used vehicle activity levels to test the physical capacity of our current footprint. The early results of this are very encouraging. Our growth in used vehicle revenue on a like for like basis in January 2017 exceeded the increase required to achieve our growth aspirations.

We anticipate our performance for 2017 will be in line with expectations.

6. Detailed Financials

Consolidated Income Statement
Year ended 31 December 2016

	Note	Underlying £m	Non-underlying £m	**2016 £m**	Underlying £m	Non-underlying £m	2015 £m
Revenue		4,537.0	-	**4,537.0**	4,453.9	-	4,453.9
Cost of sales		(3,977.4)	-	**(3,977.4)**	(3,905.0)	-	(3,905.0)
Gross profit		559.6	-	**559.6**	548.9	-	548.9
Operating expenses		(458.4)	(1.1)	**(459.5)**	(448.4)	(4.1)	(452.5)
Operating profit before other income		101.2	(1.1)	**100.1**	100.5	(4.1)	96.4
Other income – gains / (losses) on sale of businesses and property		-	0.3	**0.3**	-	11.5	11.5
Other income - gain on disposal of investment		-	-	**-**	-	13.8	13.8
Operating profit		101.2	(0.8)	**100.4**	100.5	21.2	121.7
Finance expense	4	(25.8)	(1.6)	**(27.4)**	(30.9)	(12.3)	(43.2)
Finance income	5	-	-	**-**	0.5	-	0.5
Net finance costs		(25.8)	(1.6)	**(27.4)**	(30.4)	(12.3)	(42.7)
Profit before taxation		75.4	(2.4)	**73.0**	70.1	8.9	79.0
Income tax (expense) / credit		(19.1)	1.6	**(17.5)**	(17.0)	10.9	(6.1)
Profit for the year		56.3	(0.8)	**55.5**	53.1	19.8	72.9
Earnings per share	3						
Basic earnings per share				**3.8p**			5.0p
Diluted earnings per share				**3.8p**			5.0p

	Note	Underlying			Underlying		
Non GAAP measure	3						
Underlying basic earnings per share		3.9p			3.7p		
Underlying diluted earnings per share		3.9p			3.6p		

Consolidated Statement of Comprehensive Income
Year ended 31 December 2016

	2016	2015
	£m	£m
Profit for the year	**55.5**	72.9
Other comprehensive income:		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains and (losses)	**(61.3)**	22.4
Income tax relating to defined benefit plan remeasurement gains and (losses)	**9.8**	(5.5)
	(51.5)	16.9
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences of foreign operations	**-**	0.4
Fair value gains on investments reclassified to profit and loss	**-**	(14.0)
	-	(13.6)
Other comprehensive income for the year, net of tax	**(51.5)**	3.3
Total comprehensive income for the year	**4.0**	76.2

Consolidated Statement of Changes in Equity
Year ended 31 December 2016

	Share capital	Share premium	Other reserves	Translation differences	Retained earnings	**Total**
	£m	£m	£m	£m	£m	**£m**
Balance at 1 January 2016	73.0	56.8	15.1	(0.2)	250.4	**395.1**
Total comprehensive income for 2016						
Profit for the year	-	-	-	-	55.5	**55.5**
Other comprehensive income for the year, net of tax	-	-	-	-	(51.5)	**(51.5)**
Total comprehensive income for the year	-	-	-	-	4.0	**4.0**
Dividends paid	-	-	-	-	(20.3)	**(20.3)**
Own shares purchased for cancellation	(1.2)	-	1.2	-	(7.5)	**(7.5)**
Own shares purchased by EBT	-	-	-	-	(0.3)	**(0.3)**
Own shares issued by EBT	-	-	-	-	0.1	**0.1**
Share based payments	-	-	-	-	2.2	**2.2**
Income tax relating to share based payments	-	-	-	-	(0.5)	**(0.5)**
Balance at 31 December 2016	71.8	56.8	16.3	(0.2)	228.1	**372.8**
Balance at 1 January 2015	72.8	56.8	15.1	(0.6)	195.8	**339.9**
Total comprehensive income for 2015						
Profit for the year	-	-	-	-	72.9	**72.9**
Other comprehensive income for the year, net of tax	-	-	-	0.4	2.9	**3.3**
Total comprehensive income for the year	-	-	-	0.4	75.8	**76.2**
Issue of ordinary shares	0.2	-	-	-	(0.2)	**-**
Dividends paid	-	-	-	-	(17.4)	**(17.4)**
Own shares purchased by EBT	-	-	-	-	(7.6)	**(7.6)**
Own shares issued by EBT	-	-	-	-	1.4	**1.4**
Share based payments	-	-	-	-	2.0	**2.0**
Income tax relating to share based payments	-	-	-	-	0.6	**0.6**
Balance at 31 December 2015	73.0	56.8	15.1	(0.2)	250.4	**395.1**

Consolidated Balance Sheet
At 31 December 2016

	2016 £m	2015 £m
Non-current assets		
Property, plant and equipment	**405.3**	352.7
Goodwill	**356.5**	360.8
Other intangible assets	**5.7**	5.8
Deferred tax assets	**19.0**	11.5
Total non-current assets	**786.5**	730.8
Current assets		
Inventories	**846.2**	830.6
Trade and other receivables	**153.1**	134.5
Cash and cash equivalents	**84.0**	138.8
Assets classified as held for sale	**6.6**	16.2
Total current assets	**1,089.9**	1,120.1
Total assets	**1,876.4**	1,850.9
Current liabilities		
Trade and other payables	**(1,068.7)**	(1,050.9)
Deferred income	**(36.6)**	(32.9)
Current tax payable	**(7.8)**	(9.2)
Provisions	**(6.2)**	(5.0)
Total current liabilities	**(1,119.3)**	(1,098.0)
Non-current liabilities		
Interest bearing loans and borrowings	**(175.7)**	(218.4)
Trade and other payables	**(48.8)**	(41.6)
Deferred income	**(50.4)**	(50.1)
Retirement benefit obligations	**(103.2)**	(43.4)
Provisions	**(6.2)**	(4.3)
Total non-current liabilities	**(384.3)**	(357.8)
Total liabilities	**(1,503.6)**	(1,455.8)
Net assets	**372.8**	395.1
Capital and reserves		
Called up share capital	**71.8**	73.0
Share premium account	**56.8**	56.8
Capital redemption reserve	**3.7**	2.5
Other reserves	**12.6**	12.6
Translation reserve	**(0.2)**	(0.2)
Retained earnings	**228.1**	250.4
Total equity attributable to equity shareholders of the company	**372.8**	395.1

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Consolidated Cash Flow Statement
Year ended 31 December 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**55.5**	72.9
Adjustment for taxation		**17.5**	6.1
Adjustment for net financing expense		**27.4**	42.7
		100.4	121.7
Depreciation and amortisation		**29.9**	25.3
Share based payments		**2.2**	2.0
Profit on sale of businesses and property		**(0.3)**	(11.5)
Gain on disposal of investment		**-**	(13.8)
Impairment of assets held for sale		**1.1**	0.9
Changes in inventories		**(3.6)**	(109.1)
Changes in trade and other receivables		**(19.7)**	(16.9)
Changes in trade and other payables		**14.2**	148.4
Changes in retirement benefit obligations		**(3.1)**	(2.9)
Changes in provisions		**3.1**	3.3
Movement in contract hire vehicle balances	7	**(21.6)**	(21.8)
Cash generated from operations		**102.6**	125.6
Taxation paid		**(17.3)**	(22.3)
Interest received		**-**	0.5
Interest paid		**(25.2)**	(29.3)
Net cash from operating activities		**60.1**	74.5
Cash flows from investing activities			
Business acquisitions		**(2.6)**	-
Proceeds from sale of businesses		**8.9**	21.2
Purchase of property, plant and equipment		**(147.0)**	(136.9)
Proceeds from sale of property, plant and equipment		**96.9**	80.8
Proceeds from the sale of investments		**-**	23.8
Net cash used in investing activities		**(43.8)**	(11.1)
Cash flows from financing activities			
Dividends paid to shareholders		**(20.3)**	(17.4)
Repurchase of own shares		**(7.5)**	-
Own shares acquired by EBT		**(0.3)**	(7.6)
Disposal of shares by EBT		**0.1**	1.4
Repayment of bond and loans		**(216.7)**	-
Proceeds from issue of loans		**173.6**	7.6
Net cash outflow from financing activities		**(71.1)**	(16.0)
Net (decrease) / increase in cash and cash equivalents		**(54.8)**	47.4
Opening cash and cash equivalents		**138.8**	91.4
Closing cash and cash equivalents		**84.0**	138.8

Reconciliation of Net Cash Flow to Movement in Net Debt

	2016 £m	2015 £m
Net (decrease) / increase in cash and cash equivalents	**(54.8)**	47.4
Repayment of bond and loans	**216.7**	-
Proceeds from issue of loans (net of directly attributable transaction costs)	**(173.6)**	(7.6)
Non-cash movements	**(0.4)**	(10.6)
(Increase) / decrease in net debt in the year	**(12.1)**	29.2
Opening net debt	**(79.6)**	(108.8)
Closing net debt	**(91.7)**	(79.6)

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

Notes

1 Basis of preparation

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

The summary financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention except for certain financial instruments which are stated at their fair value. In addition, non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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

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

The preparation of summary financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the summary financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 Non-underlying items

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. The directors consider that these items should be disclosed separately to enable a full understanding of the Group's results.

	2016 £m	2015 £m
Within operating expenses:		
Increase in VAT assessment provision	-	(3.2)
Impairment of assets held for sale	**(1.1)**	(0.9)
	(1.1)	(4.1)

Within other income - gains on the sale of businesses, property and investments:		
(Losses) / gains on the sale of businesses	**(1.0)**	10.9
Gains on the sale of property	**1.3**	0.6
Gain on disposal of investment	**-**	13.8
	0.3	25.3
Within finance expense:		
Net interest on pension scheme	**(1.6)**	(2.3)
Interest on refinancing	**-**	(10.0)
	(1.6)	(12.3)
Total non-underlying items before taxation	**(2.4)**	8.9
Non-underlying items in tax	1.6	10.9
Total non-underlying items after tax	**(0.8)**	19.8

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was an impairment charge against assets held for sale tangible fixed assets of £1.1m during the year (2015: £0.9m). There were no reversals of previous impairment charges in respect of assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2015: £nil).

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the irregularity of this amount historically and it is not incurred in the normal course of business. A net expense of £1.6m has been recognised during the year (2015: £2.3m).

During the year the Group signed a £240m 5-year committed revolving bank facility with a club of existing and new banks, and a £60m 7-year debt private placement to refinance and replace early its £175m 6.875% bonds due 2020 and existing bank facility. This transaction was expected at the previous year end of 31 December 2015 and as such the existing drawn bank and bond facilities carrying amounts were recalculated to reflect this early repayment, resulting in a non-underlying charge in the previous period of £10.0m. This comprised the premium payable upon early repayment of the bonds of £7.8m and the write-off of the previously carried amortising costs of £2.2m.

Other income consists of the profit on disposal of businesses, property and investments. This comprises a £1.0m loss on the disposal of motor vehicle dealerships (2015: £10.9m profit) and a £1.3m profit on sale of properties (2015: £0.6m). During the previous year, King Arthur Holdings S.a.r.L disposed of its only subsidiary company, King Arthur Properties S.a.r.L. The Group received £23.8m in total in respect of dividends and the repayment of share capital resulting in a £13.8m gain on the disposal of investments.

During the previous year the Group made a provision of £3.8m in respect of potential VAT issues arising from purchases of vehicles from Motability, the settlement of which is expected to be concluded in the forthcoming year. The previously brought forward provision of £0.6m from the year ended 31 December 2014, in respect of VAT issues arising from sales to finance companies, was released in the previous year resulting in a total net expense of £3.2m. There were no further movements in this provision during the current year.

The tax credit in relation to non-underlying items is £1.6m (2015: £10.9m). This includes a tax credit of £1.2m (2015: £7.1m) relating to the settlement of certain historic tax issues, £0.2m (2015: £0.6m) in respect of tax relief on business disposals, £nil (2015: £2.0m) in respect of financing charges arising on the recalculation of the carrying value of the Group's bond and £0.3m (2015: £0.5m) in respect of pension scheme interest.

3 Earnings per share

	2016 Earnings per share pence	2016 Earnings Total £m	2015 Earnings per share pence	2015 Earnings Total £m
Basic earnings per share	**3.8**	**55.5**	5.0	72.9
Adjusting items:				
Non-underlying items attributable to the parent (see note 2)	**0.2**	**2.4**	(0.6)	(8.9)
Tax effect of non-underlying items	**(0.1)**	**(1.6)**	(0.7)	(10.9)
Underlying earnings per share (Non GAAP measure)	**3.9**	**56.3**	3.7	53.1
Diluted earnings per share	**3.8**	**55.5**	5.0	72.9
Diluted earnings per share – underlying (Non GAAP measure)	**3.9**	**56.3**	3.6	53.1

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

	2016 Number	2015 Number
Weighted average number of ordinary shares in issue	**1,444.1**	1,445.6
Weighted average number of dilutive shares under option	**14.3**	14.0
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,458.4**	1,459.6
Non-dilutive shares under option	**21.0**	20.2

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

4 Finance expense

Recognised in profit and loss	2016 £m	2015 £m
Interest payable on bond, bank borrowings and loan notes	**7.7**	14.5
Vehicle stocking plan interest	**16.8**	15.7
Interest payable on finance leases	**0.1**	0.1
Net interest on pension scheme obligations (non-underlying – see note 2)	**1.6**	2.3
Interest on refinancing (non-underlying - see note 2)	**-**	10.0
Less: interest capitalised	**(0.4)**	(0.5)
Total interest expense in respect of financial liabilities held at amortised cost	**25.8**	42.1
Unwinding of discounts in contract hire residual values	**1.6**	1.1
Total finance expense	**27.4**	43.2

5 Finance income

Recognised in profit and loss	2016 £m	2015 £m
Interest receivable on bank deposits	**-**	0.5
Total finance income	**-**	0.5

6 Net borrowings

	2016	2015
	£m	£m
Cash and cash equivalents	**84.0**	138.8
Non-current interest bearing loans and borrowings	**(175.7)**	(218.4)
	(91.7)	(79.6)

7 Movement in contract hire vehicle balances

	2016	2015
	£m	£m
Depreciation	**28.2**	22.1
Changes in trade and other payables and deferred income	**21.5**	22.5
Purchases of contract hire vehicles	**(69.7)**	(65.3)
Unwinding of discounts in contract hire residual values	**(1.6)**	(1.1)
	(21.6)	(21.8)

8 Pension Funds

The net liability for defined benefit obligations has increased from £43.4m at 31 December 2015 to £103.2m at 31 December 2016. The increase of £59.8m comprises contributions of £3.1m, net expense recognised in the income statement of £1.6m and a net actuarial loss of £61.3m. The net actuarial loss has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate of 2.70% (2015: 3.90%), inflation rate (RPI) of 3.35% (2015: 3.10%) and inflation rate (CPI) of 2.35% (2015: 2.10%).

9 Alternative Performance Measures

The Group uses a number of key performance measures ("KPI's") which are non-IFRS measures to monitor the performance of its operations. The Group believes these KPI's provide useful historical financial information to help investors and other stakeholders evaluate the performance of the business and are measures commonly used by certain investors for evaluating the performance of the Group. In particular, the Group uses KPI's which reflect the underlying performance on the basis that this provides a more relevant focus on the core business performance of the Group. The Group has been using the following KPI's on a consistent basis and they are defined and reconciled as follows:

Dividend per share – dividend per share is defined as the interim dividend per share plus the proposed final year dividend per share for a given period.

Gross margin % - gross margin is defined as gross profit as a percentage of revenue.

Like for Like – results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any retail points closed during the current or previous period.

Operating margin % - operating margin is defined as operating profit as a percentage of revenue.

Underlying operating profit/profit before tax – results on an underlying basis exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. The detail of the non-underlying results is shown in note 2 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

Operating profit reconciliation

	2016	2015
	£m	£m
Underlying Operating profit	**101.2**	100.5
Gains on the sale of businesses, property and investments (see note 2)	**0.3**	25.3
Impairment of assets held for sale (see note 2)	**(1.1)**	(4.1)
Non-underlying operating profit items	**(0.8)**	21.2
Operating profit	**100.4**	121.7

Profit before tax reconciliation

	2016	2015
	£m	£m
Underlying profit before tax	**75.4**	70.1
Non-underlying operating profit items (see reconciliation above)	**(0.8)**	21.2
Non-underlying Finance costs (see note 2)	**(1.6)**	(12.3)
Non-underlying operating profit and finance costs items	**(2.4)**	8.9
Profit before tax	**73.0**	79.0

Profit after tax reconciliation

	2016	2015
	£m	£m
Underlying profit after tax	**56.3**	53.1
Non-underlying operating profit and finance items (see reconciliation above)	**(2.4)**	8.9
Non-underlying tax (see note 2)	**1.6**	10.9
Non-underlying operating profit, finance costs and tax items	**(0.8)**	19.8
Profit after tax	**55.5**	72.9

Underlying basic earnings per share ("underlying earnings per share") – the Group presents underlying basic earnings per share as the directors consider that this is a better measure of comparative performance. Underlying basic earnings per share is calculated by dividing the underlying profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. A full reconciliation of how this is derived is found in note 3.

Underlying diluted earnings per share – the Group presents underlying diluted earnings per share as the directors consider that this is a better measure of comparative performance. Underlying diluted earnings per share is calculated by dividing the underlying profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees, LTIPs and share warrants. A full reconciliation of how this is derived is found in note 3.

Net Debt : Underlying EBITDA – the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. The reconciliation of this and the composition of underlying EBITDA is shown in note 4.2 of the full annual report and accounts.

10 Annual Report

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts;

their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2016 are published on the Group's website at www.pendragonplc.com and will be posted to shareholders and after adoption at the Annual General Meeting on 27 April 2017 they will be delivered to the registrar.

Copies of this announcement are available from Pendragon PLC, Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.