Results for 6 Months Ended 30 June 2017
(Released 1 August 2017)

Pendragon | PLC

The leading online automotive retailer continues to deliver growth

Summary of Results

	Gross Profit	Operating Profit	Profit Before Tax	Net Debt : EBITDA	EPS
Like for Like*	£295.7m	£61.2m	-	-	-
	(+4.6%)	(+3.0%)			
Underlying**	£301.1m	£60.0m	£48.5m	0.9	2.6p
	(+4.5%)	(+2.2%)	(+9.7%)	(+200.0%)	(+13.0%)
Total	£301.1m	£60.0m	£47.1m	0.9	2.6p
	(+4.5%)	(+5.1%)	(+12.7%)	(+200.0%)	(+18.2%)

* "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 section 7, note 1 for details.

Strategic Highlights

- The Group has a clear path for growth across each of our 4 business segments, each of which are delivering to our expectations. Our 4 business segments are: UK Motor, US Motor, Software and Leasing.
- The UK Motor business is supported by the Evanshalshaw.com and Stratstone.com websites. These brands continue to grow and generated 26 million visits for the 12 months to June 2017. In the first half, visits have increased by 27.7% - with 66% of our visitors from self-generated sources rather than paid sources.
- The UK Motor business performance has been enhanced by our very strong growth in the used vehicle sector; in the period used revenue increased by 21.0% on a like for like basis, which is ahead of our goal to deliver at least double digit growth in the year. The UK Motor business increased gross profit by £5.7 million in the period.
- The US Motor business (8% of operating profit) continues to perform strongly, with operating profit up 6.4% in the period, providing a stable profit stream.

- Our Software (Pinewood) business (9% of operating profit) has increased operating profit by 14.6% in the period, which is growing every year as the business continues to successfully expand into new markets.
- The Leasing business (5% of operating profit) increased operating profit by £1.6 million in the period as we continue to grow our vehicle fleet book which is improving both our profitability and used vehicle supply.

Operational Highlights

- Used vehicle revenue up +20.9% on a like for like basis (+20.3% total) as we continue to increase our market share.
- Aftersales revenue up +6.0% on a like for like basis (+5.6% total) as a result of market tailwinds and our initiatives.
- New vehicle revenue back -4.3% on a like for like basis (-5.8% total) as a result of UK new vehicle market reductions, the UK retail market fell by -5.1% for the brands we represent. Gross profit fell by 5.2% (£4.6 million) like for like.
- Underlying operating margin 2.4%.

Trevor Finn, Chief Executive:

"Pendragon PLC has had a strong first half with underlying profit before tax up 9.7%. We are particularly pleased with our used revenue growth, up 20.9% on a like for like basis, after setting our objective at the end of 2016 to achieve at least double digit growth in used revenue in 2017 and our aspiration over five years to double our used vehicle revenue. During the second half we will make further adjustments to our pricing to maintain our new higher level of volume and enrich the margin. The used vehicle volumes will be driven by capacity being installed as part of our used vehicle strategy. Whilst we have seen some of the expected decline in new vehicle gross profit, this has been more than offset by higher activity in the aftersales sector which provides our greatest share of gross profit and margin. Our future growth is focused on increasing profitability of used vehicles and aftersales within the UK and US Motor businesses, geographical expansion in the US Motor and Software businesses and further growth in our Leasing businesses. While we are expecting harder comparatives in the second half we still anticipate our performance for 2017 will be in line with expectations as we enhance our profitability streams further."

Enquiries

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1. Strategy

Strategy

The Group is leading the change in the automotive online retail sector and has a clear plan in response to changing customer needs. Our initiatives are focussed on growth in the following order of priority: increasing profitability of used vehicles and aftersales within the UK and US Motor businesses, geographical expansion in the US Motor and Software businesses and further growth in our Leasing businesses.   Our strategy in each of these growth areas is underpinned by our pillars which are: Choice, Value, Customer Service and Convenience and is supported by our 'People' foundation. Our key differentiator in the retail automotive market is our Software company, which provides our online and IT superiority and ownership of our intellectual property.

UK Motor

The UK Motor business has 185 franchise points operating a range of volume and premium franchises and 24 used car stores, we have clear strategy to grow, as a priority, our used and aftersales business and maintain our new vehicle performance in line with the market.

UK Motor – Double used revenue

The Group has a clear strategic aim to double used revenue by 2021. In the short term, the Group has an objective in 2017 to achieve at least double digit growth in used revenue. 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. In order to achieve our objective of doubling used revenue the Group has a detailed plan to increase our market share via increased capacity at existing and new retail points across the country. These additional used car stores vary in size depending on the local market potential and our need to achieve the appropriate rate of return.

In the first half of 2017 we have opened the following used car stores: Exeter, Coventry, Glasgow and Gloucester. We expect to open a further five sites in the second half of 2017 including Ipswich, Norwich, Borehamwood, Dartford and Ashford. These will provide an additional annual sales capacity of circa 17,000 units for 2018 onwards for the Group. We will continue with further investment, to meet our four year investment of £100 million since initiation in 2015 (assuming all additional sites are freehold).

The deployment of our increased used sales 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 five years.

UK Motor – Grow Aftersales through selling more vehicles and increasing vehicle retention

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 retaining customers who have bought a new or used vehicle. We expect to outperform the market as a result of our significant growth of used vehicle sales. In addition our national footprint expansion will provide further capacity and geographical reach.

UK Motor – Maintain performance in new vehicles

Our strategy in new vehicles is to have a balanced portfolio of franchise operations. 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.

US Motor – Grow representation points

We have a long-term strategy to build our US Motor business via acquisition. We will, in particular, seek opportunities that will grow our used and aftersales business through selective franchise acquisitions. The profitability and stability of this business in the USA is a key factor in wanting to grow our representation points. We have identified potential targets and would like to add to our franchise representation in the short to medium term. However to date acquisition prices have not met our expectations.

Software – Expand in new markets

Our Software business (Pinewood) provides the Group with a key advantage in the delivery of IT solutions and having superior intellectual property. We have a clear plan for growth which is moving into new territories in Europe and Asia/Pacific. This business provides a key differentiator compared to our competitors and we are excited by the growth opportunities in new markets from retail dealership software. The business has deployed its first systems into the Netherlands and Germany in the first half of 2017 and is expected to begin selling its software in other regions in the second half of 2017. We are encouraged by our progress in developing the product in new markets and are focussed on growing the business to enhance the Group's earnings.

Leasing – Grow our vehicle fleet and provide a used vehicle supply

Our leasing business has a fleet of 15,000 vehicles, which provide two sources of revenue for the Group. Firstly, the lease business provides an on-going and growing profit stream as we grow the fleet. Secondly, at the end of the fleet terms, we recycle returned fleet vehicles to sell as used vehicles within our UK Motor business, generating additional revenue for the Group.

People

Our business foundations are dependent on our people. We wish to thank all our team members for their continued support of the Group and the willingness of our teams to adapt to our ever changing demands to provide the best experience for our customers. We continue to invest in training and development of our extensive 9,700 strong team.

2. Business Review

Our reporting segments by Business are 'UK Motor', 'US Motor', 'Software' and 'Leasing'. In 2017 we are consolidating our reporting segments to simplify our reporting and to align to our new management reporting structure. A full reconciliation of this reporting structure to the old reporting structure can be found in section 7, note 7. The following information is for the six month periods ended June 2017 and June 2016:

Business View

£m	2017	2016	Change (%)	L4L Change (%)
Revenue				
UK Motor	2,229.0	2,135.1	+4.4%	+5.4%
US Motor	205.0	157.9	+29.8%	+29.8%
Software	7.8	7.0	+11.4%	+11.4%
Leasing	30.2	25.2	+19.8%	+19.8%
	2,472.0	**2,325.2**	**+6.3%**	**+7.3%**
Gross Profit				
UK Motor	262.5	256.8	+2.2%	+2.3%
US Motor	26.8	22.1	+21.3%	+21.3%
Software	6.8	5.9	+15.3%	+15.3%
Leasing	5.0	3.4	+47.1%	+47.1%
	301.1	**288.2**	**+4.5%**	**+4.6%**
Underlying Operating Profit				
UK Motor	46.5	47.8	-2.7%	-1.6%
US Motor	5.0	4.7	+6.4%	+6.4%
Software	5.5	4.8	+14.6%	+14.6%
Leasing	3.0	1.4	+114.3%	+114.3%
	60.0	**58.7**	**+2.2%**	**+3.0%**
Gross Margin %	12.2%	12.4%	-0.2%	-0.3%

Underlying Operating Margin %	2.4%	2.5%	-0.1%	-0.1%

UK Motor (78% of Operating profit)

The UK's leading vehicle retailer with 185 franchise points representing a range of volume and premium products that we sell and service which include: Aston Martin, BMW, Citroen, Dacia, DAF, Ferrari, Ford, Harley-Davidson, Honda, Hyundai, Jaguar, Land Rover, Kia, Mercedes-Benz, MINI, Nissan, Peugeot, Porsche, Renault, SEAT, Smart and Vauxhall. The business also has 24 used car stores selling used vehicles and completing aftersales activities. Our diverse and balanced franchise portfolio has significant long-term manufacturer relationships which provide stability for the business. The business has increased revenue and gross profit by 4.4% and 2.2% respectively. We have been investing in people and facility cost to drive future earnings, in particular in our used and aftersales areas, which has meant our overall operating profit has fallen by £1.3 million. We expected this as we are focussed on driving our market share in the used sector and increasing our capacity in aftersales. Within the UK business, our focus on driving our used vehicle sales, has seen a 21.0% increase in revenue on a like for like basis. Gross profit in aftersales and used vehicles by 3.4% and 12.8% respectively on a like for like basis.

US Motor (8% of Operating profit)

The US Motor business is our US retail vehicle business, which today, is primarily based in California. The business operates from nine franchise points representing the following products that we sell and service: Aston Martin, Jaguar and Land Rover. The US Motor business has consistently delivered strong profitability and we are seeking to expand our representation in the United States. In the period, operating profit was up £0.3 million, with gross profit growing by £1.7 million in aftersales and by £3.0 million in new.

Software (9% of Operating profit)

Our software business (Pinewood) gives the Group a superior IT platform and underpins our proprietary intellectual property ownership and provides software solutions. The business has increased operating profit by 14.6% to £5.5 million, and provides an operating profit margin of 70.5% – we continue to invest significantly in software development resource to enhance our product in the UK market and for new market growth in Europe and Asia/Pacific. The software business delivered 9.2% of the Group's operating profit in the first half of the year. The business is currently growing at circa 15% per year and we expect this rate to continue and grow with the strategy we have in place.

Leasing (5% of Operating profit)

Leasing comprises our fleet and contract hire vehicle activity. Our leasing business trades under the 'Pendragon Vehicle Management' brand and offers a complete range of fleet leasing and management facilities from initial consultation of fleet policies to vehicle disposal. Our customers are varied in both fleet size and business sector. Our services are delivered by maximising the facilities of our wider Group, as well as working very closely with market leading partners. The business made an operating profit of £3.0 million in the first half of the year – up by £1.6 million and continues to be a growing business with our increasing fleet portfolio.

3. Sector Review

Our reporting by sector includes 'Aftersales', 'Used', 'New' and 'Software and Leasing'. The sectors are defined as follows:

Used - The used vehicle sector comprises the selling of vehicles by one party to another for all vehicles except newly registered vehicles.

Aftersales - Aftersales encompasses the servicing, maintenance and repair of motor vehicles, including bodyshop repairs, and the retailing of parts and other motor related accessories.

New - The new vehicle sector consists of the first registration of cars and commercial vehicles.

Software and Leasing - This includes our Software and Leasing business segments as detailed above.

The following information is for the six month periods ended June 2017 and June 2016:

Sector View

£m	2017	2016	Change (%)	L4L Change (%)
Revenue				
Aftersales	197.8	187.3	+5.6%	+6.0%
Used	1,161.1	964.8	+20.3%	+20.9%
New	1,075.1	1,140.9	-5.8%	-4.3%
Software & Leasing	38.0	32.2	+18.0%	+18.0%
	2,472.0	**2,325.2**	**+6.3%**	**+7.3%**
Gross Profit				
Aftersales	111.5	106.2	+5.0%	+4.8%
Used	92.6	82.1	+12.8%	+12.5%
New	85.2	90.6	-6.0%	-5.2%
Software and Leasing	11.8	9.3	+26.9%	+26.9%
	301.1	**288.2**	**+4.5%**	**+4.6%**
Operating Cost	(241.1)	(229.5)	+5.1%	+5.0%

Underlying Operating Profit	**60.0**	**58.7**	**+2.2%**	**+3.0%**
Gross Margin %	12.2%	12.4%	-0.2%	-0.3%
Underlying Operating Margin %	2.4%	2.5%	-0.1%	-0.1%

Aftersales

Aftersales contributes 37.0% of the gross profit of the Group and delivered a gross margin of 56.4%, the highest of the sectors in terms of contribution and margin. Aftersales is a core activity for us, and coupled with the initiatives within used vehicles, we are identifying how we develop further value from this area. In the period, on a like for like basis, we increased revenue by 6.0% and increased gross profit by 4.8%. We continue to identify opportunities in the aftersales sector, and similar to the used market, there is a significant market opportunity to target given the fragmented market sector that exists today.

Used

Used profitability has been on a significant upward trajectory since 2008 when we were the first in the industry to provide transparent and everyday low prices to consumers. In 2008, used vehicles contributed £101.7 million of gross profit, in 2016 this was £162.0 million. Today, we are building on our transparent and everyday low pricing methodology, providing greater choice to the customer and making it easy for the customer to buy online. We set out in our 2016 annual report, our expectation to achieve at least double digit growth in used revenue in 2017 and aspiration over the next five years is to double our used vehicle revenue. In the first half of 2017, we have achieved revenue growth of 20.9% on a like for like basis which is significantly ahead of our double digit growth target. Whilst we have seen some margin impact, this is a short term impact, to ensure we gain market share. We benefit significantly from used vehicles sold today which lead to Used and Aftersales activity tomorrow.

New

New profitability has decreased in some areas, however, we have seen stronger performance in some key brands during the period. Revenue was down by 4.3% on a like for like basis in the period, as a result of UK new vehicle market reductions, the UK retail market fell by -5.1% for the brands we represent. Gross profit fell by 5.2% (£4.6 million) on a like for like basis. We have broadly maintained our overall gross margin in the period and have only been impacted by the reduction in new vehicle market activity levels.

Software and Leasing

The Software and Leasing businesses are fully detailed in the business review section 2. The combined businesses generated £11.8 million of gross profit, up 26.9% in the period.

4. Industry Insight

Used Market

In 2016, the used car market was 7.9 million units. 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, with 1.9% in 2017 and around 0.7% thereafter. In the first quarter of 2017, the latest available data point, used transactions increased by 3.2%. 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 Market

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 between 4% and 8% in the last few years and expect this to grow by around 2% in 2017. Within the four to six year old vehicle parc, there was growth of 3% in 2016 and 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 at around 10% in 2017, 9% in 2018 and 6% in 2019, which provides a positive market advantage for our UK Motor business.

New Market

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). In the first half of 2017, the new vehicle market fell by 1.3%.

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 six month periods ended 30 June 2017 and 30 June 2016:

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

'000	2017	2016	Change	Change (%)
UK New Market				
Retail	617.7	649.2	-31.5	-4.9%
Fleet	784.1	771.4	12.7	+1.6%
Total	**1,401.8**	**1,420.6**	**-18.8**	**-1.3%**
Represented* Retail	412.9	435.2	-22.3	-5.1%
Represented* Fleet	558.6	546.6	+12.0	+2.2%
Represented* Total	**971.5**	**981.8**	**-10.3**	**-1.0%**

* 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 had expected the UK market to be 2.549 million in 2017, a decrease of 5.0% on the prior year, but has since revised this forecast to 2.6%. 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. Light commercial vehicle registrations fell by 2.3% in the first half of 2017.

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. In the first half of 2017, whilst the USA market is down by 2.2%, the National Automobile Dealers' Association still expects the USA market to be 17.1 million vehicles in 2017 and has not revised its forecast downwards.

New Industry Insight

We had previously believed that the UK new car market will be flat in 2017, however with a 1.3% reduction in the first half of 2017, we are now expecting the new car market to fall by 3.5% over the full year. Moderate increases in the new vehicle market are expected in the long term due to increases in car ownership and population growth.

In November 2015 we commented that retail market peaked in March 2015 and the new car market had reached its natural level of 2.5 million to 2.6 million units. Since then, retail sales have been broadly flat as customers who have financed their vehicles have replaced them at the end of the finance term.

5. Financial Review

A summary of the reported results for the six month periods ended 30 June 2017 and 30 June 2016 is set out below:

Summary of Financials

£m (unless stated)	Underlying*			Total		
	2017	2016	Change (%)	2017	2016	Change (%)
Revenue	**2,472.0**	**2,325.2**	**+6.3%**	**2,472.0**	**2,325.2**	**+6.3%**
Gross Profit	301.1	288.2	+4.5%	301.1	288.2	+4.5%
Operating Profit	**60.0**	**58.7**	**+2.2%**	**60.0**	**57.1**	**+5.1%**
Interest	(11.5)	(14.5)	-20.7%	(12.9)	(15.3)	-15.7%
Profit Before Tax	**48.5**	**44.2**	**+9.7%**	**47.1**	**41.8**	**+12.7%**
Tax	(11.2)	(10.7)	+4.7%	(10.9)	(10.7)	+1.9%
Profit After Tax	**37.3**	**33.5**	**+11.3%**	**36.2**	**31.1**	**+16.4%**
Earnings Per Share (p)	2.6p	2.3p	+13.0%	2.6p	2.2p	+18.2%
Dividend Per Share (p)	0.75p	0.70p	+7.1%	0.75p	0.70p	+7.1%
Net Debt	140.1	46.6	+200.6%	140.1	46.6	+200.6%
Net Debt : EBITDA	0.9	0.3	+200.0%	0.9	0.3	+200.0%
Gross Margin (%)	12.2%	12.4%	-0.2%	12.2%	12.4%	-0.2%
Operating Margin (%)	2.4%	2.5%	-0.1%	2.4%	2.5%	-0.1%

* - 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.

Financial Summary Highlights

Revenue increased in the period by £146.8 million (+6.3%) and by £164.0 million (+7.3%) on a like for like basis. The increase in revenue has largely been due to increases in used and aftersales activity offset by a reduction in new activity.

Underlying gross profit increased by £12.9 million (+4.5%) in the period and on a like for like basis by £13.0 million (+4.6%) over the prior year. Operating costs increased on a like for like basis by £11.2 million (+5.0%), as the business had higher levels of activity and increased capacity in the used and aftersales environments.

Underlying operating profit increased by £1.3 million in the period and by £1.8 million on a like for like basis. Underlying interest costs decreased by £3.0 million in the period, largely as a result of savings in the underlying bank interest and more favourable stocking interest terms.

Non-Underlying Items

£m	2017	2016
(Losses) / Gains on Disposals Net of Property Impairments	-	(0.6)
Pensions	(1.4)	(0.8)
Impairment of Assets Held For Sale	-	(1.0)
Non-Underlying Items Before Tax	**(1.4)**	**(2.4)**
Tax	**0.3**	**-**
Non-Underlying Items After Tax	**(1.1)**	**(2.4)**

Other income, being the profit on disposal of businesses and property was £nil. In the previous period this comprises £0.1 million profit on sale of property and a loss on the disposal of motor vehicle dealerships of £0.7 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

The Group is still trading below our target range for the net debt to underlying EBITDA ratio, therefore the Board is actively considering the Group's capital allocation. The Board believes the Group will continue to generate strong cash flows and has an expectation of higher capital expenditure with our manufacture partners in the next two years together with our ongoing expansion programme for used footprint roll-out in the UK. Our used footprint expansion programme was a four year £100 million investment plan initiated in 2015. The Board also continues to look for further acquisition opportunities in the US.

The Board has ongoing capital expenditure requirements, and will continue to pursue organic and acquisitive growth and investment opportunities, potential repurchase of leasehold properties and evaluate the share buyback programme and other returns from cash.

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 six month periods ended 30 June 2017 and 30 June 2016 as follows:

Summary Cashflow and Net Debt

£m		2017		2016
Operating Profit Before Other Income		**60.0**		**57.7**
Depreciation and Amortisation		14.9		14.1
Impairment of assets held for sale		-		1.0
Share Based Payments		1.0		1.2
Working Capital and Contract Hire Vehicle Movement		(45.5)		15.1
Operating Cashflow		**30.4**		**89.1**
Tax Paid		(9.0)		(9.9)
Underlying Net Interest Paid		(10.2)		(15.0)
Capital Expenditure – Franchise Specific and Acquisition	(9.2)		(12.0)	
Disposals – Former Franchise Property	1.1		2.0	
Disposals – Franchise Businesses	0.0		7.0	
Net Franchise Capital Expenditure	**(8.1)**		**(3.0)**	
Capital Expenditure – 40 Site Roll-Out		(11.1)		(3.9)
Capital Expenditure – Underlying Replacement		(13.9)		(10.7)
Capital Expenditure – Property Leases		(9.5)		(1.8)
Dividends		(10.7)		(10.2)
Share Buybacks		(3.5)		(1.3)
Other		(2.8)		(0.3)
(Increase)/Reduction in Net Debt		**(48.4)**		**33.0**
Opening Net Debt		91.7		79.6

Closing Net Debt	140.1	46.6

The Group's net debt was £140.1 million at 30 June 2017, an increase of £48.4 million from 31 December 2016. 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 30 June 2017 our net debt : underlying EBITDA ratio was 0.9 (2016 : 0.3) and remains below our target range. We continue to expect strong cashflow generation and we have maintained a progressive dividend.

During the first half of the year, we made funding choices on our inventory which led to a higher working capital outflow which helped save interest cost in the period.

We are also working to expand our UK footprint by investing in additional physical footprint. We have opened four sites in the first half of 2017 and have five sites actively being pursued for the second half of 2017. 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

The Group has a combination of leasehold and freehold properties from which our business operates and our property portfolio is an important aspect of our business. At 30 June 2017, the Group had £224.4 million of land and property assets (2016 : £187.2 million) and property assets for sale of £5.6 million (2016 : £11.9 million). In the first half we acquired 2 leased properties for £9.5 million. These properties form part of future development projects and may be resold in due course.

Dividend

The Group is proposing an interim dividend of 0.75p per share in respect of 2017, following a final dividend in 2016 of 0.75p per share. This dividend will maintain our dividend cover at a similar level to the prior year's. We intend to maintain a progressive dividend approach in the future.

The interim dividend will be paid on 24 October 2017 for those shares recorded on 22 September 2017.

Shares Repurchased and Buyback

The total amount of shares purchased on the buyback scheme reached £11.0 million in May 2017 since the launch of the programme in May 2016. As we announced at inception of the May 2016 share buyback programme, the buyback programme is capable of being stopped and restarted and this flexibility will enable the Company to pursue other, higher returning, capital allocation opportunities if they arise. The Board temporarily suspended the buyback programme in May 2017 with a number of other opportunities in progress.

Pensions

The net liability for defined benefit pension scheme obligations has decreased by £32.7 million from £103.2 million at 31 December 2016 to £70.5 million at 30 June 2017. Following the full actuarial valuation of the company's pension scheme at 31 December 2015 showing a deficit of £35.1 million, the company and trustees have agreed to raise its annual contribution to the pension scheme to £7.0 million from 1 January 2017 increasing by 2.25% per annum thereafter until July 2022, from £2.9 million contributions in 2016.

6. 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 declines in the new vehicle market, in the remainder of 2017.

We believe that we can achieve at least double digit growth in used revenue in 2017 and our aspiration over five years is to double our used vehicle revenue. During the second half we will make further adjustments to our pricing to maintain our new higher level of volume and enrich the margin. The used vehicle volumes will be driven by capacity being installed as part of our used vehicle strategy. Our future growth is focused on increasing profitability of used vehicles and aftersales within the UK and US Motor businesses, geographical expansion in the US Motor and Software businesses and further growth in our Leasing businesses. Whilst we are expecting harder comparatives in the second half we still anticipate our performance for 2017 will be in line with expectations as we further diversify our profitability streams.

7. Detailed Financials

Condensed Consolidated Income Statement

For the six months ended 30 June

	Note	Underlying £m	Non-underlying £m	**2017 £m**	Underlying £m	Non-underlying £m	2016 £m
Revenue		2,472.0	-	**2,472.0**	2,325.2	-	**2,325.2**
Cost of sales		(2,170.9)	-	**(2,170.9)**	(2,037.0)	-	**(2,037.0)**
Gross profit		301.1	-	**301.1**	288.2	-	**288.2**
Operating expenses		(241.1)	-	**(241.1)**	(229.5)	(1.0)	**(230.5)**
Operating profit before other income		60.0	-	**60.0**	58.7	(1.0)	**57.7**
Other income – losses on sale of businesses and property	6	-	-	**-**	-	(0.6)	**(0.6)**
Operating profit		60.0	-	**60.0**	58.7	(1.6)	**57.1**
Finance expense	8	(11.5)	(1.4)	**(12.9)**	(14.5)	(0.8)	**(15.3)**
Net finance costs		(11.5)	(1.4)	**(12.9)**	(14.5)	(0.8)	**(15.3)**
Profit before taxation		48.5	(1.4)	**47.1**	44.2	(2.4)	**41.8**
Income tax (expense) / credit	9	(11.2)	0.3	**(10.9)**	(10.7)	-	**(10.7)**
Profit for the period		37.3	(1.1)	**36.2**	33.5	(2.4)	**31.1**
Earnings per share							
Basic earnings per share	11			**2.6p**			**2.2p**
Diluted earnings per share	11			**2.5p**			**2.1p**

	Note	Underlying 2017	Underlying 2016
Non GAAP measure			
Underlying basic earnings per share	11	2.6p	2.3p
Underlying diluted earnings per share	11	2.6p	2.3p

All amounts are unaudited

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June

	2017 £m	2016 £m
Profit for the period	**36.2**	31.1
Other comprehensive income:		
Items that will never be reclassified to profit and loss		
Defined benefit plan remeasurement gains and (losses)	**30.6**	(31.4)
Income tax relating to defined benefit plan remeasurement (gains) and losses	**(5.2)**	5.6
	25.4	(25.8)
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences of foreign operations	**(0.3)**	(0.4)
	(0.3)	(0.4)
Other comprehensive income for the period, net of tax	**25.1**	(26.2)
Total comprehensive income for the period	**61.3**	4.9

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June

	Share capital £m	Share premium £m	Other reserves £m	Translation differences £m	Retained earnings £m	**Total £m**
Balance at 1 January 2017	71.8	56.8	16.3	(0.2)	228.1	**372.8**
Total comprehensive income for 2017						
Profit for the period	-	-	-	-	36.2	**36.2**
Other comprehensive income for the period, net of tax	-	-	-	(0.3)	25.4	**25.1**
Total comprehensive income for the period	-	-	-	(0.3)	61.6	**61.3**
Dividends paid	-	-	-	-	(10.7)	**(10.7)**
Own shares purchased for cancellation	(0.5)	-	0.5	-	(3.5)	**(3.5)**
Own shares purchased by EBT	-	-	-	-	(2.5)	**(2.5)**
Share based payments	-	-	-	-	1.0	**1.0**
Balance at 30 June 2017	71.3	56.8	16.8	(0.5)	274.0	**418.4**
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 period	-	-	-	-	31.1	**31.1**
Other comprehensive income for the period, net of tax	-	-	-	(0.4)	(25.8)	**(26.2)**

Total comprehensive income for the period	-	-	-	(0.4)	5.3	**4.9**
Dividends paid	-	-	-	-	(10.2)	**(10.2)**
Own shares purchased for cancellation	(0.2)	-	0.2	-	(1.5)	**(1.5)**
Own shares issued by EBT	-	-	-	-	0.1	**0.1**
Own shares purchased by EBT	-	-	-	-	(0.3)	**(0.3)**
Share based payments	-	-	-	-	1.2	**1.2**
Income tax relating to share based payments	-	-	-	-	(0.1)	**(0.1)**
Balance at 30 June 2016	72.8	56.8	15.3	(0.6)	244.9	**389.2**

Condensed Consolidated Balance Sheet

	Note	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Non-current assets				
Property, plant and equipment		**445.9**	375.3	405.3
Goodwill		**356.5**	356.4	356.5
Other intangible assets		**6.0**	6.8	5.7
Deferred tax assets		**12.8**	15.6	19.0
Total non-current assets		**821.2**	754.1	786.5
Current assets				
Inventories		**980.5**	933.9	846.2
Trade and other receivables		**160.5**	164.1	153.1
Cash and cash equivalents	14	**46.4**	54.0	84.0
Assets classified as held for sale	13	**5.6**	13.4	6.6
Total current assets		**1,193.0**	1,165.4	1,089.9
Total assets		**2,014.2**	1,919.5	1,876.4
Current liabilities				
Trade and other payables		**(1,177.6)**	(1,206.2)	(1,068.7)
Deferred income	17	**(39.9)**	(35.7)	(36.6)
Current tax payable		**(8.6)**	(8.7)	(7.8)
Provisions	16	**(2.5)**	(4.9)	(6.2)
Total current liabilities		**(1,228.6)**	(1,255.5)	(1,119.3)
Non-current liabilities				
Interest bearing loans and borrowings		**(186.5)**	(100.6)	(175.7)
Trade and other payables		**(53.3)**	(43.9)	(48.8)
Deferred income	17	**(53.6)**	(51.1)	(50.4)
Retirement benefit obligations		**(70.5)**	(74.3)	(103.2)
Provisions	16	**(3.3)**	(4.9)	(6.2)
Total non-current liabilities		**(367.2)**	(274.8)	(384.3)
Total liabilities		**(1,595.8)**	(1,530.3)	(1,503.6)
Net Assets		**418.4**	389.2	372.8
Capital and reserves				
Called up share capital		**71.3**	72.8	71.8
Share premium account		**56.8**	56.8	56.8
Capital redemption reserve		**4.2**	2.7	3.7
Other reserves		**12.6**	12.6	12.6
Translation reserve		**(0.5)**	(0.6)	(0.2)
Retained earnings		**274.0**	244.9	228.1
Total equity attributable to equity shareholders of the company		**418.4**	389.2	372.8

Condensed Consolidated Cash Flow Statement

	Note	For the six months ended 30 June 2017 £m	For the six months ended 30 June 2016 £m	For the twelve months ended 31 December 2016 £m
Cash flows from operating activities				
Profit for the period		**36.2**	31.1	55.5
Adjustment for net financing expense		**12.9**	15.3	27.4
Adjustment for taxation		**10.9**	10.7	17.5
		60.0	57.1	100.4
Depreciation and amortisation		**14.9**	14.1	29.9
Share based payments		**1.0**	1.2	2.2
Loss / (profit) on sale of businesses and property		**-**	0.6	(0.3)
Impairment of assets held for sale		**-**	1.0	1.1
Changes in inventories	19	**(109.9)**	(90.4)	(3.6)
Changes in trade and other receivables		**(7.2)**	(29.7)	(19.7)
Changes in trade and other payables		**97.5**	145.3	14.2
Changes in retirement benefit obligations	20	**(3.5)**	(1.3)	(3.1)
Changes in provisions		**(6.6)**	0.5	3.1
Movement in contract hire vehicle balances	18	**(15.8)**	(9.3)	(21.6)
Cash generated from operations		**30.4**	89.1	102.6
Interest paid		**(10.2)**	(15.0)	(17.3)
Taxation paid		**(9.0)**	(9.9)	(25.2)
Net cash from operating activities		**11.2**	64.2	60.1
Cash flows from investing activities				
Proceeds from sale of businesses		**-**	7.0	8.9
Acquisitions of businesses		**(0.2)**	(0.5)	(2.6)
Purchase of property, plant and equipment		**(98.7)**	(77.5)	(147.0)
Proceeds from sale of property, plant and equipment		**56.3**	51.6	96.9
Net cash used in investing activities		**(42.6)**	(19.4)	(43.8)
Cash flows from financing activities				
Dividends paid to shareholders		**(10.7)**	(10.2)	(20.3)
Repurchase of own shares		**(3.5)**	(1.3)	(7.5)
Purchase of shares by EBT		**(2.5)**	(0.3)	(0.3)
Disposal of shares by EBT		**-**	0.1	0.1
Repayment of bond and loans		**-**	(216.6)	(216.7)
Proceeds from issue of loans		**10.5**	98.7	173.6
Net cash outflow from financing activities		**(6.2)**	(129.6)	(71.1)
Net decrease in cash and cash equivalents		**(37.6)**	(84.8)	(54.8)
Opening cash and cash equivalents		**84.0**	138.8	138.8
Closing cash and cash equivalents	14	**46.4**	54.0	84.0

Reconciliation of Net Cash Flow to Movement in Net Debt

	For the six months ended 30 June 2017 £m	For the six months ended 30 June 2016 £m	For the twelve months ended 31 December 2016 £m
Net decrease in cash and cash equivalents	**(37.6)**	(84.8)	(54.8)
Repayment of bond and loans	**-**	216.6	216.7
Proceeds from issue of loans (net of directly attributable transaction costs)	**(10.5)**	(98.7)	(173.6)
Non-cash movements	**(0.3)**	(0.1)	(0.4)
(Increase) / decrease in net debt in the period	**(48.4)**	33.0	(12.1)
Opening net debt	**(91.7)**	(79.6)	(79.6)
Closing net debt	**(140.1)**	(46.6)	(91.7)

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

Pendragon Plc (the "Company") is a public company incorporated, domiciled and registered in England in the UK. The registered number is 2304195 and the registered address is Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottingham, NG15 0DR.

The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the 'Group').

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

The condensed set of financial statements for the six months ended 30 June 2017 are unaudited but have been reviewed by the auditors. The independent review report is set out below.

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 6 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

Operating profit reconciliation

	2017 £m	2016 £m
Underlying operating profit	60.0	58.7
Losses on the sale of businesses and property (see note 6)	-	(0.6)
Impairment of assets held for sale (see note 6)	-	(1.0)
Non-underlying operating profit items	-	(1.6)
Operating profit	60.0	57.1

Profit before tax reconciliation

	2017 £m	2016 £m
Underlying profit before tax	**48.5**	44.2
Non-underlying operating profit items (see reconciliation above)	**-**	(1.6)
Non-underlying finance costs (see note 6)	**(1.4)**	(0.8)
Non-underlying operating profit and finance cost items	**(1.4)**	(2.4)
Profit before tax	**47.1**	41.8

Profit after tax reconciliation

	2017 £m	2016 £m
Underlying profit before tax	**37.3**	33.5
Non-underlying operating profit and finance cost items (see reconciliation above)	**(1.4)**	(2.4)
Non-underlying tax (see note 6)	**0.3**	-
Non-underlying operating profit, finance and tax cost items	**(1.1)**	(2.4)
Profit after tax	**36.2**	31.1

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 11.

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 and LTIPs. A full reconciliation of how this is derived is found in note 11.

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.

Net Debt : Underlying EBITDA Reconciliation

	2017	2016
	£m	£m
Underlying operating profit (12 months rolling 1 July 2016 to 30 June 2017)	102.5	102.9
Depreciation and Amortisation (12 months rolling 1 July 2016 to 30 June 2017)	61.1	50.5
Underlying EBITDA (12 months rolling 1 July 2016 to 30 June 2017)	163.6	153.4
Net Debt	140.1	46.6
Net Debt : Underlying EBITDA Ratio	0.9	0.3

2 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016, which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

These condensed consolidated interim financial statements were approved by the board of directors on 1 August 2017.

3 Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2016, except as explained below.

Adoption of new and revised standards:

There are currently no EU endorsed standards and interpretations mandatory for the year ended 31 December 2017.

The following standards and interpretations are effective for the year ended 31 December 2017 but have yet to be endorsed by the EU.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
Disclosure Initiative – Amendments to IAS 7

The above standards will not have a significant impact on the financial statements of the Group.

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

IFRS 9 Financial Instruments (endorsed by EU)
IFRS 15 Revenue from Contracts with Customers (endorsed by EU)
IFRS 16 Leases (not yet endorsed by EU)
IFRS 9 Financial Instruments is not expected to have a significant impact on the financial statements of the Group. IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases which will be applicable for the 2018 financial year and 2019 financial year respectively are expected to have an impact on the financial statements. Management is currently assessing this impact of these IFRSs which are likely to have significant impact upon reported non-current assets and net debt as well as associated KPIs such as EBITDA measures and sales revenue and margins.

4 Estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

Assets held for resale are held at the lower of their carrying value and fair value less costs to sell. The fair value (a Level 2 valuation, determined based on prices for similar assets) is £5.6m.

During the six months ended 30 June 2017 management reassessed its estimates and assumptions in respect of employee post-retirement benefit obligations. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates and return on assets, details of which are provided in note 20 below.

The estimate in respect of the anticipated tax rate to be applied for the full financial year 2017 and subsequently used in the preparation of the results for the six month period to 30 June 2017 are set out in note 9.

5 Comparative figures

The comparative figures for the financial year ended 31 December 2016 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (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.

6 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.

	2017	2016
	£m	£m
Within operating expenses:		
Impairment of assets held for sale	-	(1.0)
Within other income - gains on the sale of businesses and property:		
Loss on the sale of businesses	-	(0.7)
Gain on the sale of property	-	0.1
	-	(0.6)
Within finance expense:		
Net interest on pension scheme	(1.4)	(0.8)
Total non-underlying items before tax	**(1.4)**	(2.4)
Non-underlying items in tax	**0.3**	-
Total non-underlying items after tax	**(1.1)**	(2.4)

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was no impairment charge against assets held for sale recognised in the period (2016: £1.0m).

Other income, being the profit on disposal of businesses and property was £nil. In the previous period this comprises £0.1m profit on sale of property and a loss on the disposal of motor vehicle dealerships of £0.7m.

The net interest expense on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility and non-trading nature of this amount. A net interest expense of £1.4m has been recognised during the period (2016: £0.8m).

7 Segmental analysis

The Group has revised its reporting segments. In January 2017 the Group re-organised its management and reporting structure. The significant changes were that the Evans Halshaw, Stratstone and Quickco operations were brought under the management of the UK Motor operation. In addition, the Central segment operating costs, which comprised of head office related expenditure, were allocated to the four operational operating segments. This revised segmental structure is reflected in the internal reporting structure as presented to the Chief Operating Decision Maker. In the 2017 financial statements therefore the Evans Halshaw, Stratstone, Quickco and Central segments are no longer reported separately.

The allocated central costs incurred in 2016 are applied to the new UK Motor Segment and the existing segments of US Motor (previously known as California), Software (previously known as Pinewood) and Leasing as shown in the table below. The finance costs previously reported in the central segment cannot be reasonably allocated against the reporting segments and therefore are shown against the total result.

Central costs allocation

	Allocated to: UK Motor £m	US Motor £m	Software £m	Leasing £m	Group Interest £m	As reported 30 June 2016 £m
Operating profit before non-underlying items	(9.1)	-	(0.1)	(0.2)	-	**(9.4)**
Other income and non-underlying items	(1.6)	-	-	-	-	**(1.6)**
Operating profit	(10.7)	-	(0.1)	(0.2)	-	**(11.0)**
Finance expense	-	-	-	-	(11.6)	**(11.6)**
Profit before tax	(10.7)	-	(0.1)	(0.2)	(11.6)	**(22.6)**

The results of the Evans Halshaw, Stratstone and Quickco segments for the comparative period have been aggregated into the new UK Motor Group segment and is re-presented as follows for the period ended 30 June 2016:

UK Motor segment restatement

	As reported 30 June 2016 Stratstone £m	Evans Halshaw £m	Quickco £m	Central allocation £m	UK Motor segment as restated 30 June 2016 £m
Total gross segment turnover	858.4	1,246.4	37.4		**2,142.2**
Inter-segment turnover	-	-	(7.1)	-	**(7.1)**
Revenue from external customers	858.4	1,246.4	30.3	-	**2,135.1**
Operating profit before non-underlying items	24.6	31.4	0.9	(9.1)	**47.8**
Other income and non-underlying items	-	-	-	(1.6)	**(1.6)**
Operating profit	24.6	31.4	0.9	(10.7)	**46.2**
Finance expense	(1.5)	(1.9)	-	-	**(3.4)**
Profit before tax	23.1	29.5	0.9	(10.7)	**42.8**
Depreciation and amortisation	4.3	7.0	0.1	-	**11.4**

Leasing segment restatement

	As	Central	Leasing

	reported 30 June 2016 £m	allocation £m	segment as restated 30 June 2016 £m
Total gross segment turnover	30.8	-	30.8
Inter-segment turnover	(5.6)	-	(5.6)
Revenue from external customers	25.2	-	25.2
Operating profit before non-underlying items	1.6	(0.2)	**1.4**
Other income and non-underlying items	-	-	**-**
Operating profit	1.6	(0.2)	**1.4**
Finance expense	-	-	**-**
Profit before tax	1.6	(0.2)	**1.4**
Depreciation and amortisation	14.9	-	**14.9**

Software segment restatement

	As reported 30 June 2016 £m	Central allocation £m	Software segment as restated 30 June 2016 £m
Total gross segment turnover	11.8	-	**11.8**
Inter-segment turnover	(4.8)	-	**(4.8)**
Revenue from external customers	7.0	-	**7.0**
Operating profit before non-underlying items	4.9	(0.1)	**4.8**
Other income and non-underlying items	-	-	**-**
Operating profit	4.9	(0.1)	**4.8**
Finance expense	-	-	**-**
Profit before tax	4.9	(0.1)	**4.8**
Depreciation and amortisation	1.1	-	**1.1**

The US Motor segment (previously known as California) had no central costs allocated in 2016 so no reconciliation is presented.

For the six months ended 30 June 2017	UK Motor £m	US Motor £m	Software £m	Leasing £m	**Total £m**
Total gross segment turnover	2,233.9	205.0	13.1	36.9	**2,488.9**

Inter-segment turnover	(4.9)	-	(5.3)	(6.7)	**(16.9)**
Revenue from external customers	2,229.0	205.0	7.8	30.2	**2,472.0**
Operating profit before non-underlying items	46.5	5.0	5.5	3.0	**60.0**
Other income and non-underlying items	-	-	-	-	**-**
Operating profit	46.5	5.0	5.5	3.0	**60.0**
Finance expense	(3.3)	(0.8)	-	-	**(4.1)**
Segmental profit before tax	43.2	4.2	5.5	3.0	**55.9**
Unallocated central finance expense					**(8.8)**
Profit before tax					**47.1**
Depreciation and amortisation	11.2	0.8	1.1	18.1	**31.2**

For the six months ended 30 June 2016 – as restated	UK Motor £m	US Motor £m	Software £m	Leasing £m	**Total £m**
Total gross segment turnover	2,142.2	157.9	11.8	30.8	**2,342.7**
Inter-segment turnover	(7.1)	-	(4.8)	(5.6)	**(17.5)**
Revenue from external customers	2,135.1	157.9	7.0	25.2	**2,325.2**
Operating profit before non-underlying items	47.8	4.7	4.8	1.4	**58.7**
Other income and non-underlying items	(1.6)	-	-	-	**(1.6)**
Operating profit	46.2	4.7	4.8	1.4	**57.1**
Finance expense	(3.4)	(0.3)	-	-	**(3.7)**
Segmental profit before tax	42.8	4.4	4.8	1.4	**53.4**
Unallocated central finance expense					**(11.6)**
Profit before tax					**41.8**
Depreciation and amortisation	11.4	0.8	1.1	14.9	**28.2**

8 **Finance expense**

Recognised in profit and loss	2017 £m	2016 £m
Interest payable on bond, bank borrowings and loan notes	3.4	4.9
Vehicle stocking plan interest	6.9	8.9
Net interest on pension scheme obligations (non-underlying – see note 6)	1.4	0.8
Total interest expense in respect of financial liabilities held at amortised cost	11.7	14.6
Unwinding of discounts in contract hire residual values	1.2	0.7
Total finance expense	12.9	15.3

9 **Taxation**

Based upon the anticipated profit on underlying activities for the full year, the effective rate on underlying profit for 2017 is estimated at 23.5% (2016: 24.3%). The effective rate for 2017 is higher than the current rate of UK tax due to the proportion of profit taxed at a higher rate in the US. The reduction in the UK corporation tax rate to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. This will reduce the Group's future tax charge accordingly. The deferred tax asset as at 30 June 2017 has been calculated based on the expected long term rate of 17% substantively enacted at that date.

10 **Dividends**

	2017 £m	2016 £m
Final dividend paid in respect of 2016 of 0.75p (2015: 0.7p) per ordinary share	10.7	10.2

An interim dividend of 0.75p (2016: 0.7p) per ordinary share amounting to £10.6m (2016: £10.2m) will be paid on 24 October 2017.

11 **Earnings per share**

	2017 Pence	2016 Pence
Basic earnings per share	2.55	2.15
Effect of adjusting items	0.07	0.16
Underlying basic earnings per share (Non GAAP measure)	2.62	2.31
Diluted earnings per share	2.53	2.13
Effect of adjusting items	0.07	0.16
Underlying diluted earnings per share (Non GAAP measure)	2.60	2.29

The calculation of basic, diluted and adjusted earnings per share is based on:

Number of shares (millions)	2017	2016

	number	Number
Weighted average number of shares used in basic and adjusted earnings per share calculation	**1,421.7**	1,449.7
Weighted average number of dilutive shares under option	**11.1**	12.5
Diluted weighted average number of shares used in diluted earnings per share calculation	**1,432.8**	1,462.2

Earnings	2017 £m	2016 £m
Profit for the period	**36.2**	31.1
Adjusting items:		
Non-underlying items attributable to the parent (see note 6)	**1.4**	2.4
Tax effect of non-underlying items	**(0.3)**	-
Earnings for adjusted earnings per share calculation	**37.3**	33.5

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

12 Business and property disposals

During the period there were no disposals of assets of motor vehicle dealerships. In the previous period the Group generated net proceeds of £7.0m with a loss on disposal of £0.7m from the sale of assets of motor vehicle dealerships.

The Group sold property generating net proceeds of 1.2m (2016: £2.0m) with no profit or loss on disposal (2016: profit £0.1m).

13 Assets classified as held for sale

The Group holds a number of properties that are currently being marketed for sale which are expected to be disposed of during the next 12 months. No impairment loss has been recognised in the income statement for the six months to 30 June 2017 on re-measurement of properties to the lower of their carrying amount and their fair value less costs to sell (2016: £1.0m).

During the period to 30 June 2017 disposals of assets classified as held for sale realised a profit of £nil on disposal (2016: £0.2m).

The major classes of assets comprising the assets held for sale are:

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Goodwill	**-**	1.5	-
Property, plant and equipment	**5.6**	11.9	6.6
	5.6	13.4	6.6

14 Cash and cash equivalents

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Bank balances and cash equivalents	**46.4**	54.0	84.0

15 Net borrowings

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Cash and cash equivalents (note 14)	**46.4**	54.0	84.0
Non-current interest bearing loans and borrowings	**(186.5)**	(100.6)	(175.7)
	(140.1)	(46.6)	(91.7)

16 Provisions

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Vacant property	**4.7**	6.0	7.4
VAT assessment	**1.1**	3.8	5.0
	5.8	9.8	12.4
Non-current	**3.3**	4.9	6.2
Current	**2.5**	4.9	6.2
	5.8	9.8	12.4

During the current period a cash payment was made to HMRC of £4.3m in respect of the VAT assessment.

17 Deferred income

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Property leases – sale and leaseback proceeds excess over fair value and fixed rental increases	**13.4**	14.2	13.9
Warranty policies sold	**6.8**	7.0	6.4
Contract hire leasing income	**73.3**	65.6	66.7
	93.5	86.8	87.0
Non-current	**53.6**	51.1	50.4
Current	**39.9**	35.7	36.6
	93.5	86.8	87.0

18 Changes in contract hire vehicle balances

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Depreciation	**16.3**	14.1	28.2
Changes in trade and other payables and deferred income	**13.4**	9.4	21.5
Purchases of contract hire vehicles	**(44.3)**	(32.1)	(69.7)
Unwinding of discounts in contract hire residual values	**(1.2)**	(0.7)	(1.6)
Cash flow movement in contract hire vehicle balances	**(15.8)**	(9.3)	(21.6)

19 Change in inventories

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Movement in inventory	**(134.3)**	(103.3)	(15.6)
Inventory changes in business combinations and disposals	**-**	(1.4)	(1.0)
Impact of exchange differences	**-**	-	(1.0)
Non cash movement in consignment vehicles	**9.8**	5.6	(6.0)
Transfer value of contract hire vehicles from fixed assets to inventory	**14.6**	8.7	20.0
Cash flow increase in movements in inventory	**(109.9)**	(90.4)	(3.6)

20 Pension scheme obligations

The net liability for defined benefit obligations has decreased from £103.2m at 31 December 2016 to £70.5m at 30 June 2017. The decrease of £32.7m comprises a net interest expense of £1.4m recognised in the income statement, a net remeasurement gain of £30.6m and contributions paid of £3.5m. The net remeasurement gain has arisen in part due to changes in the principal assumptions used in the valuation of the scheme's liabilities over those used at 31 December 2016. The assumptions subject to change are the discount rate of 2.70% (31 Dec 2016: 2.70%), the inflation rate (RPI) of 3.2% (31 Dec 2016: 3.35%), the inflation rate (CPI) of 2.2% (31 Dec 2016: 2.35%) and the rate of increase of pensions in payment of 2.77% (31 Dec 2016: 2.91%).

21 Related party transactions

There have been no new related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last annual report that could do so.

22 Risks and uncertainties

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results.

The principal risks identified were: failure to adopt the right strategy or failure of our adopted strategy to be effectively implemented or to deliver the desired results, dependence on vehicle manufacturers for the success of our business, failure to meet competitive challenges to our business model or sector, European economic instability affecting the UK in particular impacting used vehicle prices, UK governmental spending constraints, changes to the type of vehicles sold or the amount of road use, availability of debt funding, funding requirements of the occupational pension scheme, significant litigation or regulator action against or otherwise impacting the Group, failure of systems, reliance on the use of estimates, failure to attract, develop, motivate and retain good quality team members, failure to provide safe working and retail environments, failure to control environmental hazards, failure to comply with the forthcoming General Data Protection Regulation and the potential impacts associated with the UK's decision to leave the EU. With regard to the UK's decision to leave the EU, we believe that the main risk factors are consumer confidence and the potential impact of Sterling/Euro exchange rates on vehicle prices. To date we have not experienced any noticeable change in our customers' behaviour and, based on discussions with our franchise partners, we do not anticipate any material effect on new vehicle pricing as a result of exchange rates. The Risk Control Group has met to consider these risks and uncertainties and will continue to monitor how these risks evolve. The Board has recently reviewed the risk factors and confirms that they remain an appropriate assessment of our risks for the rest of the current year. The Board considers the main areas of risk and uncertainty that could impact profitability to be used vehicle prices and economic and business conditions, including Sterling/Euro exchange rates.

Responsibility Statement

We confirm that to the best of our knowledge:

a) The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;
b) The interim management report includes a fair review of the information required by:
(i) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
(ii) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

T G Finn
Chief Executive

T P Holden
Finance Director
1 August 2017

INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Balance Sheet, Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

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

John Leech
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

1 August 2017