Pendragon PLC – The largest and leading automotive online retailer in the UK

FULL YEAR RESULTS FOR 31 DECEMBER 2017 (issued 13 February 2018)

Operational and Financial Highlights

- **Used Revenue Up 15.3% (L4L)** – Further strong growth against a backdrop of a challenging economic environment and lower consumer confidence.
- **Aftersales Revenue Up 6.9% (L4L)** - Continuing growth due to own initiatives and favourable market conditions.
- **New Revenue Down 4.9% (L4L)** – Reduction in new vehicle revenue, particularly in the third quarter. UK retail national registrations in our brands fell by 8.0% in the year.
- **Gross Margin Movement in Third Quarter** – Gross margin fell by 80 basis points over the prior year quarter, due to a reduction in new and nearly new vehicle margin primarily in the premium sector in the third quarter, which also impacted used vehicle margin in the same period.
- **Gross Margin Recovered in the Fourth Quarter** – Gross margin in new and used vehicle margins recovered to more normal seasonal levels in the fourth quarter.
- **Software Revenue Up 9.7%** - Double digit growth in gross profit and operating profit up £0.9m.
- **Leasing Revenue Up 39.0%** - Double digit growth in gross profit and operating profit up £4.8m.
- **Underlying Profit Before Tax £60.4m** – Underlying profit before tax down £15.0m due to reduction in new revenue in the year and the margin impacts in the third quarter.
- **Robust Balance Sheet** – strong balance sheet and still trading below the Net Debt: EBITDA target of 1 to 1.5.

Strategic Highlights

- The strategy of the business has four main components:
  - **Software and Online Technologies** - Online and technology at the heart of our business transformation, providing the online platform for our customers and our Motor business. Global opportunity for software system with deployment in Europe, Africa and Asia Pacific.
  - **Reshaping of the Business** – Acceleration of the transformation of the business, to deliver a market leading share in used vehicle and aftersales markets.
  - **Double Used Vehicle Revenue** - Double our used vehicle revenue over the five years to 2021 with investment in capacity in the UK.
  - **Capital Allocation Focus** - Disposal process underway to achieve a reduction in our UK Premium franchise locations and disposal of the US business.
- The Board committed to this strategy to achieve more reliable and sustainable returns and a higher value business.

Summary of Results

£m	Revenue	Gross Profit	Operating Profit	PBT	EPS
Like for Like*	£4,655.9 (+5.1%)	£546.3 (-1.0%)	£85.8 (-16.1%)	£62.4 (-18.4%)	N/A
Underlying**	£4,739.1 (+4.5%)	£552.9 (-1.2%)	£83.8 (-17.2%)	£60.4 (-19.9%)	3.3p (-15.4%)
TOTAL	**£4,739.1 (+4.5%)**	**£552.9 (-1.2%)**	**£91.4m (-9.0%)**	**£65.3 (-10.5%)**	**3.7p (-2.6%)**

* like for like results include only current trading businesses which have a 12 month comparative history
** underlying results that 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

Trevor Finn, Chief Executive

"The Group has a clear focus and direction to transform the business and double used revenue by 2021. This will be enabled by our market leading software business to provide the online and technology platform and by investment in increasing the used retail and aftersales representation points in the UK. We made further progress towards our goal of doubling used vehicle revenue with growth in the period of 15%. We anticipate our performance in 2018 to be in line with expectations."

Contents

Contacts

Name	Title	Responsibility	Contact
Trevor Finn	Chief Executive	Pendragon PLC	01623 725114
Tim Holden	Finance Director	Pendragon PLC	01623 725114
Gordon Simpson	Partner	Finsbury	0207 2513801
Philip Walters	Partner	Finsbury	0207 2513801

Strategy and Business Review

- The business has 4 areas as follows:
    - UK Motor - sale and servicing of vehicles in the U.K.
    - Software - provides IT solutions for automotive online retailing
    - Leasing - vehicle fleet which provides a stable profitability stream and used vehicle supply
    - US Motor - sale and servicing of vehicles in the U.S.

Underlying £m	2017	2016	Change (%)	L4L Change (%)
Revenue				
UK Motor	£4,243.6	£4,117.9	+3.1%	+4.0%
Software	£15.8	£14.4	+9.7%	+9.7%
Leasing	£64.9	£46.7	+39.0%	+39.0%
US Motor	£414.8	£358.0	+15.9%	+12.4%
	£4,739.1	**£4,537.0**	**+4.5%**	**+5.1%**
Gross Profit				
UK Motor	£471.0	£490.7	-4.0%	-3.4%
Software	£13.8	£12.3	+12.2%	+12.2%
Leasing	£13.9	£9.0	+54.4%	+54.4%
US Motor	£54.2	£47.6	+13.9%	+9.9%
	£552.9	**£559.6**	**-1.2%**	**-1.0%**
Operating Profit				
UK Motor	£52.3	£74.0	-29.3%	-27.3%
Software	£10.9	£10.0	+9.0%	+9.0%
Leasing	£9.8	£5.0	+96.0%	+96.0%
US Motor	£10.8	£12.2	-11.5%	-13.9%
Operating Profit	**£83.8**	**£101.2**	**-17.2%**	**-16.1%**
Gross Margin %	**11.7%**	**12.3%**	**-0.6%**	**-0.7%**
Operating Margin %	**1.8%**	**2.2%**	**-0.4%**	**-0.5%**

UK Motor

Strategy

- Clear strategy in place to transform the business to deliver a market leading share in the used vehicle and aftersales market in the UK following October 2017 strategic review.
- Recruitment process underway for a senior executive to lead our used vehicle operations.
- Review premium brand capital allocation to optimise returns complete, we will reduce our Premium franchise locations over a three year period. As result of this, we will realise £100 million of capital through a mixture of disposal proceeds and capital expenditure not made.

Underlying £m	2017	2016	Change (%)	L4L Change (%)
Revenue				
Used	£2,125.5	£1,845.3	+15.2%	+15.8%
Aftersales	£350.6	£333.2	+5.2%	+6.5%
New	£1,767.5	£1,939.4	-8.9%	-7.5%
	£4,243.6	**£4,117.9**	**+3.1%**	**+4.0%**
Gross Profit				
Used	£156.3	£157.6	-0.8%	-1.0%
Aftersales	£191.2	£190.8	+0.2%	+1.1%
New	£123.5	£142.3	-13.2%	-12.3%
	£471.0	**£490.7**	**-4.0%**	**-3.4%**
Operating Costs	(£418.7)	(£416.7)	+0.5%	+1.0%
Operating Profit	**£52.3**	**£74.0**	**-29.3%**	**-27.3%**
Gross Profit Margin %				
Used	7.4%	8.5%	-1.1%	-1.3%
Aftersales	54.5%	57.3%	-2.8%	-2.9%
New	7.0%	7.3%	-0.3%	-0.3%
	11.1%	**11.9%**	**-0.8%**	**-0.9%**
Operating Margin %				
	1.2%	**1.8%**	**-0.6%**	**-0.6%**

Business Review

We are the UK's leading vehicle online retailer with 184 franchise points and 27 used retail points. We represent a range of volume and premium products that we sell and service which include: Aston Martin, BMW, Citroen, Dacia, DAF, Ferrari, Ford, Harley-Davidson, Hyundai, Jaguar, Land Rover, Kia, Mercedes-Benz, MINI, Nissan, Peugeot, Porsche, Renault, SEAT, Smart and Vauxhall.

The business increased like for like revenue by 4.0% in the period, largely as a result of used revenue growth of 15.8%, whilst new vehicle revenue fell by 7.5%. We are delighted to report that we achieved growth of 15.8% in used in the period while the used vehicle market fell by 1.6% – further increasing our market share in the UK. Our used revenue growth comprised 12.0% from organic (like for like) and 3.8% was achieved from investments in used retail points. We opened the following seven used retail points in the period: Amersham, Coventry, Dartford, Glasgow, Gloucester, Reading and Sunbury. We now have 27 used retail points in total. We are expecting to open four additional used retail points in the first half of 2018, with a further four additional sites in the second half of 2018.

Our aftersales business revenue has grown by 6.5% on a like for like basis, and whilst there has been some reduction in gross margin, this is a result of investment in technician resource which will enhance our aftersales capacity and activity in the coming year.

As announced on 23 October 2017, we experienced a downturn in new vehicle activity, this was particularly evident in the third quarter of the year, leading to lower than expected volumes and margins from new vehicles. This had a knock-on impact on the value of premium used vehicles, which impacted our used margin in quarter three of the year. We are pleased to report that new and used margin recovered to more normalised seasonal levels in quarter four and confirms the margin impact was only temporary. We have assessed the new vehicle market and believe that the market is moderating to a more normalised level. To support this, industry data indicates that the rate of new vehicles being sold on finance and the proportion of those finance sales on a PCP product became flat in 2016.

Software

Strategy

- Our software business ("Pinewood") is at the heart of our strategic plan to revolutionise the business to have full online capability and provide the technology platform to transform the way we do business for our team members and customers.
- We are setting our objective to achieve at least double digit growth in revenue in the Software business. We have a strong track record and whilst historically the business achieved this growth in the UK, more recently the business has been expanding outside of the UK.
- We expect to continue to expand globally and accelerate our representation and implementations in a number of countries worldwide. Pinewood has representation in Europe, Africa and Asia Pacific and is actively expanding the business in these territories.
- Progress is being made on our new website platform for rollout in quarter one of 2018.

Underlying £m	2017	2016	Change (%)	L4L Change (%)
Revenue	£15.8	£14.4	+9.7%	+9.7%
Gross Profit	£13.8	£12.3	+12.2%	+12.2%
Operating Costs	(£2.9)	(£2.3)	+26.1%	+26.1%
Operating Profit	**£10.9**	**£10.0**	**+9.0%**	**+9.0%**
Gross Profit %	**87.3%**	**85.4%**	**+1.9%**	**+1.9%**
Operating Profit %	**69.0%**	**69.4%**	**-0.4%**	**-0.4%**

Business Review

During the period we achieved double digit growth in revenue and gross profit which is a result of the ongoing growth in the UK, South Africa and initial deployment in new territories. The income stream from this business continues to accelerate and the business model provides a gross margin in excess of 85.0% with strong recurring revenue. Pinewood continues to expand globally and is accelerating its representation and implementations in a number of countries worldwide. Pinewood has installations in Europe in the UK, Switzerland and the Netherlands. In Africa, Pinewood has installations in South Africa, Namibia and Zimbabwe. Pinewood has recently expanded into Asia Pacific and has an Asia Pacific representative in Hong Kong, along with two installations in Hong Kong.

We continue to see significant growth in our online business, with visits to Evanshalshaw.com and Stratstone.com up 20.3% to 27.3 million visitors from 22.1 million visitors in the prior year. We are investing in further online capability and platforms to ensure we provide best in class service to our customers.

Leasing

Strategy

- Maintain at least double digit growth in business in revenue and gross profit.
- Provide a used vehicle supply to the group to assist with achieving the doubling of used revenue by 2021.

Underlying £m	2017	2016	Change (%)	L4L Change (%)
Revenue	£64.9	£46.7	+39.0%	+39.0%
Gross Profit	£13.9	£9.0	+54.4%	+54.4%
Operating Costs	(£4.1)	(£4.0)	+2.5%	+2.5%
Operating Profit	**£9.8**	**£5.0**	**+96.0%**	**+96.0%**
Gross Profit %	**21.4%**	**19.3%**	**+2.1%**	**+2.1%**
Operating Profit %	**15.1%**	**10.7%**	**+4.4%**	**+4.4%**

Business Review

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 solutions. 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.

Significant growth in the Leasing business was achieved in the period with operating profit up £4.8m (+96.0%). Revenue increased by 39.0% and gross profit by 54.4% as result of the continued growth of the vehicle fleet. During the year 46.2% of vehicles defleeted were sold within the UK Motor Group. We are pleased with the increasing contribution that this business is providing to the Group and the strong used vehicle supply it generates for our UK Motor business.

US Motor

Strategy

We will be selling the US Motor Group, as we have concluded that is economically right to sell the business at this time to realise its value. We are expecting proceeds in excess of £100.0 million before tax.

Underlying £m	2017	2016	Change (%)	L4L Change (%)
Revenue				
Used	£85.7	£78.3	+9.5%	+5.0%
Aftersales	£37.0	£32.6	+13.5%	+11.0%
New	£292.1	£247.1	+18.2%	+15.0%
	£414.8	**£358.0**	**+15.9%**	**+12.4%**
Gross Profit				
Used	£4.8	£4.4	+9.1%	+0.0%
Aftersales	£19.6	£17.1	+14.6%	+11.7%
New	£29.8	£26.1	+14.2%	+10.3%
	£54.2	**£47.6**	**+13.9%**	**+9.9%**
Operating Costs	(£43.4)	(£35.4)	+22.6%	+18.1%
Operating Profit	**£10.8**	**£12.2**	**-11.5%**	**-13.9%**
Gross Profit Margin %				
Used	5.6%	5.6%	+0.0%	-0.2%
Aftersales	53.0%	52.5%	+0.5%	+0.3%
New	10.2%	10.6%	-0.4%	-0.5%
	13.1%	13.3%	-0.2%	-0.3%
Operating Margin %				
	2.6%	3.4%	-0.8%	-0.8%

Business Review

US Motor is our US retail vehicle business which is based in California. The business operates from ten franchise points representing the following products that we sell and service: Aston Martin, Chevrolet, Jaguar and Land Rover.

US Motor division results are in line with expectations in 2017 following exceptional results in the prior year. There has been very strong performance in aftersales with revenue up 11.0% and gross profit up 11.7% on a like for like basis. In the US, we also have not seen any reduction in new vehicle activity, with new gross profit up 14.2% in the period and up 10.3% on a like for like basis. In September 2017 we acquired the Chevrolet franchise in Puente Hills, California which was earnings enhancing for the remainder of the year. During the year, we settled an employment related class action at a cost of £1.3 million.

Used Car Market

The used car market in 2017 was 7.78 million units, which was a minor fall of 1.2% over 2016 and represents a market opportunity that is 3.1 times the size of the new car market. Despite challenging economic conditions, the used market is more stable and provides a more reliable supply chain than the new vehicle sector. We believe the market will grow by around 1.0% in 2018.

Aftersales Market

The main determinant of the aftersales market is the number of vehicles on the road, known as the 'car parc'. The car parc in the UK has risen to over 34 million vehicles in 2017, a rise of 1.6% on the prior year. 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 18% is represented by four to six year old cars and 60% is greater than seven year old cars. 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.

Overall, we expect at least for the next three years to see good continuing growth in the car parc, with higher growth expected in vehicles over four years of age.

New Car Market

The UK new car market was 2.540 million in the period which is a reduction of 5.6% over the prior year. The UK new car market is divided into two markets, retail and fleet. The retail market is the direct selling of vehicle units to individual customers and operates at a higher margin than the fleet market. The retail market is the key market opportunity for the Group and represents 44% of the total market in 2017. The fleet market represents the sale of multiple vehicles to businesses, and is predominately transacted at a lower margin and consumes higher levels of working capital than retail, and represented 56% of the market in 2017.

UK Registrations '000	2017	2016	Change (%)
UK Retail Registrations	1,123.9	1,206.3	-6.8%
UK Fleet Registrations	1,416.8	1,486.5	-4.7%
Total UK Registrations	**2,540.7**	**2,692.8**	**-5.6%**
Group Represented* UK Retail Registrations	746.4	811.1	-8.0%
Group Represented* UK Fleet Registrations	992.0	1,052.3	-5.7%
Group Represented* Registrations	**1,738.4**	**1,863.4**	**-6.7%**

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

The new retail market has followed a somewhat unusual trend during the year. In quarter one, the retail market was up 3.6%, partly due to the impact of Vehicle Excise Duty taxes which increased on the 1st April 2017 which pulled some registration activity into the first quarter of the year. Consequently the quarter two retail market was 16.5% behind the prior year. In quarter three the retail market was 8.5% behind the prior year and in quarter four the retail market was 10.1% behind the prior year.

Our expectations are that the full year 2018 market will be around 6.6% below 2017, with the retail market 8.8% lower. We believe that the first half of 2018 will have a higher degree of decline than the second half of the year due to the stronger comparatives and the new market returning towards more normal levels of activity in the second half. The Society of Motor Manufacturers and Traders ("SMMT") is currently forecasting that the 2018 market will be 5.6% lower.

Financials

£m	Underlying*			TOTAL		
	2017	2016	Change %	2017	2016	Change %
Revenue	4,739.1	4,537.0	+4.5%	4,739.1	4,537.0	+4.5%
Gross Profit	552.9	559.6	-1.2%	552.9	559.6	-1.2%
Operating Profit	83.8	101.2	-17.2%	91.4	100.4	-9.0%
Interest	(23.4)	(25.8)	-9.3%	(26.1)	(27.4)	-4.7%
Profit Before Tax	60.4	75.4	-19.9%	65.3	73.0	-10.5%
Tax	(12.8)	(19.1)	-33.0%	(12.0)	(17.5)	-31.4%
Profit After Tax	47.6	56.3	-15.5%	53.3	55.5	-4.0%
Gross Margin %	11.7%	12.3%	-0.6%	11.7%	12.3%	-0.6%
Operating Margin %	1.8%	2.2%	-0.4%	1.9%	2.2%	-0.3%
Earnings Per Share	3.3p	3.9p	-15.4%	3.7p	3.8p	-2.6%
Dividend Per Share**	1.55p	1.45p	6.9%	1.55p	1.45p	+6.9%

* 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 Highlights

The Group has achieved an underlying profit before tax of £60.4m in the period despite more difficult trading conditions in the third quarter of the year. Overall profit after tax was £53.3m in the period, 4.0% behind the prior year. The Group's revenue increased by 4.5% in the period largely as a result of used vehicle revenue improvements, the key strategic growth objective for the Group. Encouragingly in the period, on a like for like basis, the rate of growth of costs was 2.4% versus a revenue increase of 5.1%. The ratio of underlying operating costs to revenue fell from 10.1% to 9.9% in the period, and we expect to be further improving this ratio in 2018.

Capital Allocation

We have reviewed our capital allocation as part of a strategic review of our business which was conducted at the end of 2017. We will be selling the US Motor Group, as we have concluded that it is economically right to sell the business at this time to realise its value. We are expecting proceeds in excess of £100.0 million before tax.

We have also reviewed our capital allocation within our Premium brands and concluded that we will reduce our Premium franchise locations over a three year period. As a result of this, we will release £100.0 million of capital through a mixture of disposal proceeds and investment not deployed.

The Group intends to complete the deployment of a national footprint in the UK for the Evans Halshaw Used Vehicle business, Evans Halshaw CarStore.

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, has restarted the share buyback programme in December 2017.

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 2017 and 31 December 2016 as follows:

£m	2017	2016
Underlying Operating Profit Before Other Income	83.8	101.2
Depreciation and Amortisation	28.5	29.9
Share Based Payments	(1.7)	2.2
Working Capital and Contract Hire Vehicle Movement	18.3	(30.7)
Operating Cashflow	**128.9**	**102.6**
Tax Paid	(16.1)	(17.3)
Underling Net Interest Paid	(20.0)	(25.2)
Capital Expenditure - 40 Site Roll-Out	(17.5)	(7.0)
Capital Expenditure - Franchise	(25.5)	(16.2)
Capital Expenditure - Underlying Replacement	(13.8)	(26.2)
Capital Expenditure - Business Acquisitions	(17.8)	(2.6)
Capital Expenditure - Property	(24.6)	(8.8)
Business and Property Disposals	2.5	17.0
Net Franchise Capital Expenditure	**(96.7)**	**(43.8)**
Dividends	(21.3)	(20.3)
Share Buybacks	(4.0)	(7.5)
Other	(3.2)	(0.6)
(Increase)/Reduction in Net Debt	**(32.4)**	**(12.1)**
Opening Net Debt	(91.7)	(79.6)
Closing Net Debt	**(124.1)**	**(91.7)**

Property and Investment, Acquisitions and Disposals

Our property portfolio provides a key strength for our business. At 31 December 2017, the Group had £261.2 million of land and property assets (2016 : £199.3 million) and property assets for sale of £11.0 million (2016 : £6.6 million). During the last two years we have taken the opportunity to acquire the freehold on some existing leased premises, purchasing £15.6 million in the period, versus £4.1 million in the prior year. We have also acquired £9.0m of other freehold property for development.

Dividend

The Group is proposing a final dividend of 0.80p per share in respect of 2017, bringing the full year dividend to 1.55p per share. We intend to maintain a progressive dividend approach in the future.

The proposed final dividend will be paid on 23 May 2018 for those shares recorded on 20 April 2018.

Shares Repurchased and Buyback

During the year the Group repurchased £4.0 million of its own shares, after initiating a £20.0 million share buyback programme in May 2016. The programme was suspended from April 2017 and restarted in December 2017. The total amount repurchased under the programme to date is £11.5m with 35.5m shares cancelled. This represents 2.5% of the shares at inception of the buyback programme. The Group also purchased £2.8 million (2016 : £0.3 million) of shares in respect of LTIP and options.

Pensions

The net liability for defined benefit pension scheme obligations has decreased from £103.2 million at 31 December 2016 to £62.8 million at 31 December 2017. This decrease in obligations of £40.4 million is largely due to improvements in financial or mortality assumptions. 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 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.

Outlook

During 2017 the Board undertook a strategic review and committed to focussing on reshaping the business to provide more reliable and sustainable returns. In December we announced that we would also be taking specific actions on our strategic objectives.

In the automotive software and online market we believe there is a global opportunity for growth. Our Software business is a unique asset, well placed to capture the global opportunity, which is at the heart of our business. We are setting our objective to achieve at least double digit growth in revenue in the Software business.

We believe that the UK market for used vehicle sales and the aftersales opportunity will continue to grow. We remain committed to our goal to double used vehicle revenue over the five years to 2021 and we will continue to invest in capacity to grow our used vehicle and aftersales business.

We broadly concur with the SMMT forecast for UK new car registrations being 6% lower in 2018 and 2% lower in 2019. We will be reducing the number of our Premium brand franchise locations over the next three years. As a result this will release £100m of capital through a mixture of disposal proceeds and investment not deployed. Given the strong performance of our US Motor Group, we have concluded that it is economically right to sell the business at this time to realise value.

Following a challenging trading period in quarter three of 2017 in particular, we experienced a recovery in quarter four and expect to make progress in 2018 on our strategic objectives. We anticipate our performance in 2018 to be in line with expectations.

Consolidated Income Statement Year ended 31 December 2017	Underlying £m	Non-Underlying* £m	2017 £m	Underlying £m	Non-Underlying* £m	2016 £m
Revenue	4,739.1	-	4,739.1	4,537.0	-	4,537.0
Cost of sales	(4,186.2)	-	(4,186.2)	(3,977.4)	-	(3,977.4)
Gross profit	**552.9**	**-**	**552.9**	**559.6**	**-**	**559.6**
Operating expenses	(469.1)	7.7	(461.4)	(458.4)	(1.1)	(459.5)
Operating profit before other income	**83.8**	**7.7**	**91.5**	**101.2**	**(1.1)**	**100.1**
Other income - (losses)/gains on the sale of businesses and property	-	(0.1)	(0.1)	-	0.3	0.3
Operating profit	**83.8**	**7.6**	**91.4**	**101.2**	**(0.8)**	**100.4**
Net finance costs	(23.4)	(2.7)	(26.1)	(25.8)	(1.6)	(27.4)
Profit before taxation	**60.4**	**4.9**	**65.3**	**75.4**	**(2.4)**	**73.0**
Income tax (expense)/credit	(12.8)	0.8	(12.0)	(19.1)	1.6	(17.5)
Profit for the year	**47.6**	**5.7**	**53.3**	**56.3**	**(0.8)**	**55.5**
Earnings per share						
Basic earnings per share			3.7p			3.8p
Diluted earnings per share			3.7p			3.8p
Non-GAAP Measure						
Underlying basic earnings per share	3.3p			3.9p		
Underlying diluted earnings per share	3.3p			3.9p		

* Non-underlying, see note 2 for explanation

Consolidated Statement of Comprehensive Income Year ended 31 December 2017	2017 £m	2016 £m
Profit for the year	53.3	55.5
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains and (losses)	35.8	(61.3)
Income tax relating to defined benefit plan remeasurement gains and (losses)	(6.3)	9.8
	29.5	**(51.5)**
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	(0.6)	-
Other comprehensive income for the year, net of tax	**28.9**	**(51.5)**
Total comprehensive income for the year	**82.2**	**4.0**

Consolidated Statement of Changes in Equity Year ended 31 December 2017	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 year	-	-	-	-	53.3	53.3
Other comprehensive income for the year, net of tax	-	-	-	(0.6)	29.5	28.9
Total comprehensive income for the year	-	-	-	(0.6)	82.8	82.2
Dividends paid	-	-	-	-	(21.3)	(21.3)
Own shares purchased for cancellation	(0.6)	-	0.6	-	(4.0)	(4.0)
Own shares purchased by EBT	-	-	-	-	(2.8)	(2.8)
Own shares issued by EBT	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	(1.7)	(1.7)
Income tax relating to share based payments	-	-	-	-	0.1	0.1
Balance at 31 December 2017	71.2	56.8	16.9	(0.8)	281.3	425.4
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 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

Consolidated Balance Sheet At 31 December 2017	2017 £m	2016 £m
Non-current assets		
Property, plant and equipment	479.9	405.3
Goodwill	361.2	356.5
Other intangible assets	7.5	5.7
Deferred tax assets	11.4	19.0
Total non-current assets	**860.0**	**786.5**
Current assets		
Inventories	1,003.5	846.2
Trade and other receivables	132.8	153.1
Cash and cash equivalents	53.3	84.0
Assets classified as held for sale	11.0	6.6
Total current assets	**1,200.6**	**1,089.9**
Total assets	**2,060.6**	**1,876.4**
Current liabilities		
Trade and other payables	(1,224.2)	(1,088.7)
Deferred income	(50.3)	(36.6)
Current tax payable	(2.1)	(7.8)
Provisions	(0.7)	(6.2)
Total current liabilities	**(1,277.3)**	**(1,119.3)**
Non-current liabilities		
Interest bearing loans and borrowings	(177.4)	(175.7)
Trade and other payables	(59.0)	(48.8)
Deferred income	(49.9)	(50.4)
Retirement benefit obligations	(62.8)	(103.2)
Provisions	(8.8)	(6.2)
Total non-current liabilities	**(357.9)**	**(384.3)**
Total liabilities	**(1,635.2)**	**(1,503.6)**
Net assets	**425.4**	**372.8**
Capital and reserves		
Called up share capital	71.2	71.8
Share premium account	56.8	56.8

Capital redemption reserve	4.3	3.7
Other reserves	12.6	12.6
Translation reserve	(0.8)	(0.2)
Retained earnings	281.3	228.1
Total equity attributable to equity shareholders of the Company	**425.4**	**372.8**

Consolidated Cash Flow Statement **Year ended 31 December 2017**	**2017 £m**	**2016 £m**
Cash flows from operating activities		
Profit for the year	53.3	55.5
Adjustment for taxation	12.0	17.5
Adjustment for net financing expense	26.1	27.4
	91.4	**100.4**
Depreciation and amortisation	28.5	29.9
Share based payments	(1.7)	2.2
Loss/(profit) on sale of businesses and property	0.1	(0.3)
Impairment of assets held for sale	-	1.1
Retirement benefit obligations	(7.3)	(3.1)
Changes in inventories	(102.5)	(3.6)
Changes in trade and other receivables	20.8	(19.7)
Changes in trade and other payables	134.0	14.2
Changes in provisions	(2.9)	3.1
Movement in contract hire vehicle balances	(31.7)	(21.6)
Cash generated from operations	**128.9**	**102.6**
Taxation paid	(16.1)	(17.3)
Interest paid	(20.0)	(25.2)
Net cash from operating activities	**92.8**	**60.1**
Cash flows from investing activities		
Business acquisitions	(17.8)	(2.6)
Proceeds from sale of businesses	-	8.9
Purchase of property, plant, equipment and intangible assets	(193.0)	(147.0)
Proceeds from sale of property, plant, equipment and intangible assets	114.1	96.9
Net cash used in investing activities	**(96.7)**	**(43.8)**

Cash flows from financing activities		
Dividends paid to shareholders	(21.3)	(20.3)
Repurchase of own shares	(4.0)	(7.5)
Own shares acquired by EBT	(2.8)	(0.3)
Disposal of shares by EBT	0.1	0.1
Repayment of bond and loans	(15.0)	(216.7)
Proceeds from issue of loans	20.4	173.6
Net cash outflow from financing activities	**(22.6)**	**(71.1)**
Net decrease in cash and cash equivalents	**(26.5)**	**(54.8)**
Cash and cash equivalents at 1 January	**84.0**	**138.8**
Effects of exchange rate changes on cash held	(4.2)	-
Cash and cash equivalents at 31 December	**53.3**	**84.0**

Reconciliation of net cash flow to movement in net debt **Year ended 31 December 2017**	**2017** **£m**	**2016** **£m**
Net decrease in cash and cash equivalents	(26.5)	(54.8)
Repayment of bond and loans	15.0	216.7
Proceeds from issue of loans	(20.4)	(173.6)
Non-cash movements	(0.5)	(0.4)
Increase in net debt in the year	**(32.4)**	**(12.1)**
Opening net debt	**(91.7)**	**(79.6)**
Closing net debt	**(124.1)**	**(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

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.

	2017 £m	**2016 £m**
Within operating expenses:		
Settlement of historic VAT issues	7.7	-
Impairment of assets held for sale	-	(1.1)
	7.7	**(1.1)**
Within other income - gains on the sale of businesses, property and investments:		
(Losses) on the sale of businesses	-	(1.0)
(Losses)/gains on the sale of property	(0.1)	1.3
	(0.1)	**0.3**
Within finance expense:		
Net interest on pension scheme obligations	(2.7)	(1.6)
	(2.7)	**(1.6)**
Total non-underlying items before tax	**4.9**	**(2.4)**
Non-underlying items in tax	0.8	1.6
Total non-underlying items after tax	**5.7**	**(0.8)**

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

During 2015, the Supreme Court had determined the Group's long running litigation in respect of financing in favour of HMRC. It was only during 2017 that the final accounting for the numerous offsets was finally determined, resulting in a credit of £7.7m made up of VAT reclaims of £2.2m, interest on VAT reclaims of £3.3m and other items resulting from settlement of historic issues and litigation of £2.2m.

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments. There was no impairment charge against assets held for sale as a result of this review (2016: £1.1m). 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 (2016: £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 £2.7m has been recognised during the year (2016: £1.6m).

Other income consists of the profit or loss on disposal of businesses and property. There were no disposals of motor vehicle dealerships during the year (2016: £1.0m loss was incurred) and a £0.1m loss was incurred on sale of properties (2016: profit £1.3m).

The tax credit in relation to non-underlying items referred to in note 2.6 is £0.8m (2016: £1.6m). This includes a tax credit of £1.9m (2016: £1.2m) relating to the settlement of certain historic corporation tax issues, £nil (2016: £0.1m) in respect of tax relief on business disposals, a £1.5m (2016: £nil) charge in respect of the settlement of historic VAT issues and a tax credit of £0.4m (2016: £0.3m) in respect of pension scheme interest.

3 Earnings per share

	2017 Earnings per share Pence	2017 Earnings total £m	2016 Earnings per share Pence	2016 Earnings total £m
Basic earnings per share	**3.7**	**53.3**	**3.8**	**55.5**
Adjusting items:				
Non-underlying items attributable to the parent (see note 2)	(0.3)	(4.9)	0.2	2.4
Tax effect of non-underlying items	(0.1)	(0.8)	(0.1)	(1.6)
Underlying earnings per share (Non-GAAP measure)	**3.3**	**47.6**	**3.9**	**56.3**
Diluted earnings per share	3.7	53.3	3.8	55.5
Diluted earnings per share - underlying (Non-GAAP measure)	3.3	47.6	3.9	56.3

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

		2017 Number		2016 Number
Weighted average number of ordinary shares in issue		1,422.5		1,444.1
Weighted average number of dilutive shares under option		2.3		14.3
Weighted average number of shares in issue taking account of applicable outstanding share options		1,424.8		1,458.4
Non-dilutive shares under option		20.2		21.0

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

4 Net finance expense

	2017 £m	2016 £m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note, bond and loan notes	7.0	7.7
Vehicle stocking plan interest	14.5	16.8
Interest payable on finance leases	0.1	0.1
Net interest on pension scheme obligations (non-underlying - see note 2)	2.7	1.6
Less: interest capitalised	(0.8)	(0.4)

Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**23.5**	**25.8**
Unwinding of discounts in contract hire residual values	2.6	1.6
Total finance expense	**26.1**	**27.4**

5 Net borrowings

	2017 £m	2016 £m
Cash and cash equivalents	53.3	84.0
Non-current interest bearing loans and borrowings	(177.4)	(175.7)
	(124.1)	**(91.7)**

6 Movement in contract hire vehicle balances

	2017 £m	2016 £m
Depreciation	33.7	28.2
Changes in trade and other payables and deferred income	19.3	21.5
Purchases of contract hire vehicles	(82.1)	(69.7)
Unwinding of discounts in contract hire residual values	(2.6)	(1.6)
	(31.7)	**(21.6)**

7 Pension Funds

The net liability for defined benefit obligations has decreased from £103.2m at 31 December 2016 to £62.8m at 31 December 2017. The decrease of £40.4m comprises contributions of £7.3m, net expense recognised in the income statement of £2.7m and a net actuarial gain of £35.8m. The net actuarial gain 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 2.55% (2016: 2.70%), inflation rate (RPI) of 3.25% (2016: 3.35%) and inflation rate (CPI) of 2.25% (2016: 2.35%).

8 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 KPIs 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 KPIs 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 KPIs 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 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 have non-trading attributes due to their size, nature or incidence. 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

	2017 £m	2016 £m
Underlying operating profit	**83.8**	**101.2**
Settlement of historic VAT issues (see note 2)	7.7	-
(Losses) / gains on the sale of businesses and property (see note 2)	(0.1)	0.3
Impairment of assets held for sale (see note 2)	-	(1.1)
Non-underlying operating profit items	7.6	(0.8)
Operating profit	**91.4**	**100.4**

Profit before tax reconciliation

	2017 £m	2016 £m
Underlying profit before tax	**60.4**	**75.4**
Non-underlying operating profit items (see reconciliation above)	7.6	(0.8)
Non-underlying Finance costs (see note 2)	(2.7)	(1.6)
Non-underlying operating profit and finance costs items	4.9	(2.4)
Profit before tax	**65.3**	**73.0**

Profit after tax reconciliation

	2017 £m	2016 £m
Underlying profit after tax	**47.6**	**56.3**
Non-underlying operating profit and finance costs items (see reconciliation above)	4.9	(2.4)
Non-underlying tax (see note 2)	0.8	1.6
Non-underlying operating profit, finance costs and tax items	5.7	(0.8)
Profit after tax	**53.3**	**55.5**

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.

9 **Annual Report**

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 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 2017 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 2 May 2018 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.