Pendragon PLC

HALF YEAR RESULTS FOR 30 JUNE 2019 (issued 18 September 2019)

The first half of FY19 has been challenging for the Group, with financial performance impacted by a combination of issues. The principal driver of the Group's performance was the reduction in the level of used car stock to more appropriate levels, which was actively managed during the second quarter through a combination of both lower retail pricing and clearance through trade auction channels. These necessary actions resulted in significant losses in the period, exacerbated by market-driven reduction in used car values. By the end of the first-half, stock levels had been largely addressed and improved stocking policies introduced to significantly reduce the risk of excess stock re-occurring.

Despite challenging markets in the first half of the year, the Group has continued to provide an attractive customer proposition and remains a destination of choice for car-buyers, as demonstrated by Group like-for-like revenue growth of 2.9%. Like-for-like revenues in the Software business increased by 6.0%, while revenues in the Leasing business grew by 4.9% despite challenging conditions in the UK's rental and leasing market.

The Board initiated a detailed strategic and market review of the Car Store business and the challenges it has faced. This review confirmed that there continues to be a significant and attractive market opportunity for Car Store, however a number of short-term actions are required to improve performance, including a number of site closures. It is anticipated that these actions will have an immediate, and significant positive impact on the financial performance of Car Store. The Board remains very confident in the long-term potential of Car Store.

Group Financial Highlights

- **Group Revenue £2,455.6m +2.9% LFL (-0.8% total)**
  - Used +3.9% LFL
  - New +1.7% LFL
  - Aftersales +3.2% LFL
- **Used Revenue +3.9% LFL (-0.3% total)**
  - Car Store +6.9% LFL
  - Franchised UK Motor +3.9% LFL
  - US Motor LFL down (5.3)% LFL
  - Gross profit down 26.1% LFL (-28.2% total).
- **New Revenue +1.7% LFL (-1.7% total)**
  - Outperformed the UK market where registrations were down (3.4)% in the period compared to LFL units down (1.9)%
  - Gross profit down 12.5% LFL (-15.6% total)
- **Aftersales Revenue +3.2% LFL (-0.9% total)**
  - Gross profit down 9.3% LFL
- **Software**
  - Revenue +6.0% LFL (+6.0% total)
  - Gross profit up 6.8%.
- **Leasing**
  - Revenue +4.9% LFL (+4.9% total)
  - Gross profit up 2.4%.
- **Underlying (Loss) / Profit Before Tax £(32.2)m loss** (2018 : £28.4m profit).
- **Non-Underlying Charge of £102.4m** (2018 : £1.1m charge) including a non-cash charge principally for impairment of goodwill and non-current assets of £102.5m.
- **(Loss) / Profit After Tax £(129.6)m (2018 : £21.0m profit)**
- **Dividend** – The Group is not proposing an interim dividend for FY19 (2018: 0.8p)
- **Closing Net Debt** – £104.3m (FY18 : £126.1m), down 17.3%

Operating Highlights

- **Car Store**
  - The Board commissioned a full market and operating model assessment of Car Store, which confirmed that there is a significant and attractive market opportunity and that the proposition is well received by its target customers.
  - A clear roadmap of short-term and long-term steps has been established that the Group is confident will deliver Car Store's full potential.
  - Short-term actions include the closure of 22 Car Stores and one preparation centre as these sites do not fit the long-term strategy. The majority of these sites are historic franchise locations that are not suited to the Car Store model.
  - This leaves 12 Car Stores serviced by two preparation centres.
  - Search for a Car Store Managing Director progressing.

- **Franchised UK Motor**
  - Franchised UK Motor delivered like-for-like revenue growth of 2.6% despite challenging trading conditions in both new and used cars.
  - Significant increase in used car stock at the end of FY18 resulted in excess 'over-age' used stock. Total used car stock at the end of FY18 stood at £375m. By the end of HY19, the actions taken to return stock levels to the appropriate level had resulted in a reduction of £140m to £236m.
  - Programme to reduce the excess used stock combined with the impacts of a c.7% decline in national used car values during the second quarter resulted in higher than expected losses.
  - Further progress made with right-sizing the Franchised UK Motor operation with nine Jaguar and Land Rover franchise points either disposed of or closed in FY19. This included two disposals in the first half of FY19, two disposals completed post the half-year end in July and five franchise points closed in the first half.

- **Software - Pinewood**
  - The software business continues to perform well, and is in line with its overall plan.

- **Leasing – Pendragon Vehicle Management**
  - Continued high return on investment from a low capital base
  - Valuable source of used car stock to the group.

- **US Motor Group**
  - Announced agreements for the disposal of two franchise locations (Mission Viejo and Newport Beach) for a combined consideration of c.£60m.
  - Mission Viejo Jaguar Land Rover disposal subsequently completed on 1 July 2019 with proceeds of £28.2m received.
  - Discussions for the disposal of the remainder of the US Motor Group are continuing, with the disposal of Puente Hills announced in August for consideration of c.£17m.
  - Sales agreed (two complete, two in progress) for c.£80m. Significant progress towards expected proceeds of c.£100m pre-tax.

Outlook

- Economic and market conditions are very challenging. The heightened political and Brexit uncertainty, as to both outcome and timing, is adversely affecting customer confidence. We are not anticipating any improvement in this for the rest of our financial year and are closely monitoring market conditions and customer behaviour particularly during the important trading month of September.
- As a result of these market conditions, Group underlying loss before tax for FY19 is now expected to be at the bottom of the Board's expectations. This outcome still reflects a meaningful recovery in profitability during the second half based upon self-help actions that the business is taking as well as the assumption that current market conditions do not deteriorate further.

- The Board remain committed to its long-term strategy to:
    - Grow the Car Store used car business.
    - Optimise the Franchised UK Motor operation, maximising performance and profitability in used, aftersales and new.
    - Continue the international expansion of the software business, Pinewood.
    - Further grow the leasing business

Chris Chambers, Non-Executive Chairman

"Whilst market conditions have been challenging in the first half of 2019 with headwinds in both the used and new car markets the Group has continued to deliver like-for-like revenue growth. However, there has been a material decline in the Group's profitability principally as a result of the actions taken to address excess used car stock. We made significant progress reducing this exposure in the latter period of the first-half and we remain committed to the strategy of growth in the Group's used car proposition. The business is fully focussed on maximising performance, but we expect the market to continue to be challenging during the second half of 2019."

Financials

Consolidated Income Statement **Six months ended 30 June** **Underlying unless stated**	**2019 Continuing operations £m**	**2019 Discontinued operations £m**	**2019 £m**	**2018 Continuing operations £m**	**2018 Discontinued operations £m**	**2018 £m**		***2019[1] £m***
Revenue	2,221.7	233.9	2,455.6	2,244.2	232.0	2,476.2		*2,455.6*
Cost of sales	(2,017.9)	(202.5)	(2,220.4)	(1,991.2)	(201.9)	(2,193.1)		*(2,220.4)*
Gross profit	**203.8**	**31.4**	**235.2**	**253.0**	**30.1**	**283.1**		***235.2***
Operating expenses	(217.8)	(28.1)	(245.9)	(215.9)	(24.5)	(240.4)		*(252.4)*
Operating (loss) / profit	**(14.0)**	**3.3**	**(10.7)**	**37.1**	**5.6**	**42.7**		***(17.2)***
Net finance costs	(20.3)	(1.2)	(21.5)	(13.1)	(1.2)	(14.3)		*(15.2)*
(Loss) / profit before taxation	**(34.3)**	**2.1**	**(32.2)**	**24.0**	**4.4**	**28.4**		***(32.4)***
Non-underlying (loss) before taxation	(102.4)	-	(102.4)	(1.1)	-	(1.1)		
Total income tax credit / (expense)	5.6	(0.6)	5.0	(5.1)	(1.2)	(6.3)		
Total (loss) / profit for the period	**(131.1)**	**1.5**	**(129.6)**	**17.8**	**3.2**	**21.0**		
Earnings per share								
Basic earnings per share	(9.4p)	0.1p	(9.3p)	1.3p	0.2p	1.5p		
Diluted earnings per share	(9.4p)	0.1p	(9.3p)	1.3p	0.2p	1.5p		
Non GAAP Measure								
Underlying basic earnings per share	(2.0p)	0.1p	(1.9p)	1.4p	0.2p	1.6p		

Underlying diluted earnings per share	(2.0p)	0.1p	(1.9p)	1.4p	0.2p	1.6p		

[1] Restated to exclude impact of IFRS 16 for comparison purposes

Contents

Contacts

Name	Title	Responsibility	Contact
Mark Willis	Chief Financial Officer	Pendragon PLC	01623 725200
Martin Casha	Chief Operating Officer	Pendragon PLC	01623 725200
Howard Lee	Partner	Headland	0203 805 4822
Henry Wallers	Associate Director	Headland	0203 805 4822

Presentation

A presentation for analysts will take place today at 9.00am. There will be a conference call open for those unable to attend in person.

The details for the call are as follows:

United Kingdom Toll-Free: 08003589473

United Kingdom Toll: +44 3333000804

Conference password: 79371219#

Operating and Financial Review by Segment

- The business is organised into 5 segments, analysed as follows:
  - Car Store – Own brand proposition for the sale of used vehicles in the U.K.
  - Franchised UK Motor – sale and servicing of vehicles in the U.K.
  - Software – Licencing of Software as a Service to global automotive business users
  - Leasing – Fleet and contract hire provider. Source of used vehicle supply
  - US Motor – Sale and servicing of vehicles in the U.S.

Units Sold	2019	2018	Change (%)	LFL Change (%)
Used Units				
Car Store	17,474	12,944	35.0%	21.0%
Franchised UK Motor	76,105	78,334	-2.8%	2.5%
US Motor	1,452	1,630	-10.9%	-9.6%
	95,031	**92,908**	**2.3%**	**5.0%**
New Units				
Franchised UK Motor	43,085	45,060	-4.4%	-1.9%
US Motor	3,413	3,394	0.6%	1.3%
	46,498	**48,454**	**-4.0%**	**-1.7%**

Underlying £m	2019	2018	Change (%)	LFL Change (%)
Revenue				
Car Store	170.8	146.7	16.4%	5.1%
Franchised UK Motor	1,999.2	2,048.3	-2.4%	2.6%
Software	8.9	8.4	6.0%	6.0%
Leasing	42.8	40.8	4.9%	4.9%
US Motor	233.9	232.0	0.8%	3.6%
	2,455.6	**2,476.2**	**-0.8%**	**2.9%**
Gross Profit				
Car Store	5.3	10.3	-48.5%	-57.3%
Franchised UK Motor	182.2	227.1	-19.8%	-16.3%
Software	7.9	7.4	6.8%	6.8%
Leasing	8.4	8.2	2.4%	2.4%

US Motor	31.4	30.1	4.3%	6.1%
	235.2	**283.1**	**(16.9%)**	**(14.2%)**
Operating Profit				
Car Store	(19.1)	(6.4)	198.4%	176.6%
Franchised UK Motor	(7.7)	31.8	-124.2%	-115.6%
Software	6.5	5.6	16.1%	16.1%
Leasing	6.3	6.1	3.3%	3.3%
US Motor	3.3	5.6	-41.1%	-44.1%
	(10.7)	**42.7**	**-125.1%**	**-115.3%**
Gross Margin %	**9.6%**	**11.4%**	**-1.8%**	**-1.9%**
Operating Margin %	**-0.4%**	**1.7%**	**-2.1%**	**-2.2%**

Car Store

6 months to	30 JUNE 2019	30 JUNE 2018	Change (%)	*30 JUNE 2019* [1]
Revenue	£170.8m	£146.7m	16.4%	*£170.8m*
Gross Profit	£5.3m	£10.3m	-48.5%	*£5.3m*
Gross margin rate	*3.1%*	*7.0%*	*-3.9%*	*3.1%*
Operating Costs	£(24.4)m	£(16.7)m	46.1%	*£(25.0)m*
Operating (Loss)	£(19.1)m	£(6.4)m	198.4%	*£(19.7)m*
Operating margin rate	*(11.2)%*	*(4.4)%*	*-6.8%*	*(11.5)%*
Total Revenue Change	16.4%	44.7%		
Like-for-like Revenue Change	5.1%	n/a		
Units Sold	17,474	12,944	35.0%	
Number of Locations	34	25		
Average Selling Price	£8,510	£9,558	-11.0%	

[1] Restated to exclude impact of IFRS 16 for comparison purposes

Operating Review

Whilst total sales grew by 16.4%, operating losses increased by £(12.7)m to £(19.1)m through a combination of an increase in operating costs, primarily as a result of 9 additional locations year on year, and a decline in the gross margin rate from 7.0% to 3.1%. The principal driver of the reduction in gross margin was the previously announced clearance of excess used car stock. Within Car Store specifically, used car stock levels increased significantly towards the end of FY18, with FY18 closing stock of £82.5m.

Despite increased stock levels in FY18, stock turns did not demonstrably improve to offset this higher level. Consequently, aged stock clearance resulted in a gross margin impact of c.£6m within HY19. At the end of June FY19, the excess stock levels had been addressed, with closing stock of £38.4m, a reduction of £44.1m. The operating performance was also impacted by a c.7% market reduction in national used car values during the second quarter.

Despite the disappointing operating performance of Car Store in the period, customer research demonstrates that the model is well received by its target customers, who appreciate the approach to selling and the value proposition. Like-for-like sales growth demonstrates the businesses ability to provide an attractive channel for consumers. Traffic to the website has grown rapidly, estimated to have become the third highest visited website amongst its peer group by the end of the first-half.

Strategic Review

Aside from the one-off impact on performance from the reduction in excess stock, the underlying Car Store business continues to be loss making. This performance has prompted a comprehensive operational and strategic review of the business model.

In summary, analysis and segmentation of the UK used car market demonstrates that it is both large and fundamentally robust. Although it is cyclical, partially mirroring the new car market, it has grown by around 1% a year for the last 20 years. The UK used car market is one of the most attractive in the world with a used to new transaction ratio of 3.4 : 1. Most European markets are in the 1.5-2.5 : 1 range. The target market within the expected sweet-spot of the operating model for the Car Store business model is significant in size, and fragmented.

The economics of the used car market are also proven to be attractive, with the larger more successful used car retailers in the UK delivering operating margins of c.4-5%. This compares to operating margins for the larger more successful franchised dealer groups of c.1-2%, supporting the case to expand in this area.

Car Store should be strategically advantaged against its peers, with an ability to leverage the complementary activities of the UK franchised division and the leasing business to provide a steady source of suitable stock, an ability to source parts for preparation at scale advantaged pricing, a high level of brand-referrals within the Group and cross-Group technical ability.

The Car Store model has suffered from start-up execution issues, in particular within the property portfolio driven by the adoption of a number of ex-franchised dealer locations for conversion to Car Stores. The strategic evaluation of the model supports a move to locations that have a better ratio of external display space and smaller sales facilities, which is contra to the franchise dealer property model. From trading activity in these facilities, it can be concluded that the higher-levels of operating costs of these ex-franchise sites make them unsuitable as Car Store locations.

As a result, there are a number of short-term actions that the Board has resolved to take and management have begun to implement, that will immediately improve Car Store performance. 22 of the 34 current Car Store locations do not have the required attributes to become profitable. The business will take immediate action to address these worst performing locations, and they will be closed during the second-half of FY19. In addition, the reduced capacity, and improved efficiency, will result in the closure of the preparation centre in Stoke, with the remaining two preparation centres capable of producing the levels of stock required in the short term. In total, there will be a reduction of c.300 roles as a result of these closures. The 12 remaining locations will be a combination of 9 full-stores with the right characteristics of a Car Store location, and 3 small-format collection points within London. A non-underlying charge of approximately £1.5 - 2.0m is anticipated for closure costs. Closing these sites will result in an annualised benefit of c.£15m.

At the 12 remaining Car Stores, key areas of short-term focus will be:

- Increasing stock turn to reduce vehicle depreciation and improve margins
- Improving preparation efficiency
- Improving ancillary profitability through selling additional products and improved processes

Car Store will continue to focus on an omni-channel approach, positioning this business for a digitally-led future to serve early adopters who want to complete the end-to-end customer journey online, showcase the product and drive digital traffic, supported by physical locations of the optimal size and location for customers who want to view and test the product. Further details on the capital requirements and expected returns will be provided following the appointment of a new MD for the Car Store business.

Financial Review

Revenue increased by 5.1% on an LFL basis in the first half of 2019. LFL units increased by 21.0% with the average sales price per unit reducing from £9,558 to £8,510.

The 57.3% reduction in LFL gross profit was largely as a result of the excess stock levels in FY19 and the losses incurred on selling this stock. The falling national used car values in FY19 also adversely affected profitability.

Operating costs increased by 46.1% to £24.4m, with LFL operating costs up 32.3%.
Operating losses were £(19.1)m in the period (HY18: £(6.4)m)

Franchised UK Motor

6 months to	30 JUNE 2019	30 JUNE 2018	Change (%)	*30 JUNE 2019* [1]
Used Revenue	£959.4m	£984.7m	-2.6%	*£959.4m*
Aftersales Revenue	£168.0m	£168.4m	-0.2%	*£168.0m*
New Revenue	£871.8m	£895.2m	-2.6%	*£871.8m*
Total Revenue	**£1,999.2m**	**£2,048.3m**	**-2.4%**	***£1,999.2m***
Used Gross Profit	£47.0m	£68.3m	-31.2%	*£47.0m*
Aftersales Gross Profit	£83.7m	£94.3m	-11.2%	*£83.7m*
New Gross Profit	£51.5m	£64.5m	-20.2%	*£51.5m*
Total Gross Profit	**£182.2m**	**£227.1m**	**-19.8%**	***£182.2m***
Gross margin rate	*9.1%*	*11.1%*	*-2.0%*	*9.1%*
Operating Costs	£(189.9)m	£(195.3)m	-2.8%	*£(195.8)m*
Operating (Loss) / Profit	**£(7.7)m**	**£31.8m**		***£(13.6)m***
Operating margin rate	*(0.4)%*	*1.6%*	*-2.0%*	*(0.7)%*
Total Revenue Change	(2.4)%	(3.7)%		
Like-for-like Revenue Change	2.6%	n/a		
Used Units Sold	76,105	78,334	-2.8%	
New Units Sold	43,085	45,060	-4.4%	
Number of Locations	170	185		
Average Used Selling Price	£11,613	£11,551	0.5%	
Average New Selling Price	£20,787	£19,978	4.0%	

[1] Restated to exclude impact of IFRS 16 for comparison purposes

Operating Review

The Franchised UK Motor business operated from 168 franchise points and two used cars only retail points. The points represent a range of volume and premium products offering both sales and service functions.

As with Car Store, the significant increases in used car stock at the end of FY18 without an associated increase in sales rates, led to excess used car stock during the first-half of FY19. Within the Franchised UK Motor division closing used car stock at the end of FY18 was £375m. Following the programme to clear this stock, at the end of June 2019 this had reduced by 37% to £236m. This stock reduction, combined with the previously discussed c.7% reduction in national used car values during the second quarter, led to a c.£20m impact on the underlying operating performance in the first-half.

Aftersales gross profit was impacted by a combination of technician cost increases following a benchmarking exercise of industry rates of pay exercise in late 2018 and an increased mix into lower margin warranty work.

In addition to the used car performance, the new car market was challenging during the first-half, with national new car registrations declining by 3.4% over the period. Group LFL new unit volumes were 1.9% down in the first half. Although we outperformed the market on new volumes, new car margins were lower than anticipated levels and prior year levels, in order to achieve manufacturer targets and reduce the number of pre-registered vehicles.

The strategy to 'right-size' the Franchised UK Motor business is nearly complete with two premium franchises disposed of in the first half, five premium franchises closed and a further two disposed of in early July 2019. Including the sites disposed of in July, 13 sites have now been disposed of or closed since the start of the process in FY18. There is one more premium franchise that is currently planned for closure during the second half of FY19.

During the second half, management focus will be on improving the underlying performance across all of new, used and aftersales in order to restore the business to profitability.   There are a number of self-help actions that the business is taking to improve performance, but part of the recovery will also depend on the performance of the UK market overall. In addition, a number of cost mitigation actions have been taken, including right-sizing the organisational structure resulting in a reduction of c.300 roles, currently in consultation.

Financial Review

Total revenue declined by 2.4% during the period, with reductions across each of used, aftersales and new, driven by the reduction in the overall number of premium franchise locations. On a like-for-like basis, revenue rose by 2.6%, increasing in used by 3.9%, in aftersales by 4.4% and in new by 1.0%. The new revenue increase was despite national UK new car registrations falling by 3.4% in the first half of FY19, with national UK new retail car registrations falling by 3.2%.

The main driver of the LFL used revenue increase was the LFL used units increase of 2.5%. The principle reason for the increased LFL aftersales revenue was a 4.5% increase in retail service revenue. The LFL new revenue increase was spread across our volume and premium brands.

Gross profit declined across used, aftersales and new during the first half. Used LFL gross profit reductions of 27.5% arose principally from the reduction in excess stock. The national fall in used car values in quarter two FY19 has also adversely affected used profitability. The reduction in LFL aftersales gross profit of 7.6% is principally due to reduced used vehicle preparation during the used stock reduction programme combined with the increased cost of service technicians. LFL new gross profit was down 16.9% as a result of reduced new car margins in order to achieve volume targets set by manufacturers.

Operating costs have increased by 1.9% on an LFL basis.

Operating losses were £(7.7)m compared to a £31.8m operating profit in the first half of last year.

Software

6 months to	30 JUNE 2019	30 JUNE 2018	Change (%)
Revenue	£8.9m	£8.4m	6.0%
Gross Profit	£7.9m	£7.4m	6.8%
Gross margin rate	*88.8%*	*88.1%*	*0.7%*
Operating Costs	£(1.4)m	£(1.8)m	-22.2%
Operating Profit	£6.5m	£5.6m	16.1%
Operating margin rate	*73.0%*	*66.7%*	*6.3%*
Total Revenue Change	6.0%	7.7%	
Like-for-like Revenue Change	6.0%	n/a	

Operating Review

Pinewood, our software business provides Software as a Service ("SaaS") in the UK and in a number of countries worldwide. Pinewood is strategically important to the Group and we believe it has potential for further expansion. Pinewood currently has SaaS users in the UK, Ireland, Germany, Netherlands, Switzerland, Norway, Sweden, South Africa, Namibia, Zimbabwe, Hong Kong, Thailand and the Philippines.

Pinewood has secured orders for the Pinewood DMS from dealers in both Sweden & Norway with implementations to commence in the second half of 2019. This is in addition to further orders secured by our partners in South Africa, Asia Pacific and The Netherlands.

Our core UK business continues to grow with orders from new customers and existing customers extending their user subscriptions.

Financial Review

As the Pinewood business expands its global footprint, revenue continued to grow and is up 6.0% in the period. Gross profit has increased by 6.8% as the strong gross margins have been maintained.

Operating profit was £6.5m, an increase of 16.1% on the first half FY18.

Leasing

6 months to	30 JUNE 2019	30 JUNE 2018	Change (%)
Revenue	£42.8m	£40.8m	4.9%
Gross Profit	£8.4m	£8.2m	2.4%
Gross margin rate	*19.6%*	*20.1%*	*-0.5%*
Operating Costs	£(2.1)m	£(2.1)m	-
Operating Profit	£6.3m	£6.1m	3.3%
Operating margin rate	*14.7%*	*15.0%*	*-0.3%*
Total Revenue Change	4.9%	35.1%	
Like-for-like Revenue Change	4.9%	n/a	

Operating Review

Pendragon Vehicle Management (PVM), our Leasing business offers a complete range of fleet leasing and contract hire solutions. Our customers are varied in both fleet size and business sector. The financing for the leasing business is provided by third parties leading to a high return on capital.

The British Vehicle Rental and Leasing Association reported the leasing market declined by 6% year on year. The PVM fleet grew by 5.8% year on year despite the impact of longer vehicle lead times driven by some fleets moving away from diesel to petrol and the impact of the introduction of WLTP compliant vehicles. As a result of ongoing investment in IT systems PVM are able to deliver to more complex fleets a higher level of bespoke service which has resulted in sole supply new business wins and account retentions. Both the revenue and profitability growth of our leasing business has continued in the first half of FY19.

Financial Review

Revenue has grown by 4.9% in the first half which has generated a 2.4% increase in gross profit. With operating costs in line with HY18.

Operating profit increased by 3.3% to £6.3m (HY18: £6.1m).

US Motor

6 months to	30 JUNE 2019	30 JUNE 2018	Change (%)
Used Revenue	£43.1m	£47.3m	-8.9%
Aftersales Revenue	£22.5m	£21.6m	4.2%
New Revenue	£168.3m	£163.1m	3.2%
Total Revenue	**£233.9m**	**£232.0m**	**0.8%**
Used Gross Profit	£3.5m	£2.9m	20.7%
Aftersales Gross Profit	£11.7m	£11.5m	1.7%
New Gross Profit	£16.2m	£15.7m	3.2%
Total Gross Profit	**£31.4m**	**£30.1m**	**4.3%**
Gross margin rate	*13.4%*	*13.0%*	*0.4%*
Operating Costs	£(28.1)m	£(24.5)m	14.7%
Operating Profit	£3.3m	£5.6m	-41.1%
Operating margin rate	*1.4%*	*2.4%*	*-1.0%*
Total Revenue Change	0.8%	13.2%	
Like-for-like Revenue Change	3.6%	n/a	
Used Units Sold	1,452	1,630	-10.9%
New Units Sold	3,413	3,394	0.6%
Number of Locations	9	10	
Average Used Selling Price	£25,047	£24,146	3.7%
Average New Selling Price	£49,316	£48,044	2.6%

Operating Review

The disposal of the US Motor Group is ongoing with total proceeds expected to be c.£100m before tax. In FY18, the sale of the Aston Martin business for £3.1m was completed. During the first half, agreement to sell both to Mission Viejo and Newport Beach were announced, with expected proceeds of c.£60m.

The sale of the Jaguar Land Rover dealership at Mission Viejo, subsequently completed post the Half-year date, on 1 July 2019 for £28.2m. Further disposals are well progressed, with disposals of Jaguar Land Rover Newport Beach (c.£31m) and Chevrolet Puente Hills (c.£17m) announced and progressing well.

Successful completion of the announced US disposals is expected to reduce profitability by c.£1.5m during the second half.

Financial Review

Revenue is up by 0.8% in the period with growth in aftersales (+4.2%) and new (+3.2%) but used revenue falling by 8.9%. Gross profit increased by 4.3%, with used gross profit up 20.7% due to improved margins. There were also gross profit increases in new (+3.2%) and aftersales (+1.7%).

Operating costs increased by £3.6m to £28.1m driven by an increase in rent costs of £1.8m and an increase in direct selling costs of £1.6m.

Operating profit was down 41% to £3.3m (HY18: £5.6m).

Industry Insight

Used Car Market

The used car market in FY18 in the UK was 7.61m units, a fall of 2.2% against 2017. In the first half of FY19, there were 3.88m used cars sold in the UK, a fall of 1.6% on the prior year. However, this represents a market opportunity that is c.3.4 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.

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 34.9m vehicles at HY19, a rise of 1.3% on the prior year. The car parc can also be segmented into markets representing different age groups. At the end of HY19, around 20% of the car parc was represented by less than three-year-old cars, around 20% 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 affected than other sectors by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

New Car Market

The UK new car market was 1.269m in the first half of FY19 which is a reduction of 3.4% 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 45% of the total market in the period. 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 represents 55% of the market in period.

UK New Car Registrations '000	2019	2018	Change (%)
UK Retail Registrations	568.0	587.0	-3.2%
UK Fleet Registrations	701.2	727.0	-3.5%
Total UK Registrations	**1,269.2**	**1,314.0**	**-3.4%**
Group Represented* UK Retail Registrations	360.9	373.5	-3.4%
Group Represented* UK Fleet Registrations	466.9	484.8	-3.7%
Group Represented* Registrations	**827.8**	**858.3**	**-3.6%**

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

The new retail market was down by 3.2% in the first half of FY19, and the new fleet market fell by 3.5% in the period.

Non-underlying Items

	2019 £m	2018 £m
Settlement of historic VAT issues	3.5	-
Impairment of goodwill, property, plant and equipment, right of use assets and assets held for sale	(102.5)	-
Termination and severance costs	(1.4)	-

Losses on the sale of businesses and property	(1.1)	(0.3)
Pension costs	(0.9)	(0.8)
Total non-underlying items before tax	**(102.4)**	**(1.1)**
Non-underlying items in tax	(0.3)	(0.2)
Total non-underlying items after tax	**(102.7)**	**(1.3)**

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. During the period the Group has recognised a net charge of £102.4m of pre-tax non-underlying items against a charge of £1.1m in FY18. These include non-cash impairments, principally of goodwill and non-current assets amounting to £102.5m. There is £78.2m impairment of goodwill, £22.8m impairment of property assets primarily within Car Store, £1.2m impairment of property, plant and equipment and £0.3m impairment of assets held for sale. These have been necessary following assessments of the carrying value of those assets which have been calculated by taking into account trading, market conditions on future cash flows and the current market capitalisation of the Group.

Pension costs of £0.9m represent the interest charge for the first half of FY19. The Group recorded losses on the sale of properties and businesses in the period of £1.1m. This included a loss of £0.8m on the sale of surplus property during the year, losses of £0.3m on the disposal of businesses and termination and severance costs of £1.4m. These costs were offset by a credit of £3.5m on settlement of historic VAT issues in respect of VAT reclaims and associated interest.

Capital Allocation

Net debt has reduced by £21.8m from £126.1m at 31 December 2018 to £104.3m at 30 June 2019. The net debt to underlying EBITDA ratio was 1.3x for the rolling 12 months to HY19. The net debt to underlying EBITDA ratio has moved from 0.9x at FY18 largely due to the trading impact of the stock clearance as detailed in the operating reviews.

We are expecting proceeds from the disposal of our US business in excess of £100m before tax. Proceeds of £3.1m have already been generated on the disposal of a single Aston Martin US business in July 2018 and proceeds of £28.2m were generated from the disposal of the Mission Viejo Jaguar Land Rover business in July 2019. Further disposals are well progressed with c.£31m expected from the disposal of Jaguar Land Rover Newport Beach and c.£17m from the disposal of Chevrolet Puente Hills. Both are expected to complete in the second half of FY19.

As part of the plan to redeploy capital, nine Jaguar and Land Rover franchise points either disposed of or closed in FY19. This included two disposals in the first half of FY19, two disposals completed post the half-year date in July and five franchise points closed in the first half.

Cash Flow

The following table summarises the cash flows and net debt of the Group for the six-month periods ended 30 June 2019 and 30 June 2018 as follows:

£m	2019	2018	2019 [2]
Underlying Operating (Loss) / Profit	**(10.7)**	**42.7**	**(17.2)**
Depreciation and Amortisation	22.6	13.3	12.8
Share Based Payments	0.4	0.6	0.4
Non-underlying Items	0.2	-	0.2
Working Capital and Contract Hire Vehicle Movements	57.5	13.7	57.1
Operating Cash flow	**70.0**	**70.3**	**53.3**
Tax Received / (Paid)	3.2	(4.8)	3.2
Underlying Net Interest Paid	(14.3)	(12.6)	(14.3)
Capital Expenditure - Car Store	(5.2)	(4.2)	(5.2)
Capital Expenditure - Franchise	(8.4)	(5.5)	(8.4)
Capital Expenditure - Underlying Replacement	2.8	(12.1)	2.8
Capital Expenditure - Property	(2.3)	(2.9)	(2.3)
Business and Property Disposals	3.2	3.9	3.2
Net Capital Expenditure	**(9.9)**	**(20.8)**	**(9.9)**
Dividends	(9.7)	(11.3)	(9.7)
Share Buybacks	(0.5)	(3.1)	(0.5)
Lease Payments & Receipts	(16.7)	-	-
Other	(0.3)	(0.2)	(0.3)
Decrease in Net Debt	**21.8**	**17.5**	**21.8**
Opening Net Debt[1]	126.1	122.6	126.1
Closing Net Debt	**104.3**	**105.1**	**104.3**

[1] On adoption of IFRS 16 on 1 January 2019 the Group has opted to re-define it's net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 30 June 2018 and 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates. Net debt has been adjusted from £106.6m to £105.1m at 30 June 2018 and £127.6m to £126.1m respectively at 31 December 2018.

[2] Restated to exclude impact of IFRS 16 for comparison purposes.

The £57.5m cash inflow from working capital and contract hire vehicle movements was driven by the stock reduction as detailed in the operating reviews, together with a VAT timing benefit of c.£25m which is expected to reverse in the second half. The reduction in net capital expenditure was due to a £2.8m cash inflow from underlying replacement capital expenditure, which was a result of increased net proceeds from employee vehicles. There was a tax cash inflow due to the tax repayments relating to prior years.

The adoption of IFRS 16 on 1 January 2019 has resulted in changes to the way the cash flows in respect of lease rentals paid and received are reported, as, in adopting the modified retrospective method of transition the Group have not restated comparative information in the cash flow statement. In the prior period the net rental expense was presented in the income statement as an operating expense and subsequently an operating cash flow but for FY19 the equivalent charge into the income statement has instead been accounted for as a depreciation charge and net interest expense. In terms of cash flow reporting, the net interest expense of £6.3m is not a component of the operating result and a £9.8m depreciation charge, included in the underlying operating loss, has been added back. Under IFRS 16 the actual net cash paid and received of £16.7m in respect of lease payments and receipts is now presented as a financing cash flow for the first half of FY19.

Property and Investment, Acquisitions and Disposals

Our property portfolio is a key strength for our business. At HY19, the Group had £233.9m of land and property assets (HY18 : £236.1m) and property assets for sale of £41.3m (HY18 : £40.3m).

Dividend

The Group is not proposing an interim dividend for 2019. We intend to maintain dividend cover (defined as underlying earnings per share divided by dividend per share) at a minimum level of two times, with a progressive dividend approach in the future subject to the minimum dividend cover being a minimum of approximately two times.

Pensions

The net liability for defined benefit pension scheme obligations has increased from £68.3m at FY18 to £72.2m at HY19. Movements in the respective assets and liabilities of the Pension Scheme largely offset each other, reflecting the hedging in place. The Group contributed £3.6m to the Pension Scheme in the period following the Group commitment to pay annual contributions of £7.0m from 1 January 2017, increasing by 2.25% thereafter until July 2022.

Adoption of IFRS 16

IFRS 16 Leasing is a new accounting standard that was effective from 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases. IFRS 16 introduces a single, on-balance sheet leases accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 has been applied using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. Further details of this can be found in note 3. The impact of adopting IFRS 16 on the 2019 consolidated income statement can be seen below:

Consolidated Income Statement **Six months ended 30 June** **Underlying**	**2019 Following adoption of IFRS 16** **£m**	**2019 Without adoption of IFRS 16** **£m**	**2018** **£m**
Revenue	2,455.6	2,455.6	2,476.2
Cost of sales	(2,220.4)	(2,220.4)	(2,193.1)
Gross profit	**235.2**	**235.2**	**283.1**
Operating expenses	(245.9)	(252.4)	(240.4)
Operating (loss) / profit	**(10.7)**	**(17.2)**	**42.7**
Net finance costs	(21.5)	(15.2)	(14.3)
(Loss) / profit before taxation	**(32.2)**	**(32.4)**	**28.4**
EBITDA	**32.2**	**15.9**	**74.6**

The balance sheet impact of the transition to IFRS 16 is summarised below;

	1 January 2019 **£m**
Right of use assets	196.7
Property, plant and equipment	(3.6)

Lease liabilities	(279.7)
Finance lease receivables	24.7
Trade and other receivables	(9.2)
Trade and other payables	1.0
Deferred income	11.4
Provisions	1.6
Deferred tax	8.7
Retained earnings	48.4

Detailed Financials

Consolidated Income Statement **Six months ended 30 June**	**Continuing operations £m**	**Discontinued operations * £m**	**2019 £m**	**Continuing operations £m**	**Discontinued operations * £m**	**2018 £m**
Revenue (note 6)	2,221.7	233.9	2,455.6	2,244.2	232.0	2,476.2
Cost of sales	(2,017.9)	(202.5)	(2,220.4)	(1,991.2)	(201.9)	(2,193.1)
Gross profit	**203.8**	**31.4**	**235.2**	**253.0**	**30.1**	**283.1**
Operating expenses	(320.1)	(28.1)	(348.2)	(215.9)	(24.5)	(240.4)
Operating (loss)/profit before other income	**(116.3)**	**3.3**	**(113.0)**	**37.1**	**5.6**	**42.7**
Other income - losses on the sale of businesses and property (note 7)	(1.1)	-	(1.1)	(0.3)	-	(0.3)
Operating (loss) / profit	**(117.4)**	**3.3**	**(114.1)**	**36.8**	**5.6**	**42.4**
Analysed as						
Underlying operating (loss) / profit	(14.0)	3.3	(10.7)	37.1	5.6	42.7
Non-underlying operating (loss) (note 7)	(103.4)	-	(103.4)	(0.3)	-	(0.3)
Finance expense (note 9)	(21.9)	(1.2)	(23.1)	(13.9)	(1.2)	(15.1)
Finance income (note 10)	2.6	-	2.6	-	-	-
Net finance costs	(19.3)	(1.2)	(20.5)	(13.9)	(1.2)	(15.1)
Analysed as						
Underlying net finance costs	**(20.3)**	**(1.2)**	**(21.5)**	**(13.1)**	**(1.2)**	**(14.3)**
Non-underlying net finance costs (note 7)	**1.0**	**-**	**1.0**	**(0.8)**	**-**	**(0.8)**
(Loss)/profit before taxation	**(136.7)**	**2.1**	**(134.6)**	**22.9**	**4.4**	**27.3**
Analysed as						
Underlying (loss) / profit before taxation	(34.3)	2.1	(32.2)	24.0	4.4	28.4
Non-underlying (loss) before taxation	(102.4)	-	(102.4)	(1.1)	-	(1.1)
Income tax credit / (expense) (note 11)	5.6	(0.6)	5.0	(5.1)	(1.2)	(6.3)
(Loss) / profit for the year	**(131.1)**	**1.5**	**(129.6)**	**17.8**	**3.2**	**21.0**
Earnings per share (note 13)						
Basic earnings per share	(9.4p)	0.1p	(9.3p)	1.3p	0.2p	1.5p
Diluted earnings per share	(9.4p)	0.1p	(9.3p)	1.3p	0.2p	1.5p

Non GAAP Measure						
Underlying basic earnings per share	(2.0p)	0.1p	(1.9p)	1.4p	0.2p	1.6p
Underlying diluted earnings per share	(2.0p)	0.1p	(1.9p)	1.4p	0.2p	1.6p

* The discontinued operations are in respect of the Group's US business which is currently classified as held for sale (see note 15).

Consolidated Statement of Comprehensive Income **Six months ended 30 June**	**2019** **£m**	**2018** **£m**
(Loss) / profit for the period	**(129.6)**	21.0
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement (losses) / gains	**(6.6)**	18.1
Income tax relating to defined benefit plan remeasurement (losses) / gains	**1.1**	(3.1)
	(5.5)	15.0
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	**-**	0.1
Other comprehensive income for the period, net of tax	**(5.5)**	15.1
Total comprehensive income for the period	**(135.1)**	36.1
Total comprehensive income for the period attributable to equity shareholders of the company arises from:		
Continuing operations	**(136.6)**	32.8
Discontinued operations (note 15)	**1.5**	3.3
	(135.1)	36.1

Condensed Consolidated Statement of Changes in Equity 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 2019	**70.0**	**56.8**	**18.1**	**(0.8)**	**201.5**	**345.6**
Adjustment on initial application of IFRS 16 (net of tax) (see note 3)	-	-	-	-	(48.4)	(48.4)
Adjusted balance at 1 January 2019	**70.0**	**56.8**	**18.1**	**(0.8)**	**153.1**	**297.2**
Total comprehensive income for 2019						
Loss for the period	-	-	-	-	(129.6)	(129.6)
Other comprehensive income for the period, net of tax	-	-	-	-	(5.5)	(5.5)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(135.1)**	**(135.1)**
Dividends paid	-	-	-	-	(9.7)	(9.7)
Own shares purchased for cancellation	(0.1)	-	0.1	-	(0.5)	(0.5)
Share based payments	-	-	-	-	0.4	0.4
Balance at 30 June 2019	**69.9**	**56.8**	**18.2**	**(0.8)**	**8.2**	**152.3**
Balance at 1 January 2018	**71.2**	**56.8**	**16.9**	**(0.8)**	**281.3**	**425.4**
Total comprehensive income for 2018						
Profit for the period	-	-	-	-	21.0	21.0
Other comprehensive income for the period, net of tax	-	-	-	0.1	15.0	15.1
Total comprehensive income for the period	**-**	**-**	**-**	0.1	36.0	36.1
Dividends paid	-	-	-	-	(11.3)	(11.3)
Own shares purchased for cancellation	(0.6)	-	0.6	-	(3.1)	(3.1)
Own shares issued by EBT	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	0.6	0.6
Balance at 30 June 2018	**70.6**	**56.8**	**17.5**	**(0.7)**	**303.6**	**447.8**

Condensed Consolidated Balance Sheet	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Non-current assets			
Property, plant and equipment	457.8	454.2	463.9
Right of use assets	164.8	-	-
Goodwill	186.9	354.6	265.9
Other intangible assets	8.7	7.9	8.2
Deferred tax assets	25.7	7.6	9.8
Total non-current assets	**843.9**	**824.3**	**747.8**
Current assets			
Inventories	785.3	969.0	959.6
Trade and other receivables	159.0	167.6	114.8
Current tax assets	-	-	4.3
Cash and cash equivalents	51.2	46.6	51.4
Assets classified as held for sale	153.4	47.1	137.6
Total current assets	**1,148.9**	**1,230.3**	**1,267.7**
Total assets	**1,992.8**	**2,054.6**	**2,015.5**
Current liabilities			
Lease liabilities	(38.0)	-	-
Trade and other payables	(1,104.9)	(1,246.2)	(1,175.4)
Deferred income	(49.4)	(48.3)	(49.7)
Current tax payable	-	(2.8)	-
Provisions	(0.5)	(0.8)	(0.7)
Liabilities directly associated with the assets held for sale	(84.5)	-	(88.6)
Total current liabilities	**(1,277.3)**	**(1,298.1)**	**(1,314.4)**
Non-current liabilities			
Interest bearing loans and borrowings	(155.5)	(151.7)	(177.5)
Lease liabilities	(233.0)	(1.5)	(1.5)
Trade and other payables	(58.6)	(51.2)	(54.4)
Deferred income	(43.8)	(53.4)	(52.2)
Retirement benefit obligations	(72.2)	(41.9)	(68.3)
Provisions	(0.1)	(9.0)	(1.6)
Total non-current liabilities	**(563.2)**	**(308.7)**	**(355.5)**

Total liabilities	**(1,840.5)**	**(1,606.8)**	**(1,669.9)**
Net assets	**152.3**	**447.8**	**345.6**
Capital and reserves			
Called up share capital	69.9	70.6	70.0
Share premium account	56.8	56.8	56.8
Capital redemption reserve	5.6	4.9	5.5
Other reserves	12.6	12.6	12.6
Translation reserve	(0.8)	(0.7)	(0.8)
Retained earnings	8.2	303.6	201.5
Total equity attributable to equity shareholders of the company	**152.3**	**447.8**	**345.6**

Condensed Consolidated Cash Flow Statement	**For the six months ended 30 June 2019** **£m**	**For the six months ended 30 June 2018** **£m**	**For the twelve months ended 31 December 2018** **£m**
Cash flows from operating activities			
(Loss)/profit for the period	(129.6)	21.0	(50.5)
Adjustment for net financing expense	20.5	15.1	30.0
Adjustment for taxation	(5.0)	6.3	6.1
	(114.1)	**42.4**	**(14.4)**
Depreciation and amortisation	22.6	13.3	27.4
Share based payments	0.4	0.6	0.7
Pension past service costs	-	-	10.5
Loss/(profit) on sale of businesses and property	1.1	0.3	(15.7)
Impairment of goodwill	78.2	-	88.8
Impairment of assets property, plant and equipment	1.2	-	5.8
Impairment of right of use assets	22.8	-	-
Impairment of assets held for sale	0.3	-	1.2
Contributions into defined benefit pension scheme	(3.6)	(3.6)	(7.5)
Changes in inventories (note 21)	170.9	55.8	(23.6)
Changes in trade and other receivables	(28.9)	(35.1)	(7.6)
Changes in trade and other payables	(49.6)	12.9	61.6
Changes in provisions	-	0.3	(7.2)
Movement in contract hire vehicle balances	(31.3)	(16.6)	(31.9)

Cash generated from operations	**70.0**	**70.3**	**88.1**
Interest paid	(14.3)	(12.6)	(24.8)
Taxation received/(paid)	3.2	(4.8)	(10.9)
Net cash from operating activities	**58.9**	**52.9**	**52.4**
Cash flows from investing activities			
Proceeds from sale of businesses	3.2	0.9	10.9
Purchase of property, plant, equipment and intangible assets	(52.1)	(73.5)	(133.2)
Proceeds from sale of property, plant, equipment and intangible assets	39.0	51.8	96.0
Net cash used in investing activities	**(9.9)**	**(20.8)**	**(26.3)**
Cash flows from financing activities			
Dividends paid to shareholders	(9.7)	(11.3)	(22.5)
Repurchase of own shares	(0.5)	(3.1)	(6.7)
Disposal of shares by EBT	-	0.1	0.1
Payment of lease liabilities	(18.3)	-	-
Receipt of lease receivables	1.6	-	-
Repayment of loans	(25.0)	(30.0)	(10.0)
Proceeds from issue of loans	2.3	3.9	7.1
Net cash outflow from financing activities	**(49.6)**	**(40.4)**	**(32.0)**
Net decrease in cash and cash equivalents	**(0.6)**	**(8.3)**	**(5.9)**
Opening cash and cash equivalents	**51.4**	**53.3**	**53.3**
Effects of exchange rate changes on cash held	0.4	1.6	4.0
Closing cash and cash equivalents	**51.2**	**46.6**	**51.4**

For cash flows of discontinued operations see note 15.

Reconciliation of net cash flow to movement in net debt	**For the six months ended 30 June 2019 £m**	**For the six months ended 30 June 2018 £m**	**For the twelve months ended 31 December 2018 £m**
Net decrease in cash and cash equivalents	(0.6)	(8.3)	(5.9)
Repayment of loans	25.0	30.0	10.0
Proceeds from issue of loans	(2.3)	(3.9)	(7.1)
Non-cash movements	(0.3)	(0.3)	(0.5)
Decrease/(increase) in net debt in the period	**21.8**	**17.5**	**(3.5)**
Opening net debt	**(126.1)**	**(124.1)**	**(124.1)**
Adjustment for finance lease liabilities (see note below)	-	1.5	1.5

Closing net debt	**(104.3)**	**(105.1)**	**(126.1)**

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. On adoption of IFRS 16 on 1 January 2019 the Group has decided to re-define it's net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 30 June 2018 and 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates, from £106.6m to £105.1m and £127.6m to £126.1m respectively.

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, Nottinghamshire, NG15 0DR. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the 'Group').

The financial statements are prepared on a going concern basis notwithstanding that the group has reported an underlying operating loss of £10.7m for the half year to 30 June 2019 (2018: underlying operating profit of £42.7m). Further, the directors consider that the current economic outlook presents significant challenges in terms of sales volume and pricing. Whilst the directors have instituted measures to preserve cash and secure additional finance, there is uncertainty over future trading results and cash flows.

The directors have prepared a going concern forecast for the 18 month period to 1 April 2021. Furthermore, the directors have prepared an additional downside case based on the impact of a no deal Brexit.

The company is seeking to sell the US dealership portfolio to provide additional working capital in line with previously disclosed group strategy. The company has agreed a purchase price on two dealerships but there can be no certainty that a sale will proceed or the timing of the cash flow related to the sale. Based on negotiations conducted to date the directors have a reasonable expectation that it will proceed successfully, should the plan sales fail to successfully complete the company expects to still maintain headroom on covenant calculation based on the downside forecasts providing mitigating actions within management control are taken. Accordingly the forecasts assume the continued availability of banking facilities sufficient to meet the Group's working capital needs.

As at 30 June 2019, the company had £300m of committed banking facilities, which includes a revolving credit facility of £240m that is due for renewal in March 2021. In line with the planned timeline the company and its advisers have commenced discussions with its bankers about the facility extension.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

The condensed set of financial statements for the six months ended 30 June 2019 are unaudited but have been reviewed by the auditors.

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:

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 businesses closed during the current or previous period.

Operating margin % - operating margin is defined as operating (loss)/profit as a percentage of revenue.

Underlying operating (loss)/profit / (loss)/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 7.

Operating (loss)/profit reconciliation

	2019 £m	2018 £m
Underlying operating (loss)/profit	**(10.7)**	**42.7**
Settlement of historic VAT issues (see note 7)	1.6	-

Losses on the sale of businesses and property (see note 7)	(1.1)	(0.3)
Impairment of goodwill (see note 7)	(78.2)	-
Impairment of property, plant and equipment (see note 7)	(1.2)	-
Impairment of right of use assets (see note 7)	(22.8)	-
Impairment of assets held for sale (see note 7)	(0.3)	-
Termination and severance costs (see note 7)	(1.4)	-
Non-underlying operating (loss)/profit items	(103.4)	(0.3)
Operating (loss)/profit	**(114.1)**	**42.4**

(Loss)/profit before tax reconciliation

	2019 £m	2018 £m
Underlying profit before tax	**(32.2)**	**28.4**
Non-underlying operating (loss)/profit items (see reconciliation above)	(103.4)	(0.3)
Non-underlying finance income/(costs) (see note 7)	1.0	(0.8)
Non-underlying operating (loss)/profit and finance cost items	(102.4)	(1.1)
(Loss)/profit before tax	**(134.6)**	**27.3**

(Loss)/profit after tax reconciliation

	2019 £m	2018 £m
Underlying (loss)/profit after tax	**(26.9)**	**22.3**
Non-underlying operating loss and finance cost items (see reconciliation above)	(102.4)	(1.1)
Non-underlying tax (see note 7)	(0.3)	(0.2)
Non-underlying operating loss, finance and tax cost items	(102.7)	(1.3)
(Loss)/profit after tax	**(129.6)**	**21.0**

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 13.

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 13.

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. We have adjusted the underlying operating profit used in the calculation of EBITDA to present it on a pre IFRS 16 basis by treating the rentals paid of £18.3m in the period to 30 June 2019 as an operating expense. This is to ensure consistency in the rolling 12m period against our target measure of net debt : underlying EBITDA of between 1.0 and 1.5 which is based on a pre IFRS 16 basis.

Net debt : Underlying EBITDA - reconciliation

	2019	2018

	£m	£m
Underlying operating profit (12 months rolling 1 July 2018 to 30 June 2019)	4.5	66.5
Depreciation and amortisation (12 months rolling 1 July 2018 to 30 June 2019)	76.3	62.9
Underlying EBITDA (12 months rolling 1 July 2018 to 30 June 2019)	**80.8**	**129.4**
Net debt	104.3	105.1
Net debt : Underlying EBITDA ratio	**1.3**	**0.8**

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 2018, 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 18 September 2019.

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 2018, except as explained below.

Adoption of new and revised standards

The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on balance sheet model for leases. As a result, the Group as a lessee has recognised a right of use asset representing it's right to use the underlying asset and a lease liability representing it's obligation to make lease payments. The Group also acts as a Lessor, and whilst Lessor accounting remains similar to that under the Group's previous accounting policies, where the substantial risks and rewards of ownership of the asset has been passed to it's Lessee then the underlying asset of the Group becomes that of a finance lease receivable.

Under the previous accounting policy the Group previously classified leases as either an operating lease or a finance lease depending upon whether it was deemed that substantially all of the risks and rewards of ownership had transferred. Under IFRS 16 the Group recognises a right of use asset for all leases with the exception of those deemed to be of low value or short term in nature, in which case lease payments are expensed on a straight line basis over the lease term. In its transition to IFRS 16 the Group has applied a modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information for 2018 has not been restated. The revised accounting policy is:

Significant accounting policies - Leases.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Depreciation is recognised on a straight line basis over the period of the lease the right of use asset is expected to be utilised.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or when this is not readily attainable the Group's incremental borrowing rate. Generally the Group uses it's incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by payments made. It is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in amounts payable following contractual rent reviews and changes in the assessment of whether an extension/termination option is reasonably certain to be exercised.

The Group has applied judgement in determining the lease term for some lease contracts which include renewal and termination options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term and the subsequent recognition of the lease liability and right of use asset.

Where the Group acts as a Lessor, receipts of lease payments are recognised in the income statement on a straight line basis over the period of the lease unless it is deemed that the risks and rewards of ownership have been substantially transferred to the Group's lessee. If it is deemed that the risks and rewards of ownership have been substantially transferred then the Group will, rather than recognise a right of use asset, recognise a finance lease receivable, this being the present value of future lease receipts discounted at the interest rate implicit in the lease or if this is not specified the Group's incremental borrowing rate. The finance lease receivable will be increased by the interest received less payments made by the lessee.

Transition

The Group has a significant leasehold property portfolio which, in the most part, were previously accounted for as operating leases under IAS 17. The leases have a variety of lease terms and some include scheduled rent reviews, break options or provide for rent increases based upon future UK price indices.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right of use assets as measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate as at 1 January 2019. The Group has applied this methodology to the majority of it's property leases where sufficient historical information has been available to facilitate this.

- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to a small number of property leases where it was not possible to ascertain sufficient historical data to enable a retrospective calculation. This method has also been applied to the Group's small number of non property leases, comprising of motor vehicles and items of plant and equipment.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right of use assets and liabilities with less than 12 months of the lease term remaining at 1 January 2019.

- Excluded initial direct costs from measuring the right of use asset at date of initial application.

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

- Used the option to grandfather the assessment of which transactions are leases by applying IFRS 16 only to contracts that were previously identified as a leases.

The Group previously classified two properties as finance leases. These leases have been reassessed under IFRS 16 and reclassified as right of use assets.

As a Lessor the Group has sub-let a number of surplus properties with some of these matching the term of the under lease. In these instances the Group has deemed that it has none of the risks and rewards of ownership of the properties and has recognised a finance lease receivable based on expected lease receipts from the date of application, discounted by the Group's incremental borrowing rate at this date.

A small number of leased properties were ascribed values when acquired as part of previous business combinations. The carrying value of these assets have been reassessed under IFRS 16 and reclassified as right of use assets at the date of application.

The Group, during the period between 2005 and 2006 entered into sale and leaseback arrangements on some of it's properties. At the time it was deemed that the consideration received for these properties and the subsequent rents attached to the leases were in excess of their equivalent fair values at the time. An adjustment was made at the time of these transactions to reduce the profit on disposal of these properties and defer this over the remaining lease terms to offset the excess rentals payable in the future. This credit was held as deferred income in the financial statements. On transition to IFRS 16 the residual deferred income credit relating to these properties at 1 January 2019 has been allocated to the right of use asset.

The Group had previously recognised a provision for vacant properties which related to sub let properties where the rental income was insufficient to cover the lease costs paid. Where these relate to leases in which the Group retain the risks and rewards of ownership of the property the provision previously recognised has been credited to the right of use asset.

Impacts of transition

The impacts of the transition to IFRS 16 is summarised below;

	1 January 2019 £m
Right of use assets	196.7
Property, plant and equipment	(3.6)
Lease liabilities	(279.7)
Finance lease receivables	24.7
Trade and other receivables	(9.2)
Trade and other payables	1.0
Deferred income	11.4
Provisions	1.6
Deferred tax	8.7
Retained earnings	48.4

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using it's incremental borrowing rate at 1 January 2019. The weighted average rate applied was 4.17%.

	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	**479.7**

Discounted using incremental borrowing rate at 1 January 2019	327.3
Finance lease liabilities recognised at 31 December 2018	1.5
Recognition exemption for leases with less than 12 months of lease term at transition	(55.3)
Extension options reasonably certain to be exercised	7.7
Lease liabilities recognised at 1 January 2019	**281.2**

Included within the £55.3m recognition exemption for leases with less than 12 months of lease term at transition, are £53.6m of lease commitments in the US business which is a discontinued operation held for sale. It is expected that these leases will be assigned as part of the business sale which is expected to be concluded during 2019.

Impact for the period

As a result of initially applying IFRS 16, in relation to those leases which were originally classified as operating leases, the Group has recognised an interest and depreciation cost instead of an operating lease expense and as a Lessor on leases where the Group no longer has the risks and rewards of ownership, recognises an interest receipt instead of a rental income. During the six months ended 30 June 2019 the Group recognised £9.8m of depreciation charges, a non-underlying impairment charge of £22.8m, an interest expense of £7.0m and made payments of £18.3m in respect of it's lease liabilities. As a Lessor, the Group has an interest receipt of £0.7m having received payments of £1.7m in respect of the finance lease receivable.

Other standards - A number of other standards and interpretations are applicable to these condensed financial statements but are not expected to have a significant impact. A summary of these standards is presented in the consolidated financial statements of the Group for the year ended 31 December 2018.

4 Estimates and judgements

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 2018.

As described in note 3 the Group has changed it's accounting policy in respect of leases on adoption of IFRS 16. The Group has had to apply judgement when determining, with reasonably certainty, the term over which to recognise the lease liability.

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 £155.7m.

During the six months ended 30 June 2019 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 22 below.

The estimates in respect of the anticipated tax rate to be applied for the full financial year 2019 and subsequently used in the preparation of the results for the six month period to 30 June 2019 are set out in note 11.

5 Comparative figures

The comparative figures for the financial year ended 31 December 2018 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 Revenue

The Group's main operations and revenue streams are those described in the last annual financial statements. All the Group's revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group’s four strategic divisions, which are its reportable segments, see note 8.

For the six months ending 30 June 2019	Franchised UK Motor £m	Carstore £m	Software £m	Leasing £m	US Motor* £m	Total £m

Primary geographical markets						
Europe	1,999.2	170.8	8.5	42.8	-	**2,221.3**
North America	-	-	-	-	233.9	**233.9**
Africa	-	-	0.3	-	-	**0.3**
Asia	-	-	0.1	-	-	**0.1**
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**2,455.6**
Major products/service lines						
Aftersales revenue	168.0	0.9	-	-	22.5	**191.4**
Used vehicle revenue	959.4	169.9	-	-	43.1	**1,172.4**
New vehicle revenue	871.8	-	-	-	168.3	**1,040.1**
Software revenue	-	-	8.9	-	-	**8.9**
Leasing revenue	-	-	-	42.8	-	**42.8**
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**2,455.6**
Timing of revenue recognition						
At point in time	1,996.5	170.5	0.8	21.4	233.9	**2,423.1**
Over time	2.7	0.3	8.1	21.4	-	**32.5**
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**2,455.6**

For the six months ending 30 June 2018	**Franchised UK Motor £m**	**Carstore £m**	**Software £m**	**Leasing £m**	**US Motor* £m**	**Total £m**
Primary geographical markets						
Europe	2,048.3	146.7	8.1	40.8	-	**2,243.9**
North America	-	-	-	-	232.0	**232.0**
Africa	-	-	0.3	-	-	**0.3**
Asia	-	-	-	-	-	**-**
Revenue from External customers	**2,048.3**	**146.7**	**8.4**	**40.8**	**232.0**	**2,476.2**
Major products/service lines						
Aftersales revenue	168.4	3.2	-	-	21.6	**193.2**
Used vehicle revenue	984.7	143.5	-	-	47.3	**1,175.5**
New vehicle revenue	895.2	-	-	-	163.1	**1,058.3**
Software revenue	-	-	8.4	-	-	**8.4**
Leasing revenue	-	-	-	40.8	-	**40.8**
Revenue from External customers	**2,048.3**	**146.7**	**8.4**	**40.8**	**232.0**	**2,476.2**

Timing of revenue recognition						
At point in time	2,045.3	146.0	0.9	20.5	232.0	**2,444.7**
Over time	3.0	0.7	7.5	20.3	-	**31.5**
Revenue from External customers	**2,048.3**	**146.7**	**8.4**	**40.8**	**232.0**	**2,476.2**

* The Group's US business is a discontinued operation which is currently classified as held for sale (see note 15).

7 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.

	2019 £m	**2018 £m**
Within operating expenses:		
Settlement of historic VAT issues	1.6	-
Impairment of goodwill	(78.2)	-
Impairment of property, plant and equipment	(1.2)	-
Impairment of right of use assets	(22.8)	-
Impairment of assets held for sale	(0.3)	-
Termination and severance costs	(1.4)	-
	(102.3)	-
Within other income - gains on the sale of businesses, property and investments:		
Loss on the sale of businesses	(0.3)	(1.5)
(Loss) / gain on the sale of property	(0.8)	1.2
	(1.1)	**(0.3)**
Within finance expense:		
Interest on settlement of historic VAT issues	1.9	-
Net interest on pension scheme obligations	(0.9)	(0.8)
	1.0	**(0.8)**
Total non-underlying items before tax	**(102.4)**	**(1.1)**
Non-underlying items in tax	(0.3)	(0.2)
Total non-underlying items after tax	**(102.7)**	**(1.3)**

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £78.2m made during the period (2017: £nil).

Group property, plant and equipment, right of use assets and assets held for sale have been reviewed for possible impairments. As a result of this review there was an impairment charge against property, plant and equipment during the period of £1.2m (2017: £nil), right of use assets of £22.8m (2017: £nil) and assets held for sale of £0.3m (2017: £nil). 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 (2017: £nil).

We acquired CD Bramall PLC in 2004, with the company having made a claim in 2003 for VAT overpaid in respect of bonuses received by the company's leasing companies from OEMs during the period 1988-1995 (Fleming claims). These claims were refused by HMRC over the years for a number of reasons which gradually fell away through litigation with other parties. We were then left with a fundamental objection of principle by HMRC and so we litigated in 2017 and were successful (decision released August 2018). As the legal decision was one of principle only, we were then left to agree quantum with HMRC. This was concluded during the first half of 2019, resulting in a VAT repayment of just over £1.9m (cash received in June 2019) with interest to follow shortly of another £1.9m. Associated costs are expected to be £0.3m which will result in a net gain of £3.5m.

During the period some of the Group's senior executive team were offered compensation on terminating their employment contracts which amounted to £1.4m (2017: £nil).

Other income, being the loss on disposal of businesses and property was £1.1m (2018: £0.3). This comprises a loss of £0.8m (2018: £1.2m profit) on disposal of property and a loss on the disposal of motor vehicle dealerships of £0.3m (208: £1.5m).

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 £0.9m has been recognised during the period (2018: £0.8m).

8 Segmental Analysis

Change in reporting structure

The Group has revised its reporting segments. In January 2019 the Group re-organised its management and reporting structure. The significant change was that the Car Store operation was segregated from the management of the Franchised UK Motor operation (previously known as UK Motor) and this is reflected in the internal reporting structure as presented to the Chief Operating Decision Maker. In these financial statements therefore the Car Store segment is now reported separately. The results of the Franchised UK Motor segment and Car Store segment for the comparative period have been dis-aggregated and is restated as follows for the period ended 30 June 2019:

	As reported 30 June 2018		Segments as restated	
	UK Motor £m		Franchised UK Motor £m	Carstore £m
Total gross segment turnover	2,209.8		2,063.1	146.7
Inter-segment turnover	(14.8)		(14.8)	-
Revenue from External customers	**2,195.0**		**2,048.3**	**146.7**
Operating profit before non-underlying items	25.4		31.8	(6.4)
Other income and non-underlying items	(0.3)		(0.3)	-
Operating profit/(loss)	**25.1**		**31.5**	**(6.4)**
Finance expense	(6.6)		(5.9)	(0.7)
Segmental profit/(loss) before tax	**18.5**		**25.6**	**(7.1)**
Depreciation and amortisation	11.2		10.6	0.6

For the six months ending 30 June 2019	Franchised UK Motor £m	Carstore £m	Software £m	Leasing £m	US Motor* £m	Group Interest £m	Total £m
Total gross segment turnover	2,010.8	170.8	15.3	60.7	232.9	-	2,491.5
Inter-segment turnover	(11.6)	-	(6.4)	(17.9)	-	-	(35.9)
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**-**	**2,455.6**
Operating profit/(loss) before non-underlying items	(7.7)	(19.1)	6.5	6.3	3.3	-	(10.7)
Other income and non-underlying items	(84.3)	(19.1)	-	-	-	-	(103.4)
Operating profit/(loss)	**(92.0)**	**(38.2)**	**6.5**	**6.3**	**3.3**	**-**	**(114.1)**
Finance expense	(14.8)	(1.4)	-	(1.5)	(1.2)	(4.2)	(23.1)

Finance income	-	-	-	-	-	2.6	2.6
Segmental (loss)/profit before tax	**(106.8)**	**(39.6)**	**6.5**	**4.8**	**2.1**	**(1.6)**	**(134.6)**
Depreciation and amortisation	19.9	0.8	1.6	20.4	0.2	-	42.9
Impairment of goodwill	78.2	-	-	-	-	-	78.2
Impairment of property, plant and equipment	0.4	0.8	-	-	-	-	1.2
Impairment of right of use assets	4.5	18.3	-	-	-	-	22.8
Impairment of assets held for sale	0.3	-	-	-	-	-	0.3

For the six months ending 30 June 2018	**Franchised UK Motor £m**	**Carstore £m**	**Software £m**	**Leasing £m**	**US Motor* £m**	**Group Interest £m**	**Total £m**
Total gross segment turnover	2,063.1	146.7	14.4	58.5	232.0	-	2,514.7
Inter-segment turnover	(14.8)	-	(6.0)	(17.7)	-	-	(38.5)
Revenue from External customers	**2,048.3**	**146.7**	**8.4**	**40.8**	**232.0**	**-**	**2,476.2**
Operating profit/(loss) before non-underlying items	31.8	(6.4)	5.6	6.1	5.6	-	42.7
Other income and non-underlying items	(0.3)	-	-	-	-	-	(0.3)
Operating profit/(loss)	**31.5**	**(6.4)**	**5.6**	**6.1**	**5.6**	**-**	**42.4**
Finance expense	(5.9)	(0.7)	-	(1.0)	(1.2)	(6.3)	(15.1)
Finance income	-	-	0.5	-	-	(0.5)	-
Segmental profit/(loss) before tax	**25.6**	**(7.1)**	**6.1**	**5.1**	**4.4**	**(6.8)**	**27.3**
Depreciation and amortisation	10.6	0.6	1.3	19.4	-	-	31.9

9 Finance Expense

	2019 £m	**2018 £m**
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note and loan notes	3.3	4.0
Lease interest	7.0	-
Vehicle stocking plan interest	10.4	9.0
Net interest on pension scheme obligations (non-underlying - see note 6)	0.9	0.8
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**21.6**	**13.8**
Unwinding of discounts in contract hire residual values	1.5	1.3
Total finance expense	**23.1**	**15.1**

10 Finance Income

	2019 £m	2018 £m
Recognised in profit and loss		
Interest on VAT refunds (non-underlying - see note 7)	1.9	-
Lease interest receivable	0.7	-
Total finance income	**2.6**	**-**

11 Taxation

Based upon the anticipated loss for the full year, the effective credit rate on the underlying loss for 2019 is estimated at 16.46% (2018 : 21.4%). The effective credit rate for 2019 is lower than the current rate of UK tax predominantly due to the proportion of profit taxed at a higher rate in the US, and the effect of expenditure not allowable for UK tax purposes. The reduction in the UK corporation tax rate 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 2019 has been calculated based on the expected long-term rate of 17% substantively enacted at that date.

12 Dividends

	2019 £m	2018 £m
Final dividend paid in respect of 2018 of 0.7p (2017: 0.8p) per ordinary share	**9.7**	**11.3**

No interim dividend is proposed (2018: 0.8p per ordinary share amounting to £11.2m).

13 Earnings per share

			2019 Pence	2018 Pence
Basic earnings per share			**(9.32)**	**1.49**
Effect of adjusting items			7.39	0.09
Underlying earnings per share (Non-GAAP measure)			**(1.93)**	**1.58**
Diluted earnings per share			**(9.30)**	1.49
Effect of adjusting items			7.39	0.09
Underlying diluted earnings per share (Non-GAAP measure)			**(1.91)**	1.58

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

Number of shares (millions)			2019 number	2018 number
Weighted average number of shares used in basic and adjusted earnings per share calculation			1,390.6	1,409.2
Weighted average number of dilutive shares under option			2.7	1.6
Diluted weighted average number of shares used in diluted earnings per share calculation			1,393.3	1,410.8
Earnings			**2019 £m**	**2018 £m**

(Loss)/profit for the period			(129.6)	21.0
Adjusting items:				
Non-underlying items attributable to the parent (see note 7)			102.4	1.1
Tax effect of non-underlying items			0.3	0.2
Earnings for adjusted earnings per share calculation			(26.9)	22.3

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

14 Business and property disposals

During the period the Group generated net proceeds of £3.2m (2018 : £0.9m) with a loss on disposal of £0.3m (2018 : £1.5m) from the sale of the assets of two motor vehicle dealerships.

The Group sold no property during the period but incurred losses in respect of lease terminations and aborted developments of £0.8m. During the previous period the Group sold property generating net proceeds of £3.0m with a profit on disposal of £1.2m.

During July 2019 the Group concluded the sales of its Mission Viejo Jaguar Land Rover dealership for proceeds of £28.2m and two further UK businesses for proceeds of £5.1m.

15 Assets held for sale and Discontinued operations

The Group announced at the end of 2017 that it intends to dispose of the US motor business and has initiated an active program to find a buyer. At the date of this report this program is still on going, with an initial sale of the Aston Martin business being concluded in July 2018 and the sale of Jaguar Land Rover Mission Viejo completed in July 2019 for proceeds of £28.2m. The Group expects that a buyer can be found to conclude a sale of the remainder of the business by the end of 2019. As such the results of the US Business are shown as a discontinued operation within these condensed consolidated financial statements and its non-current assets reclassified as held for sale. No impairment loss has been recognised in the income statement for the six months to 30 June 2019 in respect of this transaction.

The results of the discontinued operation are set out on the face of the condensed consolidated income statement. Other financial information relating to the discontinued operation for the period is set out below.

			2019 £m	2018 £m
Exchange differences on translation of discontinued operation			**0.1**	0.1
Other comprehensive income from discontinued operation			**0.1**	0.1

			2019 £m	2018 £m
Net cash used in operating activities			**(13.6)**	(6.1)
Net cash used in investing activities			**(0.2)**	(1.0)
Net cash decrease generated by discontinued operation			**(13.8)**	(7.1)

			2019 pence	2018 pence
Basic earnings per share from discontinued operation			**0.11**	0.23
Diluted earnings per share from discontinued operation			**0.11**	0.23

The Group also holds a number of properties and businesses that are currently being marketed for sale which are expected to be disposed of during the next 12 months, which include the assets of a Franchised UK Motor vehicle dealership. An impairment loss of £0.3m has been recognised in the income statement for the six months to 30 June 2019 on re-measurement of properties to the lower of their carrying amount and their fair value less costs to sell (2018: £nil).

During the period to 30 June 2019 there were no disposals of assets classified as held for sale. In the previous period disposals of assets classified as held for sale realised a profit of £1.2m on disposal.

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Goodwill	**6.5**	6.8	6.5
Other intangible assets	**-**	-	0.1
Property, plant and equipment	**41.3**	40.3	37.0
Inventories	**80.9**	-	68.9
Trade and other receivables	**24.7**	-	25.1
Assets classified as held for sale	**153.4**	**47.1**	**137.6**

16 Cash and cash equivalents

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Bank balances and cash equivalents	**51.2**	**46.6**	**51.4**

17 Net Borrowings

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Cash and cash equivalents (note 16)	51.2	46.6	51.4
Non-current interest bearing loans and borrowings	(155.5)	(151.7)	(177.5)
Net debt	**(104.3)**	**(105.1)**	**(126.1)**
Finance lease liabilities	**(271.0)**	**(1.5)**	**(1.5)**
Net Borrowings	**(375.3)**	**(106.6)**	**(127.6)**

18 Provisions

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Vacant Property	0.6	2.5	2.3
VAT Assessment	-	7.3	-
Total Provisions	**0.6**	**9.8**	**2.3**
Current	0.5	0.8	0.7
Non-current	0.1	9.0	1.6
Total Provisions	**0.6**	**9.8**	**2.3**

19 Deferred Income

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Property leases - sale and leaseback proceeds excess over fair value and fixed rental increases	-	11.8	11.4
Warranty policies sold	19.8	13.9	18.8
Contract hire leasing income	73.4	76.0	71.7
Total Deferred Income	**93.2**	**101.7**	**101.9**
Current	49.4	48.3	49.7
Non-current	43.8	53.4	52.2
Total Deferred Income	**93.2**	**101.7**	**101.9**

20 Change to contract hire vehicle balances

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Depreciation	20.3	18.6	37.9
Changes in trade and other payables and deferred income	4.2	(5.2)	(1.5)
Purchases of contract hire vehicles	(54.3)	(28.7)	(65.5)
Unwinding of discounts in contract hire vehicle balances	(1.5)	(1.3)	(2.8)
Cash flow movement in contract hire vehicle balances	**(31.3)**	**(16.6)**	**(31.9)**

21 Change in inventories

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Movement in inventory	174.3	34.5	43.9
Inventory changes in business combinations and disposals	(0.4)	(1.2)	(2.0)
Impact of exchange differences	-	(0.3)	(0.7)
Non cash movement in consignment vehicles	(18.3)	7.9	(23.7)
Classified as held for sale	(12.0)	-	(68.9)
Transfer value of contract hire vehicles from fixed assets to inventory	27.3	14.9	27.8
Cash flow increase / (decrease) due to movements in inventory	**170.9**	**55.8**	**(23.6)**

22 Pension scheme obligations

The net liability for defined benefit obligations has increased from £68.3m at 31 December 2018 to £72.2m at 30 June 2019. The increase of £3.9m comprises a net interest expense of £0.9m recognised in the income statement, a net remeasurement loss of £6.6m and contributions paid of £3.6m. The net remeasurement loss 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 2018. The assumptions subject to change are the discount rate of 2.25% (31 Dec 2018: 2.85%), the inflation rate (RPI) of 3.25% (31 Dec 2018: 3.25%) and the inflation rate (CPI) of 2.25% (31 Dec 2018: 2.25%).

23 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.

24 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, impacts of international import tariffs on motor vehicles, changes to the type of vehicles sold (including the trend away from the purchase and use of diesel vehicles) 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 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, potential import tariffs on motor vehicles or regulatory barriers and the potential impact of Sterling/Euro exchange rates on vehicle prices. 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 the UK's decision to leave the EU and Sterling/Euro exchange rates.

25 Responsibility Statement

We confirm that to the best of our knowledge:

• the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

• the interim management report includes a fair review of the information required by:

(a)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

By order of the Board,

M S Casha

Chief Operating Officer

M S Willis

Chief Finance Officer

18 September 2019

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 2019 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated balance sheet and 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 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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.

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

Snowhill Queensway

Birmingham

B4 6GH

18 September 2019