Pendragon | PLC

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PENDRAGON PLC FULL YEAR RESULTS YEAR ENDED 31 DECEMBER 2012

Pendragon has performed well in a recovering vehicle market and continues to grow its online presence with Stratstone.com, Evanshalshaw.com and Quicks.co.uk. Pendragon continues to perform in line with expectations.

Financial Highlights	Year Ended 31	Year Ended 31	YOY
	December	December	Change
£m	2012	2011	%
Revenue	3,635.1	3,465.8	+5%
Operating Profit	67.9	78.0	-13%
Profit Before Tax	**37.8**	**24.0**	**+58%**
Underlying* Revenue	3,635.1	3,418.2	+6%
Underlying* Operating Profit	71.8	74.4	-3%
Underlying* Profit Before Tax	**36.4**	**30.8**	**+18%**
Underlying* Earnings per share	2.0p	2.3p	-13%
Underlying* Operating Margin	2.0%	2.2%	-0.2%
Net Debt	**216.4**	**246.8**	**-12%**

* Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. In 2012, the Quicks division has been classified as underlying. In 2011, revenue of £47.6 million and an operating loss of £4.4 million in the Quicks division was classified as non-underlying.
NOTE: within this document, like for like results include only current trading businesses which have a 12 month comparative history.

OVERALL HIGHLIGHTS

- Underlying profit before tax up by £5.6 million (+18%) to £36.4 million
- Net debt down by £30.4 million over the prior year and Debt : Underlying* EBITDA target is on track
- Vehicle markets are recovering in the UK and in 2013 growth is expected in new, used and aftersales
- Online visitors to Stratstone.com, Evanshalshaw.com and Quicks.co.uk are up 18%
- Over a three year period, online visitors for the Group are up by 87%
- Like for like, aftersales and used gross margins improved and new gross margin maintained
- Continuing strategic focus on used cars – used vehicle volumes up 7% like for like versus a flat market
- Return to dividend with a proposed final dividend of 0.1p per share

Trevor Finn, Chief Executive, said:
"The Group has performed strongly in a recovering vehicle market and Evanshalshaw.com, Stratstone.com and Quicks.co.uk continue to enhance our online performance. Having strong brands and online presence is key to success in the retail market. It is therefore pleasing that website visitors have increased by 18% in the year and by 87% in the last three years. The continued investment in our online strategy has established a strong platform for the business. The Group is encouraged by the improvement in the used and new vehicle departments and remains on track with its debt reduction targets. The Group had a strong second half in 2012 and is well positioned for 2013. The Board is pleased to announce a proposed final dividend of 0.1p per share."

ENQUIRIES

Trevor Finn	**Chief Executive**	**Pendragon PLC**	**01623 725114**
Tim Holden	**Finance Director**	**Pendragon PLC**	**01623 725114**
Gordon Simpson	**Partner**	**Finsbury**	**0207 2513801**
Philip Walters	**Associate Partner**	**Finsbury**	**0207 2513801**

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1. CHIEF EXECUTIVE'S OPERATIONAL REVIEW

Introduction

Pendragon is the leading automotive retailer in the UK and has 240 franchise points and a further 14 dedicated used car locations. The Group also has a further 12 locations for its support businesses. Pendragon sells and services a broad range of new and used cars and commercial vehicles in the UK, has an operation in California and a substantial presence in the UK vehicle leasing, wholesale parts and dealership IT system markets.

Pendragon's core vehicle businesses operate for the sales and servicing of new and used vehicles under the brands of Stratstone.com, for prestige brands, and Evanshalshaw.com, for the volume brands. The Group has a used vehicle and aftersales operation branded Quicks.co.uk, together with a franchised business in California. The Group also has a number of support businesses in the UK.

The Group's franchise portfolio is reviewed on a regular basis. During the year, thirteen new franchise points were added and eight franchise points were closed or disposed of. The thirteen new franchise points added during the year were: Leeds BMW, Leeds MINI, Edinburgh Morgan, Stourbridge Morgan and nine Dacia franchise points.

Revenue and Volumes

Underlying revenue increased by £216.9 million for the twelve months to 31 December 2012 compared to 2011. On a like for like basis, revenue increased by £196.5 million, largely owing to increases within our used and new vehicle sectors. On a like for like basis, our used sector has increased revenue by £87.4 million and our new sector has increased revenue by £147.6 million.

On a like for like basis, used volumes increased 7% and new retail volumes increased 11% year on year.

Gross Margin

On a like for like basis, the Group has increased used vehicle margin to 10.0% from 9.7%. New vehicle margin was 7.8% in the year versus 7.9% in the prior year. Within the new vehicle sector, like for like new retail margin increased to 10.6% from 10.3%. This was offset by a higher mix of lower margin fleet activity over the prior year. Aftersales margin continues to follow an upward trend as a result of improved labour efficiencies over the prior year, up to 62.2% from 59.7% on a like for like basis. Overall gross margin for the Group fell from 13.7% to 13.2% due to the relative mix of used, new and aftersales levels.

Gross Profit

The Group is delighted to report that underlying gross profit increased by £13.2 million and like for like gross profit increased by £13.9 million. The increases in gross profit are largely a result of improved performance in the used and new sectors. On a like for like basis, used gross profit increased by £11.8 million and new gross profit increased by £9.6 million. Aftersales gross profit fell by £4.2 million on a like for like basis. Evans Halshaw performance was particularly pleasing, up £8.6 million on a like for like basis, largely as a result of used car activity. Stratstone experienced a strong increase in new car gross profit of £5.6 million on a like for like basis.

Operating Costs

Group underlying operating costs have increased by £15.8 million and have increased by £12.6 million on a like for like basis. Of this like for like increase, approximately £2.6 million is attributable to new, used and aftersales activity levels, with the remainder principally comprising of redundancy costs, property-related costs for heating, electricity, power and rates offset by a reduction in warranty and property provisions.

Operating Profit

Underlying operating profit was £71.8 million in 2012 compared to £74.4 million in 2011. The underlying operating margin was 2.0% in 2012 versus 2.2% in 2011. On a like for like basis, operating profit increased by £1.3 million over the prior year to £76.1 million and operating margin was maintained at 2.2%.

Net Debt and Cash Flow

The Group's net debt was £216.4 million at the end of the financial year, which is a £30.4 million reduction in debt. The Group remains on target to achieve its Debt : Underlying EBITDA target of less than 1.5 times by the end of 2014. At 31 December 2012, the Debt : Underlying EBITDA ratio was 2.0 (2011 : Debt : Underlying EBITDA 2.2).

Strategy

The Group remains focussed on maximising returns within three key sectors, reflecting their level of contribution to the Group, which are: aftersales, used and new. To achieve success in these sectors, the Group has previously communicated its "strategic pillars". These remain vital for success in achieving the Group's objectives in the medium term and are: number one online motor retailer, value pricing, national footprint and scale and a superior IT platform.

Online channels remain a key strategic pillar for the Group and are a key differentiator for its performance in the market. Online visitors to Stratstone.com, Evanshalshaw.com and Quicks.co.uk increased by 18% over the prior year and have increased by 87% over the last three years. Website visitors for Stratstone.com and Evanshalshaw.com are in excess of ten million for the year ended 31 December 2012. The Group continues to invest resource into a number of projects to support our online pillar. An example of the success of our media programs was the 'James Bond – licence to drive' initiative which generated over 200,000 online visitors, 11,000 likes on Facebook.com and over 3,000 tweets on Twitter.com.

Aligned with this strong online and social media offering, the Group's second strategic pillar is a 'value pricing' offer for consumers. Our value pricing provides the consumer with the assurance of frequently researched prices to ensure we offer the best pricing proposition in the market. This has been important for the Group and is a contributory factor in Evanshalshaw.com achieving a record 100,000 used vehicle sales in 2012.

Our third and fourth strategic pillars are key enablers for achieving the Group's objectives and are: a national footprint and scale and a superior IT platform. Our national footprint enables us to fulfil the needs of consumers locally to their home or business. This, coupled with scale, provides a true differentiator from our peers in the industry. Within the new car market, our large balanced brand portfolio ensures that we are insulated from the product cycles of the vehicle manufacturers we represent, hence any franchises which are impacted by a falling market share tend to be compensated by franchises which have increased market share. Our scale also provides a number of efficiencies and economies of scale within procurement, fixed overheads, shared services and central marketing.

Pinewood provides the Group with a superior integrated IT platform with which to monitor, control, report and analyse the Group's results and progress against objectives. Pinewood also has a growing external customer base. The IT system remains a key differentiator for the success of the Group.

2. FINANCIAL REVIEW

The following table sets out the Group's financial results for the years ended 31 December 2012 and 31 December 2011:

Financial Summary	Year Ended 31	Year Ended 31	YOY
	December	December	Change
£m	**2012**	**2011**	**%**
Revenue	3,635.1	3,465.8	+5%
Gross Profit	481.3	470.6	+2%
Operating Profit	67.9	78.0	-13%
Interest	(30.1)	(54.0)	-44%
Profit Before Tax	**37.8**	**24.0**	**+58%**
Tax	(8.8)	15.8	n/a
Profit After Tax	**29.0**	**39.8**	**-27%**
Earnings Per Share	1.9p	3.7p	-49%
Underlying* Revenue	3,635.1	3,418.2	+6%
Underlying* Gross Profit	481.3	468.1	+3%
Underlying* Operating Profit	71.8	74.4	-3%
Underlying* Interest	(35.4)	(43.6)	-19%
Underlying* Profit Before Tax	**36.4**	**30.8**	**+18%**
Underlying* Tax	(8.0)	(5.7)	+40%
Underlying* Profit After Tax	**28.4**	**25.1**	**+13%**
Underlying* Earnings Per Share	2.0p	2.3p	-13%

* Underlying results exclude items that have non-trading attributes due to their size, nature or incidence

Non-underlying Items

Non-underlying items in 2012 primarily relate to profits and losses on the disposal of businesses and property, property impairments, VAT settlements and pension costs. They are summarised as follows:

Non-underlying Items	Year Ended 31	Year Ended 31	YOY
	December	December	Change
£m	**2012**	**2011**	**%**
Start-up Business Costs	-	(4.8)	n/a
Property Impairments and Profit/(Loss) on Disposals	(3.7)	(0.6)	n/a
Refinancing and Pension Deficit Reduction Plan Costs	-	(18.5)	n/a
Pension Scheme Merger Costs	(0.4)	-	n/a
Pension Scheme Settlement Costs	(0.6)	-	n/a
Pension Net Finance Income	3.4	2.6	+8%
VAT Settlements and Provision Releases	2.7	14.5	-81%
Total	**1.4**	**(6.8)**	**n/a**

Total net non-underlying income before tax was £1.4 million for 2012 (2011: cost £6.8 million). In the prior year, the Group had £4.4 million of start-up operating costs relating to the Quicks.co.uk business. In 2012, the net operating loss of this business was £3.8 million and these results have been presented within the underlying results for the Group.

In the prior year, the Group incurred one-off costs of £18.5 million in association with the refinancing of the Group and the pension deficit reduction plan. During the year the Group's six defined benefit pension schemes were merged into one new scheme. Costs incurred by this exercise were £0.4 million and a settlement cost of £0.6 million arose as a result.

This year the Group received £2.7 million of VAT refunds and associated interest. In the prior year, non-underlying items included £9.4 million of VAT provision release and refunds and £5.1 million of interest on VAT refunds.

Underlying Finance Costs

Underlying financing costs were £35.4 million which compares to £43.6 million in the prior year as the Group has reduced the overall level of debt through operating cashflow and the Group's 2011 refinancing.

Net Debt and Cash Flow

The Group has reduced net debt by £30.4 million in the year to £216.4 million from £246.8 million. At 31 December 2012 the Debt : Underlying EBITDA ratio was 2.0. The Debt : Underlying EBITDA ratio is comprised as follows:

Debt : Underlying EBITDA Ratio	**Year Ended 31**	**Year Ended 31**	**YOY**
	December	**December**	**Change**
£m	**2012**	**2011**	**%**
Underlying Operating Profit	71.8	74.4	-3%
Depreciation	37.3	35.8	+4%
Amortisation	1.4	1.4	0%
Underlying EBITDA	**110.5**	**111.6**	**-1%**
Net Debt (see note 6)	**216.4**	**246.8**	**-12%**
Debt : Underlying EBITDA Ratio	**1.96**	**2.21**	**-11%**

The Group remains on track to achieve its Debt : Underlying EBITDA target of less than 1.5 times by the end of 2014.

The Group's balance sheet remains a key strategic priority and area of focus. The cash flows of the business for the twelve months ended 31 December 2012 and 31 December 2011 are summarised as follows:

Summary Net Debt Reduction	**Year Ended 31**	**Year Ended 31**
	December	**December**
£m	**2012**	**2011**
Underlying Operating Profit	**71.8**	**74.4**
Depreciation and Amortisation	19.2	19.1
Non-underlying Items	0.4	4.2
Working Capital Movement	3.4	24.3
Movement in Contract Hire Vehicles (see note 7)	(17.9)	(26.7)
Share Based Payments	0.9	0.8
Cash Generated From Operations	**77.8**	**96.1**
Net Underlying Interest Paid	(36.9)	(46.7)
Net Non-underlying Interest Received / (Paid) & Refinancing Costs	1.9	(8.3)
Tax Received / (Paid)	0.4	(1.5)
Replacement Capital Expenditure	(17.1)	(28.0)
Acquisitions	(2.6)	-
Disposals	9.4	4.2
Net Proceeds of Rights Issue	-	70.8
Other	(2.5)	(7.9)
Reduction in Net Debt	**30.4**	**78.7**

* 2011 restated due to change in presentation of contract hire cash flows as announced in the Interim Statement dated 7 August 2012.

Cash flow from operating activities was £77.8 million, which compares with £96.1 million generated in 2011. Replacement capital expenditure was £17.1 million in respect of property, plant and machinery and fixtures and fittings, which compares to £28.0 million in the prior year. Property and business disposals raised £9.4 million in 2012 (2011 : £4.2 million). The Group acquired the Leeds BMW and MINI franchises in the period at a cost of £2.6 million. The operating cash flow includes an inflow of working capital of £3.4 million versus an inflow of £24.3 million in the prior year.

Financing and Covenants

The Group views its financial capital resources as primarily comprising share capital, loan notes, bank loans, vehicle stocking credit lines and operating cashflow. The Group is also responsible for funding the pension deficit and thus the total financial resources required by the Group to fund itself at 31 December comprise:

Net Debt and Refinancing	Year Ended 31	Year Ended 31	YOY
	December	December	Change
£m	2012	2011	%
Bank	214.9	245.2	-12%
Finance Lease	1.5	1.6	-6%
Total	**216.4**	**246.8**	**-12%**
Stock Finance	122.3	129.1	-5%
Manufacturers Finance	409.2	399.1	+3%
Pension Deficit	29.8	8.0	273%
Total Funding	**777.7**	**783.0**	**-1%**

The Board's policy is to maintain a strong capital base to retain market confidence and to sustain the development of the business, whilst maximising the return to shareholders. The Group's key measure of return to shareholders is underlying earnings per share. The Group's strategy is to maintain facilities appropriate to the working capital requirements of the Group, whilst reducing debt towards a Debt : Underlying EBITDA ratio of less than 1.5.

The Group continues to operate comfortably within its existing facility and covenants.

Dividend

The Board is delighted to announce a proposed final dividend of 0.1p in respect of 2012 which will be paid following the AGM in May 2013.

Property

Our property portfolio is an important aspect of our business which we seek to utilise in the most cost effective manner. We operate from both leasehold and freehold properties. In addition, through strategic investment choices and the decision to close some franchise points, we have a number of vacant property assets which are held for sale. At 31 December 2012 we held £165.7 million (2011 : £173.8 million) of property assets on the balance sheet as well as £23.6 million (2011 : £29.0 million) of properties held for sale.

In 2012 we disposed of eight franchise points which were operationally surplus to requirements. Business disposals resulted in proceeds of £1.9 million and a loss on disposal of £0.7 million.

The value of our investment in our joint venture property company continues to be fully impaired. The structure is non-recourse to the Group and therefore we have no obligations to the joint venture other than as tenants.

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: delivery of business strategy, funding, liquidity and pensions, adverse economic and business conditions, used vehicle price movements, legislative changes in relation to vehicle taxation, regulatory compliance risk, vehicle manufacturer dependencies and marketing programmes, levels of new vehicle production, franchise agreements, reliance on certain management and key team members, failure of information systems, reliance on the use of significant estimates and competition and market challenges. The Board has recently reviewed the risk factors and confirms that they should remain valid for the rest of the 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.

3. Markets and Sector Performance

The UK is our principal market and we also have a small operation in California. The UK market splits into four key sectors, in order of profit opportunity to the Group, as follows: aftersales services, used vehicle sales, new vehicle sales and support business markets.

Sector Financial Highlights

The following table shows the total revenue, gross profit and gross margin by sector for each of the years ended 31 December 2012 and 31 December 2011:

Sector Performance	2012			2011		
		Gross	Gross		Gross	Gross
£m	Revenue	Profit	Margin	Revenue	Profit	Margin
Aftersales	307.8	188.1	61.1%	328.4	194.4	59.2%
Used	1,399.7	138.5	9.9%	1,329.9	127.8	9.6%
New	1,654.7	129.0	7.8%	1,515.9	119.8	7.9%
Trade/Wholesale	196.8	(5.4)	(2.7%)	225.3	(2.7)	(1.2%)
Motor Group	**3,559.0**	**450.2**	**12.6%**	**3,399.5**	**439.3**	**12.9%**
Support Businesses	76.1	31.1	40.9%	66.3	31.3	47.2%
Total	**3,635.1**	**481.3**	**13.2%**	**3,465.8**	**470.6**	**13.6%**

Aftersales Services Market

Aftersales encompasses the service, maintenance and repair of motor vehicles including bodyshop repairs and the retailing of parts and other motor related accessories. The main determinant of the aftersales market is the overall size of the car parc. The car parc represents the number of cars in use on UK roads and has typically been around 32 million vehicles in each of the last three years.

For the Group, the second determinant of the aftersales market opportunity is the age profile of the car parc. Typically, around 19% of the car parc is represented by less than three year old vehicles, around 20% is represented by four to six year old vehicles and the balance is greater than seven years old. Given the Group's significant new car presence, it has traditionally operated more in the less than three year old vehicle market than in the greater than three year old market profile. Over the last three years the Group has also targeted the over three year old vehicle market through our Vehicle Health Check process and associated initiatives such as service plans and value pricing. The demand for servicing and repair activity is less impacted by economic conditions than our other sectors, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons. The overall trend of the market is also being impacted by the higher reliability of vehicles, leading to lower warranty repair activity.

Aftersales Sector Performance

The Group's like for like retail labour sales are flat year on year which is an encouraging sign that the car parc has plateaued. Warranty work continues to be in decline and we have reduced the level of bodyshop work which has reduced overall turnover. Underlying aftersales gross profit margin increased from 59.6% in 2011 to 61.1% in 2012. The Group's underlying aftersales gross profit reduced by £6.3 million in the year. On a like for like basis aftersales gross profit reduced by £4.2 million.

Used Vehicle Sector Market

The used vehicle sector comprises the selling of vehicles from one party to another for all vehicles except newly registered vehicles. Currently, the annual number of used vehicle sales is around 6.8 million, with around half of these transactions being completed by franchise dealers and the balance being completed by independent dealers and private individuals.

The latest market data from Experian, to quarter three 2012, illustrated a flat market. It is expected that, when available, quarter four 2012 data will show the market has been flat for the whole year. However, it is the Group's expectations that there will be modest growth in 2013.

Used Vehicle Sector Performance

In the last three years, the Group has increased the like for like performance of used vehicle volume by nearly 40%, reflecting the success of its online strategy, national footprint and value pricing. In 2012, the Group's like for like used volume increased by a further 6.5%. The Group has improved gross margin from 9.7% to 10.0% in the year, on a like for like basis, which has further enhanced profitability. Used gross profit increased by £10.7 million and on a like for like basis increased by £11.8 million.

New Vehicle Sector Market

The new vehicle sector consists of the first registration of cars and commercial vehicles. The UK car market increased by over 5% in 2012 and had a market size of 2.045 million units. This is the largest the UK car market has been since 2008, when the car market was 2.132 million units. In 2007 the UK car market was 2.404 million units. The Society of Motor Manufacturers and Traders ("SMMT") are currently expecting that the new car market will grow by 0.6% in 2013 to 2.057 million units.

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

The following table summarises the UK new car market splitting the retail and fleet components for each of the years ended 31 December 2012 and 31 December 2011:

UK New Car Market			YOY
'000	**2012**	**2011**	**%**
Retail Vehicle Market	929.4	823.1	+13%
Fleet Vehicle Market	1,115.2	1,118.2	-0%
Total New Vehicle Market	**2,044.6**	**1,941.3**	**+5%**

The UK commercial vehicle market, consisting of light commercials and trucks, had a market size of 285,000 new units in 2012. The truck market increased by 6% and light commercials market decreased by 8% in the year. The SMMT's expectations for 2013 are that the light commercial vehicle market will increase by 5% as a result of latent demand and new product supply.

The Group has a small representation in California. The USA new car market was 14.4 million in 2012 which was an increase of 13% over 2011. The National Automobile Dealers' Association expects that this will grow to over 15.4 million vehicles in 2013.

New Vehicle Sector Performance

Like for like our retail car volume increased by 15% year on year and overall retail volume (including commercials) increased by 12%. New vehicle gross profit increased by £9.2 million for the year ended 31 December 2012 compared to 2011 and increased by £9.6 million on a like for like basis. As outlined above, the Group is more focussed on the retail sector than the fleet sector. On a like for like basis the Group increased its new retail gross profit by £11.3 million, decreased Motability gross profit by £1.2 million and decreased fleet gross profit by £0.5 million. Our retail margin on car vehicle sales was maintained year on year. Due to some dilution of margin from a higher mix of lower margin fleet activity, overall new vehicle margin fell from 7.9% in 2011 to 7.8% in 2012 on a like for like basis.

Support Businesses

The support businesses operate in the following markets: Contract hire and leasing markets (Contracts and Leasing), Dealer management IT markets (Pinewood) and Parts wholesale (Quickco). An overview of these markets and the Group's performance within them is shown below.

Contract Hire Market

We operate a contract hire and leasing business in the UK. Profits are generated during the lease and when we sell the used car after it is returned to us at the end of the lease period.

Contract Hire Performance (Leasing Segment)

The contract hire and leasing business generated an operating profit of £6.9 million compared to £6.5 million in the prior period due to increased profit on end of lease disposals. The fleet size stood at 9,700 at 31 December 2012 (2011 : 9,800).

Dealer Management Systems Market

In the UK, the market for dealer management systems is served by three main suppliers and the market opportunity is determined by the number of franchise points. We operate extensively in the UK under the 'Pinewood Technologies' brand.

Dealer Management Systems Performance (Pinewood Segment)

Operating profit for the period is broadly in line with the prior year at £9.1 million (2011 : £8.8 million). Pinewood provides the Group with a very stable income stream and is growing users year on year.

Parts Wholesale Market

The market consists of wholesale motor vehicle parts suppliers who supply to franchised and non-franchised retailers. The market is scale driven but is highly fragmented owing to the large number of suppliers.

Parts Wholesale Performance (Quickco Segment)

Quickco, our independent genuine parts wholesale business, achieved an operating profit of £1.4 million in 2012 versus £1.9 million in 2011.

4. SEGMENTAL PERFORMANCE

The Group is divided operationally into eight segments. The core vehicle and aftersales businesses consist of two segments, Stratstone and Evans Halshaw. We are reporting for the first time this year a separate segment for our Quicks used car operation which was previously shown within the non-underlying results. Additionally we have our California vehicle and aftersales business. Support businesses consist of the following four segments: Leasing, Quickco, Pinewood and Central. The Chatfields commercial van and trucks business is now included in the Stratstone segment.

Segmental Financial Highlights

The following table shows the total revenue and gross profit by segment of the Group's results for each of the years ended 31 December 2012 and 31 December 2011:

Segmental Results	2012		2011	
£m	Revenue	Gross Profit	Revenue	Gross Profit
Stratstone	1,438.9	179.2	1,333.6	174.6
Evans Halshaw	1,900.1	239.0	1,848.7	233.7
Quicks	46.9	3.7	47.6	2.5
California	173.1	28.3	169.6	28.5
Support Businesses	76.1	31.1	66.3	31.3
Total	**3,635.1**	**481.3**	**3,465.8**	**470.6**

Stratstone

Stratstone is one of the UK's leading prestige motor car retailers with 98 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Morgan, Porsche and Smart as well as five motorcycle franchises. This segment also contains the retail and service outlets for DAF, Nissan and Renault commercial vehicles under the Chatfields brand name. The following table shows the underlying results for Stratstone for each of the years ended 31 December 2012 and 31 December 2011:

Stratstone By Sector	2012			2011		
		Gross	Gross		Gross	Gross
£m	Revenue	Profit	Margin	Revenue	Profit	Margin
Aftersales	138.6	77.7	56.0%	142.1	79.0	55.6%
Used	585.6	43.9	7.5%	556.0	42.8	7.7%
New	665.0	59.5	8.9%	591.8	53.6	9.0%
Trade/Wholesale	49.7	(1.9)	(3.9%)	43.7	(0.8)	(1.8%)
Total	**1,438.9**	**179.2**	**12.5%**	**1,333.6**	**174.6**	**13.1%**

Stratstone Underlying	2012			2011		
	Existing	Disposed	Total	Existing	Disposed	Total
Gross Profit Per Unit £	n/a	n/a	1,925	n/a	n/a	2,040
Total Units '000	51.2	1.5	52.7	43.6	3.3	46.9
Operating Profit £m	**28.4**	**(2.5)**	**25.9**	**31.3**	**(2.4)**	**28.9**

* Restated to include Chatfields for comparative purposes.

Revenues were up by 7.9% year on year due primarily to increases in new and used volumes. Like for like used volumes increased significantly by 13.6% and new retail volumes increased by 20.2%. New volume increases reflected strong performance from the BMW, Land Rover, Mercedes-Benz, MINI and Porsche brands. Like for like used margin fell from 7.8% in 2011 to 7.6% in 2012. However, the first half used vehicle gross margin was 7.1% (back 0.8% on the prior year) compared to a second half gross margin of 8.2% (up 0.5% on the prior year). Like for like aftersales gross margins improved slightly on the prior year to 56.5%. The aftersales sector gross profit decreased by just £0.9 million on a like for like basis due to the impact of reduced warranty work.

The following table summarises the new car market for the brands that Stratstone represents for each of the years ended 31 December 2012 and 31 December 2011:

Stratstone New Car Market	Year Ended 31	Year Ended 31	YOY
	December	December	Change
'000	2012	2011	%
Retail Vehicle Market	204.2	180.4	+13.2%
Fleet Vehicle Market	199.1	184.0	+8.2%
Total New Vehicle Market	**403.3**	**364.4**	**+10.7%**

Our new retail vehicle volumes (excluding the commercial vehicle brand of Chatfields), our primary area of focus, was up by 18.4% compared to a national increase of 13.2% for the brands that Stratstone represents on a like for like basis. Overall Stratstone new vehicle volumes on a like for like basis were up 14.0%.

Evans Halshaw

Evans Halshaw is the UK's leading volume motor car retailer, with 133 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall. SEAT was added in January 2013.

The following table shows the results for Evans Halshaw for each of the years ended 31 December 2012 and 31 December 2011:

Evans Halshaw By Sector	2012			2011		
		Gross	Gross		Gross	Gross
£m	Revenue	Profit	Margin	Revenue	Profit	Margin
Aftersales	142.2	97.9	68.9%	161.3	103.3	64.0%
Used	733.4	86.9	11.8%	698.4	78.5	11.2%
New	888.6	57.2	6.4%	818.3	53.4	6.5%
Trade/Wholesale	135.9	(3.0)	(2.2%)	170.7	(1.5)	(0.9%)
Total	**1,900.1**	**239.0**	**12.6%**	**1,848.7**	**233.7**	**12.6%**

Evans Halshaw Underlying	2012			2011		
	Existing	Disposed	Total	Existing	Disposed	Total
Gross Profit Per Unit £	n/a	n/a	775	n/a	n/a	769
Total Units '000	181.3	0.8	182.1	166.0	3.7	169.7
Operating Profit £m	**28.1**	**(1.1)**	**27.0**	**23.7**	**(1.1)**	**22.6**

Total revenues increased by 2.8% during the year due to improvements in the new and used sectors within the division. On a like for like basis, new vehicle revenue increased by 10.2% and used revenue increase by 7.2%. On a like for like basis, new retail revenue increased by £7.5 million and new Motability and fleet revenue increased by £74.7 million. The combination of an increase in used volumes of 5.2% and increased used gross margin from 11.3% to 11.9%, has uplifted overall used vehicle gross profit by 12.5% on a like for like basis. Aftersales gross profit has decreased by 3.7% on a like for like basis which is largely a result of falls in new car warranty service work and bodyshop work. Aftersales margin has improved to 69.3% in the period on a like for like basis.

The following table summarises the new car market for the brands that Evans Halshaw represents for each of the years ended 31 December 2012 and 31 December 2011:

Evans Halshaw New Car Market	Year Ended 31	Year Ended 31	YOY
	December	December	Change
'000	2012	2011	%
Retail Vehicle Market	395.5	354.1	+11.7%
Fleet Vehicle Market	592.8	603.7	-1.8%
Total New Vehicle Market	**988.3**	**957.8**	**+3.2%**

As detailed in the 'Markets and Sector Performance' section, the light van market has been in recovery, so excluding vans, our car retail performance is up 14.3% on a like for like basis versus a national retail increase of 11.7%.

Quicks.co.uk

The following table shows the results for Quicks.co.uk for each of the years ended 31 December 2012 and 31 December 2011:

Quicks By Sector*	2012			2011		
		Gross	Gross		Gross	Gross
£m	Revenue	Profit	Margin	Revenue	Profit	Margin
Aftersales	3.9	0.0	0.5%	1.8	(0.3)	(18.6%)
Used	40.0	4.1	10.4%	42.4	3.1	7.3%
New	-	-	-	-	-	-
Trade/Wholesale	3.0	(0.4)	(14.3%)	3.4	(0.3)	(8.6%)
Total	**46.9**	**3.7**	**8.0%**	**47.6**	**2.5**	**5.2%**

Quicks Underlying*	2012			2011		
	Existing	Disposed	Total	Existing	Disposed	Total
Gross Profit Per Unit £	n/a	n/a	530	n/a	n/a	418
Total Units '000	7.0	-	7.0	6.7	-	6.7
Operating Profit £m	**(3.8)**	**-**	**(3.8)**	**(4.4)**	**-**	**(4.4)**

* Quicks was included in the non-underlying results in 2011 but has been analysed above for comparison purposes.

In 2012 Quicks.co.uk results are shown within its own segment. In 2011 the results were shown within non-underlying results. The business generated an operating loss of £3.8 million which was a £0.6 million improvement on 2011. In the second half of 2012, Quicks.co.uk performed £1.6 million ahead of the prior year and is continuing on this upward trajectory. The operation currently has seven sites and sold over 7,000 used vehicles in 2012.

California

California consists of nine franchise points in Southern California which represent the Aston Martin, Jaguar and Land Rover brands.

The following table shows the underlying results for California for each of the years ended 31 December 2012 and 31 December 2011:

California By Sector	2012			2011		
		Gross	Gross		Gross	Gross
£m	Revenue	Profit	Margin	Revenue	Profit	Margin
Aftersales	23.1	12.5	54.0%	23.2	12.4	53.4%
Used	40.7	3.6	8.8%	33.1	3.4	10.2%
New	101.1	12.3	12.2%	105.8	12.8	12.1%
Trade/Wholesale	8.2	(0.1)	(0.3%)	7.5	(0.1)	(0.9%)
Total	**173.1**	**28.3**	**16.4%**	**169.6**	**28.5**	**16.8%**

California Underlying	2012			2011		
	Existing	Disposed	Total	Existing	Disposed	Total
Gross Profit Per Unit £	n/a	n/a	3,693	n/a	n/a	4,158
Total Units '000	4.3	-	4.3	3.9	-	3.9
Operating Profit £m	**5.3**	**-**	**5.3**	**5.7**	**-**	**5.7**

Turnover increased by 2.1% over 2011 due to an increase in used vehicle revenue of 23.2% which was offset by falls in new vehicle revenue. The reduction in new vehicle revenue reflects a lower price mix of vehicles as new volumes were flat year on year.

Support Businesses

Our Support businesses provide a broad range of services both to the Group and to external customers. The services are provided by a number of specialist businesses which consist of contract hire and leasing, dealership IT systems and wholesale parts distribution.

The following table shows the underlying results for the Support businesses for each of the years ended 31 December 2012 and 31 December 2011:

Support	**2012**			**2011**		
		Operating	**Fleet**		**Operating**	**Fleet**
£m	**Revenue**	**Profit**	**Size**	**Revenue**	**Profit**	**Size**
Pinewood	9.9	9.1	n/a	9.2	8.8	n/a
Contracts & Leasing	18.2	6.9	9,700	16.9	6.5	9,800
Quickco	48.0	1.4	n/a	40.2	1.9	n/a
Total	**76.1**	**17.4**	**9,700**	**66.3**	**17.2**	**9,800**

Commentary on the markets and performance of each of the Support businesses can be found in the 'Markets and Sector' section.

5. OUTLOOK

The Group's continuing growth of its online brands of Stratstone.com, Evanshalshaw.com and Quicks.co.uk has been a key differentiator for our performance in the year. We expect that the Group will continue to gain market share in the used sector and maintain used margin in 2013. We are encouraged by the growth in the new vehicle sector in both the volume and prestige markets and expect further growth in 2013. The continued growth in the parc of vehicles up to three years old should be beneficial to the Group's aftersales sector in the next three years.

We are encouraged by the improving trajectory of net debt and the associated Debt : Underlying EBITDA ratio. Since 2008 net debt has reduced by 39% and we continue to be focussed on achieving our Debt : Underlying EBITDA target of less than 1.5. The Board has proposed a return to the dividend list and expects to maintain a progressive dividend policy for the future.

TREVOR FINN
Chief Executive
19 February 2013.

6. DETAILED FINANCIALS

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Underlying £m	Non-Underlying £m	**2012 £m**	Underlying £m	Non-Underlying £m	**2011 £m**
Revenue	3,635.1	-	**3,635.1**	3,418.2	47.6	**3,465.8**
Cost of sales	(3,153.8)	-	**(3,153.8)**	(2,950.1)	(45.1)	**(2,995.2)**
Gross profit	481.3	-	**481.3**	468.1	2.5	**470.6**
Operating expenses	(409.5)	(4.3)	**(413.8)**	(393.7)	0.7	**(393.0)**
Operating profit before other income	71.8	(4.3)	**67.5**	74.4	3.2	**77.6**
Other income - gains on the sales of businesses and property	-	0.4	**0.4**	-	0.4	**0.4**
Operating profit	71.8	(3.9)	**67.9**	74.4	3.6	**78.0**
Finance expense (note 4)	(35.9)	(18.8)	**(54.7)**	(44.2)	(38.8)	**(83.0)**
Finance income (note 5)	0.5	24.1	**24.6**	0.6	28.4	**29.0**
Net finance costs	(35.4)	5.3	**(30.1)**	(43.6)	(10.4)	**(54.0)**
Profit before taxation	36.4	1.4	**37.8**	30.8	(6.8)	**24.0**
Income tax (expense) / credit	(8.0)	(0.8)	**(8.8)**	(5.7)	21.5	**15.8**
Profit for the year	28.4	0.6	**29.0**	25.1	14.7	**39.8**
Profit for the year attributable to:						
Equity shareholders of the parent	28.4	(1.4)	**27.0**	25.1	14.7	**39.8**
Non-controlling interests (pension related)	-	2.0	**2.0**	-	-	-
	28.4	0.6	**29.0**	25.1	14.7	**39.8**

Earning per share (note 3)		
Basic earnings per share	**1.9p**	**3.7p**
Diluted earnings per share	**1.9p**	**3.6p**

Non GAAP measure (note 3):		
Underlying basic earnings per share	2.0p	2.3p
Underlying diluted earnings per share	2.0p	2.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 £m	2011 £m
Profit for the year	**29.0**	39.8
Other comprehensive income:		
Foreign currency translation differences of foreign operations	**(0.1)**	0.2
Defined benefit plan actuarial gains and losses	**(29.6)**	(2.7)
Income tax relating to defined benefit plan actuarial gains and losses	**6.8**	0.7
Adjustment in respect of minimum funding requirement on defined benefit plans	**4.8**	16.5
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	**(1.1)**	(4.4)
Other comprehensive income for the year, net of tax	**(19.2)**	10.3
Total comprehensive income for the year	**9.8**	50.1
Total comprehensive income for the year attributable to:		
Equity shareholders of the parent	**7.8**	50.1
Non-controlling interests (pension related)	**2.0**	-
	9.8	50.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	**Total £m**
Balance at 1 January 2012	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**
Total comprehensive income for 2012								
Profit for the year	-	-	-	-	-	27.0	2.0	**29.0**
Other comprehensive income for the year, net of tax	-	-	-	-	(0.1)	(19.1)	-	**(19.2)**
Total comprehensive income for the year	-	-	-	-	(0.1)	7.9	2.0	**9.8**
Issue of ordinary shares	0.8	-	-	-	-	(0.8)	-	**-**
Distribution from pension partnership to pension scheme	-	-	-	-	-	-	(2.5)	**(2.5)**
Share based payments	-	-	-	-	-	0.9	-	**0.9**
Balance at 31 December 2012	71.8	56.8	2.5	12.6	(0.4)	98.3	33.8	**275.4**
Balance at 1 January 2011	33.4	56.8	2.5	12.6	(0.5)	6.4	-	**111.2**
Total comprehensive income for 2011								
Profit for the year	-	-	-	-	-	39.8	-	**39.8**
Other comprehensive income for the year, net of tax	-	-	-	-	0.2	10.1	-	**10.3**
Total comprehensive income for the year	-	-	-	-	0.2	49.9	-	**50.1**
Issue of ordinary shares	37.6	-	-	-	-	-	-	**37.6**
Rights Issue	-	-	-	33.2	-	-	-	**33.2**
Transfer to retained earnings	-	-	-	(33.2)	-	33.2	-	-
Investment in pension partnership by pension schemes	-	-	-	-	-	-	34.3	**34.3**
Share based payments	-	-	-	-	-	0.8	-	**0.8**
Balance at 31 December 2011	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**

CONSOLIDATED BALANCE SHEET

At 31 December 2012

	2012 £m	Restated* 2011 £m
Non-current assets		
Property, plant and equipment	**290.3**	299.4
Goodwill	**368.2**	367.7
Other intangible assets	**4.4**	3.8
Derivative financial instruments	**14.2**	21.5
Deferred tax assets	**10.4**	13.7
Total non-current assets	**687.5**	706.1
Current assets		
Inventories	**590.0**	565.4
Trade and other receivables	**97.4**	101.3
Cash and cash equivalents	**58.0**	101.4
Non-current assets classified as held for sale	**23.6**	29.0
Total current assets	**769.0**	797.1
Total assets	**1,456.5**	1,503.2
Current liabilities		
Interest bearing loans and borrowings	**(60.4)**	(64.3)
Trade and other payables	**(739.8)**	(736.2)
Deferred income	**(23.0)**	(22.2)
Current tax payable	**(25.5)**	(25.0)
Provisions	**(2.4)**	(0.7)
Total current liabilities	**(851.1)**	(848.4)
Non-current liabilities		
Interest bearing loans and borrowings	**(228.2)**	(305.4)
Trade and other payables	**(23.7)**	(21.1)
Deferred income	**(44.8)**	(44.9)
Retirement benefit obligations	**(29.8)**	(8.0)
Provisions	**(3.5)**	(8.2)
Total non-current liabilities	**(330.0)**	(387.6)
Total liabilities	**(1,181.1)**	(1,236.0)
Net assets	**275.4**	267.2
Capital and reserves		
Called up share capital	**71.8**	71.0
Share premium account	**56.8**	56.8
Capital redemption reserve	**2.5**	2.5
Other reserves	**12.6**	12.6
Translation reserve	**(0.4)**	(0.3)
Retained earnings	**98.3**	90.3
Total equity attributable to equity shareholders of the Company	**241.6**	232.9
Non-controlling interests	**33.8**	34.3
Total equity	**275.4**	267.2

* Restated to reflect the reclassifications as announced in the Interim Statement dated 7 August 2012.

Registered Company Number: 2304195.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2012

	2012 £m	Restated* 2011 £m
Cash flows from operating activities		
Profit for the year	**29.0**	39.8
Adjustment for taxation	**8.8**	(15.8)
Adjustment for net financing expense	**30.1**	54.0
	67.9	78.0
Depreciation and amortisation	**19.2**	19.1
Share based payments	**0.9**	0.8
Losses on settlements or curtailments in pension schemes	**0.6**	-
Profit on sale of businesses and property	**(0.4)**	(0.4)
Impairment of property, plant and equipment	**-**	0.1
Impairment of assets held for sale	**5.4**	0.9
Reversal of impairment of assets held for sale	**(1.3)**	-
Changes in inventories	**(11.6)**	(33.3)
Changes in trade and other receivables	**4.1**	8.2
Changes in trade and other payables	**14.1**	64.6
Changes in retirement benefit obligations	**(0.2)**	(10.8)
Changes in provisions	**(3.0)**	(4.4)
Movement in contract hire vehicle balances	**(17.9)**	(26.7)
Cash generated from operations	**77.8**	96.1
Taxation received / (paid)	**0.4**	(1.5)
Interest received	**2.4**	5.7
Interest paid	**(37.4)**	(47.7)
Net cash from operating activities	**43.2**	52.6
Cash flows from investing activities		
Purchase of business	**(2.6)**	-
Proceeds from sale of businesses	**1.9**	0.9
Purchase of property, plant, equipment and intangible assets	**(68.4)**	(72.1)
Proceeds from sale of property, plant and equipment	**58.8**	47.4
Net cash used in investing activities	**(10.3)**	(23.8)
Cash flows from financing activities		
Proceeds on issue of shares (net of costs paid)	**-**	70.8
Payment of capital element of finance lease rentals	**(0.1)**	(0.9)
Repayment of bank loans	**(79.2)**	(77.5)
Proceeds from issue of loans	**6.6**	2.1
Payment of transaction costs related to loans and borrowings	**-**	(13.0)
Distribution from pension partnership to pension scheme	**(2.5)**	(0.2)
Net cash outflow from financing activities	**(75.2)**	(18.7)
Net (decrease) / increase in cash and cash equivalents	**(42.3)**	10.1
Cash and cash equivalents at 1 January	**101.4**	91.2
Effects of exchange rate changes on cash held	**(1.1)**	0.1
Cash and cash equivalents at 31 December	**58.0**	101.4

* Restated to reflect the reclassifications as announced in the Interim Statement dated 7 August 2012.

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2012 £m	2011 £m
Net (decrease) / increase in cash and cash equivalents	**(42.3)**	10.1
Payment of capital element of finance lease rentals	**0.1**	0.9
Repayment of bank loans	**79.2**	77.5
Proceeds from issue of loans	**(6.6)**	(2.1)
Non-cash movements	**-**	(7.7)
Decrease in net debt in the year	**30.4**	78.7
Opening net debt	**(246.8)**	(325.5)
Closing net debt	**(216.4)**	(246.8)

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

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

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

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

Non-underlying items are presented in the consolidated income statement as being income and expenses that have non-trading attributes due to their size, nature or incidence. The directors consider that these items should be disclosed separately to enable a full understanding of the Group's results.

2. NON-UNDERLYING ITEMS

	2012 £m	2011 £m
Within turnover:		
Turnover from start up business	-	47.6
	-	47.6
Within cost of sales:		
Cost of sales of start up business	-	(45.1)
	-	(45.1)
Within operating expenses:		
Operating expenses incurred in start up business	-	(6.9)
Impairment of property, plant and equipment	-	(0.1)
Impairment of assets held for sale	(5.4)	(0.9)
Reversal of impairment on assets classified as held for sale	1.3	-
Professional fees	-	(0.8)
Pension scheme merger costs	(0.4)	-
Losses on settlements or curtailments of pension scheme obligations	(0.6)	-
VAT assessment refunds and provision reversal	0.8	9.4
	(4.3)	0.7
Within other income - gains on the sale of businesses and property:		
Losses on the sale of businesses	(0.7)	(0.2)
Gains on the sale of property	1.1	0.6
	0.4	0.4
Within finance expense:		
Interest on pension scheme obligations	(18.8)	(20.7)
Interest charge in start up business	-	(0.4)
Refinancing fees and costs	-	(17.7)
	(18.8)	(38.8)
Within finance income:		
Interest on pension scheme assets	22.2	23.3
Interest on VAT refunds	1.9	5.1
	24.1	28.4
Total non-underlying items (before tax)	1.4	(6.8)
Total Non-underlying items attributable to:		
Equity shareholders of the parent	(0.6)	(6.8)
Non-controlling interests (pension related)	2.0	-
	1.4	(6.8)

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

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was an impairment charge against assets held for sale tangible fixed assets of £5.4m during the year (2011 : £0.9m). There was no impairment charge recognised against tangible fixed assets (2011 : £0.1m). In addition a reversal of previous impairment charges of £1.3m was made for assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values.

During 2010 the Group set up a new business of used car stores operating under the Quicks brand. During the previous year further sites were added as the Group sought to build and establish the Quicks brand. As this business established itself the initial costs and subsequent trading losses incurred as the Group developed and promoted the brand which in 2011 amounted to £4.8m were presented as non-underlying in the prior year. For 2012, the results of the Quicks segment are shown within the underlying results of the Group.

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility of this amount. Net income of £3.4m has been recognised during the year (2011 : £2.6m), of which £2.0m is attributable to the non-controlling interests (2011 : £nil). During the year the Group's six defined benefit pension schemes were merged into the Pendragon Group Pension Scheme. As part of the process members whose value of benefits were below a set limit were entitled to a wind up lump sum in settlement of any future benefits. The cost recognised in settlement of these benefits was £0.6m. Costs were also incurred in relation to this transaction amounting to £0.4m. Due to the one off nature of the pension merger these settlement and professional costs are shown as non-underlying.

Other income, being the profit on disposal of businesses and property, comprises a £1.1m profit on sale of properties (2011 : £0.6m) and a £0.7m loss on the disposal of motor vehicle dealerships (2011 : loss £0.2m).

Upon the successful completion of the refinancing of the Group during the previous year a net loss of £17.7m was recorded, comprising of refinancing related costs.

In conjunction with the refinancing in 2011 the Group entered into a Pension Deficit Reduction Plan. The Group incurred professional fees of £0.8m in the previous year setting up this arrangement which because of their one-off nature are presented as non-underlying.

A VAT refund of £0.8m, net of costs, was received in the year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996 (2011 : £4.7m). Associated interest received of £1.9m (2011 : £5.1m) is disclosed within finance income. During the previous year the Group completed discussions with HM Revenue & Customs in respect of the VAT treatment of sales of vehicles to certain disabled customers and reversed the remainder of the provision held in respect of this matter which amounted to £4.7m.

3. EARNINGS PER SHARE

	2012 Earnings per share pence	2012 Earnings Total £m	2011 Earnings per share pence	2011 Earnings Total £m
Basic earnings per share	1.9	27.0	3.7	39.8
Adjusting items:				
Non-underlying items attributable to the parent (see note 2)	-	0.6	0.6	6.8
Tax effect of non-underlying items	0.1	0.8	(2.1)	(21.5)
Underlying earnings per share (Non GAAP measure)	2.0	28.4	2.3	25.1
Diluted earnings per share	1.9	27.0	3.6	39.8
Diluted earnings per share - underlying (Non GAAP measure)	2.0	28.4	2.2	25.1

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

	2012 number	2011 number
Weighted average number of ordinary shares in issue	1,404.5	1,085.6
Weighted average number of dilutive shares under option	16.5	30.1
Weighted average number of shares in issue taking account of applicable outstanding share options	1,421.0	1,115.7
Non-dilutive shares under option	54.9	57.3

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

4. FINANCE EXPENSE

Recognised in profit and loss	2012 £m	2011 £m
Interest payable on bank borrowings and loan notes	19.7	29.0
Refinancing fees and costs (non-underlying)	-	17.7
Vehicle stocking plan interest	14.4	13.8
Interest payable on finance leases	0.2	0.1
Interest on pension scheme obligations (non-underlying)	18.8	20.7
Less : interest capitalised	(0.1)	(0.1)
Total interest expense	53.0	81.2
Net fair value expense in respect of hedging relationships	-	0.2
Unwinding of discounts in contract hire residual values	1.7	1.6
Total finance expense	54.7	83.0

5. FINANCE INCOME

Recognised in profit and loss	2012 £m	2011 £m
Interest receivable on bank deposits	0.5	0.6
Interest on VAT refunds (non-underlying)	1.9	5.1
Interest on pension scheme assets (non-underlying)	22.2	23.3
Total finance income	24.6	29.0

6. NET DEBT

	2012 £m	2011 £m
Cash and cash equivalents	**58.0**	101.4
Current interest bearing loans and borrowings	**(60.4)**	(64.3)
Non-current interest bearing loans and borrowings	**(228.2)**	(305.4)
Derivative financial instruments	**14.2**	21.5
	(216.4)	(246.8)

7. MOVEMENT IN CONTRACT HIRE VEHICLE BALANCES

	2012 £m	2011 £m
Depreciation	**19.5**	18.1
Changes in trade and other payables and deferred income	**0.2**	12.6
Purchases of contract hire vehicles	**(35.9)**	(55.9)
Unwinding of discounts in contract hire residual values	**(1.7)**	(1.5)
	(17.9)	(26.7)

8. PENSION FUNDS

The net liability for defined benefit obligations has increased from £8.0 million at 31 December 2011 to £29.8 million at 31 December 2012. The increase of £21.8 million comprises contributions of £0.2 million, net income to the income statement of £2.8 million, a net actuarial loss of £29.6 million and a £4.8 million credit adjustment in respect of the minimum funding requirement and non-recognition of surplus. The net actuarial loss has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate of 4.35% (2011: 4.85%), inflation rate (RPI) of 2.90% (2011: 3.00%) and inflation rate (CPI) of 2.10% (2011: 2.20%).

9. ANNUAL REPORT

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2012 or 2011 but is derived from those accounts. Statutory accounts for 2011 have been delivered to the registrar of companies, and those for 2012 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2012 are published on the Group's website at www.pendragonplc.com and will be posted to shareholders and after adoption at the Annual General Meeting on 22 May 2013 they will be delivered to the registrar.

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