Pendragon | PLC

Issued: 17 February

2015 PRESS RELEASE

Pendragon PLC

The UK's Leading Automotive Retailer

"Profits up 36% to £60.2 million; launch of the UK's first automotive click and collect service"

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PENDRAGON PLC - The UK's Leading Automotive Retailer Announces Full Year Results To 31 December 2014

"Profits up 36% to £60.2 million; launch of the UK's first automotive click and collect service"

Financial Highlights

- Operating leverage continues, with gross profit up 4.5% and operating profit up 17.9%.
- Underlying profit before tax up £16.0 million (+36.2%), from £44.2 million to £60.2 million. Underlying profit has doubled in three years.
- Underlying earnings per share up 0.8p (+34.8%), from 2.3p to 3.1p.
- Net debt : EBITDA ratio at 0.8, which remains below the lower end of our target range.
- Final proposed dividend doubled to 0.6p per share. Our 2015 interim dividend is also expected to double to 0.6p per share.

Strategic Highlights

- Delivering our strategy - resulting in underlying profit before tax up by 36.2% to £60.2 million.
- Our four strategic 'pillars' are key to our success:
  - **No. 1 Online** - Launch of 'Move Me Closer', the UK's first automotive 'click and collect' service.
  - **Value** – 'Sell Your Car' providing value to the consumer and additional used car supply for the Group.
  - **IT Superiority** - our proprietary IT solutions provide a key differentiator in the market.
  - **National Footprint** – 227 retail points and further roll-out of footprint planned for 2015.

Operational Highlights

- Our focus on used continues to enhance profitability, with record performance in 2014.
- Online visits to Stratstone.com, Evanshalshaw.com and Quicks.co.uk increased by 2.2 million (+16.3%), from 13.5 million to 15.7 million.
- Aftersales gross profit increased by £7.2 million (+4.0%), as the vehicle parc grows (like for like).
- Used gross profit increased by £10.5 million (+7.9%), with sales up 8.1% year on year (like for like).
- New gross profit increased by £11.2 million (+8.0%), with strong growth in Stratstone.com (like for like).

Trevor Finn, Chief Executive, commented:

"We are delighted with the performance across our business, with a 36% improvement in underlying profitability. The heart of our proposition is to offer value, choice, service and convenience to our consumers from our key brands of Evanshalshaw.com and Stratstone.com. We have expanded our convenience proposition, with the launch of 'Move Me Closer' on Evanshalshaw.com - the UK's first automotive 'click and collect' service and enhanced our value proposition with the implementation of 'Sell Your Car'. We have a clear strategy which will enable us to continue to grow and are well positioned to take the business to the next level.

We have doubled the dividend to reward our shareholders and our strong balance sheet and cashflow generation will ensure we can maintain this dividend level alongside our expansion plans. We thank our people for their continued support in helping to deliver our performance and we are looking forward to 2015. We are confident that 2015 will be another year of good performance, with Group performance in line with current expectations for the year."

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Summary of Contents

1. Financial Overview

Pendragon PLC Summary Results* £m	Year Ended 31 December 2014	Year Ended 31 December 2013	YOY Change %
Underlying Revenue	**4,000.4**	**3,848.9**	**+3.9%**
Underlying Gross Profit	522.6	499.9	+4.5%
Underlying Operating Costs	(431.7)	(422.8)	+2.1%
Underlying Operating Profit	**90.9**	**77.1**	**+17.9%**
Underlying Interest	(30.7)	(32.9)	-6.7%
Underlying Profit Before Tax	**60.2**	**44.2**	**+36.2%**
Operating Profit	**97.2**	**77.2**	**+25.9%**
Interest	(32.6)	(38.3)	-14.9%
Profit Before Tax	**64.6**	**38.9**	**+66.1%**
Underlying Gross Margin (%)	13.1%	13.0%	+0.1%
Underlying Operating Margin (%)	2.3%	2.0%	+0.3%
Underlying Earnings Per Share (p)	3.1	2.3	+34.8%
Full Year Dividend Per Share** (p)	0.9	0.4	+125.0%

* Underlying results, where stated, exclude items that have non-trading attributes due to their size, nature or incidence
** Full Year Dividend Per Share is the interim dividend per share plus the proposed final dividend per share

NOTE: Within this document, like for like results include only current trading businesses which have a 12 month comparative history. All percentages shown are the calculated value from the table shown and may vary from the actual numbers due to rounding. Year on year percentage variances for margins show the absolute percentage movement only. All commentary is versus the prior year, unless stated.

Income Statement Highlights

Revenue increased by £151.5 million, up 3.9% on the prior year, mainly due to increases within the used and new vehicle departments. On a like for like basis, revenue increased by £216.9 million and we improved used revenue by 8.1%, new revenues by 4.3% and aftersales revenues by 3.6%.

Underlying gross profit increased by £22.7 million (+4.5%) in the period and on a like for like basis by £30.7 million (+6.3%) over the prior year. We achieved record performance in our used vehicle sector, with gross profit up £10.5 million (+7.9%) on a like for like basis. In the used vehicle sector, we continue to grow our presence and reputation and deliver further efficiency gains. The new sector has increased by £11.2 million (+8.0%) on a like for like basis as the new car market continues to grow. Aftersales has grown by £7.2 million (+4.0%) on a like for like basis as a result of new car sales growth and our growth in used vehicle sales increasing the available vehicle parc. In the period, we increased overall underlying gross margin by 10 basis points, to 13.1%.

Operating costs increased on a like for like basis by £18.4 million (+4.6%), of which half relates to variable costs (+4.6%) and half to indirect costs, with the key cost increases due to property, people related costs and marketing costs.

Underlying operating profit increased by £13.8 million in the period and increased by £12.3 million on a like for like basis. Underlying interest savings of £2.2 million were achieved in the period as the debt level has been further reduced. Our operating profit margin of 2.3% is a 30 basis points improvement on the prior year.

Balance Sheet and Cash Flow

The Group has been focussing on achieving a strong balance sheet and lowering its debt profile. The following table summarises the cash flows and net debt of the Group for the years ended 31 December 2014 and 31 December 2013 as follows:

Summary Cashflow and Net Debt £m	Year Ended 31 December 2014	Year Ended 31 December 2013
Underlying Operating Profit Before Other Income	**89.8**	**76.8**
Depreciation and Amortisation	27.0	19.8
Non-underlying Items	-	2.0
Share Based Payments	1.5	1.6
Working Capital and Contract Hire Vehicle Movements	(11.9)	35.1
Operating Cash Flow	**106.4**	**135.3**
Tax Paid	(8.3)	(0.9)
Underlying Net Interest Paid	(29.0)	(33.6)
Non-underlying Net Interest Paid & Refinancing Costs	-	(8.0)

Replacement Capital Expenditure	(21.8)	(19.5)
Acquisitions	(20.8)	(12.5)
Disposals	12.6	16.3
Dividends	(8.6)	(2.8)
Other	0.3	2.5
Reduction In Net Debt	**30.8**	**76.8**
Closing Net Debt	**108.8**	**139.6**

The Group's net debt fell from £139.6 million at 31 December 2013 to £108.8 million at 31 December 2014. This £30.8 million net debt reduction was largely due to increased underlying operating profit before other income of £13.0 million.

The following table illustrates the debt : underlying EBITDA ratio for the years ended 31 December 2014 and 31 December 2013:

Debt : Underlying EBITDA Ratio £m	Year Ended 31 December 2014	Year Ended 31 December 2013	Year on Year Improvement
Underlying Operating Profit	90.9	77.1	+17.9%
Depreciation & Amortisation	50.2	40.9	+22.7%
Underlying EBITDA	**141.1**	**118.0**	**+19.6%**
Net Debt	**108.8**	**139.6**	**-22.1%**
Debt : Underlying EBITDA Ratio	**0.8**	**1.2**	**-33.3%**

As a consequence of this lower debt level and strong EBITDA performance, the debt : underlying EBITDA ratio has reduced from 1.2 at 31 December 2013 to 0.8 at 31 December 2014 and falls below the lower end of our target range of 1.0 to 1.5. This reflects the appropriate balance of capital efficiency and growth potential, providing both a strong balance sheet and, with our strong cashflow generation and realisations from low performing assets, the ability to invest for the future.

Property, acquisitions and disposals

Our property portfolio is an important aspect of our business, with the Group operating from both leasehold and freehold properties. In addition, through strategic investment choices, including the decision to close some franchise points, we have a number of vacant property assets which we hold for sale. At 31 December 2014, the Group had £164.4 million of land and property assets (2013: £161.3 million). Additionally, the Group held assets for sale of £11.6 million (2013: £13.1 million). Acquisitions of £20.8 million include the purchase of six properties from King Arthur Properties for £12.9 million. Disposals consist of £1.1 million from business disposals and £11.5 million from property disposals. Business disposals resulted in a profit on disposal of £0.1 million and property disposals resulted in a profit of £3.1 million. During the period, the Group closed or disposed of 12 franchise points which were low performing or surplus to requirements, and added one used vehicle point.

Property Joint Venture

The Group occupies as tenant a number of properties that were previously held in a joint venture in which the Group held an investment. In November 2013 the Group invested £10.0 million in a new company, King Arthur Properties which acquired all of the property from the joint venture. This 6% stake in the new company generated an underlying dividend of £1.1 million, received by the Group in the year. During the year we received non-underlying dividends of £3.1 million relating to property disposals and refinancing of King Arthur Properties. This investment has been realised subsequent to the year end, resulting in a non-underlying profit of £14 million and a cash inflow to be received in 2015 of £24 million. We also took the opportunity to acquire six properties from King Arthur Properties in December 2014 for £12.9 million, saving rent of £1.3 million per annum.

Pensions

The net liability for defined benefit pension scheme obligations has increased from £43.4 million at 31 December 2013 to £66.4 million at 31 December 2014. Whilst the value of scheme assets increased by £21.3 million, this was offset by an increase in benefit obligations of £44.3 million which has been caused by a 90 basis points reduction in the pension scheme discount rate. This increase in the deficit of 53% in the year contrasts with the reported increase in deficits in FTSE 350 companies of 90%.

Dividend

We are delighted to be proposing to double the final dividend. Our 35% increase in earnings for the year is backed by a strong balance sheet, cashflow generation and recycling of low performing assets which gives us the capacity to fund our expansion of footprint and anticipated growth in other sectors. The Board is therefore confident to announce an increase in the proposed final dividend to 0.6p per share in respect of 2014.

Following this rebasing of our dividend cover, the Board intends to adopt a progressive dividend approach in the future.

A final dividend of 0.3p per share was paid in May in respect of 2013 and an interim dividend of 0.3p per share was paid in October in respect of 2014.

The proposed final dividend, subject to approval at the AGM, will be paid on the 22 May 2015 for those shares registered on 24 April 2015. The Board currently anticipates that the interim dividend, usually paid in October, will also be doubled to 0.6p per share.

Non-underlying Items

Non-underlying items for the years ended 31 December 2014 and 31 December 2013 are as follows:

Non-underlying Items £m	Year Ended 31 December 2014	Year Ended 31 December 2013
Refinancing Costs and Interest	-	(7.1)
Property Impairments and Gain / (Loss) on Disposals	3.2	(1.9)
Pensions	(1.9)	(1.3)
Dividends received	3.1	-
VAT Settlements	-	5.0
Total	**4.4**	**(5.3)**

In the period, property disposal profits net of impairments and associated property and business disposal costs provide a £3.2 million credit in the period versus a £1.9 million charge in the prior year. The Group sold seven properties, yielding proceeds of £11.5 million.

In the period, the Group received £3.1 million of non-underlying dividend income (2013: £nil) which relates to King Arthur Properties, a company in which we had a 6% investment.

On 30 January 2015 we realised this investment resulting in a non-underlying profit of £14 million for 2015. This will result in a cash inflow of circa £24 million in 2015.

Risks and Uncertainties

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The principal risks identified were: failure to adopt the right strategy or failure of our adopted strategy to be effectively implemented or to deliver the desired results, dependence on vehicle manufacturers for the success of our business, failure to meet competitive challenges to our business model or sector, European economic instability affecting the UK in particular impacting used vehicle prices, UK governmental spending constraints, changes to the type of vehicles sold or the amount of road use, availability of debt funding, funding requirements of the occupational pension scheme, significant litigation or regulator action against or otherwise impacting the Group, failure of systems, reliance on the use of estimates, failure to attract, develop, motivate and retain good quality team members, failure to provide safe working and retail environments and failure to control environmental hazards. The Board has recently reviewed the risk factors and confirms that they should remain valid 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.

2. Segmental Results

The Group has four segments, which we refer to as the Motor Segment and three segments which we refer to as the Support Segment. The Motor Segment consists of: Stratstone, Evans Halshaw, California and Quicks. The Support Segment consists of: Pinewood, Leasing and Quickco. The following table shows the revenue, gross profit, operating costs and operating profit by segment for our Motor Segment for the years ended 31 December 2014 and 31 December 2013:

Motor Segment Results for Year Ended 31 December										
£m	Stratstone		Evans Halshaw		Quicks		California		Motor Segment	
(unless stated)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue:										
Aftersales	132.5	132.1	144.7	142.5	2.7	2.7	23.1	23.6	303.0	300.9
Used	683.2	624.5	878.1	852.3	46.9	46.2	61.2	52.7	1,669.4	1,575.7
New	775.4	711.3	1,047.5	1,061.8	-	-	119.7	118.6	1,942.6	1,891.7
Revenue	**1,591.1**	**1,467.9**	**2,073.3**	**2,056.6**	**49.6**	**48.9**	**204.0**	**194.9**	**3,915.0**	**3,768.3**
Gross Profit:										
Aftersales	76.2	75.4	102.3	99.2	0.6	0.6	12.2	12.8	191.3	188.0
Used	47.2	42.1	91.1	86.5	4.2	4.6	3.8	4.4	146.3	137.6
New	70.0	63.5	65.0	63.5	-	-	18.2	17.4	153.2	144.4
Gross Profit	**193.4**	**181.0**	**258.4**	**249.2**	**4.8**	**5.2**	**34.2**	**34.6**	**490.8**	**470.0**
Operating Costs	**(157.9)**	**(154.1)**	**(225.8)**	**(221.8)**	**(7.0)**	**(7.5)**	**(25.6)**	**(25.6)**	**(416.3)**	**(409.0)**
Operating Profit	**35.5**	**26.9**	**32.6**	**27.4**	**(2.2)**	**(2.3)**	**8.6**	**9.0**	**74.5**	**61.0**
Metrics:										
Gross Margin %	12.2%	12.3%	12.5%	12.1%	9.7%	10.6%	16.8%	17.8%	12.5%	12.5%
Units Sold ('000)	54.9	53.1	200.8	200.3	6.7	7.3	4.8	4.6	267.2	265.3

Stratstone (Stratstone.com)

Our Stratstone business is one of the UK's leading premium motor car retailers, with 79 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Mercedes-Benz, MINI, Morgan, Porsche and Smart vehicles as well as three motor-cycle franchises. This segment also contains our retail and service outlets for DAF commercial vehicles, under our Chatfields brand name.

Stratstone.com had a strong year, with performance improvements across all departments. On a like for like basis, operating profit increased by £6.5 million. Stratstone's largest area of improvement was in used, with gross profit increasing by 14.6% on a like for like basis, mainly due to revenue growth with margin slightly improved. The new department improved like for like gross profit by 13.6% as a result of strong growth in Aston Martin, Land Rover, Mercedes-Benz and Porsche. Aftersales continues to grow, with 5.2% gross profit growth on a like for like basis and a 6.5% increase in retail labour sales. Stratstone businesses have extended their use of high definition videos from the sales teams' online presentation of used vehicles to the aftersales department communication of vehicle service and repair. This has further enhanced our customer proposition, enabling the customer to see vehicle service and repair issues direct from the workshop on their electronic device and to authorise work from the link provided. This further illustrates our investment in our online activities and the IT infrastructure that supports all our businesses and activities.

Evans Halshaw (Evanshalshaw.com)

Our Evans Halshaw business is the UK's leading volume motor car retailer, with 125 franchise points. Evans Halshaw holds franchises to retail and service Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall vehicles.

Evanshalshaw.com increased like for like operating profit by £5.8 million, with strong performance across all sectors. The greatest improvement in gross profit in Evans Halshaw came from the used sector, with like for like gross profit up 6.0% as a result of both revenue and margin improvement.

In the period, Evans Halshaw focussed on improving used margin, resulting in like for like used gross profit increasing by £5.1 million, an improvement of 6.0%. Aftersales like for like gross profit increased by £4.0 million or 4.1%. Retail labour sales grew by 2.1% on a like for like basis in 2014 and the increased used stock and sales volume has increased internal vehicle preparation by 11.6% in the year. We are continuing to identify efficiency gains and capacity improvements to achieve further growth. At Evans Halshaw, consumers can choose how they transact, from a variety of methods and channels for aftersales services. We believe our innovation and responsiveness to consumers' needs in this area is giving us an advantage. We increased our like for like new vehicle gross profit in the period by £2.1 million, as we improved our new vehicle margin by 30 basis points.

Quicks (Quicks.co.uk)

At Quicks, our dedicated used car business, we retail used motor vehicles and provide associated aftersales services. We take the opportunity in Quicks to test systems and processes prior to implementation within the Group. In the period, Quicks performed in line with the prior year, but, on a like for like basis, the business improved by £0.1 million.

California

Our motor retail business in the US continues to achieve strong results from its nine franchise points in Southern California, which represent the Aston Martin, Jaguar and Land Rover brands. Operating profit fell by just £0.4 million from the exceptional year of 2013. New car performance continues to improve, offset by small profit reductions in aftersales and used. We continue to explore earnings enhancing opportunities to add to our existing US operations.

Support Businesses

Our Support businesses provide a broad range of services, both to the Group and to external customers. These specialist businesses consist of Pinewood for dealer management systems, Leasing for fleet and contract hire vehicles and Quickco for wholesale vehicle parts.

The following table shows the revenue and operating profit for our Support segment and the Group results, for each of the years ended 31 December 2014 and 31 December 2013:

Underlying Support Sector Results For Year Ended 31 December

	Pinewood		Leasing		Quickco		Support Segment		Group*	
£m	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue	10.9	10.4	22.2	18.0	52.3	52.2	85.4	80.6	4,000.4	3,848.9
Operating Profit	**8.7**	**8.9**	**5.6**	**5.4**	**2.1**	**1.8**	**16.4**	**16.1**	**90.9**	**77.1**
Operating Margin (%)	79.8%	85.6%	25.2%	30.0%	4.0%	3.4%	19.2%	20.0%	2.3%	2.0%

* Group comprises the total of the support segment and the motor segment.

3. Strategic Progress

Strategy

Our strategy is to grow profitability in used, aftersales and new and we represent this by our four strategic pillars. These strategic pillars are: number one online, value, superior IT and national footprint and are supported by the 'our people' foundation.

Number One Online

We continue to invest in our online platforms. Visits to Stratstone.com, Evanshalshaw.com and Quicks.co.uk increased by 16.3% over the prior year, to 15.7 million visitors. Overall, we are attracting over 10.2 million online visitors more than we did five years ago. This channel is becoming a key aspect of our business, supported by our national retail locations.

Evanshalshaw.com and Quicks.co.uk are operating on our latest platform, which recognises and is dynamic to consumers' chosen electronic device. Stratstone will transfer to this platform at the end of quarter one of 2015. We are now fully operational with our 'Sell Your Car' initiative (www.evanshalshaw.com/sell-your-car/) where consumers can sell their car direct to evanshalshaw.com, and we will guarantee to pay more than 'webuyanycar.com'. Having added a further four retail locations since the October interim management statement, we now offer this service at a total of 42 retail locations in the UK, gaining an inflow of used cars sourced directly from consumers.

In February 2015, we launched 'Move Me Closer' which enables the consumer to reserve a vehicle direct from their electronic device and choose to have it physically delivered to their nearest store location (www.evanshalshaw.com/move-me-closer/). Through this service, consumers can research and view online over 20,000 vehicles then inspect the vehicle they reserved at a physical location convenient to them.

Value

Our value pricing provides consumers with the assurance of frequently researched prices. We have been operating our value pricing methodology for over six years, enabling us to provide pricing transparency to our customers. By applying this process, in 2014 we made over 600,000 price changes to used cars through updates made twice a day to our internet prices, to ensure we provide value for our customers. We continue to invest in developing this area, to ensure we can continue to monitor value effectively, as we increase our stock holding, range, geographical footprint and consumer base.

Superior IT

Our business benefits from an IT platform superior to those of our competitors, owing to the strength and expertise of our wholly-owned technology company. This enables us more directly to monitor, control, analyse and report on our results and the progress we are making against our objectives. This platform also enables us to react quickly to customer demands and needs, transforming the customer experience in a number of areas. For example, within aftersales, we now offer customers a fully integrated online service booking, supported by a HD video vehicle health check for them to view. Our 'Move Me Closer' service was conceived and designed, proved and launched in a time scale achieved only as a result of this superior IT capability.

National Footprint

Our business has the largest motor retail footprint and scale in the UK. This brings benefits to our customers: for both vehicle selection and purchasing, and for aftersales services, they can visit our stores at locations convenient to them. We have commenced a programme to invest and open stores in the key market areas in the UK where we do not yet have a significant presence. This investment will bring us even closer to existing and potential customers, by further enhancing our offering of choice, convenience of contact and service and our unique used car consumer proposition. This, coupled with the 'Move Me Closer' initiative, gives our UK consumers even more opportunity to touch and appraise their potential vehicle purchase at a place local to them.

At this stage we have identified three properties which we already either own or lease which are suitable for our retail location expansion. In addition we have begun a programme of new site search and selection which we anticipate will result in adding five sites during 2015, taking us towards our planned total of 40 additional sites. We expect to finance this growth through our cashflow and by recycling low performing assets.

Our People

Our people are a foundational asset and key to the success of our business. We have always placed a significant focus on our team members and defining and refining how we do business, communicate, and engage with our customers. Not only has this foundation supported our plans to further enhance our human resource approaches and our plans to develop our teams; it has also been the driver behind new processes and propositions for our customers and reward and recognition of our team members. In 2014, we opened our training academy, further evidence of our investment in training and belief in development for all our people.

Finally we celebrated 25 years as a 'plc' in November 2014 and we thank all our people, both long-term and current team members, for their hard work, loyalty, energy and dedication to Pendragon PLC.

We are looking forward to the next 25 years!

4. Industry Insight and Outlook

New Sector

The new vehicle sector consists of the first registration of cars and commercial vehicles. In 2014, the UK new car market, the second largest market in Europe, increased by 9.3% over the prior year, with 2.476 million registrations, up from 2.265 million in 2013.

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 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 does retail. The retail market is the key market opportunity for the Group and represents just under half of the total UK market.

The following table summarises the UK new car vehicle market, separating the retail and fleet components for the years ended 31 December 2014 and 31 December 2013:

New Car Vehicle Registrations for Year Ended 31 December ('000)				
	2014	2013	Change	Change %
UK Retail Market	1,179.5	1,074.6	104.9	+9.8%
UK Fleet Market	1,296.9	1,190.1	106.8	+9.0%
UK New Market	**2,476.4**	**2,264.7**	**211.7**	**+9.3%**
Group Represented* UK Retail Market	797.8	724.3	73.5	+10.1%
Group Represented* UK Fleet Market	900.9	856.6	44.3	+5.2%
Group Represented* UK New Market	**1,698.7**	**1,580.9**	**117.8**	**+7.5%**

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

The UK commercial vehicle market, consisting of light commercial vehicles and trucks, had a market size of 363 thousand units in 2014, an increase of 11% over the prior year. SMMT's expectations for 2015 are that the light commercial vehicle market will be stable.

The Group has a small and successful representation in California. The USA new vehicle market was 16.4 million in 2014, an increase of 6% over 2013. This was the highest vehicle market since 2006 and The National Automobile Dealers' Association expects the USA market to be 16.9 million vehicles in 2015, an increase of 3%. The USA market provides an opportunity for earnings enhancing acquisitions.

New Industry Insight

We believe that 2015 will see continued growth in the UK new car market, but the levels of growth will be more moderate than 2014. March 2014 saw the highest monthly registrations in a decade. We believe that achieving strong growth on top of this comparative is unlikely. Summarising, the year on year growth phase is coming to an end and we expect this will become apparent in the March 2015 year on year comparison. We believe the UK new car market should now run at a "natural" 2.5 million to 2.6 million units per annum level, a slight upward revision on the estimate we gave following publication of the September 2014 new car registrations data.

Used Sector

The used vehicle sector comprises the selling of vehicles by one party to another for all vehicles except newly registered vehicles. Provisional UK national used vehicle market data is only available up to 30 September 2014, and current estimates show the used market increasing by 2.8%. We are expecting the market to be around 7.0 million for the full year to 2014, rising to 7.11 million in 2015. Around half of these transactions are conducted by franchised dealers and the balance by independent dealers and private individuals.

Used Industry Insight

We have modelled the impact of the last three years' increases in new market volumes on the used car market. Whilst the used car market has been constant, at around 6.7 million transactions annually, we believe we will see steady growth of 1 to 2 percent per annum over the next three years. When we segment the used market by age of vehicle, our analysis shows that the supply of vehicles in the less than three years old segment will continue to grow. Additionally, we believe we will see growth in the four to six years old segment in 2015 following 2014's decline.

Aftersales Sector

Aftersales encompasses the servicing, maintenance and repair of motor vehicles, including bodyshop repairs and the retailing of parts and other motor related accessories. The main determinant of the aftersales market is the number of vehicles on the road, known as the 'vehicle parc'. The vehicle parc in the UK has risen to 33 million vehicles, having been typically around 32 million vehicles in the prior three years. The vehicle parc can also be segmented into markets representing different age groups. Typically, around 20% of the car parc is represented by less than three year old cars, around 17% is represented by four to six year old cars and 63% is greater than seven year old cars.

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

Aftersales Industry Insight

The aftersales servicing and repair business will benefit from increased new and used car activity. As a result of the increased new vehicle supply, we are anticipating growth in 2015 in the less than three year old car parc of around 7%. Interestingly, within the four to six year old vehicle parc, we are expecting growth of around 2% following two years of decline, as a result of increased registration of new cars from 2012 falling into this segment in 2015.

Customer Insight

Our customers are central to everything we do. We monitor our customer satisfaction scores closely and regard as a key measure of our success the proportion of customers who have given us a four or five star rating for vehicle sales and aftersales service. We are pleased to report that our overall rating in this area has increased from 83.4% at 31 December 2013 to 85.3% at 31 December 2014. We see this as an important component of our business going forward and will continue to invest to build on our recent innovations and success in this area.

Outlook

Delivery of our clear strategy is reflected in an outstanding set of results. We are excited by a number of current developments we have in progress, from the roll out of our 'Sell Your Car' initiative, to the launch of our 'Move Me Closer' online proposition and our national footprint expansion, all of which will propel the Group forward. Together with this, we see further growth in the used and aftersales markets as result of strong market dynamics, providing further impetus for our business. Our strategic plans to expand our business will be supported by our strong balance sheet and funded from cashflow and the recycling of low performing assets. Our prospects for 2015 are in line with current expectations.

5. Detailed Financials

Consolidated Income Statement

Year ended 31 December 2014

	Underlying £m	Non-underlying £m	**2014 £m**	Underlying £m	Non-underlying £m	**2013 £m**
Revenue	4,000.4	-	**4,000.4**	3,848.9	-	**3,848.9**
Cost of sales	(3,477.8)	-	**(3,477.8)**	(3,349.0)	-	**(3,349.0)**
Gross profit	522.6	-	**522.6**	499.9	-	**499.9**
Operating expenses	(432.8)	-	**(432.8)**	(423.1)	0.7	**(422.4)**
Operating profit before other income	89.8	-	**89.8**	76.8	0.7	**77.5**
Other income – gains / (losses) on the sale of businesses and property	-	3.2	**3.2**	-	(0.6)	**(0.6)**
Other income – dividends received	1.1	3.1	**4.2**	0.3	-	**0.3**
Operating profit	90.9	6.3	**97.2**	77.1	0.1	**77.2**
Finance expense (note 4)	(31.2)	(1.9)	**(33.1)**	(33.3)	(9.3)	**(42.6)**
Finance income (note 5)	0.5	-	**0.5**	0.4	3.9	**4.3**
Net finance costs	(30.7)	(1.9)	**(32.6)**	(32.9)	(5.4)	**(38.3)**
Profit before taxation	60.2	4.4	**64.6**	44.2	(5.3)	**38.9**
Income tax (expense) / credit	(15.3)	0.5	**(14.8)**	(11.4)	13.6	**2.2**
Profit for the year	44.9	4.9	**49.8**	32.8	8.3	**41.1**
Profit for the year attributable to:						
Equity shareholders of the parent	44.9	4.9	**49.8**	32.8	6.4	**39.2**
Non-controlling interests (pension related)	-	-	**-**	-	1.9	**1.9**
	44.9	4.9	**49.8**	32.8	8.3	**41.1**
Earnings per share (note 3)						
Basic earnings per share			**3.5p**			**2.8p**
Diluted earnings per share			**3.4p**			**2.7p**

Non GAAP measure (note 3)						
Underlying basic earnings per share	3.1p			2.3p		
Underlying diluted earnings per share	3.1p			2.2p		

Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year	**49.8**	41.1
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains and (losses)	**(24.0)**	23.5
Income tax relating to defined benefit plan remeasurement gains and (losses)	**4.8**	(4.7)
Income tax relating to amendment to the pension partnership agreement	**-**	7.2
	(19.2)	26.0
Items that are or may be reclassified to profit and loss:		
Fair value gains on investments	**14.0**	-
Foreign currency translation differences of foreign operations	**0.3**	(0.5)
	14.3	(0.5)
Other comprehensive income for the year, net of tax	**(4.9)**	25.5
Total comprehensive income for the year	**44.9**	66.6
Total comprehensive income for the year attributable to:		
Equity shareholders of the parent	**44.9**	64.7
Non-controlling interests (pension related)	**-**	1.9
	44.9	66.6

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	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 2014	**71.9**	**56.8**	**2.5**	**12.6**	**(0.9)**	**162.3**	**-**	**305.2**
Total comprehensive income for 2014								
Profit for the year	-	-	-	-	-	49.8	-	**49.8**
Other comprehensive income for the year, net of tax	-	-	-	-	0.3	(5.2)	-	**(4.9)**
Total comprehensive income for the year	-	-	-	-	0.3	44.6	-	**44.9**
Issue of ordinary shares	0.9	-	-	-	-	(0.5)	-	**0.4**
Dividends paid	-	-	-	-	-	(8.6)	-	**(8.6)**
Own shares (acquired) / issued under share schemes	-	-	-	-	-	(3.7)	-	**(3.7)**
Share based payments	-	-	-	-	-	1.5	-	**1.5**
Income tax relating to share based payments	-	-	-	-	-	0.2	-	**0.2**
Balance at 31 December 2014	**72.8**	**56.8**	**2.5**	**12.6**	**(0.6)**	**195.8**	**-**	**339.9**

	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 2013	71.8	56.8	2.5	12.6	(0.4)	98.3	33.8	**275.4**
Total comprehensive income for 2013								
Profit for the year	-	-	-	-	-	39.2	1.9	**41.1**
Other comprehensive income for the year, net of tax	-	-	-	-	(0.5)	26.0	-	**25.5**
Total comprehensive income for the year	-	-	-	-	(0.5)	65.2	1.9	**66.6**
Issue of ordinary shares	0.1	-	-	-	-	(0.1)	-	**-**
Dividends paid	-	-	-	-	-	(2.8)	-	**(2.8)**
Own shares issued under share schemes	-	-	-	-	-	1.2	-	**1.2**
Distribution from pension partnership to pension scheme	-	-	-	-	-	-	(2.5)	**(2.5)**
Amendment to the pension partnership agreement	-	-	-	-	-	(2.8)	(33.2)	**(36.0)**
Share based payments	-	-	-	-	-	1.6	-	**1.6**
Income tax relating to share based payments	-	-	-	-	-	1.7	-	**1.7**
Balance at 31 December 2013	**71.9**	**56.8**	**2.5**	**12.6**	**(0.9)**	**162.3**	**-**	**305.2**

Consolidated Balance Sheet

At 31 December 2014

	2014 £m	2013 £m
Non-current assets		
Property, plant and equipment	**312.0**	295.7
Goodwill	**365.4**	365.4
Other intangible assets	**6.1**	5.0
Investments	**24.0**	10.0
Deferred tax assets	**23.9**	22.7
Total non-current assets	**731.4**	698.8
Current assets		
Inventories	**676.1**	602.5
Trade and other receivables	**117.9**	103.2
Cash and cash equivalents	**91.4**	58.4
Non-current assets classified as held for sale	**11.6**	13.1
Total current assets	**897.0**	777.2
Total assets	**1,628.4**	1,476.0
Current liabilities		
Trade and other payables	**(884.1)**	(796.8)
Deferred income	**(26.2)**	(24.9)
Current tax payable	**(33.0)**	(30.5)
Provisions	**(2.5)**	(2.4)
Total current liabilities	**(945.8)**	(854.3)
Non-current liabilities		
Interest bearing loans and borrowings	**(200.2)**	(198.0)
Trade and other payables	**(31.0)**	(28.3)
Deferred income	**(41.6)**	(43.1)
Retirement benefit obligations	**(66.4)**	(43.4)
Provisions	**(3.5)**	(3.7)
Total non-current liabilities	**(342.7)**	(316.5)
Total liabilities	**(1,288.3)**	(1,170.8)
Net assets	**339.9**	305.2
Capital and reserves		
Called up share capital	**72.8**	71.9
Share premium account	**56.8**	56.8
Capital redemption reserve	**2.5**	2.5
Other reserves	**12.6**	12.6
Translation reserve	**(0.6)**	(0.9)
Retained earnings	**195.8**	162.3
Total equity attributable to equity shareholders of the Company	**339.9**	**305.2**

Registered Company Number: 2304195

Consolidated Cash Flow Statement

Year ended 31 December 2014	2014 £m	2013 £m
Cash flows from operating activities		
Profit for the year	49.8	41.1
Adjustment for taxation	14.8	(2.2)
Adjustment for net financing expense	32.6	38.3
Adjustment for dividend received	(4.2)	(0.3)
	93.0	76.9
Depreciation and amortization	27.0	19.8
Share based payments	1.5	1.6
(Profit) / Loss on sale of businesses and property	(3.2)	0.6
Impairment of property, plant and equipment	-	0.9
Impairment of assets held for sale	1.0	1.0
Reversal of impairment of assets held for sale	(1.0)	(0.6)
Changes in inventories	(60.1)	(1.0)
Changes in trade and other receivables	(15.1)	(6.2)
Changes in trade and other payables	83.5	56.9
Changes in retirement benefit obligations	(2.9)	(0.2)
Changes in provisions	0.2	(0.1)
Movement in contract hire vehicle balances	(17.5)	(14.3)
Cash generated from operations	106.4	135.3
Taxation paid	(8.3)	(0.9)
Interest received	0.5	4.3
Interest paid	(29.5)	(34.0)
Net cash from operating activities	69.1	104.7
Cash flows from investing activities		
Dividends received	4.2	0.3
Proceeds from sale of businesses	1.1	9.0
Purchase of property, plant, equipment and intangible assets	(96.7)	(68.1)
Proceeds from sale of property, plant and equipment	65.6	53.4
Acquisition of investments	-	(10.0)
Net cash used in investing activities	(25.8)	(15.4)
Cash flows from financing activities		
Proceeds on issue of shares (net of costs paid)	0.4	-
Dividends paid to shareholders	(8.6)	(2.8)
Own shares (acquired) / issued under share schemes	(3.7)	1.2
Repayment of bank loans	1.6	(272.6)
Proceeds from issue of bond and loans	-	199.7
Payment of transaction costs related to bonds and loans	-	(11.9)
Distribution from pension partnership to pension scheme	-	(2.5)
Net cash outflow from financing activities	(10.3)	(88.9)
Net increase in cash and cash equivalents	33.0	0.4

Cash and cash equivalents at 1 January	**58.4**	58.0
Cash and cash equivalents at 31 December	**91.4**	58.4

Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m
Net increase in cash and cash equivalents	**33.0**	0.4
Repayment of bank loans	**(1.6)**	272.6
Proceeds from issue of bond and loans (net of directly attributable transaction costs)	**-**	(195.8)
Non-cash movements	**(0.6)**	(0.4)
Decrease in net debt in the year	**30.8**	76.8
Opening net debt	**(139.6)**	(216.4)
Closing net debt	**(108.8)**	(139.6)

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

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

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

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

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

Non-underlying income and expenses are items 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**

	2014 £m	2013 £m
Within operating expenses:		
Impairment of property, plant and equipment	-	(0.9)
Impairment of assets held for sale	**(1.0)**	(1.0)
Reversal of impairment on assets classified as held for sale	**1.0**	0.6
VAT assessment refunds	-	2.0
	-	0.7
Within other income – gains / (losses) on the sale of businesses and property:		
Gains / (losses) on the sale of businesses	**0.1**	(1.1)
Gains on the sale of property	**3.1**	0.5
	3.2	(0.6)
Within other income - dividends received:		
Dividends received	**3.1**	-
Within finance expense:		
Net interest on pension scheme obligations	**(1.9)**	(1.3)
Refinancing fees and costs	-	(8.0)
	(1.9)	(9.3)
Within finance income:		
Interest receivable	-	0.9
Interest on VAT refunds	-	3.0
	-	3.9
Total non-underlying items (before tax)	**4.4**	(5.3)
Total non-underlying items attributable to:		
Equity shareholders of the parent	**4.4**	(7.2)
Non-controlling interests (pension related)	-	1.9
	4.4	(5.3)

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 £1.0m during the year (2013: £1.0m). In addition, a reversal of previous impairment charges of £1.0m was made for assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2013: £0.6m). In the previous period there was also an impairment charge recognised against tangible fixed assets of £0.9m.

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. A net expense of £1.9m has been recognised during the year (2013: £1.3m of which £1.9m was attributable to the non-controlling interests).

Other income, being the profit on disposal of businesses and property, comprises a £3.1m profit on sale of properties (2013: £0.5m) and a £0.1m profit on the disposal of motor vehicle dealerships (2013: loss £1.1m).

During the year the Group received dividend income from its investment in King Arthur Holdings S.a.r.L of £4.2m. Of this £3.1m was deemed to be non-underlying in nature as the income related to a distribution of profits the company made on disposal of some of it's investment properties and cash released following it's refinancing, rather than that earned from the rental of those properties.

During the previous year, upon the successful completion of the refinancing of the Group in May 2013, a net loss of £8.0m was recorded which comprised of refinancing related costs.

A VAT refund of £2.0m, net of costs, was received in the previous year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996. Associated interest received of £3.0m during the previous year is disclosed within finance income.

The Group received a refund of overcharged interest of £0.9m during the previous year. This was in respect of a business acquired in 2006 and the overcharge related to a period prior to that acquisition.

3. **Earnings per share**

	2014 Earnings per share pence	**2014 Earnings Total £m**	2013 Earnings per share pence	2013 Earnings Total £m
Basic earnings per share	**3.5**	**49.8**	2.8	39.2
Adjusting items:				
Non-underlying items attributable to the parent (see note 2)	**(0.4)**	**(4.4)**	0.5	7.2
Tax effect of non-underlying items	**-**	**(0.5)**	(1.0)	(13.6)
Underlying earnings per share (Non GAAP measure)	**3.1**	**44.9**	2.3	32.8
Diluted earnings per share	**3.4**	**49.8**	2.7	39.2
Diluted earnings per share - underlying (Non GAAP measure)	**3.1**	**44.9**	2.2	32.8

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

	2014 Number	2013 Number
Weighted average number of ordinary shares in issue	**1,428.6**	1,421.0
Weighted average number of dilutive shares under option	**27.0**	55.6
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,455.6**	1,476.6
Non-dilutive shares under option	**15.7**	25.5

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	**2014 £m**	2013 £m
Interest payable on bank borrowings, bond and loan notes	**15.0**	16.2
Refinancing fees and costs (non-underlying)	**-**	8.0
Vehicle stocking plan interest	**14.6**	15.2
Interest payable on finance leases	**0.1**	0.1
Net interest on pension scheme obligations (non-underlying)	**1.9**	1.3
Less : interest capitalised	**(0.1)**	-

Total interest expense in respect of financial liabilities held at amortised cost	**31.5**	40.8
Unwinding of discounts in contract hire residual values	**1.6**	1.8
Total finance expense	**33.1**	42.6

5. **Finance income**

Finance income	**2014**	2013
Recognised in profit and loss	**£m**	£m
Interest receivable on bank deposits	**0.5**	0.4
Other interest receivable (non-underlying)	**-**	0.9
Interest on VAT refunds (non-underlying)	**-**	3.0
Total finance income	**0.5**	4.3

6. **Net Debt**

Net Debt	**2014**	2013
	£m	£m
Cash and cash equivalents	**91.4**	58.4
Non-current interest bearing loans and borrowings	**(200.2)**	(198.0)
	(108.8)	(139.6)

7. **Movement in contract hire vehicle balances**

Movement in contract hire vehicle balances	**2014**	2013
	£m	£m
Depreciation	**23.2**	21.1
Changes in trade and other payables and deferred income	**8.0**	6.1
Purchases of contract hire vehicles	**(47.1)**	(39.7)
Unwinding of discounts in contract hire residual values	**(1.6)**	(1.8)
	(17.5)	(14.3)

8. **Pension Funds**

The net liability for defined benefit obligations has increased from £43.4m at 31 December 2013 to £66.4m at 31 December 2014. The increase of £23.0m comprises contributions of £2.9m, net expense recognised in the income statement of £1.9m and a net actuarial loss of £24.0m. 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 3.60% (2013: 4.50%), inflation rate (RPI) of 3.00% (2013: 3.50%) and inflation rate (CPI) of 2.00% (2013: 2.50%).

9. **Annual report**

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2014 or 2013 but is derived from those accounts. Statutory accounts for 2013 have been delivered to the registrar of companies, and those for 2014 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 2014 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 8 May 2015 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.