Pendragon PLC – The leading automotive online retailer in the UK

HALF YEAR RESULTS FOR 30 JUNE 2018 (issued 7 August 2018)

Trevor Finn, Chief Executive

"We are gaining momentum as we lead the transformation to fully online used car retailing. This will give us greater self-determination and deliver more reliable, sustainable earnings. Our industry leading software company gives us unique technology and expertise, to reformat our business model. We are also continuing to reallocate our capital into higher return areas to increase shareholder value. Underlying profit before tax was £28.4 million for the first half and we remain in line with expectations."

Strategic Highlights

The following is our update as of 7th August on the actions announced in December 2017.

- Double used car revenue by 2021
    - Appointed an experienced Used Car Director to manage the operation and roll out of used Car Stores.
    - Opened full scale Car Stores in Norwich, Shrewsbury and Ipswich.
    - Opened two dedicated used car refurbishment facilities to industrialise this process. We intend to add a further two this year, giving a total annualised refurbishment capacity from these facilities of 80,000 vehicles.
    - Closed in-house refurbishment facilities at Car Stores in order that refurbishment is undertaken through the dedicated 'used car factories'.

- US Motor Group
    - Completed the first disposal of a franchise in the US. The disposal process is proceeding to plan.

- Premium Brand Franchises
    - As part of our committed three year plan to reduce the capital deployed in this area, we have sold four premium brand franchises which has released £26.0 million of capital comprising consideration and capital expenditure avoided.

- Software
    - Good progress growing our Software as a Service ('SaaS') licences to international users. In the first half we have implemented the software into customers with an addressable user base of over 1,200. SaaS is being made available to our new international markets using Microsoft Azure which is currently available in 140 countries.

Operational and Financial Highlights

- **Group Revenue -0.9% L4L (+0.2% total)** – Small decline in UK Motor offset by growth in Pinewood (Software) and Leasing.
- **Used Revenue -0.9% L4L (+1.2% total)** - Used vehicle revenue, excluding nearly new vehicles, grew by 3.1%. Gross profit down 16.1% L4L (-14.3% total), driven primarily by margin pressure in the nearly new premium car segments.
- **New Revenue -1.7% L4L (-1.6% total)** – Outperformed the market which was down 6.3% in the period. Gross profit down 6.0% L4L (-5.9% total).
- **Aftersales Revenue -2.4% L4L (-2.3% total)** - Gross profit down 2.7% L4L (-3.2% total).
- **Software Revenue +7.7% -** Gross profit up 8.8%.

- **Leasing Revenue +35.1%** - Gross profit up 64.0%.
- **Operating Cost -2.1% L4L (-0.3% total)** - Significant cost savings in the period of £5.0 million.
- **Underlying Profit Before Tax £28.4m** - Underlying profit before tax down £20.1 million as expected due to UK motor division performance.
- **Robust Balance Sheet** - Strong balance sheet with Net Debt : Underlying EBITDA of 0.8.

Summary of results for the six months ended June 2018 and June 2017

£m	Revenue	Gross Profit	Operating Profit	PBT	EPS
Like for Like*	£2,408.1 (-0.9%)	£278.2 (-6.4%)	£45.8 (-23.4%)	£31.5 (-34.8%)	n/a
Continuing***	£2,244.2 (-1.0%)	£253.0 (-7.8%)	£37.1 (-32.5%)	£24.0 (-45.8%)	1.4p (-41.7%)
Discontinued**	£232.0 (+13.2%)	£30.1 (+12.3%)	£5.6 (+12.0%)	£4.4 (+4.8%)	0.2p (-)
Underlying***	£2,476.2 (+0.2%)	£283.1 (-6.0%)	£42.7 (-28.8%)	£28.4 (-41.4%)	1.6p (-38.5%)
TOTAL	**£2,476.2 (+0.2%)**	**£283.1 (-6.0%)**	**£42.4 (-29.3%)**	**£27.3 (-42.0%)**	**1.5p (-42.3%)**

* like for like results include only current trading businesses which have a 12 month comparative history and contain continuing and discontinued business
** discontinued operations are in respect of the Group's US business which is currently classified as held for sale (see note 13)
*** underlying results that exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. Continuing results are stated on an underlying basis.

Contents

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Strategy and Business Review

- The business has 4 areas as follows:
  - UK Motor - sale and servicing of vehicles in the UK
  - Software - licencing of Software as a Service to automotive business users
  - Leasing - provides a high ROI, stable profitability stream and used vehicle supply
  - US Motor - sale and servicing of vehicles in the US

The following information is for the six month periods ended June 2018 and June 2017:

Underlying £m	2018	2017	Change (%)	L4L Change (%)
Revenue				
UK Motor	£2,195.0	£2,229.0	-1.5%	-1.6%
Software	£8.4	£7.8	+7.7%	+7.7%
Leasing	£40.8	£30.2	+35.1%	+35.1%
US Motor	£232.0	£205.0	+13.2%	+0.7%
	£2,476.2	**£2,472.0**	**+0.2%**	**-0.9%**
Gross Profit				
UK Motor	£237.4	£262.5	-9.6%	-8.9%
Software	£7.4	£6.8	+8.8%	+8.8%
Leasing	£8.2	£5.0	+64.0%	+64.0%
US Motor	£30.1	£26.8	+12.3%	+0.4%
	£283.1	**£301.1**	**-6.0%**	**-6.4%**
Operating Profit				
UK Motor	£25.4	£46.5	-45.4%	-38.7%
Software	£5.6	£5.5	+1.8%	+1.8%
Leasing	£6.1	£3.0	+103.3%	+103.3%
US Motor	£5.6	£5.0	+12.0%	+14.0%
Operating Profit	**£42.7**	**£60.0**	**-41.4%**	**-23.4%**
Gross Margin %	**11.4%**	**12.2%**	**-0.8%**	**-0.6%**
Operating Margin %	**1.7%**	**2.4%**	**-0.7%**	**-0.6%**

UK Motor

Strategy

- Continue to invest in the transformation of our business model to deliver a market leading share in the used vehicle and aftersales markets in the UK.
- Double our used car revenue by 2021 by developing our national network linked to a superior online buying experience.

The following information is for the six month periods ended June 2018 and June 2017:

Underlying £m	2018	2017	Change (%)	L4L Change (%)
Revenue				
Used	£1,128.2	£1,118.1	+0.9%	-0.5%
Aftersales	£171.6	£179.3	-4.3%	-3.5%
New	£895.2	£931.6	-3.9%	-2.5%
	£2,195.0	**£2,229.0**	**-1.5%**	**-1.6%**
Gross Profit				
Used	£76.5	£90.2	-15.2%	-15.9%
Aftersales	£96.4	£101.8	-5.3%	-3.9%
New	£64.5	£70.5	-8.5%	-6.9%
	£237.4	**£262.5**	**-9.6%**	**-8.9%**
Operating Costs	(£212.0)	(£216.0)	-1.9%	-2.4%
Operating Profit	**£25.4**	**£46.5**	**-45.4%**	**-38.7%**
Gross Profit Margin %				
Used	6.8%	8.1%	-1.3%	-1.3%
Aftersales	56.2%	56.8%	-0.6%	-0.3%
New	7.2%	7.6%	-0.4%	-0.3%
	10.8%	**11.8%**	**-1.0%**	**-0.8%**
Operating Margin %				
	1.2%	**2.1%**	**-0.9%**	**-0.8%**

Business Review

Pendragon is the UK's leading vehicle online retailer with 28 used car only retail points and 182 franchise points. We represent a range of volume and premium products that we sell and service.

We continue to see significant growth in our online business, with visits to Evanshalshaw.com and Stratstone.com up 6.5% to 27.7 million visitors (rolling 12 months to June) from 26.0 million visitors in the prior year. We are investing in further online capability and platforms to ensure we provide best in class service to our customers.

An experienced used car director has been appointed to manage the operation and roll out of used Car Stores.

Our investment in used retail points to expand our network in the UK continues. We opened Norwich Car Store, Ipswich Car Store and Shrewsbury Car Store in the period – we have 28 used retail points in total. In the second half of 2018 we expect to open a further three Car Store locations.

In the first half of 2017 the Group, with a test of our physical capacity, achieved record used revenue growth of 20.9% (L4L). In 2018, used revenue grew by 0.9% in the period. In order to expand the capacity for the refurbishment of used vehicles, we have opened two dedicated used car refurbishment sites to industrialise the process. A further two are opening in the second half of 2018 giving an overall used car refurbishment capacity of 80,000. We have closed in-house facilities at our existing Car Stores in order that refurbishment is undertaken efficiently through the dedicated 'used car factories'.

Excluding nearly new vehicles, used vehicle revenue grew by 3.1% against the record comparatives.

Used gross profit fell by 15.9% on a like for like basis. Margin has been impacted in the period due to sales of premium nearly new vehicles which forms part of the used revenue result. We have reduced our stock holding of nearly new stock by 24.6% year on year on a like for like basis.

Retail service revenue increased by 2.7% on a like for like basis in the period as a result of gains across a number of franchises. Overall aftersales revenue fell by 3.5% on a like for like basis as a result of closing a parts distribution point in favour of utilising the site as a Car Store. Aftersales gross profit fell by 3.9% on a like for like basis.

New vehicle national registrations data was back 6.3% in the first half, our new revenues only fell by 2.3% in the period with gross profit down 6.9% on a like for like basis.

During the period we sold two premium franchises for consideration of £4.7 million and avoided capital expenditure of £9.9 million as a result. The non-underlying loss on disposal was £1.5 million. Shortly after the half year we also sold a further two premium franchises for proceeds of £3.1 million and avoided capital expenditure of £8.3 million as a result. A non-underlying profit on the second disposal in July of approximately £2.2 million will be recorded in the second half.

Overall we have therefore released £26.0 million of capital, comprising consideration and capital expenditure avoidance, through our reductions to date in our Premium franchise locations.

Software

Strategy

- Pinewood, our software business, is core to our strategic plan to transform the business.
- We have an objective to achieve at least double digit growth in revenue in the Software as a Service ("SaaS") business for the foreseeable future, which will be achieved by globalisation of the products and services we offer.
- Pinewood is fast becoming a global business with users in a number of countries worldwide. We are actively expanding the business in Europe, Africa and Asia Pacific and seeking opportunities elsewhere.

The following information is for the six month periods ended June 2018 and June 2017:

Underlying £m	2018	2017	Change (%)	L4L Change (%)
Revenue	£8.4	£7.8	+7.7%	+7.7%
Gross Profit	£7.4	£6.8	+8.8%	+8.8%
Operating Costs	(£1.8)	(£1.3)	+38.5%	+38.5%
Operating Profit	**£5.6**	**£5.5**	**+1.8%**	**+1.8%**
Gross Profit %	**88.1%**	**87.2%**	**+0.9%**	**+0.9%**
Operating Profit %	**66.7%**	**70.5%**	**-3.8%**	**-3.8%**

Business Review

The income stream from this business continues to accelerate and the business model provides a gross margin in excess of 85.0% with strong recurring revenue.

Pinewood has SaaS users in Europe, in the UK, Ireland, Switzerland, Netherlands and Germany. In Africa, in South Africa, Namibia and Zimbabwe and in Asia Pacific in Hong Kong and the Philippines.

In the first half we have implemented SaaS licences into international customers with an addressable user base of over 1,200. We are receiving substantial interest from a number of markets both from large dealer groups and from car manufacturers.

Leasing

Strategy

- Retain low capital base and high return on investment from the Leasing business.
- Maintain at least double digit growth in revenue and gross profit.
- Provide a used vehicle supply to the group to support the goal of doubling used revenue by 2021.

The following information is for the six month periods ended June 2018 and June 2017:

Underlying £m	2018	2017	Change (%)	L4L Change (%)
Revenue	£40.8	£30.2	+35.1%	+35.1%
Gross Profit	£8.2	£5.0	+64.0%	+64.0%
Operating Costs	(£2.1)	(£2.0)	+5.0%	+5.0%
Operating Profit	**£6.1**	**£3.0**	**+103.3%**	**+103.3%**
Gross Profit %	**20.1%**	**16.6%**	**+3.5%**	**+3.5%**
Operating Profit %	**15.0%**	**9.9%**	**+5.1%**	**+5.1%**

Business Review

Leasing comprises our fleet and contract hire vehicle activity. Our leasing business trades under the 'Pendragon Vehicle Management' brand and offers a complete range of fleet leasing and management solutions. Our customers are varied in both fleet size and business sector. Our services are delivered by maximising the facilities of our wider Group, as well as working very closely with market leading partners. The financing for the leasing business is provided by third parties leading to a very high ROI.

Significant growth in the Leasing business was achieved in the period with operating profit up £3.1 million (+103.3%). Revenue increased by 35.1% and gross profit by 64.0% as result of the continued growth of the vehicle fleet and higher levels of disposals in the period. We are pleased with the increasing contribution that this business is providing to the Group and the strong used vehicle supply it generates for our Car Store used vehicle business.

US Motor

Strategy

- We are selling the US Motor Group, as we have concluded that it is economically right to realise its value. We are expecting proceeds in excess of £100 million before tax.

The following information is for the six month periods ended June 2018 and June 2017:

Underlying £m	2018	2017	Change (%)	L4L Change (%)
Revenue				
Used	£47.3	£43.0	+10.0%	-12.1%
Aftersales	£21.6	£18.5	+16.8%	+8.1%
New	£163.1	£143.5	+13.7%	+3.6%
	£232.0	**£205.0**	**+13.2%**	**+0.7%**
Gross Profit				
Used	£2.9	£2.4	+20.8%	-20.8%
Aftersales	£11.5	£9.7	+18.6%	+9.3%
New	£15.7	£14.7	+6.8%	-2.0%
	£30.1	**£26.8**	**+12.3%**	**+0.4%**
Operating Costs	(£24.5)	(£21.8)	+12.4%	-2.8%
Operating Profit	**£5.6**	**£5.0**	**+12.0%**	**+14.0%**
Gross Profit Margin %				
Used	6.1%	5.6%	-0.5%	-0.6%
Aftersales	53.2%	52.4%	-0.8%	-0.6%
New	9.6%	10.2%	-0.6%	-0.5%
	13.0%	**13.1%**	**-0.1%**	**-0.1%**
Operating Margin %				
	2.4%	**2.4%**	**-%**	**+0.4%**

Business Review

The business operates from ten franchise points representing the following products that we sell and service: Chevrolet, Jaguar and Land Rover.

On 2 July 2018 we completed the disposal of our single Aston Martin business in the US realising proceeds of £3.1 million. The disposal process for the rest of the US business is proceeding to plan.

US Motor division results improved in 2018. There was a very strong performance in aftersales with revenue up 8.1% and gross profit up 9.3% on a like for like basis. Used revenue in the period on a like for like basis was 12.8% behind the prior year albeit against a strong comparative. In the new vehicle department activity increased by 3.6% in the period, with a marginal fall in gross profit on a like for like basis.

Financials

The following information is for the six month periods ended June 2018 and June 2017:

Underlying* (unless stated) £m	2018			2017			
	Continuing	Discontinued	TOTAL	Continuing	Discontinued	TOTAL	Change %
Revenue	2,244.2	232.0	2,476.2	2,267.0	205.0	2,472.0	+0.2%
Gross Profit	**253.0**	**30.1**	**283.1**	**274.3**	**26.8**	**301.1**	**-6.0%**
Operating Costs	(215.9)	(24.5)	(240.4)	(219.3)	(21.8)	(241.1)	-0.3%
Operating Profit	**37.1**	**5.6**	**42.7**	**55.0**	**5.0**	**60.0**	**-28.8%**
Interest	(13.1)	(1.2)	(14.3)	(10.7)	(0.8)	(11.5)	+24.3%
Profit Before Tax	**24.0**	**4.4**	**28.4**	**44.3**	**4.2**	**48.5**	**-41.4%**
Tax	(4.9)	(1.2)	(6.1)	(10.0)	(1.2)	(11.2)	-45.5%
Profit After Tax	**19.1**	**3.2**	**22.3**	**34.3**	**3.0**	**37.3**	**-40.2%**
See detailed financials for full analysis of non-underlying items							
Underlying Profit Before Tax	24.0	4.4	28.4	44.3	4.2	48.5	-41.4%
Non-Underlying Profit Before Tax	(1.1)	-	(1.1)	(1.4)	-	(1.4)	n/a
TOTAL Profit Before Tax	22.9	4.4	27.3	42.9	4.2	47.1	-42.0%
Gross Margin %	11.3%	13.0%	11.4%	12.1%	13.1%	12.2%	-0.8%
Operating Margin %	1.7%	2.4%	1.7%	2.4%	2.4%	2.4%	-0.7%
Earnings Per Share	1.4p	0.2p	1.6p	2.4p	0.2p	2.6p	-38.5%
Dividend Per Share	0.80p	-	0.80p	0.75p	-	0.75p	+6.7%

* Underlying results, where stated, exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.

Financial Highlights

The Group achieved underlying profit before tax of £28.4 million in the period and an underlying profit after tax of £22.3 million with very strong comparatives in the prior year. Underlying profit before tax was back £15.0 million in quarter one and £5.1 million in quarter two. The Group saved operating costs of £5.0 million in the period on a like for like basis. Interest costs increased in the period due to higher utilisation of stocking credit facilities in the period compared to the prior year.

Capital Allocation

We are expecting proceeds from the disposal of our US business in excess of £100 million before tax. Proceeds of £3.1 million have already been generated on the disposal of our single Aston Martin US business in early July.

We will release £100 million of capital from our Premium franchise locations over a three year period. To the date of this statement we have completed four such disposals which have resulted in a total release of £26.0 million of capital comprising consideration and capital expenditure avoided.

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

The net debt to underlying EBITDA ratio was 0.8 and we continue to maintain the share buyback programme.

The Board has ongoing capital expenditure requirements, and will continue to pursue organic and acquisitive growth and investment opportunities, including potential repurchase of leasehold properties and evaluate them against the returns generated via the share buyback programme. The buyback programme is capable of being stopped and restarted. This flexibility will enable the Group to pursue other, higher returning, capital allocation opportunities if they arise.

Balance Sheet and Cash Flow

The Group has a strong balance sheet and low debt level and is in a strong position to reinvest at the appropriate return on investment. The following table summarises the cash flows and net debt of the Group for the six month periods ended 30 June 2018 and 30 June 2017 as follows:

£m	2018	2017
Operating Profit Before Other Income	42.4	60.0
Depreciation and Amortisation	13.3	14.9
Share Based Payments	0.6	1.0
Working Capital and other operating cashflows*	14.0	(45.5)
Operating Cashflow	**70.3**	**30.4**
Tax Paid	(4.8)	(9.0)
Underlying Net Interest Paid	(12.6)	(10.2)
Capital Expenditure - 40 Site Roll-Out	(4.2)	(11.1)
Capital Expenditure - Franchise	(5.5)	(7.2)
Capital Expenditure - Underlying Replacement	(12.1)	(13.9)
Capital Expenditure - Business Acquisitions	-	(0.2)
Capital Expenditure - Property	(2.9)	(11.3)
Business and Property Disposals	3.9	1.1
Net Franchise Capital Expenditure	**(20.8)**	**(42.6)**
Dividends	(11.3)	(10.7)
Share Buybacks	(3.1)	(3.5)

Other	(0.2)	(2.8)
Reduction/(Increase) in Net Debt	**17.5**	**(48.4)**
Opening Net Debt	124.1	91.7
Closing Net Debt	**106.6**	**140.1**

*includes changes in inventories, changes in trade and other payables, changes in provisions, movement in contract hire vehicle balances, contributions into defined benefit pension scheme and loss on sales of businesses and property

Property and Investment, Acquisitions and Disposals

Our property portfolio provides a key strength for our business. At 30 June 2018, the Group had £236.1 million of land and property assets (2017 : £224.4 million) and property assets for sale of £40.3 million (2017 : £5.6 million).

Dividend

The Group is proposing an interim dividend of 0.80p per share for 2018.

Shares Repurchased and Buyback

During the period the Group repurchased £3.1 million of its own shares, after initiating a £20.0 million share buyback programme. The Group has repurchased £14.6 million of its own shares since the launch of the programme with 47.1 million shares cancelled.

Pensions

The net liability for defined benefit pension scheme obligations has decreased from £62.8 million at 31 December 2017 to £41.9 million at 30 June 2018.

Outlook

- We will continue to invest in more used car sales capacity as we move towards our goal of doubling our revenue by 2021.
- We expect to continue to grow our software revenues with our SaaS licencing to international users. We expect double digit revenue growth for the foreseeable future.
- We anticipate the sale of our US business to realise in excess of £100 million.
- A further £74 million of capital will be released through a mixture of disposal proceeds and investment not deployed in the UK.
- We anticipate our performance in 2018 to be in line with expectations with an improved performance in the second half driven by an improving trend in used cars and new cars and further operating cost savings.

Detailed Financials

Condensed Consolidated Income Statement Six Months ended 30 June	Continuing operations £m	Discontinued operations * £m	2018 £m	Continuing operations £m	Discontinued operations * £m	2017 £m
Revenue	2,244.2	232.0	2,476.2	2,267.0	205.0	2,472.0
Cost of sales	(1,991.2)	(201.9)	(2,193.1)	(1,992.7)	(178.2)	(2,170.9)
Gross profit	**253.0**	**30.1**	**283.1**	**274.3**	**26.8**	**301.1**
Operating expenses	(215.9)	(24.5)	(240.4)	(219.3)	(21.8)	(241.1)
Operating profit before other income	**37.1**	**5.6**	**42.7**	**55.0**	**5.0**	**60.0**
Other income - (losses)/gains on the sale of businesses and property	(0.3)	-	(0.3)	-	-	-
Operating profit	**36.8**	**5.6**	**42.4**	**55.0**	**5.0**	**60.0**
Analysed as						
Underlying operating profit	37.1	5.6	**42.7**	55.0	5.0	**60.0**
Non-underlying operating profit**	(0.3)	-	**(0.3)**	-	-	**-**
Finance expense	(13.9)	(1.2)	(15.1)	(12.1)	(0.8)	(12.9)
Net finance costs	(13.9)	(1.2)	(15.1)	(12.1)	(0.8)	(12.9)
Analysed as						
Underlying net finance costs	(13.1)	(1.2)	**(14.3)**	(10.7)	(0.8)	**(11.5)**
Non-underlying net finance costs**	(0.8)	-	**(0.8)**	(1.4)	-	**(1.4)**
Profit before taxation	**22.9**	**4.4**	**27.3**	**42.9**	**4.2**	**47.1**
Analysed as						
Underlying profit before tax	24.0	4.4	**28.4**	44.3	4.2	**48.5**
Non-underlying profit before tax**	(1.1)	-	**(1.1)**	(1.4)	-	**(1.4)**
Income tax expense	(5.1)	(1.2)	(6.3)	(9.2)	(1.7)	(10.9)
Profit for the year	**17.8**	**3.2**	**21.0**	**33.7**	**2.5**	**36.2**
Earnings per share						
Basic earnings per share	1.3p	0.2p	1.5p	2.4p	0.2p	2.6p
Diluted earnings per share	1.3p	0.2p	1.5p	2.3p	0.2p	2.5p

Non-GAAP Measure						
Underlying basic earnings per share	1.4p	0.2p	1.6p	2.4p	0.2p	2.6p
Underlying diluted earnings per share	1.4p	0.2p	1.6p	2.4p	0.2p	2.6p

* Discontinued operations are in respect of the Group's US business which is currently classified as held for sale (see note 13).

** Non-underlying, see note 6 for explanation

Condensed Consolidated Statement of Comprehensive Income Six months ended 30 June	2018 £m	2017 £m
Profit for the period	21.0	36.2
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains	18.1	30.6
Income tax relating to defined benefit plan remeasurement gains	(3.1)	(5.2)
	15.0	**25.4**
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign discontinued operations	0.1	(0.3)
Other comprehensive income for the period, net of tax	**15.1**	**25.1**
Total comprehensive income for the period	**36.1**	**61.3**
Total comprehensive income for the period attributable to equity shareholders of the company arises from:		
Continuing operations	32.8	59.1
Discontinued operations (see note 13)	3.3	2.2
	36.1	**61.3**

Condensed Consolidated Statement of Changes in Equity Six months ended 30 June	Share Capital £m	Share Premium £m	Other Reserves £m	Translation Differences £m	Retained Earnings £m	Total £m
Balance at 1 January 2018	**71.2**	**56.8**	**16.9**	**(0.8)**	**281.3**	**425.4**
Total comprehensive income for 2018						
Profit for the period	-	-	-	-	21.0	21.0
Other comprehensive income for the period, net of tax	-	-	-	0.1	15.0	15.1
Total comprehensive income for the period	**-**	**-**	**-**	**0.1**	**36.0**	**36.1**
Dividends paid	-	-	-	-	(11.3)	(11.3)
Own shares purchased for cancellation	(0.6)	-	0.6	-	(3.1)	(3.1)
Own shares issued by EBT	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	0.6	0.6
Balance at 30 June 2018	**70.6**	**56.8**	**17.5**	**(0.7)**	**303.6**	**447.8**
Balance at 1 January 2017	**71.8**	**56.8**	**16.3**	**(0.2)**	**228.1**	**372.8**
Total comprehensive income for 2017						
Profit for the period	-	-	-	-	36.2	36.2
Other comprehensive income for the period, net of tax	-	-	-	(0.3)	25.4	25.1
Total comprehensive income for the period	**-**	**-**	**-**	**(0.3)**	**61.6**	**61.3**
Dividends paid	-	-	-	-	(10.7)	(10.7)
Own shares purchased for cancellation	(0.5)	-	0.5	-	(3.5)	(3.5)
Own shares purchased by EBT	-	-	-	-	(2.5)	(2.5)
Share based payments	-	-	-	-	1.0	1.0
Balance at 30 June 2017	**71.3**	**56.8**	**16.8**	**(0.5)**	**274.0**	**418.4**

Condensed Consolidated Balance Sheet	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Non-current assets			
Property, plant and equipment	454.2	445.9	479.9
Goodwill	354.6	356.5	361.2
Other intangible assets	7.9	6.0	7.5
Deferred tax assets	7.6	12.8	11.4
Total non-current assets	**824.3**	**821.2**	**860.0**
Current assets			
Inventories	969.0	980.5	1,003.5
Trade and other receivables	167.6	160.5	132.8
Cash and cash equivalents	46.6	46.4	53.3
Assets classified as held for sale	47.1	5.6	11.0
Total current assets	**1,230.3**	**1,193.0**	**1,200.6**
Total assets	**2,054.6**	**2,014.2**	**2,060.6**
Current liabilities			
Trade and other payables	(1,246.2)	(1,177.6)	(1,224.2)
Deferred income	(48.3)	(39.9)	(50.3)
Current tax payable	(2.8)	(8.6)	(2.1)
Provisions	(0.8)	(2.5)	(0.7)
Total current liabilities	**(1,298.1)**	**(1,228.6)**	**(1,277.3)**
Non-current liabilities			
Interest bearing loans and borrowings	(153.2)	(186.5)	(177.4)
Trade and other payables	(51.2)	(53.3)	(59.0)
Deferred income	(53.4)	(53.6)	(49.9)
Retirement benefit obligations	(41.9)	(70.5)	(62.8)
Provisions	(9.0)	(3.3)	(8.8)
Total non-current liabilities	**(308.7)**	**(367.2)**	**(357.9)**
Total liabilities	**(1,606.8)**	**(1,595.8)**	**(1,635.2)**
Net assets	**447.8**	**418.4**	**425.4**
Capital and reserves			
Called up share capital	70.6	71.3	71.2
Share premium account	56.8	56.8	56.8

Capital redemption reserve	4.9	4.2	4.3
Other reserves	12.6	12.6	12.6
Translation reserve	(0.7)	(0.5)	(0.8)
Retained earnings	303.6	274.0	281.3
Total equity attributable to equity shareholders of the Company	**447.8**	**418.4**	**425.4**

Condensed Consolidated Cash Flow Statement	For the six months ended 30 June 2018 £m	For the six months ended 30 June 2017 £m	For the twelve months ended 31 December 2017 £m
Cash flows from operating activities			
Profit for the period	21.0	36.2	53.3
Adjustment for net financing expense	15.1	12.9	26.1
Adjustment for taxation	6.3	10.9	12.0
	42.4	**60.0**	**91.4**
Depreciation and amortisation	13.3	14.9	28.5
Share based payments	0.6	1.0	(1.7)
Loss on sale of businesses and property	0.3	-	0.1
Contributions into defined benefit pension scheme	(3.6)	(3.5)	(7.3)
Changes in inventories	55.8	(109.9)	(102.3)
Changes in trade and other receivables	(35.1)	(7.2)	20.8
Changes in trade and other payables	12.9	97.5	134.0
Changes in provisions	0.3	(6.6)	(2.9)
Movement in contract hire vehicle balances	(16.6)	(15.8)	(31.7)
Cash generated from operations	**70.3**	**30.4**	**128.9**
Interest paid	(12.6)	(10.2)	(20.0)
Taxation paid	(4.8)	(9.0)	(16.1)
Net cash from operating activities	**52.9**	**11.2**	**92.8**
Cash flows from investing activities			
Proceeds from sale of businesses	0.9	-	-
Business acquisitions	-	(0.2)	(17.8)
Purchase of property, plant, equipment and intangible assets	(73.5)	(98.7)	(193.0)
Proceeds from sale of property, plant, equipment and intangible assets	51.8	56.3	114.1
Net cash used in investing activities	**(20.8)**	**(42.6)**	**(96.7)**

Cash flows from financing activities			
Dividends paid to shareholders	(11.3)	(10.7)	(21.3)
Repurchase of own shares	(3.1)	(3.5)	(4.0)
Own shares acquired by EBT	-	(2.5)	(2.8)
Disposal of shares by EBT	0.1	-	0.1
Repayment of loans	(30.0)	-	(15.0)
Proceeds from issue of loans	3.9	10.5	20.4
Net cash outflow from financing activities	**(40.4)**	**(6.2)**	**(22.6)**
Net decrease in cash and cash equivalents	**(8.3)**	**(37.6)**	**(26.5)**
Opening cash and cash equivalents	**53.3**	**84.0**	**84.0**
Effects of exchange rate changes on cash held	1.6	-	(4.2)
Closing cash and cash equivalents	**46.6**	**46.4**	**53.3**

Reconciliation of net cash flow to movement in net debt Year ended 31 December 2017	For the six months ended 30 June 2018 £m	For the six months ended 30 June 2017 £m	For the twelve months ended 31 December 2017 £m
Net decrease in cash and cash equivalents	(8.3)	(37.6)	(26.5)
Repayment of loans	30.0	-	15.0
Proceeds from issue of loans	(3.9)	(10.5)	(20.4)
Non-cash movements	(0.3)	(0.3)	(0.5)
Decrease / (increase) in net debt in the period	**17.5**	**(48.4)**	**(32.4)**
Opening net debt	**(124.1)**	**(91.7)**	**(91.7)**
Closing net debt	**(106.6)**	**(140.1)**	**(124.1)**

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

Notes

1 Basis of Preparation

Pendragon PLC (the 'Company') is a public company incorporated, domiciled and registered in England in the UK. The registered number is 2304195 and the registered address is Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the 'Group').

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The revolving credit facilities are due for renewal within the next 2 years and 9 months. The directors consider that the renewal of those facilities will be a routine process. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

The condensed set of financial statements for the six months ended 30 June 2018 are unaudited but have been reviewed by the auditors.

Alternative performance measures

The Group uses a number of key performance measures ('KPI's') which are non-IFRS measures to monitor the performance of its operations. The Group believes these KPI's provide useful historical financial information to help investors and other stakeholders evaluate the performance of the business and are measures commonly used by certain investors for evaluating the performance of the Group. In particular, the Group uses KPI's which reflect the underlying performance on the basis that this provides a more relevant focus on the core business performance of the Group. The Group has been using the following KPI's on a consistent basis and they are defined and reconciled as follows:

Gross margin % - gross margin is defined as gross profit as a percentage of revenue.

Like for like - results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any retail points closed during the current or previous period.

Operating margin % - operating margin is defined as operating profit as a percentage of revenue.

Underlying operating profit/profit before tax - underlying results exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. The detail of the non-underlying results is shown in note 6 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

Operating profit reconciliation

	2018 £m	2017 £m
Underlying operating profit	**42.7**	**60.0**
Losses on the sale of businesses and property (see note 6)	(0.3)	-
Non-underlying operating profit items	(0.3)	-
Operating profit	**42.4**	**60.0**

Profit before tax reconciliation

	2018 £m	2017 £m
Underlying profit before tax	**28.4**	**48.5**
Non-underlying operating profit items (see reconciliation above)	(0.3)	-
Non-underlying Finance costs (see note 6)	(0.8)	(1.4)
Non-underlying operating profit and finance costs items	(1.1)	(1.4)
Profit before tax	**27.3**	**47.1**

Profit after tax reconciliation

	2018 £m	2017 £m
Underlying profit after tax	**22.3**	**37.3**
Non-underlying operating profit and finance costs items (see reconciliation above)	(1.1)	(1.4)
Non-underlying tax (see note 6)	(0.2)	0.3
Non-underlying operating profit, finance costs and tax items	(1.3)	(1.1)
Profit after tax	**21.0**	**36.2**

Underlying basic earnings per share ('underlying earnings per share') – the Group presents underlying basic earnings per share as the directors consider that this is a better measure of comparative performance. Underlying basic earnings per share is calculated by dividing the underlying profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. A full reconciliation of how this is derived is found in note 3.

Underlying diluted earnings per share – the Group presents underlying diluted earnings per share as the directors consider that this is a better measure of comparative performance. Underlying diluted earnings per share is calculated by dividing the underlying profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees, LTIPs and share warrants. A full reconciliation of how this is derived is found in note 3.

Net debt : Underlying EBITDA – the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. The reconciliation of this and the composition of underlying EBITDA is shown in note 4.2 of the full annual report and accounts.

Net debt : Underlying EBITDA reconciliation

	2018 £m	2017 £m
Underlying operating profit (12 months rolling 1 July 2017 to 30 June 2018)	66.5	102.5
Depreciation and amortisation (12 months rolling 1 July 2017 to 30 June 2018)	62.9	61.1
Underlying EBITDA (12 months rolling 1 July 2017 to 30 June 2018)	**129.4**	**163.6**
Net debt	106.6	140.1
Net debt : Underlying EBITDA ratio	**0.8**	**0.9**

2 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017, which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

These condensed consolidated interim financial statements were approved by the board of directors on 7 August 2018.

3 Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2017, except as explained below.

Adoption of new and revised standards

In the current year, the Group has adopted the following new standards and interpretations;

IFRS 9 Financial Instruments - the carrying value of certain financial assets has changed as they are now measured on an expected credit loss approach rather than the incurred loss approach as applied under IAS 39. Trade and other receivables do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. The Group has quantified the adjustment necessary to comply with IFRS 9 for the 2017 financial year and have concluded that due to its amount being immaterial then no restatement is necessary to the financial statements for the year ended 31 December 2017.

IFRS 15 Revenue from Contracts with Customers - the Group has adopted IFRS 15 and has undertaken a detailed review of its revenue recognition policies. The main areas addressed, which were discussed in more detail in the 2017 financial statements, were the sale of motor vehicles, parts, aftersales services, commissions received and provision of computer systems. The Group has quantified the adjustment necessary to comply with IFRS 15 for the 2017 financial year and have concluded that due to its amount being immaterial then no restatement is necessary to the financial statements for the year ended 31 December 2017.The following standard has been published and available for early adoption but has not yet been applied by the Group in these condensed financial statements:

IFRS 16 Leases - the Group has completed an initial assessment on the adoption of IFRS 16 and have decided to adopt a modified retrospective approach for the transition of this standard. This approach will see the Group adopt and apply IFRS 16 from 1 January 2019 and not adjust any prior period financial statements. The Group has a substantial leasehold property portfolio and the transition to IFRS will have a significant impact on the reported assets, liabilities and reserves at 1 January 2019 as well as reported profits going forward as these leases are brought onto the balance sheet. Wherever possible the Group will attempt to apply the modified retrospective approach by calculating the value of the right of use asset using the discounted cash flows from the inception of the lease into the Group and using the practical expedients offered by the standard. This has necessitated the Group having to apply new estimates and judgements, the details of which are still being refined and as a consequence as at the date of this report the Group is unable to disclose the values of the adjustments that will be made on transition.

Other standards - A number of other standards and interpretations are applicable to these condensed financial statements but are not expected to have a significant impact. A summary of these standards is presented in the consolidated financial statememts of the Group for the year ended 31 December 2017.

4 Estimates

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

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Assets held for resale are held at the lower of their carrying value and fair value less costs to sell. The carrying value is £47.1m which is less than the fair value (a Level 2 valuation, determined based on prices for similar assets).

During the six months ended 30 June 2018 management reassessed its estimates and assumptions in respect of employee post-retirement benefit obligations. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates and return on assets, details of which are provided in note 20 below.

The estimates in respect of the anticipated tax rate to be applied for the full financial year 2018 and subsequently used in the preparation of the results for the six month period to 30 June 2018 are set out in note 9.

5 Comparative figures

The comparative figures for the financial year ended 31 December 2017 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

6 Non-underlying Items

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.

	2018 £m	2017 £m
Within other income - gains on the sale of businesses, property and investments:		
Loss on the sale of businesses	(1.5)	-
Gain on the sale of property	1.2	-
	(0.3)	**-**
Within finance expense:		
Net interest on pension scheme obligations	(0.8)	(1.4)
	(0.8)	**(1.4)**

Total non-underlying items before tax	**(1.1)**	**(1.4)**
Non-underlying items in tax	(0.2)	0.3
Total non-underlying items after tax	**(1.3)**	**(1.1)**

Other income, being the loss on disposal of businesses and property was £0.3m (2017: £nil). This comprises £1.2m profit on sale of property and a loss on the disposal of motor vehicle dealerships of £1.5m.

The net interest expense on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility and non-trading nature of this amount. A net interest expense of £0.8m has been recognised during the period (2017: £1.4m).

7 Segmental Analysis

For the six months ending 30 June 2018	UK Motor £m	Software £m	Leasing £m	US Motor* £m	Group Interest £m	Total £m
Total gross segment turnover	2,209.8	14.4	58.5	232.0	-	2,514.7
Inter-segment turnover	(14.8)	(6.0)	(17.7)	-	-	(38.5)
Revenue from External customers	**2,195.0**	**8.4**	**40.8**	**232.0**	**-**	**2,476.2**
Operating profit before non-underlying items	25.3	5.7	6.1	5.6	-	42.7
Other income and non-underlying items	(0.3)	-	-	-	-	(0.3)
Operating Profit	**25.0**	**5.7**	**6.1**	**5.6**	**-**	**42.4**
Finance expense	(6.6)	-	(1.0)	(1.2)	(6.3)	(15.1)
Finance income	-	0.5	-	-	(0.5)	-
Segmental profit before tax	**18.4**	**6.2**	**5.1**	**4.4**	**(6.8)**	**27.3**
Depreciation and amortisation	11.2	1.3	19.4	-	-	31.9

For the six months ending 30 June 2017	UK Motor £m	Software £m	Leasing £m	US Motor* £m	Group Interest £m	Total £m
Total gross segment turnover	2,233.9	13.1	36.9	205.0	-	2,488.9
Inter-segment turnover	(4.9)	(5.3)	(6.7)	-	-	(16.9)
Revenue from External customers	**2,229.0**	**7.8**	**30.2**	**205.0**	**-**	**2,267.0**
Operating profit before non-underlying items	46.5	5.5	3.0	5.0	-	60.0
Other income and non-underlying items	-	-	-	-	-	-
Operating Profit	**46.5**	**5.5**	**3.0**	**5.0**	**-**	**60.0**
Finance expense	(3.3)	-	-	(0.8)	(8.8)	(12.9)
Segmental profit before tax	**43.2**	**5.5**	**3.0**	**4.2**	**(8.8)**	**47.1**
Depreciation and amortisation	11.2	1.1	18.1	0.8	-	31.9

* The US Motor segment is a discontinued operation

8 Finance Expense

	2018 £m	2017 £m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note and loan notes	4.0	3.4
Vehicle stocking plan interest	9.0	6.9
Net interest on pension scheme obligations (non-underlying - see note 6)	0.8	1.4
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**13.8**	**11.7**
Unwinding of discounts in contract hire residual values	1.3	1.2
Total finance expense	**15.1**	**12.9**

9 Taxation

Based upon the anticipated profit on underlying activities for the full year, the effective rate on underlying profit for 2018 is estimated at 21.4% (2017: 23.3%). The effective rate for 2018 is higher than the current rate of UK tax due to the proportion of profit taxed at a higher rate in the US. The reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. This will reduce the Group's future tax charge accordingly. The deferred tax asset as at 30 June 2018 has been calculated based on the expected long term rate of 17% substantively enacted at that date.

10 Dividends

	2018 £m	2017 £m
Final dividend paid in respect of 2017 of 0.8p (2016: 0.75p) per ordinary share	**11.3**	**10.7**

An interim dividend of 0.8p (2017: 0.75p) per ordinary share amounting to £11.2m (2017: £10.6m) will be paid on 23 October 2018.

11 Earnings per share

			2018 Pence	2017 Pence
Basic earnings per share			**1.49**	**2.55**
Effect of adjusting items			0.09	0.07
Underlying earnings per share (Non-GAAP measure)			**1.58**	**2.62**
Diluted earnings per share			1.49	2.53
Effect of adjusting items			0.09	0.07
Underlying diluted earnings per share (Non-GAAP measure)			1.58	2.60

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

Number of shares (millions)			2018 number	2017 number
Weighted average number of shares used in basic and adjusted earnings per share calculation			1,409.2	1,421.7
Weighted average number of dilutive shares under option			1.6	11.1

Diluted weighted average number of shares used in diluted earnings per share calculation			1,410.8	1,432.8

Earnings			**2018 £m**	**2017 £m**
Profit for the period			21.0	36.2
Adjusting items:				
Non-underlying items attributable to the parent (see note 6)			1.1	1.4
Tax effect of non-underlying items			0.2	(0.3)
Earnings for adjusted earnings per share calculation			22.3	37.3

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

12 Business and property disposals

During the period the Group generated net proceeds of £0.9m with a loss on disposal of £1.5m from the sale of the assets of two motor vehicle dealerships. In the previous period there were no disposals of assets of motor vehicle dealerships.

The Group sold property generating net proceeds of £3.0m (2017: £1.2m) with a profit on disposal of £1.2m (2017: £nil).

13 Assets held for sale and Discontinued operations

The Group announced at the end of 2017 that it intends to dispose of the US motor business and has initiated an active program to find a buyer. At the date of this report this program is still on going, with an initial sale of the Aston Martin business being concluded in July 2018 realising proceeds of £3.1m. The Group expects that a buyer can be found to conclude a sale of the remainder of the business within the next twelve months. As such the results of the US Business are shown as a discontinued operation within these condensed consolidated financial statements and its non-current assets reclassified as held for sale. No impairment loss has been recognised in the income statement for the six months to 30 June 2018 in respect of this transaction.

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

			2018 £m	**2017 £m**
Exchange differences on translation of discontinued operation			**0.1**	(0.3)
Other comprehensive income from discontinued operation			**0.1**	(0.3)

			2018 £m	**2017 £m**
Net cash (used in)/from operating activities			**(6.1)**	2.3
Net cash used in investing activities			**(1.0)**	(0.4)
Net cash (decrease)/increase generated by discontinued operation			**(7.1)**	1.9

			2018 pence	**2017 pence**
Basic earnings per share from discontinued operation			**0.23**	0.18
Diluted earnings per share from discontinued operation			**0.23**	0.17

The Group also holds a number of properties and businesses that are currently being marketed for sale which are expected to be disposed of during the next 12 months, which include the assets of a UK motor vehicle dealership. No impairment loss has been recognised in the income statement for the six months to 30 June 2018 on re-measurement of properties to the lower of their carrying amount and their fair value less costs to sell (2017: £nil).

During the period to 30 June 2018 disposals of assets classified as held for sale realised a profit of £1.2m on disposal (2017: £nil).

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

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Goodwill	6.8	-	1.4
Property, plant and equipment	40.3	5.6	9.6
	47.1	5.6	11.0

14 Cash and cash equivalents

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Bank balances and cash equivalents	46.6	46.4	53.3

15 Net Borrowings

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Cash and cash equivalents (note 14)	46.6	46.4	53.3
Non-current interest bearing loans and borrowings	(153.2)	(186.5)	(177.4)
	(106.6)	(140.1)	(124.1)

16 Provisions

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Vacant Property	2.5	4.7	2.7
VAT Assessment	7.3	1.1	6.8
	9.8	5.8	9.5
Current	0.8	2.5	0.7
Non-current	9.0	3.3	8.8
	9.8	5.8	9.5

17 Deferred Income

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Property leases - sale and leaseback proceeds excess over fair value and fixed rental increases	11.8	13.4	12.3
Warranty policies sold	13.9	6.8	13.0
Contract hire leasing income	76.0	73.3	74.9
	101.7	**93.5**	**100.2**
Current	48.3	39.9	50.3
Non-current	53.4	53.6	49.9
	101.7	93.5	100.2

18 Change to contract hire vehicle balances

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Depreciation	18.6	16.3	33.7
Changes in trade and other payables and deferred income	(5.2)	13.4	19.3
Purchases of contract hire vehicles	(28.7)	(44.3)	(82.1)
Unwinding of discounts in contract hire vehicle balances	(1.3)	(1.2)	(2.6)
	(16.6)	**(15.8)**	**(31.7)**

19 Change in inventories

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Movement in inventory	34.5	(134.3)	(157.3)
Inventory changes in business combinations and disposals	(1.2)	-	0.3
Impact of exchange differences	(0.3)	-	0.3
Non cash movement in consignment vehicles	7.9	9.8	25.2
Transfer value of contract hire vehicles from fixed assets to inventory	14.9	14.6	29.2
Cash flow increase / (decrease) due to movements in inventory	**55.8**	**(109.9)**	**(102.3)**

20 Pension scheme obligations

The net liability for defined benefit obligations has decreased from £62.8m at 31 December 2017 to £41.9m at 30 June 2018. The decrease of £20.9m comprises a net interest expense of £0.8m recognised in the income statement, a net remeasurement gain of £18.1m and contributions paid of £3.6m. The net remeasurement gain has arisen in part due to changes in the principal assumptions used in the valuation of the scheme's liabilities over those used at 31 December 2017. The assumptions subject to change are the discount rate of 2.70% (31 Dec 2017: 2.55%), the inflation rate (RPI) of 3.15% (31 Dec 2017: 3.25%), the inflation rate (CPI) of 2.15% (31 Dec 2017: 2.25%) and the rate of increase of pensions in payment of 2.76% (31 Dec 2017: 2.82%).

21 Related party transactions

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

22 Risks and uncertainties

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

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

23 Industry Insight

Used Car Market

The used car market in 2017 was 7.78 million units, which was a fall of 1.2% over 2016 and represents a market opportunity that is 3.1 times the unit size of the new car market. Despite challenging economic conditions, the used market is more stable and provides a more reliable supply chain than the new vehicle sector. During the first quarter of the year the latest available data shows that the used vehicle market was 1.94 million units which was a decline of 5.0% over the prior year. Our expectations are that we will see growth in the second half of the year in the used car market and overall we believe the used car market will be flat in 2018.

Aftersales Market

The main determinant of the aftersales market is the number of vehicles on the road, known as the 'car parc'. The car parc in the UK has risen to over 34 million vehicles by the end of 2017, a rise of 1.6% on the prior year. The car parc can also be segmented into markets representing different age groups. Typically, around 22% of the car parc is represented by less than three year old cars, around 18% is represented by four to six year old cars and 60% is greater than seven year old cars. The demand for servicing and repair activity is less impacted than other sectors by adverse economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons. Overall, we expect at least for the next three years to see continuing growth in the car parc, with higher growth expected in the number of vehicles over four years of age.

New Car Market

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

The first quarter of 2017 was unique due to the changes in Vehicle Excise Duty taxes which increased on 1 April 2017 and this pulled significant registration activity into the first quarter of 2017. This is illustrated by the national registrations data, which shows the total market was back 12.4% in quarter one 2018, but in quarter two the market was ahead by 2.3%. From a retail registration perspective, the retail market was back 13.8% in quarter one but ahead by 9.8% in quarter two. In the period retail registrations were back 4.9% and fleet back 7.3% with overall registrations 6.3% back.

UK Registrations '000	2018	2017	Change (%)
UK Retail Registrations	587.3	617.7	-4.9%
UK Fleet Registrations	726.7	784.1	-7.3%
Total UK Registrations	**1,314.0**	**1,401.8**	**-6.3%**

Our expectations are that the full year 2018 market will be around 5.0% below 2017, with the retail market 3.6% lower. The Society of Motor Manufacturers and Traders is currently forecasting that the 2018 market will be 5.1% lower.

24 Responsibility Statement

We confirm that to the best of our knowledge:

(a) The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;

(b) The interim management report includes a fair review of the information required by:

(i) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(ii) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board,

T G Finn

Chief Executive

T P Holden

Finance Director

7 August 2018

INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises Condensed Consolidated Income Statement and Condensed Consolidated Statements of Comprehensive Income, Condensed Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, and Condensed Consolidated Cash Flow Statement and the related explanatory notes.

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

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

John Leech

for and on behalf of KPMG LLP

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

7 August 2018