Pendragon | PLC

Issued: 18 February 2014

PENDRAGON PLC FULL YEAR RESULTS – YEAR ENDED 31 DECEMBER 2013

"The UK's leading car retailer continues to deliver improved results from its Evanshalshaw.com, Stratstone.com and Quicks.co.uk brands. With underlying profit before tax up 21 per cent, the Group is looking forward to further performance gains from its aftersales and vehicle sales in 2014."

OPERATIONAL HIGHLIGHTS

- Online visitors grew 22%, reflecting the growth of Evanshalshaw.com, Stratstone.com and Quicks.co.uk generating 13.3 million website visitors.
- Aftersales, our largest area of profitability, grew retail sales by 3% in the second half following the trend in new car sales.
- Used performance continued to outperform the market with volume up 7% on a like for like basis and stable margins.
- New UK retail sales grew on a like for like basis by 18%.

FINANCIAL HIGHLIGHTS

- Underlying earnings per share of 2.3p, up from 2.0p in the prior year (+15%).
- Underlying profit before tax up £7.8 million to £44.2 million (+21%).
- Proposed final dividend of 0.3p per share, following an interim dividend of 0.1p per share represents a 300% increase on the 2012 final and interim dividend.
- Profit before tax up £4.9 million to £38.9 million (+14%).
- Completing the comprehensive refinancing, a net debt reduction of £76.8 million and early achievement of the Group's debt : underlying EBITDA target of 1.5 establishes a strong capital structure.

FINANCIAL SUMMARY

Pendragon PLC £m	Year Ended 31 December 2013	Year Ended 31 December 2012†	YOY Change %
Revenue	3,848.9	3,635.1	+6%
Gross Profit	499.9	481.3	+4%
Operating Profit	77.2	67.9	+14%
Profit Before Tax	**38.9**	**34.0**	**+14%**
Underlying* Revenue	3,848.9	3,635.1	+6%
Underlying* Gross Profit	499.9	481.3	+4%
Underlying* Operating Profit	77.1	71.8	+7%
Underlying* Profit Before Tax	**44.2**	**36.4**	**+21%**
Underlying* Gross Margin (%)	13.0%	13.2%	-0.2%
Underlying* Operating Margin (%)	2.0%	2.0%	0.0%
Net Debt	139.6	216.4	+35%
Debt : Underlying* EBITDA Ratio	1.2	2.0	+40%
Underlying* Earnings Per Share (p)	2.3	2.0	+15%

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

† Restated to reflect the impact of IAS 19 (revised) as described in 'Detailed Financials' in section 6, note 1.

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.

TREVOR FINN, CHIEF EXECUTIVE, COMMENTED:

"Continued strong performance in the used, aftersales and new sectors has generated a material step forward in profitability. Underlying profit before tax is up 21% in the period and the Group continues to achieve record used performance, with volume growth of 7%. We are very encouraged by the second half performance in aftersales which provides verification that the vehicle parc is recovering, as a result of the growth in new car sales. Our online performance continues to surpass expectations growing by 22% in the year with over 13 million website visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk. The Group is in a strong position with its leading UK retail business, strong balance sheet and the continued delivery of strategy in the used vehicle sector. The Board is delighted to announce a final dividend of 0.3p per share, bringing the total dividend for 2013 to 0.4p, a 300% increase on last year. We would like to thank our teams for helping deliver a strong performance in 2013 and we look forward to their continued engagement and commitment in 2014. We are confident that 2014 will be another year of good performance, with Group performance in line with expectations for the year."

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1. CHIEF EXECUTIVE'S OPERATIONAL REVIEW

INTRODUCTION

Pendragon is the leading automotive retailer in the UK and the Group has 225 franchise points and 15 dedicated used car locations, in addition to 12 locations for its support businesses. Pendragon sells and services a broad range of new, used and commercial vehicles in the UK and has an operation in California, USA and a substantial presence in the UK dealer management systems, vehicle leasing and wholesale parts markets. Pendragon's core business is the sale and servicing of new and used vehicles in the UK, through Evanshalshaw.com, for volume brands, and Stratstone.com, for premium brands. The Group has a used vehicle and aftersales operation in the UK, branded Quicks.co.uk, together with a franchised business in California. The Group also has a number of support businesses in the UK.

REVENUE AND VOLUMES

Revenue increased by £213.8 million, 6% up on the prior year, mainly due to increases within the used and new sectors. On a like for like basis, revenue increased by £303.5 million. On a like for like basis, the Group improved used volumes by 7% and new retail volumes by 17%. The UK motor division increased new retail volumes by 18%.

GROSS MARGIN

Although margins in our three main areas of activity either increased or remained flat, gross margin in the year was 13.0% versus a prior year of 13.2%. This reduction was primarily due to the increased activity in new vehicle sales which has a dilutive effect on overall gross margin. Aftersales gross margin improved by 140 basis points, to 62.5%; used gross margin remained stable at 8.7% and new gross margin increased by 10 basis points to 7.6%.

GROSS PROFIT

Gross profit increased by £18.6 million in the period due to strong performance from the new and used sectors. On a like for like basis, gross profit increased by £29.2 million due to improvements in all sectors, with aftersales increasing by 3%, used increasing by 5% and new increasing by 14%.

OPERATING COSTS

Underlying operating costs have increased by £13.6 million and, on a like for like basis, increased by £25.6 million. Of this like for like increase, approximately £12.6 million is attributable to variable costs relating to increases in new, used and aftersales activity levels. The remaining £13.0 million largely relates to property costs including rent, heat, light and power, in addition to salaries, pension scheme auto-enrolment and redundancy costs. Some of these people related costs relate to the Group's investment to facilitate the transformation and joining up of the business model, for example the Group has invested in central operational activities and invested in training, development and recruitment activities.

OPERATING PROFIT AND MARGIN

Operating profit increased by £9.3 million to £77.2 million and underlying operating profit increased by £5.3 million to £77.1 million. 2013 underlying operating margin remained at 2.0%.

1. CHIEF EXECUTIVE'S OPERATIONAL REVIEW

STRATEGY

The Group remains focussed on maximising returns from our three key sectors: aftersales, used and new. The Group's strategy is focussed on continuing the growth trajectory in the used and aftersales sectors together with delivering first class customer service. In order to achieve these objectives, the Group has defined four "strategic pillars" which are a prerequisite to our success: number one online motor retailer, value pricing, national footprint and scale and a superior IT platform.

Online channels remain a key strategic pillar for the Group and are a key differentiator for the Group. Online visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk increased by 22% over the prior year. Online visits to Evanshalshaw.com, Stratstone.com and Quicks.co.uk are in excess of 13.3 million for the year ended 31 December 2013. The Group continues to invest resource into a number of projects to support our online pillar.

Aligned with this strong online and social media offering, the Group's second strategic pillar is a 'value pricing' offer for consumers. Our value pricing provides the consumer with the assurance of frequently researched prices to ensure we offer the best pricing proposition to consumers in the market.

Our third and fourth strategic pillars are key enablers for achieving the Group's objectives and are: a superior IT platform and a national footprint and scale. Pinewood provides the Group with a superior integrated IT platform with which to monitor, control, report and analyse the Group's results and progress against objectives. Pinewood also has a growing external customer base. Our IT system remains a key differentiator for the success of the Group.

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

This strategy is underpinned by our people. We recognise that people provide the essential platform for us to deliver our objectives and we are continuing to invest more in this area of resource in 2014. The Group is investing in training, development and recruitment activities.

Following the comprehensive refinancing and debt reduction in 2013 the Group has a strong balance sheet. The Board's target debt : underlying EBITDA ratio of 1.5 was achieved 18 months early at 30 June 2013, and at 31 December 2013 this ratio was 1.2.

The Board has now adopted a debt : underlying EBTIDA target range of between 1.0 and 1.5. This target range has been set in the light of the Group's expected ongoing cash flow generation and is designed to give the flexibility to maintain shareholder value growth by returning cash to shareholders, whilst at the same time allowing the Group to assess and pursue appropriate expansion opportunities or otherwise continue with debt reduction.

2. MARKETS AND SECTOR PERFORMANCE

Our business can be split into four key sectors as follows: aftersales services ("aftersales"), used vehicle sales ("used"), new vehicle sales ("new") and support business sectors ("support"). The three sectors of aftersales, used and new form our motor division total. Our support business can be split into a further three sectors, as follows: Pinewood, Contracts and Leasing and Quickco.

SECTOR FINANCIAL HIGHLIGHTS

The following table shows the underlying results for the Group, including the motor division sector splits, for the years ended 31 December 2013 and 31 December 2012:

Underlying Sector Results For Year Ended 31 December (£m)										
	Aftersales		Used		New		MOTOR# DIVISION TOTAL		GROUP† TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	300.9	307.8	1,575.7	1,517.9	1,891.7	1,733.3	3,768.3	3,559.0	3,848.9	3,635.1
Gross Profit	**188.0**	**188.1**	**137.6**	**132.4**	**144.4**	**129.7**	**470.0**	**450.2**	**499.9**	**481.3**
Gross Margin (%)	62.5%	61.1%	8.7%	8.7%	7.6%	7.5%	12.5%	12.6%	13.0%	13.2%
Operating Profit*	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**61.0**	**54.4**	**77.1**	**71.8**
Operating Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	1.6%	1.5%	2.0%	2.0%

* Operating costs are not split by sector in the motor division, so no operating profit or operating margin is available.

The Group previously split out trade and wholesale sector activity from used and new activity respectively. However, in order to simplify the understanding of the business, we have now combined these sectors. In section 7 of the press release we have provided the split of trade and wholesale for comparative purposes.

† The Group total comprises the motor division total and support total.

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 cars on the road, known as the 'car parc'. The car parc in the UK has typically been around 32 million cars in each of the last three years. The car parc can also be segmented into markets representing different age groups. Typically, around 19% 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 the balance of 63% is greater than seven year old cars.

AFTERSALES SECTOR PERFORMANCE

The Group's like for like retail labour sales have been following a recovering trajectory, as a result of the growth in new car sales. In the first half of 2013 retail labour sales were flat. However, in the second half of 2013, retail labour sales increased by 3%, a recovery expected to continue in 2014 and beyond as the size of the less than three year old vehicle parc increases. Within aftersales, the level of warranty revenue appears to be beginning to plateau, falling by 2% in the period. On a like for like basis, aftersales gross profit increased by £5.9 million (of which £1.3 million was within the first half of the year and £4.6 million in the second half of the year). Aftersales gross margin increased from 61.1% in 2012 to 62.5% in 2013.

2. MARKETS AND SECTOR PERFORMANCE

USED VEHICLE SECTOR

The used vehicle sector comprises the selling of vehicles by one party to another for all vehicles except newly registered vehicles. Data on the 2013 UK national used vehicle market is only available up to 30 June 2013. The rolling year data to 30 June 2013 shows the market opportunity to be flat, at 6.7 million vehicles, with around half of these transactions being completed by franchise dealers and the balance being completed by independent dealers and private individuals.

USED VEHICLE SECTOR PERFORMANCE

Growing the used vehicle sector continues to be a performance highlight for the Group. In the year, like for like used volumes increased by 7%, and over a four year period, the Group has now increased used volumes by 59%. In the year, like for like used gross profit increased by nearly 6%, which equates to a £7.1 million increase in profit. Gross margin was 8.7% in the period, which compares to 8.7% in the prior year.

NEW VEHICLE SECTOR

The new vehicle sector consists of the first registration of cars and commercial vehicles. In 2013, the UK car market, the second largest market in Europe, increased by 11% over the prior year, with 2.265 million registrations, up from 2.045 million in 2012. The Society of Motor Manufacturers and Traders ("SMMT") has predicted a growth rate in 2014 of 1.2%, which equates to a 2.293 million market in the current year.

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 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 2013 and 31 December 2012:

	New Car Vehicle Registrations for Year Ended 31 December ('000)			
	2013	2013	Change	Change %
UK Retail Market	1,074.6	929.4	145.2	+15.6%
UK Fleet Market	1,190.1	1,115.2	74.9	+6.7%
UK New Market	**2,264.7**	**2,044.6**	**220.1**	**+10.8%**
Group Represented* UK Retail Market	724.3	618.1	106.2	+17.2%
Group Represented* UK Fleet Market	856.6	812.5	44.1	+5.4%
Group Represented* UK New Market	**1,580.9**	**812.5**	**150.3**	**+10.5%**

*Group Represented is defined as national registrations for the 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 327 thousand new units in 2013, an increase of 15% over the prior year. The SMMT's expectations for 2014 are that the light commercial vehicle market will increase by 2.5%. The Group has a small representation in California. The USA new vehicle market was 15.5 million in 2013, an increase of 8% over 2012. The National Automobile Dealers' Association expects the USA market to be 16.4 million vehicles in 2014, an increase of 6%.

NEW VEHICLE SECTOR PERFORMANCE

The Group increased new gross profitability by £17.4 million on a like for like basis and by £14.7 million on an underlying basis. Within the key new retail vehicle segment of the UK market, the Group increased its volume by 18% on a like for like basis, which compares to a 17% increase for the brands that we represent. Overall, the Group sold 115,000 like for like new units in 2013, over the prior year. Gross margin improved from 7.5% in 2012 to 7.6% in 2013 as a result of stronger margin in both Stratstone and Evans Halshaw. California had an excellent performance in the year, with new gross profitability increasing by £5.1 million, largely as a result of the strength of the Land Rover franchise.

2. MARKETS AND SECTOR PERFORMANCE

SUPPORT BUSINESSES SECTORS

The support businesses operate in the following markets, sectors and segments: dealer management systems sector/markets (Pinewood segment), contract hire and leasing sector/markets (Leasing segment) and parts wholesale sector/markets (Quickco segment). An overview of these markets and the Group's performance within them is shown below. The following table shows the underlying results for the Support businesses for the years ended 31 December 2013 and 31 December 2012:

Underlying Support Sector Results For Year Ended 31 December (£m)

	Pinewood		Leasing		Quickco		SUPPORT TOTAL		GROUP† TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue	10.4	9.9	18.0	18.2	52.2	48.0	80.6	76.1	3,848.9	3,635.1
Operating Profit	**8.9**	**9.1**	**5.4**	**6.9**	**1.8**	**1.4**	**16.1**	**17.4**	**77.1**	**71.8**
Operating Margin (%)	85.6%	91.9%	30.0%	37.9%	3.4%	2.9%	20.0%	22.9%	2.0%	2.0%

† The Group total comprises the motor division total and support total.

DEALER MANAGEMENT SYSTEMS MARKET

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

DEALER MANAGEMENT SYSTEMS PERFORMANCE (PINEWOOD SEGMENT)

Pinewood continues to be a very stable and profitable income stream for the Group, with overall operating profit of £8.9 million. This compares to £9.1 million in the prior period and is attributed to Pinewood continuing to invest in developing its products, to ensure we offer class leading products to our customers.

CONTRACT HIRE MARKET

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

CONTRACT HIRE AND LEASING PERFORMANCE (LEASING SEGMENT)

Pendragon Contracts is our contract hire and leasing business. It generated an operating profit of £5.4 million in 2013 compared to £6.9 million in the prior period. The business generates a significant amount of its profit from the disposal of vehicles. Compared to 2012, profit in 2013 reduced, as a consequence of lower contract hire and leasing activity three years before the current year. The fleet size stood at 10,600 at 31 December 2013 compared to 9,700 at 31 December 2012, the first increase in fleet size since 2006.

PARTS WHOLESALE MARKET

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

PARTS WHOLESALE PERFORMANCE (QUICKCO SEGMENT)

Quickco, our independent genuine parts wholesale business, generated an operating profit of £1.8 million in the period versus £1.4 million in the prior year, resulting from higher levels of activity in the year.

3. SEGMENTAL PERFORMANCE

The Group is divided operationally into eight segments. The motor division consists of four segments which are: Stratstone, Evans Halshaw, California and Quicks. The Support division consists of three segments which are: Pinewood, Leasing and Quickco. Additionally the Group has a central segment. Commentary on the markets and performance of the Support division is detailed in section 2.

SEGMENTAL FINANCIAL HIGHLIGHTS

The following table shows the revenue, gross profit, operating costs and operating profit by segment for the Group's motor division for each of the years ended 31 December 2013 and 31 December 2012:

Motor Division Segment Results for Year Ended 31 December

	Stratstone		Evans Halshaw		Quicks		California		Motor Division	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
REVENUE										
Aftersales	132.1	138.6	142.5	142.2	2.7	3.9	23.6	23.1	300.9	307.8
Used	624.5	626.9	852.3	799.1	46.2	43.0	52.7	48.9	1,575.7	1,517.9
New	711.3	673.4	1,061.8	958.8	-	-	118.6	101.0	1,891.7	1,733.2
Revenue	**1,467.9**	**1,438.9**	**2,056.6**	**1,900.1**	**48.9**	**46.9**	**194.9**	**173.1**	**3,768.3**	**3,558.9**
GROSS PROFIT										
Aftersales	75.4	77.7	99.2	97.9	0.6	0.0	12.8	12.5	188.0	188.1
Used	42.1	42.0	83.2	83.2	4.6	3.7	4.5	3.5	137.7	132.4
New	63.5	59.5	63.5	57.9	-	-	17.3	12.3	144.3	129.7
Gross Profit	**181.0**	**179.2**	**249.2**	**239.0**	**5.2**	**3.7**	**34.6**	**28.3**	**470.0**	**450.2**
Operating Costs	**(154.1)**	**(150.8)**	**(221.8)**	**(212.0)**	**(7.5)**	**(7.5)**	**(25.6)**	**(23.0)**	**(409.0)**	**(395.8)**
Operating Profit	**26.9**	**25.9**	**27.4**	**27.0**	**(2.3)**	**(3.8)**	**9.0**	**5.3**	**61.0**	**54.4**
METRICS										
Gross Margin %	12.3%	12.5%	12.1%	12.6%	10.6%	8.0%	17.7%	16.4%	12.5%	12.6%
Units Sold ('000)	53.1	52.7	200.3	182.1	7.3	7.0	4.6	4.3	265.3	246.1

STRATSTONE (STRATSTONE.COM)

Stratstone is one of the UK's leading premium motor car retailers, with 84 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 five motor-cycle franchises. This segment also contains the retail and service outlets for DAF commercial vehicles under the Chatfields brand name.

Stratstone delivered £26.9 million of operating profit in 2013, which is an increase of £1.0 million over the prior year. On a like for like basis, Stratstone increased gross profit in the new sector by 11%, with both the aftersales and used sectors increasing by 4% and 6% respectively. The new performance has been a key aspect of the improved performance, with new retail registrations increasing by 14%, which compares to 11% for the brands that we represent. New volume performance has been particularly strong from BMW, Jaguar, Land Rover and Mercedes-Benz. Used like for like volumes increased by 5% in the period, which maintains the consistent growth story for the Stratstone division. Aftersales results are also encouraging, with retail labour sales flat in the first half of the year, but accelerating to over 1% growth in the second half of the year on a like for like basis.

3. SEGMENTAL PERFORMANCE

EVANS HALSHAW (EVANSHALSHAW.COM)

Evans Halshaw is the UK's leading volume motor car retailer, with 132 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall vehicles.

Evans Halshaw's operating profit was £27.4 million in 2013, which is an increase of £0.4 million over the prior year. The division has been expanding organic capacity and resource in the used sector, which provides a platform for growth in 2014. On a like for like basis, used gross profit increased by 4%, with volume growth of 8%. Aftersales like for like gross profit increased by approximately 3% in the period, and similarly to Stratstone, the first and second half performances have noticeably reversed. Retail labour sales on a like for like basis declined by 0.8% in the first half, but increased by 5.0% in the second half of the year. New vehicle gross profit increased by £6.0 million in the period, on a like for like basis, as a result of volume improvements across the division. On a like for like basis, new retail volumes increased by 20% in the period, which is in line with the brands that we represent. Key improvements in new retail volume were from the Ford, Vauxhall, Renault, Peugeot and Hyundai franchises.

QUICKS (QUICKS.CO.UK)

The Quicks business is our dedicated used car operation, encompassing the sale of used motor vehicles, together with associated aftersales activities. The business continued to improve performance with a £1.5 million improvement in profitability in the year. Used volumes increased by 4% and, importantly, used gross margin has improved by 140 basis points in the year.

CALIFORNIA

The California business has produced record results in 2013 from its nine franchise points in Southern California which represent the Aston Martin, Jaguar and Land Rover brands. Operating profit increased by £3.7 million in the year, due to improvements in the new and used vehicle sectors. New vehicle profitability hit record levels, increasing by 41% at gross profit level, aided by the success of new Range Rover and F-Type Jaguar product. Used gross profit increased by 28% in the period as we continue to grow this area of the business in California.

SUPPORT BUSINESSES

Our Support businesses provide a broad range of services both to the Group and to external customers. The services are provided by a number of specialist businesses which consist of contract hire and leasing, dealer management systems and wholesale parts distribution. Commentary on the markets and performance of each of the Support businesses can be found in section 2 in the 'Markets and Sector Performance' section.

4. FINANCIAL REVIEW

FINANCIAL SUMMARY

£m	Year Ended 31 December2013	Year Ended 31 December 2012†	YOY Change %
Revenue	3,848.9	3,635.1	+6%
Gross Profit	499.9	481.3	+4%
Operating Profit	77.2	67.9	+14%
Profit Before Tax	**38.9**	**34.0**	**+14%**
Underlying* Revenue	3,848.9	3,635.1	3,848.9
Underlying* Gross Profit	499.9	481.3	+4%
Underlying* Operating Profit	77.1	71.8	+7%

* Underlying results exclude items that have non-trading attributes due to their size, nature or incidence.
† Restated to reflect the impact of IAS 19 (revised) as described in 'Detailed Financials' in section 6, note 1.

Commentary on the financial performance of the Group is summarised in the Chief Executive's Operational Review section above.

UNDERLYING FINANCE COSTS

During the year, underlying net finance costs have fallen by £2.5 million to £32.9 million (2012: £35.4 million), primarily due to debt reduction.

NON-UNDERLYING ITEMS

Non-underlying items in 2013 relate to refinancing costs, property impairments and associated profits and losses on the disposal of businesses and property, pension scheme net finance expense and income from VAT settlements. The non-underlying items for the years ended 31 December 2013 and 31 December 2012 are as follows:

Non-underlying Items

Pendragon PLC £m	Year Ended 31 December2013	Year Ended 31 December 2012†
Refinancing Costs and Interest	(7.1)	-
Property Impairments and Loss on Disposals	(1.9)	(3.7)
Pensions	(1.3)	(1.4)
Settlements	5.0	2.7
Profit Before Tax	**(5.3)**	**(2.4)**

†Restated to reflect the impact of IAS 19 (revised) as described in 'Detailed Financials' in section 6, note 1.

Refinancing costs of £8.0 million were incurred in the period in relation to the raising of new debt facilities and the settlement of existing debt, and an interest refund of £0.9 million in relation to an historic acquisition was received.

In the period, property impairments and associated property and business disposal costs have reduced by £1.8 million, to a £1.9 million charge.

In the period, the Group received £2.0 million (2012: £0.8 million) of VAT refunds in respect of VAT overpaid on demonstrator vehicles in the period from 1973 to 1996, together with associated interest of £3.0 million (2012: £1.9 million).

The pensions net finance expense in the year was £1.3 million (2012 restated: £0.4 million). In the prior year, non-underlying expenses of £1.0 million were also incurred in connection with the merger of the Group's previous six schemes.

4. FINANCIAL REVIEW

CASH FLOW AND NET DEBT

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 2013 and 31 December 2012 as follows:

Summary Cashflow and Net Debt		
£m	Year Ended 31 December2013	Year Ended 31 December 2012†
Underlying Operating Profit Before Other Income	**76.8**	**71.8**
Depreciation and Amortisation	19.8	19.2
Non-underlying Items	2.0	0.4
Share Based Payments	1.6	0.9
Working Capital Movement	49.4	3.4
Movement in Contract Hire Vehicles	(14.3)	(17.9)
Operating Cash Flow	**135.3**	**77.8**
Tax (Paid) / Received	(0.9)	0.4
Underlying Net Interest Paid	(33.6)	(36.9)
Non-underlying Net Interest Paid & Refinancing Costs	(8.0)	(1.9)
Replacement Capital Expenditure	(19.5)	(17.1)
Acquisitions	(12.5)	(2.6)
Disposals	16.3	9.4
Dividends	(2.8)	-
Other	2.5	2.5
Reduction In Net Debt	76.8	30.4
Closing Net Debt	139.6	216.4

The Group's net debt fell from £216.4 million at 31 December 2012 to £147.3 million at 30 June 2013 and further reduced to £139.6 million at 31 December 2013. This reduction in net debt of £76.8 million was largely helped by strong working capital inflow, of £49.5 million in the year, largely as a result of £56.9 million of increased trade and other payables, of which £27.7 million relates to trade credit on new and used vehicle funding. Disposal proceeds of £16.3 million, made up of £9.0 million from business disposals and £7.3 million from property disposals, were up £6.9 million on the prior year.

Acquisitions primarily relate to an investment of £10.0 million in a new property investment company as described in the 'Property Joint Venture' section below.

The following table illustrates the debt : underlying EBITDA ratio for the years ended 31 December 2013 and 31 December 2012:

Debt : Underlying EBITDA Ratio

£m	Year Ended 31 December2013	Year Ended 31 December 2012†	Year on Year Improvement
Underlying Operating Profit	77.1	71.8	+7%
Depreciation & Amortisation	40.9	38.7	+6%
Underlying EBITDA	**77.2**	**67.9**	**+7%**
Net Debt (see note 6)	**38.9**	**34.0**	**+35%**
Debt : Underlying EBITDA Ratio	**1.2**	**2.0**	**+40%**

As a consequence of this lower debt level and strong EBITDA performance, the debt : underlying EBITDA ratio has fallen from 2.0 at 31 December 2012 to 1.2 at 31 December 2013. Having achieved our target debt : underlying EBITDA target of less than 1.5 times, we have set a new target range, in line with the Group's current financial position and performance. This reflects the appropriate balance of capital efficiency and growth potential, providing both a strong balance sheet and, with our strong cashflow generation, the ability to invest for the future.

REFINANCING AND COVENANTS

The debt refinancing of the Group was successfully completed in the period. This has considerably extended the maturity of the Group's debt and eliminated more costly and restrictive legacy debt and therefore places the Group's finances in a stronger position for the future.

The refinancing consists of a new £175 million 6.875% seven-year secured bond expiring May 2020 and a new £145 million four-year secured revolving credit facility provided by four banks expiring in June 2017. The margin on the new bank facility was initially 3.5%, and is determined by reference to the Group's ratio of net debt to underlying EBITDA (after stocking interest). Due to our strong debt reduction performance in the year, the Group will benefit from interest margin saving in 2014.

PROPERTY

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 2013, the Group had £161.3 million of land and property assets (2012: £165.7 million). Additionally, the Group held assets for sale of £13.1 million (2012: £23.6 million). Business disposals resulted in a loss on disposal of £1.1 million and property disposals resulted in a profit of £0.5 million. During the period, the Group disposed of 18 franchise points which were operationally surplus to requirements, and added three franchise points.

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. The value of investment in that joint venture was impaired to £nil in 2008. The arrangement was without recourse to the Group and the leases gave the usual protections to the Group as tenant. Due to a default in the debt obligations of the joint venture, it was placed into administration in November 2013. The Group has invested £10.0 million in a new company which acquired all of the property from the joint venture. This 6% stake in the new company generated a dividend of £0.3 million, received by the Group in the year.

4. FINANCIAL REVIEW

PENSIONS

The net liability for defined benefit pension scheme obligations has increased from £29.8 million at 31 December 2012 to £43.4 million at 31 December 2013. This increase is primarily a result of a combination of two factors: there was a reduction in the deficit of approximately £22.4 million as a result of positive asset performance and the benefit of higher discount rates; however, this reduction was more than offset by an increase of £36.0 million due to an amendment to the UK pension partnership arrangement which results in the associated plan asset no longer being recognised for accounting purposes. Excluding this accounting change, the reported pension scheme deficit would have fallen to £7.4 million.

As a result of correspondence with the Conduct Committee of the FRC concerning their review of accounting for asset backed pension arrangements across a number of companies, the Group entered into discussions with the Trustees of the Pendragon Group Pension Scheme during the year which resulted in changes to the pension partnership agreement, specifically restricting the Scheme's ability to sell or otherwise transfer its income interest in the UK Pension Partnership without Pendragon's consent. The result of this amendment is that the income interest no longer meets the criteria for recognition as an IAS 19 plan asset at 31 December 2013. The Group has no intention of restricting transfer if such transfer were in the best interests of the Group and the Scheme and, in all other respects, there have been no changes to the income received by the Scheme or the value to the Scheme of the partnership asset.

DIVIDEND

The Company returned to the dividend list in 2013. In May 2013, a final dividend of 0.1p per share was paid in respect of 2012 and in October 2013 an interim dividend of 0.1p per share was paid in respect of 2013.

The Board has considered future dividend policy, particularly in view of the strong trading, comprehensive refinancing and debt reduction achieved in 2013. The Board is therefore delighted to announce an increase in dividend: it will propose a final dividend of 0.3p per share in respect of 2013, to be paid following approval at the AGM in April 2014. The Board expects to maintain the existing policy at paying the same level of interim and final dividends in respect of each year.

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 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 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.

5. OUTLOOK

The Group is in a strong position with its leading UK retail business, strong balance sheet and continued delivery of our strategy in the used vehicle sector. The Group is very encouraged by the second half performance in aftersales, which provides verification that the vehicle parc, in the less than three year old category is beginning to rise. The Group remains committed to managing its balance sheet and capital structure and has set a revised debt : underlying EBITDA ratio in the range 1.0 to 1.5 times. Our Group strategy is to continue to develop our leading market position in vehicle sales and aftersales through operating efficiencies and volume growth. We are confident that 2014 will be another year of good performance, with Group performance in line with expectations for the year.

TREVOR FINN
Chief Executive

18 February 2014

6. DETAILED FINANCIALS

CONSOLIDATED INCOME STATEMENT YEAR ENDED 31 DECEMBER 2013

	Notes	Underlying £m	Non-Underlying £m	**2013 £m**	Underlying £m	Non-Underlying £m	Restated* 2012 £m
Revenue	2.1	3,848.9	-	**3,848.9**	3,635.1	-	3,635.1
Cost of sales		(3,349.0)	-	**(3,349.0)**	(3,153.8)	-	(3,153.8)
Gross profit		499.9	-	**499.9**	481.3	-	481.3
Operating expenses	2.2	(423.1)	0.7	**(422.4)**	(409.5)	(4.3)	(413.8)
Operating profit before other income		76.8	0.7	**77.5**	71.8	(4.3)	67.5
Other income - (losses) / gains on the sale of businesses and property	2.6	-	(0.6)	**(0.6)**	-	0.4	0.4
Other income - dividends received	3.4	0.3	-	**0.3**	-	-	-
Operating profit		77.1	0.1	**77.2**	71.8	(3.9)	67.9
Finance expense	4.3	(33.3)	(9.3)	**(42.6)**	(35.9)	(0.4)	(36.3)
Finance income	4.3	0.4	3.9	**4.3**	0.5	1.9	2.4
Net finance costs		(32.9)	(5.4)	**(38.3)**	(35.4)	1.5	(33.9)
Profit before taxation		44.2	(5.3)	**38.9**	36.4	(2.4)	34.0
Income tax credit / (expense)	2.7	(11.4)	13.6	**2.2**	(8.0)	0.1	(7.9)
Profit for the year		32.8	8.3	**41.1**	28.4	(2.3)	26.1
Profit for the year attributable to:							
Equity shareholders of the parent		32.8	6.4	**39.2**	28.4	(4.3)	24.1
Non-controlling interests (pension related)		-	1.9	**1.9**	-	2.0	2.0
		32.8	8.3	**41.1**	28.4	(2.3)	26.1
Earnings per share							
Basic earnings per share	2.8			**2.8p**			1.7p
Diluted earnings per share	2.8			**2.7p**			1.7p

Non GAAP measure:			
Underlying basic earnings per share	2.8	**2.3p**	2.0p
Underlying diluted earnings per share	2.8	**2.2p**	2.0p

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	Restated* 2012 £m
Profit for the year		**41.1**	26.1
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and losses	5.1	**23.5**	(25.8)
Income tax relating to defined benefit plan remeasurement gains and losses	2.7	**(4.7)**	5.9
Income tax relating to amendment to the pension partnership agreement	5.1	**7.2**	-
Adjustment in respect of minimum funding requirement on defined benefit plans	5.1	**-**	4.8
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	2.7	**-**	(1.1)
		26.0	(16.2)
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences of foreign operations		**(0.5)**	(0.1)
		(0.5)	(0.1)
Other comprehensive income for the year, net of tax		**25.5**	(16.3)
Total comprehensive income for the year		**66.6**	9.8
Total comprehensive income for the year attributable to:			
Equity shareholders of the parent		**64.7**	7.8
Non-controlling interests (pension related)		**1.9**	2.0
		66.6	9.8

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2013

	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 (note 4.4)	0.1	-	-	-	-	(0.1)	-	**-**
Dividends paid (note 4.5)	-	-	-	-	-	(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 (note 5.1)	-	-	-	-	-	(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**
Balance at 1 January 2012	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**
Total comprehensive income for 2012								
Profit for the year (restated*)	-	-	-	-	-	24.1	2.0	**26.1**
Other comprehensive income for the year, net of tax (restated*)	-	-	-	-	(0.1)	(16.2)	-	**(16.3)**
Total comprehensive income for the year	-	-	-	-	(0.1)	7.9	2.0	**9.8**
Issue of ordinary shares (note 4.4)	0.8	-	-	-	-	(0.8)	-	-
Distribution from pension partnership to pension scheme	-	-	-	-	-	-	(2.5)	**(2.5)**
Share based payments	-	-	-	-	-	0.9	-	**0.9**
Balance at 31 December 2012	71.8	56.8	2.5	12.6	(0.4)	98.3	33.8	**275.4**

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Property, plant and equipment	3.2	**295.7**	290.3
Goodwill	3.1	**365.4**	368.2
Other intangible assets	3.1	**5.0**	4.4
Investments	3.4	**10.0**	-
Derivative financial instruments	4.2	**-**	14.2
Deferred tax assets	2.7	**22.7**	10.4
Total non-current assets		**698.8**	687.5
Current assets			
Inventories	3.6	**602.5**	590.0
Trade and other receivables	3.8	**103.2**	97.4
Cash and cash equivalents	4.2	**58.4**	58.0
Non-current assets classified as held for sale	3.5	**13.1**	23.6
Total current assets		**777.2**	769.0
Total assets		**1,476.0**	1,456.5
Current liabilities			
Interest bearing loans and borrowings	4.2	**-**	(60.4)
Trade and other payables	3.9	**(796.8)**	(739.8)
Deferred income	3.11	**(24.9)**	(23.0)
Current tax payable		**(30.5)**	(25.5)
Provisions	3.10	**(2.1)**	(2.4)
Total current liabilities		**(854.3)**	(851.1)
Non-current liabilities			
Interest bearing loans and borrowings	4.2	**(198.0)**	(228.2)
Trade and other payables	3.9	**(28.3)**	(23.7)
Deferred income	3.11	**(43.1)**	(44.8)
Retirement benefit obligations	5.1	**(43.4)**	(29.8)
Provisions	3.10	**(3.7)**	(3.5)
Total non-current liabilities		**(316.5)**	(330.0)
Total liabilities		**(1,170.8)**	(1,181.1)
Net assets		**305.2**	275.4
Capital and reserves			
Called up share capital	4.4	**71.9**	71.8
Share premium account	4.4	**56.8**	56.8
Capital redemption reserve	4.4	**2.5**	2.5
Other reserves	4.4	**12.6**	12.6
Translation reserve	4.4	**(0.9)**	(0.4)
Retained earnings		**162.3**	98.3
Total equity attributable to equity shareholders of the Company		**305.2**	241.6
Non-controlling interests		**-**	33.8
Total equity		**305.2**	275.4

* Restated to reflect the impact of IAS 19 (revised). Registered Company Number: 2304195

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Profit for the year (2012 restated)		**41.1**	26.1
Adjustment for taxation		**(2.2)**	7.9
Adjustment for net financing expense		**38.3**	33.9
Adjustment for dividend received		**(0.3)**	-
		76.9	67.9
Depreciation and amortisation		**19.8**	19.2
Share based payments		**1.6**	0.9
Loss on settlements or curtailments in pension schemes		**-**	0.6
Loss / (profit) on sale of businesses and property		**0.6**	(0.4)
Impairment of property, plant and equipment		**0.9**	-
Impairment of assets held for sale		**1.0**	5.4
Reversal of impairment of assets held for sale		**(0.6)**	(1.3)
Changes in inventories	3.6	**(1.0)**	(11.6)
Changes in trade and other receivables		**(6.2)**	4.1
Changes in trade and other payables		**56.9**	14.1
Changes in retirement benefit obligations		**(0.2)**	(0.2)
Changes in provisions		**(0.1)**	(3.0)
Movement in contract hire vehicle balances	3.7	**(14.3)**	(17.9)
Cash generated from operations		**135.3**	77.8
Taxation (paid) / received		**(0.9)**	0.4
Interest received		**4.3**	2.4
Interest paid		**(34.0)**	(37.4)
Net cash from operating activities		**104.7**	43.2
Cash flows from investing activities			
Dividends received	3.4	**0.3**	-
Purchase of business	6.1	**-**	(2.6)
Proceeds from sale of businesses	6.2	**9.0**	1.9
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	**(68.1)**	(68.4)
Proceeds from sale of property, plant and equipment	3.1, 3.2	**53.4**	58.8
Acquisition of investments	3.4	**(10.0)**	-
Net cash used in investing activities		**(15.4)**	(10.3)
Cash flows from financing activities			
Dividends paid to shareholders		**(2.8)**	-
Own shares issued under share schemes		**1.2**	-
Payment of capital element of finance lease rentals		**-**	(0.1)
Repayment of bank loans		**(272.6)**	(79.2)
Proceeds from issue of bond and loans		**199.7**	6.6
Payment of transaction costs related to bond and loans		**(11.9)**	-
Distribution from pension partnership to pension scheme		**(2.5)**	(2.5)
Net cash outflow from financing activities		**(88.9)**	(75.2)
Net increase / (decrease) in cash and cash equivalents		**0.4**	(42.3)
Cash and cash equivalents at 1 January		**58.0**	101.4
Effects of exchange rate changes on cash held		**-**	(1.1)
Cash and cash equivalents at 31 December	4.2	**58.4**	58.0

6. DETAILED FINANCIALS

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT YEAR ENDED 31 DECEMBER 2013

	2013 £m	2012 £m
Net increase / (decrease) in cash and cash equivalents	**0.4**	(42.3)
Payment of capital element of finance lease rentals	**-**	0.1
Repayment of bank loans	**272.6**	79.2
Proceeds from issue of bond and loans (net of directly attributable transaction costs)	**(195.8)**	(6.6)
Non-cash movements	**(0.4)**	-
Decrease in net debt in the year	**76.8**	30.4
Opening net debt	**(216.4)**	(246.8)
Closing net debt	**(139.6)**	(216.4)

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.

IAS 19 (revised): as a result of the amendments to IAS 19 Employee Benefits, the Group has changed its accounting policy with respect to determining the income or expense related to its defined benefit pension scheme. The standard prescribes that an interest expense or income is calculated on the net defined benefit liability/asset by applying the discount rate to the net defined benefit liability / asset. This replaces the interest expense on the defined benefit obligation and the expected return on plan assets. The revised standard requires retrospective application. These retrospective changes comprise the reversal of the interest expense on the defined benefit obligation of £18.8m and the interest income on pension scheme assets of £22.2m to be replaced by a net interest expense of £0.4m. The associated income tax has been restated accordingly. Actuarial losses recognised in the consolidated statement of comprehensive income for the year ended 31 December 2012 of £29.6m have been restated into a remeasurement loss of £25.8m with the associated income tax also restated. All amounts subject to the change are non-underlying in nature and are included in the central segment. There is no effect on the opening and closing cash position or net assets as previously reported. The revised standard stipulates that actuarial gains and losses are recognised immediately in the periods in which they occur. The Group already adopted this policy and therefore there are no changes to the consolidated balance sheet and consolidated cash flow statement.

6. DETAILED FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS

2. NON-UNDERLYING ITEMS

	2013 £m	Restated* 2012 £m
Within operating expenses:		
Impairment of property, plant and equipment	**(0.9)**	-
Impairment of assets held for sale	**(1.0)**	(5.4)
Reversal of impairment on assets classified as held for sale (see note 3.5)	**0.6**	1.3
Pension scheme merger costs	**-**	(0.4)
Losses on settlements or curtailments of pension scheme obligations	**-**	(0.6)
VAT assessment refunds	**2.0**	0.8
	0.7	(4.3)
Within other income - (losses) / gains on the sale of businesses and property:		
Losses on the sale of businesses	**(1.1)**	(0.7)
Gains on the sale of property	**0.5**	1.1
	(0.6)	0.4
Within finance expense:		
Net interest on pension scheme obligations	**(1.3)**	(0.4)
Refinancing fees and costs	**(8.0)**	-
	(9.3)	(0.4)
Within finance income:		
Interest receivable	**0.9**	-
Interest on VAT refunds	**3.0**	1.9
	3.9	1.9
Total non-underlying items (before tax)	**(5.3)**	(2.4)
Total non-underlying items attributable to:		
Equity shareholders of the parent	**(7.2)**	(4.4)
Non-controlling interests (pension related)	**1.9**	2.0
	(5.3)	(2.4)

* Restated to reflect the impact of IAS 19 (revised) as described in Section 1.

NOTES TO THE FINANCIAL STATEMENTS

2. NON-UNDERLYING ITEMS

The following amounts have been presented as non-underlying items in these 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 of £1.0m during the year (2012: £5.4m). There was also an impairment charge recognised against tangible fixed assets of £0.9m (2012: £nil). In addition a reversal of previous impairment charges of £0.6m was made for assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2012: £1.3m).

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 £1.3m has been recognised during the year (2012: restated £0.4m), of which £1.9m is attributable to the non-controlling interests (2012: £2.0m). During the previous year the Group's six defined benefit pension schemes were merged into the Pendragon Group Pension Scheme. As part of the process members whose value of benefits were below a set limit were entitled to a wind up lump sum in settlement of any future benefits. The cost recognised in settlement of these benefits in 2012 was £0.6m. Costs were also incurred in 2012 in relation to this process amounting to £0.4m. Due to the one off nature of the pension merger these settlement and professional costs are shown as non-underlying in the prior year.

Other income, being the profit on disposal of businesses and property, comprises a £0.5m profit on sale of properties (2012: £1.1m) and a £1.1m loss on the disposal of motor vehicle dealerships (2012: Loss £0.7m).

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 year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996 (2012: £0.8m). Associated interest received of £3.0m (2012: £1.9m) is disclosed within finance income.

The Group received a refund of overcharged interest of £0.9m during the year (2012: £nil). This was in respect of a business acquired in 2006 and the overcharge related to a period prior to that acquisition.

NOTES TO THE FINANCIAL STATEMENTS

3. EARNINGS PER SHARE

	2013 Earnings per share pence	**2013 Earnings Total £m**	Restated* 2012 Earnings per share pence	Restated* 2012 Earnings Total £m
Basic earnings per share	**2.8**	**39.2**	1.7	24.1
Adjusting items:				
Non-underlying items attributable to the parent (see note 2.6)	**0.5**	**7.2**	0.3	4.4
Tax effect of non-underlying items	**(1.0)**	**(13.6)**	-	(0.1)
Underlying earnings per share (Non GAAP measure)	**2.3**	**32.8**	2.0	28.4
Diluted earnings per share	**2.7**	**39.2**	1.7	24.1
Diluted earnings per share - underlying (Non GAAP measure)	**2.2**	**32.8**	2.0	28.4

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

	2013 Number	2012 Number
Weighted average number of ordinary shares in issue	**1,421.0**	1,404.5
Weighted average number of dilutive shares under option	**55.6**	16.5
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,476.6**	1,421.0
Non-dilutive shares under option	**25.5**	54.8

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

* Restated to reflect the impact of IAS 19 (revised)

4. FINANCE EXPENSE

Recognised in profit and loss	**2013 £m**	Restated* 2012 £m
Interest payable on bank borrowings, bond and loan notes	**16.2**	19.7
Refinancing fees and costs (non-underlying - see note 2.6)	**8.0**	-
Vehicle stocking plan interest	**15.2**	14.4
Interest payable on finance leases	**0.1**	0.2
Net interest on pension scheme obligations (non-underlying - see note 2.6)	**1.3**	0.4
Less: interest capitalised	**-**	(0.1)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**40.8**	34.6
Unwinding of discounts in contract hire residual values	**1.8**	1.7
Total finance expense	**42.6**	36.3

* Restated to reflect the impact of IAS 19 (revised)

NOTES TO THE FINANCIAL STATEMENTS

5. FINANCE INCOME

Recognised in profit and loss	**2013 £m**	2012 £m
Interest receivable on bank deposits	**0.4**	0.5
Other interest receivable (non-underlying - see note 2.6)	**0.9**	-
Interest on VAT refunds (non-underlying - see note 2.6)	**3.0**	1.9
Total finance income	**4.3**	2.4

* Restated to reflect the impact of IAS 19 (revised)

6. NET DEBT

	2013 £m	2012 £m
Cash and cash equivalents	**58.4**	58.0
Current interest bearing loans and borrowings	**-**	(60.4)
Non-current interest bearing loans and borrowings	**(198.0)**	(228.2)
Derivative financial instruments	**-**	14.2
	(139.6)	(216.4)

7. MOVEMENT IN CONTRACT HIRE VEHICLE

	2013 £m	2012 £m
Depreciation	**21.1**	19.5
Changes in trade and other payables and deferred income	**6.1**	0.2
Purchases of contract hire vehicles	**(39.7)**	(35.9)
Unwinding of discounts in contract hire residual values	**(1.8)**	(1.7)
	(14.3)	(17.9)

8. PENSION FUNDS

The net liability for defined benefit obligations has increased from £29.8m at 31 December 2012 to £43.4m at 31 December 2013. The increase of £13.6m comprises contributions of £0.2m, net expense recognised in the income statement of £1.3m, a net actuarial gain of £23.5m and a £36.0m adjustment in respect of the Central Asset Reserve following changes to the pension partnership agreement. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate of 4.50% (2012: 4.35%), inflation rate (RPI) of 3.50% (2012: 2.90%) and inflation rate (CPI) of 2.50% (2012: 2.10%).

6. DETAILED FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS

9. ANNUAL REPORT

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2013 or 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 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 2013 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 30 April 2014 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.

7. APPENDIX

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2013 or 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 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 2013 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 30 April 2014 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.

7. APPENDIX

The Group previously split out trade and wholesale sector activity from used and new activity respectively. However, in order to simplify the understanding of the business we have now combined these sectors. The following table illustrates the split of trade and wholesale for comparative purposes as previously reported from a sector perspective for the years ended 31 December 2013 and 31 December 2012:

Underlying Sector Results For Year Ended 31 December

	Aftersales		Used		New		Trade/ Wholesale		MOTOR DIVISION* TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Aftersales	300.9	307.8	1,467.5	1,399.7	1,792.9	1,654.7	207.0	196.8	3,768.3	3,559.0
Used	188.0	188.1	145.0	138.5	143.4	129.0	(6.4)	(5.4)	470.0	450.2
New	62.5%	61.1%	9.9%	9.9%	8.0%	7.8%	118.6	(3.1%)	12.5%	12.6%
New	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	61.0	54.4
New	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.6%	1.5%

The Group previously split out trade and wholesale sector activity from used and new activity respectively. However, in order to simplify the understanding of the business we have now combined these sectors. The following table illustrates the split of trade and wholesale for comparative purposes as previously reported from a sector perspective for the years ended 31 December 2013 and 31 December 2012:

Motor Division Segment Results for Year Ended 31 December

	Stratstone		Evans Halshaw		Quicks		California		Motor Division	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
REVENUE										
Aftersales	132.1	138.6	142.5	142.2	2.7	3.9	23.6	23.1	300.9	307.8
Used	582.7	626.9	795.5	733.4	43.9	40.0	45.4	40.7	1,467.5	1,399.7
New	707.3	673.4	1,061.8	958.8	-	-	118.6	101.0	1,891.7	1,733.2
New	45.8	49.7	151.6	135.9	2.3	3.0	7.3	8.2	207.0	196.8
Revenue	**1,467.9**	**1,438.9**	**2,056.6**	**1,900.1**	**48.9**	**46.9**	**194.9**	**173.1**	**3,768.3**	**3,558.9**
GROSS PROFIT										
Aftersales	75.4	77.7	99.2	97.9	0.6	0.0	12.8	12.5	188.0	188.1
Used	42.1	42.0	83.2	83.2	4.6	3.7	4.5	3.5	137.7	132.4
New	63.5	59.5	63.5	57.9	-	-	17.3	12.3	144.3	129.7
Trade/Wholesale	(1.8)	(1.9)	4.2)	(3.0)	(0.4)	(0.4)	0.0	(0.1)	(6.4)	(5.4)
Gross Profit	**181.0**	**179.2**	**249.2**	**239.0**	**5.2**	**3.7**	**34.6**	**28.3**	**470.0**	**450.2**
Operating Costs	**(154.1)**	**(150.8)**	**(221.8)**	**(212.0)**	**(7.5)**	**(7.5)**	**(25.6)**	**(23.0)**	**(409.0)**	**(395.8)**
Operating Profit	**26.9**	**25.9**	**27.4**	**27.0**	**(2.3)**	**(3.8)**	**9.0**	**5.3**	**61.0**	**54.4**
METRICS										
Gross Margin %	12.3%	12.5%	12.1%	12.6%	10.6%	8.0%	17.7%	16.4%	12.5%	12.6%
Units Sold ('000)	53.1	52.7	200.3	182.1	7.3	7.0	4.6	4.3	265.3	242.5