

Pendragon | PLC



ANNUAL REPORT

2018

IN THIS REPORT



“We continue to focus on our strategic priorities and the reallocation of our capital into the areas we see as providing the strongest long-term growth. We have seen strong performance in used cars in the second half of the year, with the transformation of preparation facilities and processes now embedded in our Car Stores. We anticipate this will carry on into 2019 and beyond as our new Car Store businesses further boost our used car growth.”

New car sales have been subdued and consumer confidence has been adversely affected in the period by macro newsflow, however, our Software business is continuing to win market share and has now deployed systems in twelve overseas countries.

Our Leasing business has grown profitability with a stable base of vehicles under management.”

STRATEGIC HIGHLIGHTS

Our business model, focus and strategic direction.



BUSINESS PROFILES

Learn more about our four businesses: UK Motor division, our Independent Software Vendor (Pinewood), Fleet and Leasing (Pendragon Vehicle Management) and US Motor division. We also share an introduction to our new online marketplace Carstore.com.



PRODUCING USED CARS

Behind the scenes of what happens in our new Production Factories to make a car ready for sale.



26

OPERATIONAL AND FINANCIAL REVIEW



72

FINANCIAL STATEMENTS



41

DIRECTORS REPORT

STRATEGIC REPORT

- 04 Strategic Highlights
- 06 Operational and Financial Highlights
- 07 Financial Summary
- 08 Performance Indicators
- 09 Business Profiles
- 18 Producing Used Cars
- 20 Life at Pendragon PLC

OPERATIONAL AND FINANCIAL REVIEW

- 24 Industry Insight
- 28 Business Review
- 32 Financial Review
- 34 Balance Sheet
- 35 Risk Overview

DIRECTORS REPORT

- 42 Board of Directors
- 44 Corporate Governance Report
- 48 Corporate Social Responsibility Report
- 50 Committee Reports
- 56 Directors' Remuneration Report
- 69 Directors' Report

FINANCIAL STATEMENTS

- 73 Director's Responsibility Statements
- 74 Independent Auditor's Report
- 83 Consolidated Income Statement
- 84 Consolidated Statement of Comprehensive Income
- 85 Consolidated Statement of Changes in Equity
- 86 Consolidated Balance Sheet
- 87 Consolidated Cash Flow Statement
- 88 Reconciliation of Net Cash Flow to Movement in Net Debt
- 89 Notes to the Financial Statements
- 160 Company Balance Sheet
- 161 Company Statement of Comprehensive Income
- 162 Company Statement of Changes in Equity
- 163 Notes to the Financial Statements of the Company
- 170 Advisors, Banks and Shareholder Information
- 171 5 Year Group Review

STRATEGIC HIGHLIGHTS

Welcome to our 2018 Annual Report.

Our goal of doubling our used car revenue by 2021 remains unchanged and we're moving ever closer to achieving our ambitions.

“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 broadly double digit revenue growth for the foreseeable future.

We anticipate the sale of our US business to realise in excess of £100 million.”

STRATEGIC HIGHLIGHTS

Double used car revenue by 2021

- Invested in and launched Carstore.com website in December 2018.
- Recruited a Used Car Director to manage the operation and roll out of used Car Stores.
- Opened three purpose built Car Stores and converted four former new car franchised dealerships to Car Stores.
- Opened four used car refurbishment factories to industrialise this process.
- Strong used car profitability in the second half of 2018.

US Motor Group - disposal

- Completed the first disposal of a franchise in the US. Further disposals are well progressed.

Premium Brand Franchises

- As part of our committed three year plan to reduce the capital deployed in this area, we have sold six premium brand franchises (including two in February 2019) and agreed lower capital expenditure levels.
- This has released £46.7 million of capital comprising consideration and capital expenditure avoided.

Software – global growth

- Good progress growing our Software as a Service ('SaaS') licences to international users. In 2018 we have implemented the software into customers with an addressable user base of over 1,600 (2017 : 729).
- Our overseas activities now encompass twelve countries of which Germany, Norway, Sweden, Switzerland, Thailand and Philippines were added in 2018.

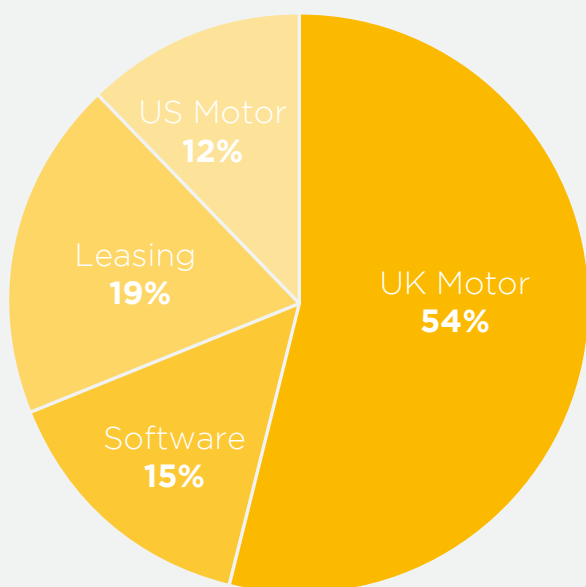
Board changes

- As previously announced, Trevor Finn, Chief Executive will retire from the role of Chief Executive of Pendragon PLC on 31 March 2019. Mark Herbert joined Pendragon on 4 March 2019 as Chief Executive designate and will be appointed to the Board as Chief Executive on 1 April 2019.
- As previously announced, Tim Holden, Finance Director, will step down on 31 March 2019. His successor, Mark Willis, will take up the role of Chief Finance Officer and joins the Board on 8 April 2019.

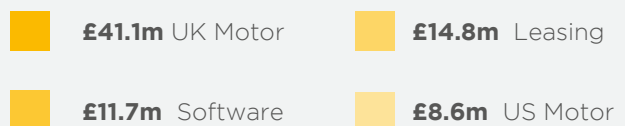
BUSINESS SEGMENTS

We have four main business divisions that make up our Group:

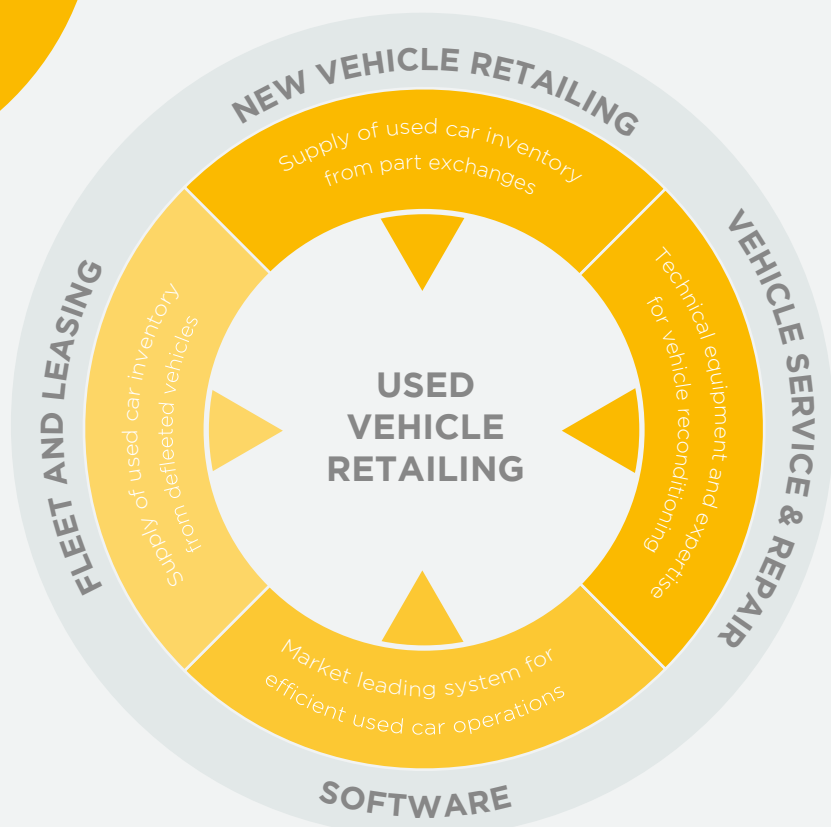
<p>UK MOTOR Sale and servicing of vehicles in the UK</p>	<p>INDEPENDENT SOFTWARE VENDOR Licencing of Software as a service to automotive businesses</p>	<p>FLEET AND LEASING Supply of new vehicles and fleet management to businesses</p>	<p>US MOTOR (Discontinued) Sale and servicing of vehicles in the US</p>
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Underlying Operating Profit by business



“Each business generates independent profits, but also supports our strategic ambition to double used car revenue by 2021.”



OPERATIONAL AND FINANCIAL HIGHLIGHTS

OPERATIONAL AND FINANCIAL HIGHLIGHTS

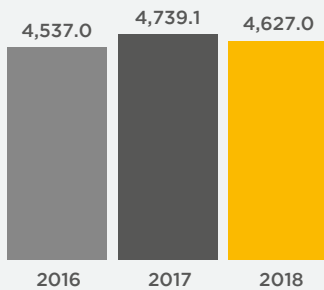
- **Group Revenue -1.3% L4L (-2.4% total)** Primarily the impact of a decline in premium new car sales.
- **Used Revenue -0.3% L4L (-0.9% total)** Used vehicle revenue, excluding nearly new vehicles, grew by 2.9% against a used car market that fell 2.2%. L4L used gross profit up 4.9%. Used gross profit increased by 27.6% (L4L) in the UK Motor division in H2 2018 driven by very strong margins in the second half of the year.
- **New Revenue -2.2% L4L (-3.8% total)** Outperformed the UK market which was down 6.8% in 2018 with UK new revenue down 5.2% L4L. Gross profit down 8.3% following continuing margin pressure in the Premium sector.
- **Aftersales Revenue -0.5% L4L (-1.8% total)** Gross profit down 1.5%. Our retail aftersales revenue grew by 2.1% with margins reduced as a result of labour cost increases.
- **Software Revenue +7.0% L4L (+7.0% total)** Gross profit up 8.0% in spite of investment in new product development for international markets.
- **Leasing Revenue -11.7% L4L (-11.7% total)** Gross profit up 35.3% benefiting from utilising the factory refurbishment for end of contract disposals.
- **Operating Cost +2.5% L4L (+24.3% total)** Includes transformation costs of the new preparation process offset by cost saving actions taken during the year.
- **Car Store** Revenue in our Car Store business grew by £83.6m, an increase of 38.5%. Gross profit was up 42.2%. Including the impact of start-up and transformation costs the operating loss for the business was £11.9m (2017:loss £6.9m).
- **Underlying Profit Before Tax £47.8m** (2017: £60.4m) Underlying profit before tax down £12.6 million due to decline in UK motor division new vehicle gross profit and the investment in new Car Store sites and refurbishment factories.
- **Non Underlying charge of £92.2m** (2017: £4.9m credit) including a non-cash charge principally for impairment of goodwill and non-current assets in our UK Motor Group of £(95.8)m taking into account trading and market conditions.
- **Stable Balance Sheet** Net debt £127.6m (2017:£124.1m) with Net Debt : Underlying EBITDA unchanged at 0.9.
- **Capital Allocation** A final dividend of 0.7p is being proposed to maintain dividend earnings cover of at least two times. At this stage in the company's investment cycle our share buyback programme is paused. The Board continues to monitor the relative merits of freehold property ownership against the lower capital requirements of operating leasehold premises, as we continue to grow our physical footprint.

£M	REVENUE	GROSS PROFIT	OPERATING PROFIT/(LOSS)	PROFIT/(LOSS) BEFORE TAX	EPS
LIKE FOR LIKE*	£4,509.8	£540.4	£79.2	£50.8	N/A
	(-1.3%)	(+0.6%)	(-9.3%)	(-20.5%)	
UNDERLYING**	£4,627.0	£550.5	£76.2	£47.8	2.8p
	(-2.4%)	(-0.4%)	(-9.1%)	(-20.9%)	(-15.2%)
TOTAL	£4,627.0	£550.5	£(14.4)	£(44.4)	(3.6p)
	(-2.4%)	(-0.4%)			

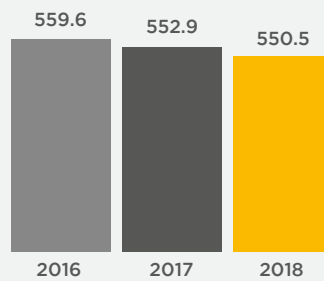
* like for like (L4L) results include only current trading businesses which have been trading for 12 consecutive months.

** 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.

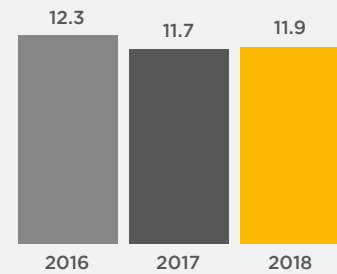
FINANCIAL SUMMARY



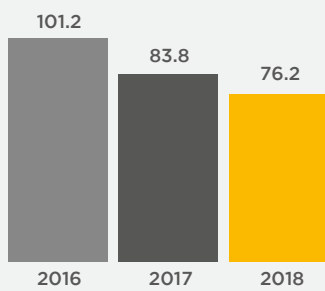
£4,627.0M
REVENUE



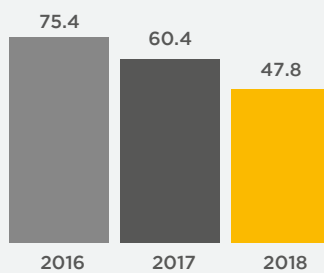
£550.5M
GROSS PROFIT



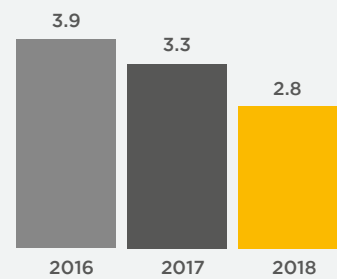
11.9%
GROSS MARGIN



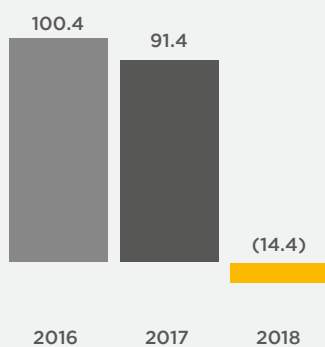
£76.2M
UNDERLYING OPERATING PROFIT



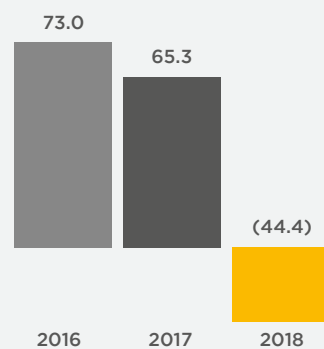
£47.8M
UNDERLYING PROFIT BEFORE TAX



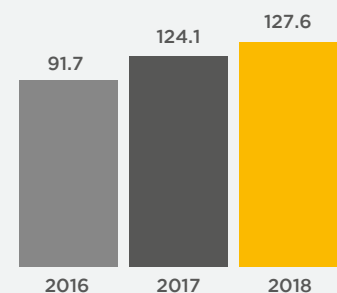
2.8P
UNDERLYING EPS



£(14.4M)
OPERATING (LOSS)/PROFIT



£(44.4M)
(LOSS)/PROFIT BEFORE TAX



£127.6M
NET DEBT

NOTE: Throughout this document, Alternative Performance Measures have been used which are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure, see note 1 of the Financial Statements for details.

PERFORMANCE INDICATORS

KEY FINANCIAL MEASURES

KPI	Definition	2018 Performance	Change
Underlying EPS	Underlying profit after tax divided by weighted average number of shares	2.8p	down 15.2%
Underlying PBT	Underlying profit before tax excludes 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	£47.8m	down 20.9%
Underlying Operating Margin	Underlying operating profit divided by underlying revenue	1.6%	down 11.1%
Underlying Net Debt	Net debt : underlying EBITDA is the ratio of our net debt to underlying EBITDA	Ratio 0.9	no change

KEY STRATEGIC MEASURES

KPI	Definition	2018 Performance	Change
Aftersales Retail Labour Sales	Retail labour sales is activity direct to consumers for the servicing and repair of motor vehicles (like for like)	Retail growth 2.1%	down 1.3%
Used Revenue	All used revenues (like for like)	£2,108.6m	down 0.3%
Online Growth	Website visits to Evanshalshaw.com, Stratstone.com and Carstore.com	28.7m visitors	up 5.1%

BUSINESS PROFILES

- 10 UK Motor
- 12 Independent Software Vendor
- 14 Fleet and Leasing
- 15 US Motor
- 16 Online Marketplace



BUSINESS PROFILES

UK MOTOR

Sale and servicing of vehicles in the UK.

Strategic focus

- 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.

Evans Halshaw

Evanshalshaw.com represents 11 volume franchises across the UK, retailing new and used cars, light commercial vehicles (LCV) and heavy goods vehicles (HGV). There is also a significant focus on the service and repair of these vehicles.

Our Sell Your Car initiative focusses on an independent car buying service, as an alternative to the more traditional part exchange option for consumers. These activities both result in a supply of used cars for sale.



Car Store

In 2018 we completed our move to make all of our non-franchise locations part of the Car Store division of our UK Motor business. We now have 32 Car Store locations.

At the end of 2018 we launched a new online marketplace for the brand. Details of Carstore.com and our proposition can be found on page 16.

We opened four used car refurbishment factories, three purpose built Car Stores and converted four former new car franchised dealerships to Car Stores in 2018.

“Our UK Motor division is recognised through our two main consumer brands in the UK, Evans Halshaw and Stratstone, complemented by our used car only brand, Car Store”



Stratstone

Stratstone.com is our premium brand, representing ten prestige manufacturers. Stratstone is focused on the retail of new and used cars, and service and repair.

Stratstone has also adopted our award winning ‘Move Me Closer’ initiative, that enables customers to move any used car in the UK to a location nearest to them. The scheme makes over 28,000 used cars available at every location.



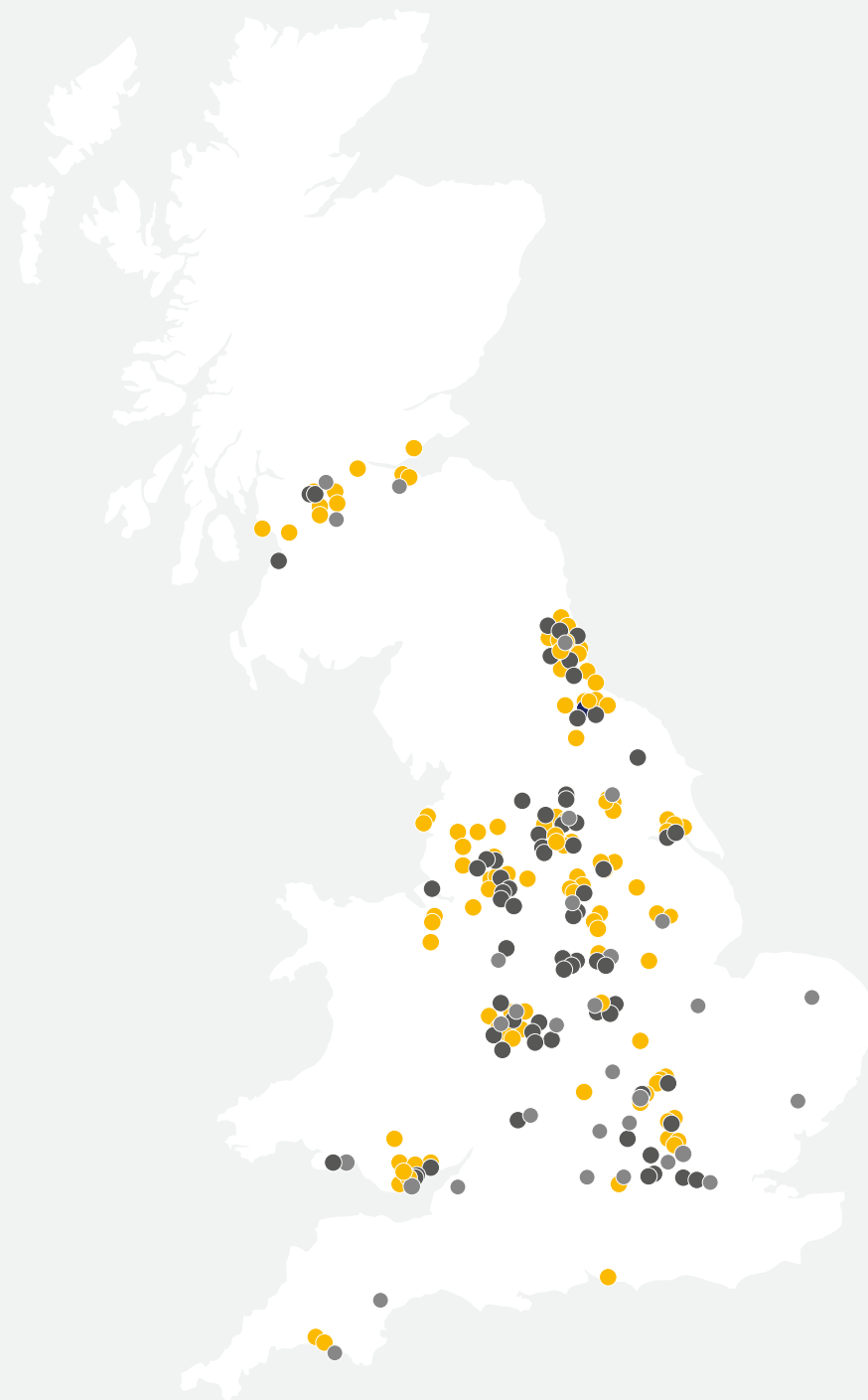
● **Evans Halshaw 118**

- Ford 39
- Vauxhall 30
- Citroën 15
- Renault 6
- Dacia 6
- Peugeot 6
- DAF 4
- Hyundai 4
- Nissan 4
- Kia 3
- SEAT 1

● **Stratstone 59**

- Land Rover 11
- Jaguar 9
- Mercedes-Benz 8
- BMW 7
- MINI 7
- Smart 6
- Porsche 5
- Aston Martin 3
- Harley-Davidson 2
- Ferrari 1

● **Car Stores 32**



WEBSITE VISITS UP

5.1%
28.7M VISITS

177

UK FRANCHISE
POINTS



UK USED CAR GROSS
PROFIT UP BY

5.1%



256K VEHICLES SOLD

32 

OWN FRANCHISE
SUPPORTED BY 4 FACTORIES

BUSINESS PROFILES

INDEPENDENT SOFTWARE VENDOR

Licensing of Software as a Service to automotive business users.

Strategic focus

- Pinewood, our software business, is core to our strategic plan to transform the Group.
- 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 13 countries worldwide.

“Our Dealer Management System is split by role-type, collating common tasks together to make dealerships more efficient. With one central database, all information is shared throughout the system.”



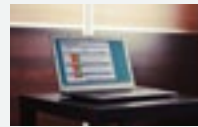
Integration with Microsoft Outlook



Digital Workshop Scheduling



Customer Contact Plans



Digital Vehicle Health Checks



Stock feeds to websites



Customer Mapping tools



Technician job cards



Wholesale Funding



SMS Integration



Reporting Suite



Social Media integrations



Tyre Hotel

Dealer Management System Features

Every part of the business in one place.

From CRM, to workshop workflows and parts processing, financial analysis and stock management. Pinewood works with most vehicle manufacturers to provide global solutions.

Our interconnected module structure provides visibility and access to information across dealership operations, preventing the need for double keying or multiple add-on systems.

This is a valuable time saving asset for our users, facilitating increased productivity and reduced inputting time.

7% GROWTH
IN REVENUE

MICROSOFT
 PARTNER

5 APPS 

USERS IN
13 COUNTRIES 

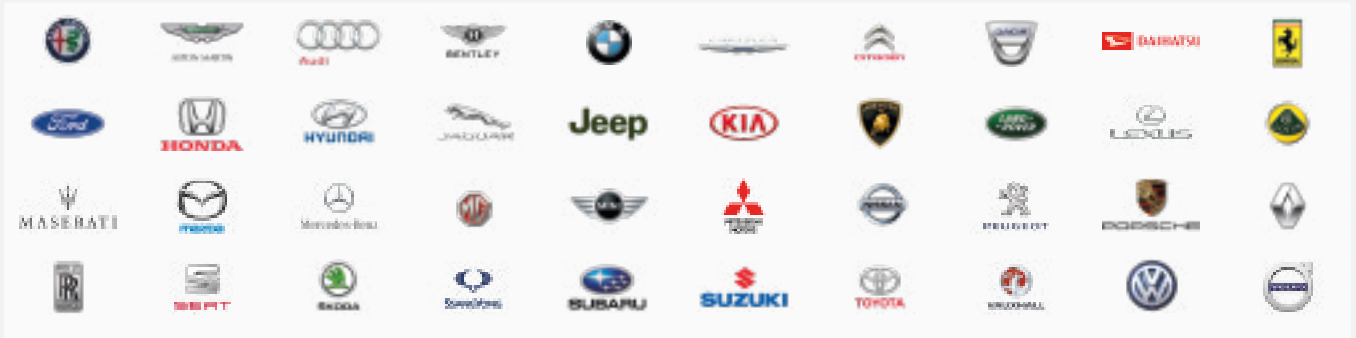
UK
EUROPE
Ireland
Switzerland
Netherlands
Germany
Norway
Sweden

AFRICA
South Africa
Namibia
Zimbabwe

ASIA PACIFIC
Hong Kong
Thailand
Philippines

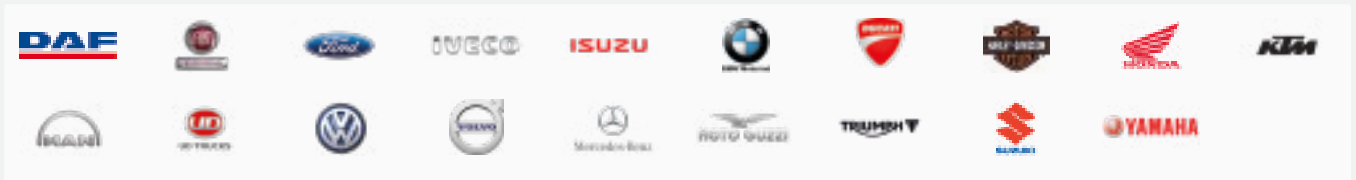
Integration with over 50 manufacturers

Cars:



Commercial Vehicles:

Motorbikes:



Pinnacle Apps

Our apps are designed to streamline processes and improve efficiency across the whole dealership.

Our fully integrated suite of apps work seamlessly with our Pinewood DMS.

Our apps are multi-platform and users can choose their preferred tablet or mobile, across iOS, Windows and Android devices.



Tech+ Improve the service and repair experience, including video integration and technician time management.



Host+ Integrated video processes including 360° tours of a used vehicle in stock, or visually identifying work required following a health check.



Pay+ Fully integrated, PCI-DSS P2PE accredited card payment app.



Stock+ Respond to enquiries with personalised videos, instantly update stock information and store vehicle documentation.



Parts+ Issue parts on-the-move, saving time with our in-built barcode scanner.

BUSINESS PROFILES

FLEET AND LEASING

Supply of new vehicles and fleet management to businesses.

Strategic focus

- 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.

Pendragon Vehicle Management

At pendragonvehiclemanagement.co.uk our Business to Business (B2B) brand focusses on comprehensive solutions for fleet customers. Utilising market leading fleet software, tailored options are developed for the ever evolving requirements of businesses.

From a variety of options on Fleet Management, to all elements of Fleet Funding across cars and commercial vehicles, business solutions are crafted to focus on customer priorities, from uptime to driving cost control. Pendragon Vehicle Management has evolved to offer bespoke Business to Employee (B2E) schemes as an alternative to company cars option for employees. In addition there are also a variety of Daily Rental and flexible rental solutions for customers.

“At Pendragon Vehicle Management we supply fleet vehicles and provide services to help customers manage their fleets, improving efficiency, reducing costs and saving time.”



Fleet Management



Telematics



Duty of Care



Fuel Cards



Outsourced Administration



Maintenance and Repair



Accident Management

Fleet Funding



Contract Hire For Cars



Contract Purchase



Contract Hire For Vans



Sale and Leaseback

Business to Employee Schemes

- Businesses can offer employees brand new cars as a company benefit.
- No company car or company car tax complications, and there is no benefit in kind tax to pay.
- Motivational tool to drive engagement managed by Pendragon Vehicle Management.
- Unlike salary sacrifice schemes this offers an alternative direct to employee contract (through a Personal Contract Hire agreement), reducing company administration.

Rental Solutions

- Fast response service with over 300,000 vehicles ready to access.
- Real time Rental Management system
- Daily and also flexible (three months and beyond) rental options available.
- Car, van and specialist vehicle hire, delivered within four hours.

**GROSS PROFIT
INCREASED BY
35.3%**

OPERATING PROFIT UP £5M

**BVRLA
MEMBER**



**DRIVER
APP**



US MOTOR

Sales and servicing of vehicles in the U.S.

Strategic focus

- 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.
- Further disposals are well progressed.

“In July 2018 we completed the disposal of our Aston Martin business, the disposal process for the rest of the US business is progressing well.”



Pendragon North America

Hornburg.com is a local brand that has been serving Southern California since 1947. Focussed on the sale and service of premium vehicles, Hornburg represents Jaguar and Land Rover across four locations.

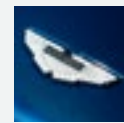
Our Chevrolet outlet in Puente Hills is our additional vehicle franchise in California, retailing new Chevrolet and pre-owned domestic vehicles and also offering service and repair.



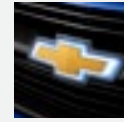
Jaguar
4



Land Rover
4



Aston Martin
Disposal
completed
July 2018



Chevrolet
1



BUSINESS PROFILES

ONLINE MARKETPLACE

Sale and servicing of vehicles in the UK.

Strategic focus

- 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.

Carstore.com

We recently launched Carstore.com, the new online marketplace for our Car Store brand. The website provides our customers with an easy-to-use experience when buying or selling their car with the capability of a fully online experience.

Carstore.com is an important part of our strategy as we look to double the revenues we generate from used car sales by 2021.



Sell your car to Car Store

Customers can now judge their car's condition online and receive an instant price valuation for their car. They can choose to call into store or book a 30 minute appointment with one of our Customer Service Assistants assessing the vehicle. This service is available at every location. When a customer chooses to sell their car to Car Store we guarantee the best price.

“In late 2018 we launched our online marketplace, Carstore.com.

We’re transforming how people buy cars.”

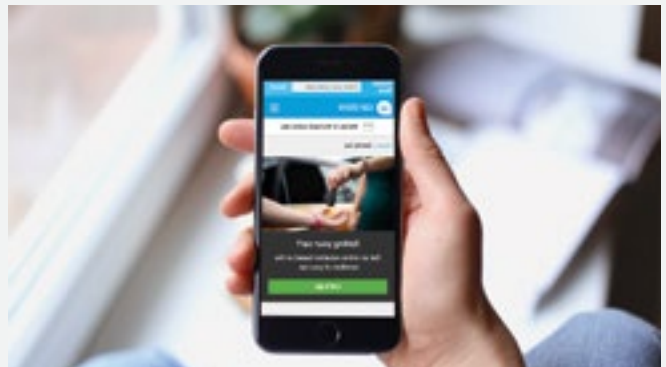


Buy your next car online

With our network of 32 physical locations supporting our online marketplace, our customers can do as much of the car buying experience through our new website as they wish.

From selecting any car from our 6,000 available, to be delivered to them in 96 hours, customers can visit our stores to test drive and still buy their car online with both monthly and one-off payment options available.

We understand their needs when buying a car online, which is why all of our cars have passed a 128-point inspection by the AA and have an AA warranty and breakdown cover. We also offer a 14-day money back guarantee for added customer confidence.



FULFILMENT NETWORK

It is important our physical experience matches expectations set through our online marketplace. We aim through our integrated systems and team training, for the blend of online and offline customer journey to be seamless.

Our in store premises vary from custom build premises to adapted former franchise retailers, but we aim for the facilities to deliver a consistent customer experience, setting out customer expectations online and delivering in store.

We have also begun to deploy new hardware solutions across the Car Store fulfilment network. These range from children's entertainment zones, customer kiosks to browse and order cars online, to the use of hand held tablets across the hosting and customer service teams.



6000+ CARS
AVAILABLE TO
BUY ONLINE



ANY CAR
TO ANY LOCATION
IN 96
HOURS



14 DAY
MONEY BACK
GUARANTEE

EVERY
CAR IS
AA
INSPECTED



4.7/5 STARS GOOGLE

30 MINUTE
DRIVE AWAY
APPOINTMENTS

● Production Factories
● Own Franchise Points

14 DAY
PRICE PROMISE

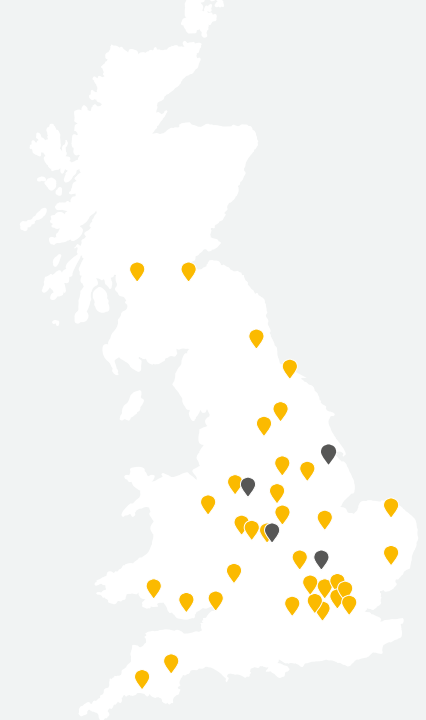


PRODUCTION
FACTORIES

3 CAR STORE AT
MORRISONS
LOCATIONS

32 **SELL MY CAR**
VALUATION POINTS

32 
OWN FRANCHISE



PRODUCING USED CARS



DAILY DELIVERIES

Every day transporters arrive at the refurbishment facility with fresh vehicles for the production teams to assess and recondition.

Our team assesses each car as it comes off the transporter. As we purchase every single vehicle from our customers through our part exchange and Sell My Car schemes (regardless of the vehicle's condition), at this stage the vehicles are evaluated to either proceed to the factory or be disposed of through our trade channels.

INVENTORY MANAGEMENT

As a piece of inventory, every vehicle is loaded into our system through our Pinewood mobile application Stock+ as the cars arrive on site at the factory. The detailed specifications and notes are available across all modules of our system, from vehicle management to accounts.

Vehicles that fit with our criteria for a sales opportunity proceed to our AA inspection area.

INDEPENDENT INSPECTORS

We have teams of inspectors from our partner, the AA.

Each vehicle is independently reviewed to AA specifications to achieve a pass. The testing includes 128-points checked and a road test. Some cars pass straight away and proceed to being prepared for advertising, others require some additional work to achieve our standards.

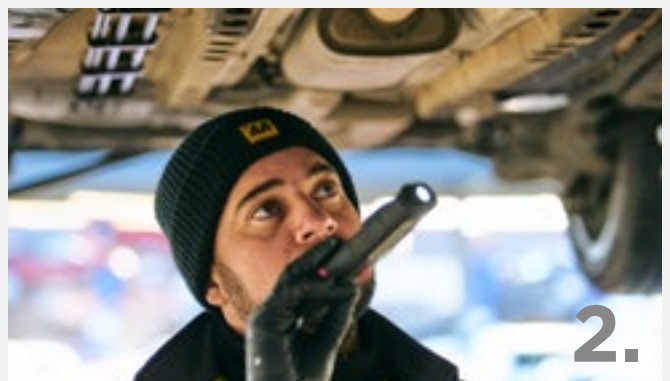
Recommended works are completed onsite by our trained specialist teams, covering all areas of mechanical repair. Each car requiring work is then retested by the AA inspectors.

With a pass sticker in the window and all documentation in our system, each car now includes a complimentary three month warranty and 12 months AA breakdown cover as standard.

HAVE YOU EVER WONDERED HOW A USED CAR BECOMES READY FOR SALE?

In many of our franchise locations across the UK we have on premises and on site reconditioning of used cars for their local forecourt. On site vehicle technicians balance the consumer demand of retail servicing alongside preparing used cars (such as part exchanged vehicles) for sale.

Here, we go behind the scenes in our Production Factories – we have created a new supply chain to prepare inventory for our Car Store retailers.



“Every Car Store vehicle for sale has an independent 128 AA inspection pass”



READY FOR SALE

Each car proceeds to valeting for internal and external preparation, including its Carstore.com sticker. Sales begin online and speed is critical to have cars advertised as quickly as possible.

ADVERTISED SAME DAY

Valeted and photo ready, each car proceeds to the photography booths at the refurbishment facility to be captured for adverts on our online marketplace. Images are uploaded through our Pinewood mobile application Stock+ and vehicles feed onto our website daily.

96 HOUR MOVES TO ANY LOCATION

Customers can self serve online and move the vehicle of their choice to any outlet in the Car Store network.

DAILY DROP OFFS

Every day transporters take vehicles ready for customers from the Production Factories to our fulfilment network.

Logistics is triggered directly by the customer through the self service capability on Carstore.com, requesting the car be transferred (to test drive, or having purchased the car online), or placed in the best market based on our stock replenishment and customer demand data.

EVERY CAR AVAILABLE TO DRIVE AWAY SAME DAY



LIFE AT PENDRAGON

We know it is our team members that make the biggest difference to our customers and our business. Our Find, Keep, Grow approach focuses on channelling our passion into programmes for our team members to flourish.

FIND

Our Find strategy focusses on how we attract new talent and pipeline talent for the future.

As an evolving retailer we have created new roles that appeal to a wider and more diverse labour pool, making a tangible difference to our diversity agenda.

We launched our new careers website and digital attraction strategy in 2018, in conjunction with the implementation of new recruitment systems and processes. Investing in technology enables us to build sustainable channels and is a real game changer for us and the candidate.

We were shortlisted for the Best Online Candidate Experience Award 2019, and won Best Use of Mobile in the OnRec Awards. These accolades reflect our commitment to attracting team members that reflect our customer base and aspirations for the future.



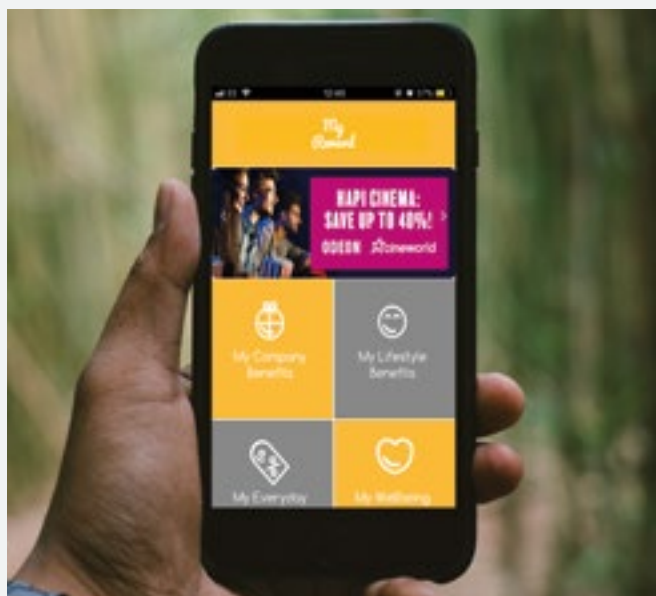
KEEP

We recognise that the nature of work is changing with demand for greater flexibility and personal development. From introducing more family-friendly working patterns, to new learning opportunities, we have launched a number of initiatives in 2018 in our mission to make our business irresistible to team members.

We have signed the Time to Change pledge in support of the mental health agenda. Launched in March 2018 our commitment includes trained Mental Health first aiders, learning programmes for leaders, and participation in a number of events. These have included Wellbeing Awareness Month, Mental Health Week and fundraising for the charity Mind. Our aim is to make mental health openness a part of our day-to-day working lives.

In August 2018 we relaunched our MyReward benefits mobile application. Every team member can access a range of exclusive company benefits, from retail discounts to offers, as well as find support and advice on wellbeing.

Responding to the changing nature of work, and the different types of roles we have in our Group, our Pinewood and Central Operations offices have been remodelled to introduce collaborative workspaces. These environments aim for innovation to thrive.



GROW

Our Pendragon Academy in the centre of the UK has been a hive of activity as we develop our team members. This facility provides a hub for our classroom based learning, and is supported by our extensive e-learning suite. From developing our team members skills with new processes and technology, to our talent programmes supporting apprentices and graduates at the start of their careers, we have a variety of ways to support our team members' personal development.

In 2018 we introduced a new talent programme, Releasing Your Potential, as well as creating opportunities for leaders to develop their capabilities through modular courses. Delivering today's needs whilst balancing future skills is a key focus for our Grow strategy.

Interactive, inspirational learning has also been a part of our activities to develop our team members. In 2018 we introduced our monthly Speakers' Corner. This is an opportunity for any team member in any team to hear from senior leaders on a variety of personal development topics, and pose questions. Team members can attend in person, or view these talks online.



*“Our people strategy is simple.
We find, we keep and we grow exceptional people.”*

16 YOUNGEST
YEARS OLD TEAM MEMBER

254 
APPRENTICES

6,683 TRAINING DAYS
COMPLETED


86 OLDEST
YEARS OLD TEAM MEMBER

182 

160,644
HOURS OF
E LEARNING
COMPLETED

9,880 
TEAM MEMBERS

TEAM MEMBERS ON
TALENT PROGRAMMES

 **27%**
FEMALE

 **73%**
MALE

 **40,099**
TRAINING HOURS
COMPLETED

LIFE AT PENDRAGON

“Our internal events aim for our team members to feel #ProudToBePendragon. We create experiences that motivate, recognise and inspire.”



As part of our Grow strategy and our aims for team members to strive for excellence, we have comprehensive programme of events for our team.

These range from conferences to share best practice and deliver important messaging consistently, to incentive travel to reward high performing team members setting the standard in their field.

To compliment our events programme we have also further embedded Office 365 and its suite of products into our day to day work and evolved our internal communications methodology to include more focus on video, and engaging, interactive communications methods.

1841 TEAM MEMBERS ATTENDED AN INTERNAL EVENT

878 TEAM MEMBERS JOINED INTERNAL COMMUNICATIONS CONFERENCES

55 TEAM MEMBERS TRAVELLED INTERNATIONALLY ON INCENTIVES 

963 TEAM MEMBERS ATTENDED RECOGNITION EVENTS 

CELEBRATING SUCCESS

It is essential that team members feel valued for their contributions to the success of our business. We encourage daily peer-to-peer recognition through initiatives such as our Extra Mile nomination scheme, which culminates in quarterly lunches with senior leaders to celebrate local moments. We also have annual incentive schemes which include prizes such as international trips for our highest performers.



Extra Mile Recognising your peers, highlighting moments in our day to day work and simply saying thank you goes a long way.



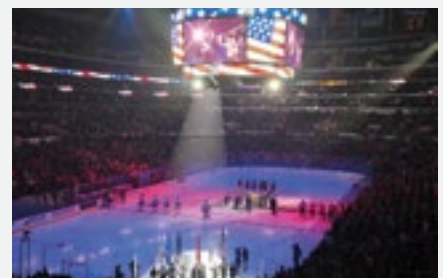
Team Building High performing teams that understand their part to play and emotionally investing in each other is key to our success.



Conferences Networking and sharing best practice, whilst recognising and celebrating achievements with stakeholders is an important part of our communications strategy.



Annual Awards Recognising those team members and teams that are setting the standard for excellence across our Group, telling their stories and celebrating our shared success.



International experiences Creating unforgettable memories for team members, and their support network, for those achieving a the highest level, and making these experiences aspirational goal for future attendees.



TALENT

We are focussed on making our business and our sector appeal to future generations, creating a pipeline of future team members to continue the success of our business.

We have introduced new roles, blended work and educational programmes, custom recruitment processes, and buddying and mentor schemes to support our diverse talent activities.

From apprenticeships in aftersales workshops to customer services, graduate and undergraduate schemes across Central Operations and our retailer network, our population of exciting new team members continues to grow and evolve our business.

We also work closely with our manufacturer partners to provide skills training and personal development at the highest level, as well as with local educational authorities to give our talent the very best support and recognition for their hard work and commitment.

COMMUNITY

As a prominent business in many communities across the UK, we encourage our teams to be close to their customers as a valued part of their local community.

We have a framework to support charitable activities through the year across all of our locations, and join many wider activities to fit with our diversity and inclusivity agendas, such as International Women's Day and Pride.

We also utilise our facilities to support communities. Events such as the high profile Power of Women event in London, the launch of a contemporary motivational and inspirational 10-week TV series, to regional business networking events.



CAR CAFÉ

In 2018 we expanded our community car event Car Café across the whole of the UK. We held 20 events from Glasgow to Cardiff over the summer months. Free to attend, we have hosted thousands of guests at our breakfast meets in locations ranging from retailer forecourts to airports. Both drivers and spectators of all ages come together to celebrate vehicles of all varieties. We are joined by team members, customers and local enthusiasts celebrating all things automotive.

INDUSTRY INSIGHT

NEW CAR VEHICLE REGISTRATIONS FOR YEAR ENDED 31 DECEMBER ('000)

	2018	2017	Change %
UK Retail Registrations	1,052.2	1,123.9	-6.4%
UK Fleet Registrations	1,314.9	1,416.8	-7.2%
UK New Registrations	2,367.1	2,540.7	-6.8%
Group Represented* UK Retail Registrations	700.6	746.4	-6.1%
Group Represented* UK Fleet Registrations	906.5	992.0	-8.6%
Group Represented* UK New Registrations	1,607.1	1,738.4	-7.5%

Source: new car vehicle registrations data from the 'Society of Motor Manufacturers and Traders'.

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

USED CAR MARKET

The used car market in 2018 in the UK was 7.61 million units, which was a fall of 2.2% over 2017. However, this represents a market opportunity that is 3.2 times the size of the new car market. Despite challenging economic conditions, the used market is more stable and provides a more reliable supply chain than the new vehicle sector. We believe the market will be broadly flat in 2019.

AFTERSALES MARKET

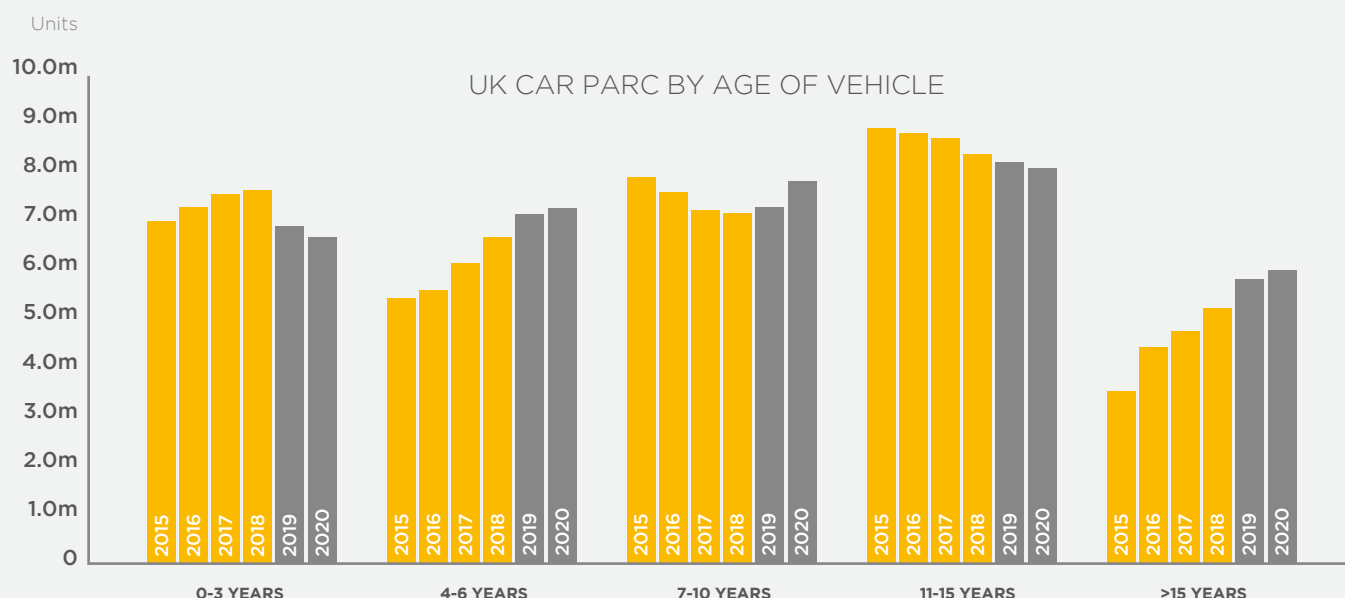
The main determinant of the aftersales market is the number of vehicles on the road, known as the 'car parc'. The car parc in the UK has risen to over 34.6 million vehicles in 2018, a rise of 0.9% on the prior year. The car parc can also be segmented into markets representing different age Groups. At the end

of 2018 around 21% of the car parc is represented by less than three year old cars, around 19% 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.

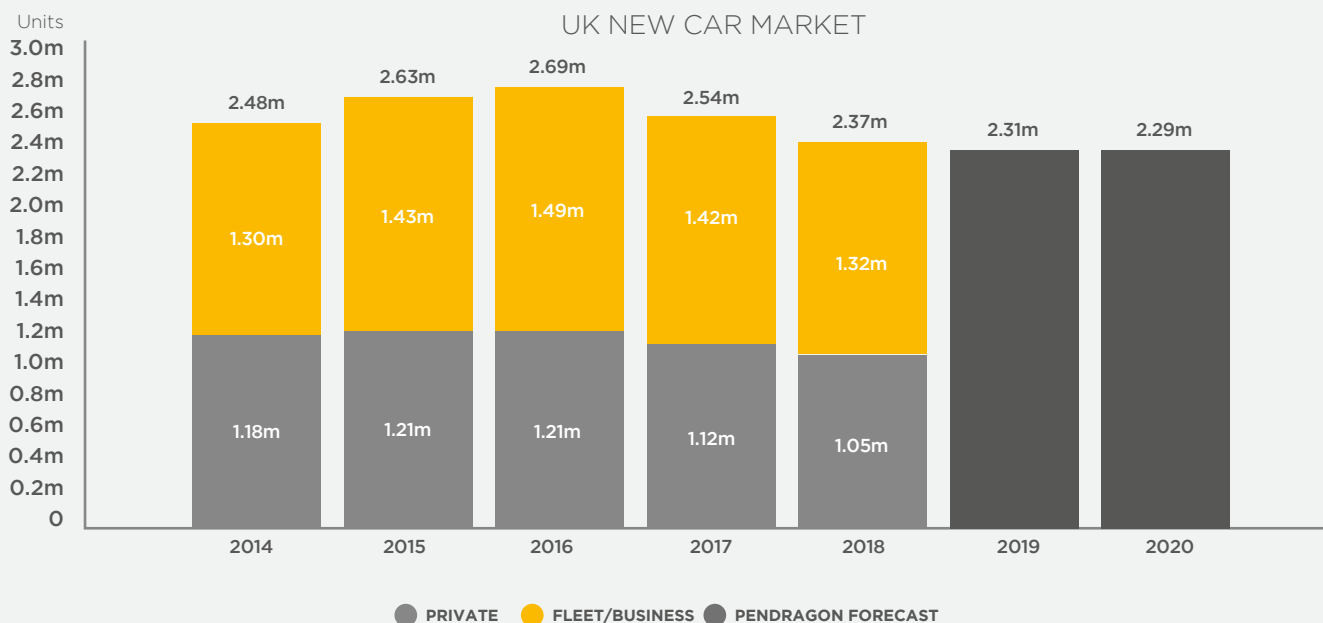
Overall, we expect at least for the next three years to see continuing growth in the car parc.

NEW CAR MARKET

The UK new car market was 2.367 million in 2018 which is a reduction of 6.8% over the prior year. The UK new car market is divided into two markets, retail and fleet. The retail market



Source: Callcredit (2014 to 2017) and Pendragon (2018 to 2019)

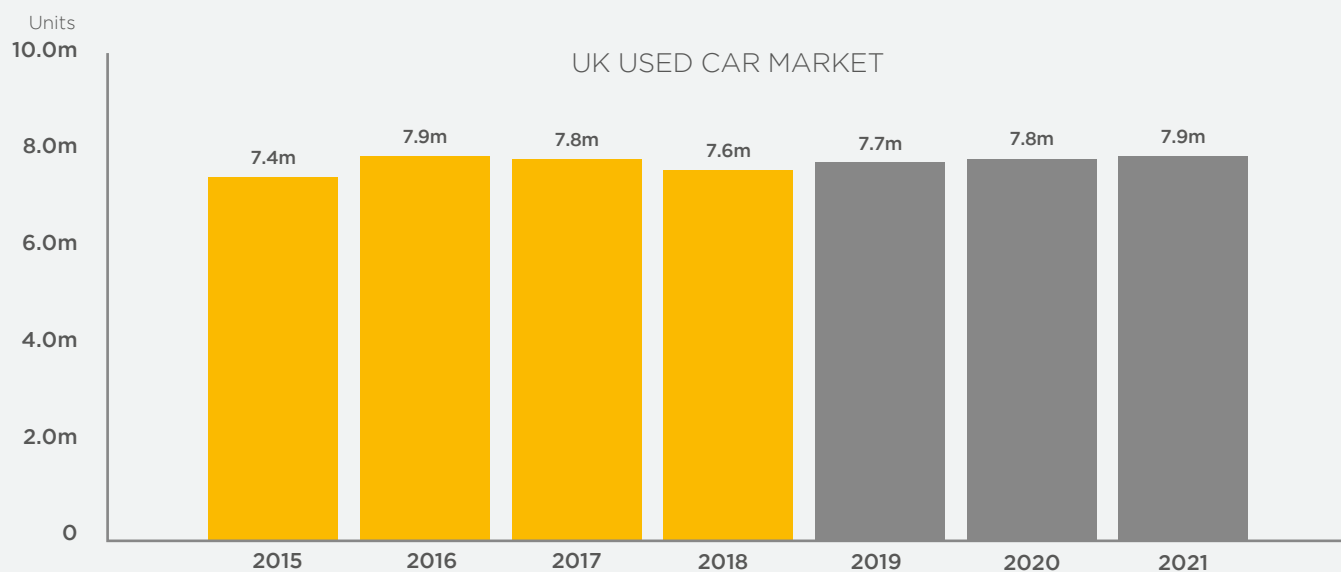


Source: SMMT (2013 to 2017) and Pendragon (2018 to 2019)

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 2018. 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 2018.

The new retail market was down by 6.4% in 2018, and the new fleet market fell by 7.2% in the year.

Our expectations are in line with the Society of Motor Manufacturers and Traders ("SMMT") which is currently forecasting that the overall 2019 market will be 2.3% lower than in 2018.



Source: Callcredit (2015 to 2017) and Pendragon (2018 to 2021)

OPERATIONAL AND FINANCIAL REVIEW

- 28 Business Review
- 32 Financial Review
- 34 Balance Sheet
- 35 Risk Overview



BUSINESS REVIEW

STRATEGY AND BUSINESS REVIEW

The business has four areas as follows:

- UK Motor – sale and servicing of vehicles in the U.K.
- Software – licencing of Software as a Service to automotive business users
- Leasing – provides a high Return on Investment stable profitability stream and used vehicle supply
- US Motor – sale and servicing of vehicles in the U.S.

(£m)				
Underlying	2018	2017	Change (%)	L4L Change (%)
REVENUE				
UK Motor	4,074.4	4,243.6	-4.0%	-2.8%
Software	16.9	15.8	+7.0%	+7.0%
Leasing	57.3	64.9	-11.7%	-11.7%
US Motor	478.4	414.8	+15.3%	+15.3%
Revenue	4,627.0	4,739.1	-2.4%	-1.3%
GROSS PROFIT				
UK Motor	456.7	471.0	-3.0%	-2.0%
Software	14.9	13.8	+8.0%	+8.0%
Leasing	18.8	13.9	+35.3%	+35.3%
US Motor	60.1	54.2	+10.9%	+10.9%
Gross Profit	550.5	552.9	-0.4%	+0.6%
OPERATING PROFIT				
UK Motor	41.1	52.3	-21.4%	-21.0%
Software	11.7	10.9	+7.3%	+7.3%
Leasing	14.8	9.8	+51.0%	+51.0%
US Motor	8.6	10.8	-20.4%	-20.4%
Operating Profit	76.2	83.8	-9.1%	-9.3%
Gross Margin (%)	11.9%	11.7%	+0.2%	+0.2%
Operating Margin (%)	1.6%	1.8%	-0.2%	-0.2%

UK MOTOR

Pendragon is the UK's leading automotive online retailer with 32 used car only Car Stores and 177 franchise points. We represent a range of volume and premium products that we sell and service.

Overall, our UK Motor business revenue has reduced by 4.0% in the year and by 2.8% on a like for like basis. Gross profit has reduced by 3.0% in the year and by 2.0% on a like for like basis.

The UK Motor Business has achieved an underlying operating profit of £41.1 million (2017: £52.3 million) in the period despite because of adverse trading conditions in the new car market and start up and transformation costs in our Car Store business. In contrast to the new car performance, used cars gross profit has grown, particularly in the second half of 2018. Given the impact of trading and market conditions on future cashflows, there has been a non-cash impairment of goodwill and non-current assets relating to the UK Motor Business as set out in the Financial Highlights section. We continue to see growth in our online business, with visits to Carstore.com, Evanshalshaw.com and Stratstone.com up 5.1% to 28.7 million visitors from 27.3 million visitors in the prior year.

During late 2018 we launched the new Carstore.com website which offers a uniquely differentiated customer proposition, including the ability for a customer to fully transact online, either for full payment or utilising one of our finance options. We are continuing to invest in further online capability and platforms to ensure we provide best in class service to our customers.

Our investment in Car Stores to expand our network in the UK continues. Following the opening of three purpose built Car Stores in the first half of the year, in the second half of the year we closed former new car franchise dealerships, to repurpose and open the sites as Nottingham Car Store, Stoke Car Store, Borehamwood Car Store and Swansea Car Store in the period.

In 2017 the Group achieved record used revenue growth of 15.8%. Against this extremely strong comparative, like for like revenue fell by 1.0% in the year. Excluding nearly new vehicles, used vehicle revenue grew by 2.9% against a used car market reduction in the year of 2.2%.

In order to facilitate future used revenue growth, in 2018 we opened four dedicated used car refurbishment factories to

industrialise this process. Whilst this process transformation during the year has impacted used revenue growth and profits, we are confident looking forward that this will aid growth, together with the new and repurposed former franchise sites providing additional capacity.

We have incurred transformation costs in the year comprising the disruption that occurred during the transition to a factory preparation process and the start-up costs of the Car Store businesses we have opened during the year.

Used gross profit increased by 4.7% on a like for like basis. This improvement was driven by exceptionally strong used margins in the second half of 2018, when like for like used profit was 27.6% higher than in the prior year compared with a reduction of 12.6% in the first half of the year.

This was primarily driven by improved used inventory management and more efficient used car preparation resulting in increased margin and significantly reduced numbers of loss-making used vehicles in the second half of the year. This has enabled us to reduce the level of the provision we have for loss-making used vehicles. Revenue in our Car Store business grew by £83.6m, an increase of 38.5%. Gross profit was up 42.2%. Including the impact of start-up and transformation costs the operating loss for the business was £11.9m (2017 : £6.9m).

Retail service revenue increased by 2.1% on a like for like basis

during 2018. Overall aftersales revenue fell by 2.3% 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 3.3% on a like for like basis with margin impacted by labour cost inflation for skilled technicians.

New car national registrations were down 6.8% in 2018 and we outperformed the UK market with our L4L new revenues down by 5.2%. Gross profit was down 8.3% following continuing margin pressure in the Premium sector. UK New vehicle sales and profitability were adversely affected in the second half of the year by the impact of the introduction of Worldwide Harmonised Light Vehicle Testing Procedure ("WLTP") which created disruption to new car sales.

We have settled historic VAT claims relating to the VAT treatment arising from purchases of vehicles from Motability. This has resulted in a provision release of £2.3m. During the year we sold four premium franchises for consideration of £7.9 million and avoided capital expenditure of £18.2 million as a result. The non-underlying profit on disposal was £0.6 million. In addition we have completed the disposal of two further premium franchise points in February 2019 for consideration of £3.7 million and avoided capital expenditure of £7.3 million as a result. We have also agreed lower refurbishment costs at certain other premium brand locations bringing the total capital released, comprising disposal proceeds and capital expenditure avoided, to £46.7 million since we started this strategic initiative.

UK MOTOR (£m)

Underlying	2018	2017	Change (%)	L4L Change (%)
REVENUE				
Used	2,092.4	2,125.5	-1.6%	-1.0%
Aftersales	337.4	350.6	-3.8%	-2.3%
New	1,644.6	1,767.5	-7.0%	-5.2%
Revenue	4,074.4	4,243.6	-4.0%	-2.8%
GROSS PROFIT				
Used	164.2	156.3	5.1%	4.7%
Aftersales	181.5	191.2	-5.1%	-3.3%
New	111.0	123.5	-10.1%	-8.3%
Gross Profit	456.7	471.0	-3.0%	-2.0%
Operating Costs	(415.6)	(418.7)	-0.7%	0.7%
Operating Profit	41.1	52.3	-21.4%	-21.0%
GROSS PROFIT MARGIN				
Used	7.8%	7.4%	0.4%	0.4%
Aftersales	53.8%	54.5%	-0.7%	-0.6%
New	6.7%	7.0%	-0.3%	-0.3%
Gross Margin (%)	11.2%	11.1%	0.1%	0.1%
Operating Margin (%)	1.0%	1.2%	-0.2%	-0.3%

BUSINESS REVIEW

SOFTWARE

The income stream from this business continues to grow 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, Norway, Sweden and Germany. In Africa, in South Africa, Namibia and Zimbabwe and in Asia Pacific, in Hong Kong, Thailand and the Philippines.

In 2018 we have implemented SaaS licences into international

customers with an addressable user base of over 1,600. (2017:729). We are receiving substantial interest from a number of markets, both from large dealer Groups and from car manufacturers.

Gross profit is up 8.0% and operating profit is up 7.3% in spite of investment in new market localisation to support the deployment of the system into new markets and new customers. Once this investment has been undertaken for a local market, the cost of further roll out to new customers is typically much lower.

SOFTWARE (£m)				
Underlying	2018	2017	Change (%)	L4L Change (%)
REVENUE				
Revenue	16.9	15.8	7.0%	7.0%
Gross Profit	14.9	13.8	8.0%	8.0%
Operating Costs	(3.2)	(2.9)	10.3%	10.3%
Operating Profit	11.7	10.9	7.3%	7.3%
Gross Profit	88.2%	87.3%	0.9%	0.9%
Operating Margin (%)	69.2%	69.0%	0.2%	0.2%

LEASING

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 return on investment.

The majority of vehicle disposals now pass through our Car Store factory preparation process and are sold to customers through our dealerships within the Group which has resulted in a higher level of profits on disposal of vehicles at the end

of contract. This in turn resulted in a release of provision of £2.8m in respect of vehicles that lose money on disposal. This was offset by a reduced level of profitability of £2.0 million compared to the prior year on the warranty management activities undertaken in this business.

Significant growth in the Leasing business was achieved in the year with operating profit up £5.0m (+51.0%). Gross profit increased by 35.3% as result of the continued growth of the managed vehicle fleet and higher levels of disposals in the period at a strong overall margin. 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.

LEASING (£m)				
Underlying	2018	2017	Change (%)	L4L Change (%)
REVENUE				
Revenue	57.3	64.9	-11.7%	-11.7%
Gross Profit	18.8	13.9	35.3%	35.3%
Operating Costs	(4.0)	(4.1)	-2.4%	-2.4%
Operating Profit	14.8	9.8	51.0%	51.0%
Gross Profit	32.8%	21.4%	11.4%	11.4%
Operating Margin (%)	25.8%	15.1%	10.7%	10.7%



US MOTOR

The business operates from nine 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, including goodwill received of £2.6m. Further disposals are well progressed.

There was a strong performance in aftersales with revenue up 16.8% and gross profit up 15.8% on a like for like basis. Used revenue in the period on a like for like basis was 14.2% ahead of the prior year, with gross profit up 12.5%. In the new vehicle department revenue increased by 15.5% in the period, with a 7.4% increase in gross profit on a like for like basis. Operating costs increased in the year by 18.7% primarily due to the full year of costs in 2018 for our Chevrolet business.

(£m)				
Underlying	2018	2017	Change (%)	L4L Change (%)
REVENUE				
Used	97.9	85.7	14.2%	14.2%
Aftersales	43.2	37.0	16.8%	16.8%
New	337.3	292.1	15.5%	15.5%
Revenue	478.4	414.8	15.3%	15.3%
GROSS PROFIT				
Used	5.4	4.8	12.5%	12.5%
Aftersales	22.7	19.6	15.8%	15.8%
New	32.0	29.8	7.4%	7.4%
Gross Profit	60.1	54.2	10.9%	10.9%
Operating Costs	(51.5)	(43.4)	18.7%	18.7%
Operating Profit	8.6	10.8	-20.4%	-20.4%
GROSS PROFIT MARGIN %				
Used	5.5%	5.6%	-0.1%	-0.1%
Aftersales	52.5%	53.0%	-0.5%	-0.5%
New	9.5%	10.2%	-0.7%	-0.7%
Gross Profit (%)	12.6%	13.1%	-0.5%	-0.5%
Operating Margin (%)	1.8%	2.6%	-0.8%	-0.8%

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

The Group has achieved an underlying profit before tax of £47.8 million in the period despite adverse trading conditions in the new car market and start up and transformation costs in our Car Store business. In contrast to the new car performance,

used cars gross profit has grown, particularly in the second half of 2018. Interest costs increased in the period, mainly due to higher levels of used car stock and consequently more utilisation of stocking credit facilities.

SUMMARY OF FINANCIALS

£m	2018			2017			Change %
	Continuing	Discontinued	Total	Continuing	Discontinued	Total	
Revenue	4,148.6	478.4	4,627.0	4,324.3	414.8	4,739.1	-2.4%
Gross profit	490.4	60.1	550.5	498.7	54.2	552.9	-0.4%
Operating (loss)/profit	(25.7)	11.3	(14.4)	80.6	10.8	91.4	
Analysed as:							
Underlying operating profit	67.6	8.6	76.2	73.0	10.8	83.8	-9.1%
Non-underlying operating (loss)/profit	(93.3)	2.7	(90.6)	7.6	-	7.6	
Finance expense	(27.5)	(2.5)	(30.0)	(24.5)	(1.6)	(26.1)	+14.9%
Analysed as:							
Underlying net finance costs	(25.9)	(2.5)	(28.4)	(21.8)	(1.6)	(23.4)	+21.4%
Non-underlying net finance costs	(1.6)	-	(1.6)	(2.7)	-	(2.7)	-40.7%
(Loss)/profit before taxation	(53.2)	8.8	(44.4)	56.1	9.2	65.3	
Analysed as:							
Underlying profit before taxation	41.7	6.1	47.8	51.2	9.2	60.4	-20.9%
Non-underlying (loss)/profit before taxation	(94.9)	2.7	(92.2)	4.9	-	4.9	
Income tax (expense)	(3.8)	(2.3)	(6.1)	(8.7)	(3.3)	(12.0)	-49.2%
(Loss)/profit for the year	(57.0)	6.5	(50.5)	47.4	5.9	53.3	
Underlying Earnings per share	2.5p	0.3p	2.8p	2.9p	0.4p	3.3p	-15.2%
Dividend per share			1.50p			1.55p	-3.2%
Gross Margin (%)	11.8%	12.6%	11.9%	11.5%	13.1%	11.7%	+0.2%
Operating Margin (%)	-0.6%	2.4%	(0.3%)	1.9%	2.6%	1.9%	-2.2%

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. During the year the Group has recognised a net charge of £92.2 million of pre-tax non-underlying items against a credit of £4.9 million in 2017. These include non-cash impairments, principally of goodwill and non-current assets amounting to £95.8 million which have been necessary following assessments of the carrying value of those assets which have been calculated by taking into account trading and

market conditions on future cash flows. Pension costs of £12.1 million comprise interest and for 2018 a £10.5 million charge to re-align the pension liabilities to reflect the guaranteed minimum pensions for all pension members. The Group recorded gains on the sale of properties and businesses in 2018 of £15.7 million against a loss in 2017 of £0.1m. This included £12.4 million on the sale of surplus property during the year and gains of £3.3 million on the disposal of businesses. During the previous year the Group benefited from a £7.7 million credit in respect of VAT reclaims and associated interest following a Supreme Court ruling.

£m	2018	2017
Settlement of historic VAT issues	-	7.7
Impairment of goodwill, property, plant and equipment and assets held for sale	(95.8)	-
Gains/(losses) on the sale of businesses and property	15.7	(0.1)
Pension costs	(12.1)	(2.7)
Total non-underlying items before tax	(92.2)	4.9
Non-underlying items in tax	3.0	0.8
Total non-underlying items after tax	(89.2)	5.7



CAPITAL ALLOCATION

The net debt to underlying EBITDA ratio was 0.9. 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 and further disposals are well progressed.

We planned to release £100 million of capital from our Premium franchise locations over a three year period. During the first year of this process we have completed six such disposals and agreed lower capital expenditure levels which has resulted in a total release of £46.7 million of capital comprising consideration and capital expenditure avoided. This included four franchise location disposals during 2018 and two in February 2019.

The Group intends to build a national network in the UK for the Car Store Used Vehicle business. As this model matures, the Board is continuing to evaluate the relative merits of freehold property ownership against the lower capital requirements of operating leasehold premises as we continue to grow our physical footprint.

The company has ongoing capital expenditure requirements, and will continue to pursue organic and acquisitive growth and investment opportunities.

SHARES REPURCHASED AND BUYBACK

During the year the Group repurchased £6.7 million of its own shares, as part of a £20.0 million share buyback programme. The Group has repurchased £18.2 million of its own shares since the launch of the programme with 61.1 million shares cancelled.

At this stage in the Group's growth and investment cycle, the buyback has been paused in February 2019.

The buyback programme is capable of being stopped and restarted. This flexibility enables the Group to pursue optimal capital allocation.

PENSIONS

The net liability for defined benefit pension scheme obligations has increased from £62.8 million at 31 December 2017 to £68.3 million at 31 December 2018. This increase in obligations of £5.5 million is largely the net effect of the expense recognised to equalise guaranteed minimum pensions less contributions paid; movements in the respective assets and liabilities of the Pension Scheme largely offset each other, reflecting the hedging in place and an improvement in mortality assumptions. The Group contributed £7.5 million to the Pension Scheme in the year following the Group commitment to pay contributions of £7.0 million from 1 January 2017, increasing by 2.25% thereafter until July 2022.

FINANCIAL REVIEW

BALANCE SHEET AND CASH FLOW

The following table summarises the cash flows and net debt of the Group for the twelve month periods ended 31 December 2018 and 31 December 2017 as follows:

SUMMARY CASHFLOW AND NET DEBT (£m)

	2018	2017
Underlying Operating Profit Before Other Income	76.2	83.8
Depreciation and Amortisation	27.4	28.5
Share Based Payments	0.7	(1.7)
Working Capital and Contract Hire Vehicle Movements*	(16.2)	18.3
Operating Cash Flow	88.1	128.9
Tax Paid	(10.9)	(16.1)
Underlying Net Interest Paid	(24.8)	(20.0)
Capital Expenditure – Car Store	(6.8)	(17.5)
Capital Expenditure – Franchise	(12.6)	(25.5)
Capital Expenditure – Underlying Replacement	(30.6)	(13.8)
Capital Expenditure – Business Acquisitions	-	(17.8)
Capital Expenditure – Property	(6.5)	(24.6)
Business and Property Disposals	30.2	2.5
Net Franchise Capital Expenditure	(26.3)	(96.7)
Dividends	(22.5)	(21.3)
Share Buybacks	(6.7)	(4.0)
Other	(0.4)	(3.2)
Increase In Net Debt	(3.5)	(32.4)
Opening Net Debt	124.1	91.7
Closing Net Debt	127.6	124.1

*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 31 December 2018, the Group had £240.5 million of land and property assets (2017 : £261.2 million) and property assets for sale of £35.4 million (2017 : £9.6 million).

DIVIDEND

The Group is proposing a final dividend of 0.70p per share in respect of 2018, bringing the full year dividend to 1.50p per share. We intend to maintain dividend cover (defined as underlying earnings per share divided by dividend per share) at a minimum level of two times, with a progressive dividend approach in the future, subject to the minimum dividend cover being a minimum of approximately two times.

The proposed final dividend will be paid on 30 May 2019 for those shares recorded on 23 April 2019.

OUTLOOK

- Economic and market conditions remain relatively subdued

and the expected UK exit from the EU has resulted in a continuing level of uncertainty in terms of consumer confidence, manufacturer behaviour in respect of new car supply and the possible impact of tariffs and currency movements.

- 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 broadly double digit revenue growth for the foreseeable future as we invest in product localisation for international markets.
- We anticipate the sale of our US business to realise in excess of £100 million before tax.
- Further capital will be released through a mixture of disposal proceeds and investment not deployed in respect of our premium franchise businesses in the UK.

Given the economic and market conditions, we expect our performance in 2019 to be broadly stable against 2018, underpinned by our used car profitability.

RISK OVERVIEW & MANAGEMENT

PRINCIPAL RISKS

Recognising that all businesses entail elements of risk, 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 table on pages 36 to 39 is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. The specified risks are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined below should be considered in conjunction with the Group's system for managing risk, described below and in the Corporate Governance Report on page 44.

RISK MANAGEMENT AND INTERNAL CONTROLS

Accountability

The Board is responsible for risk management and internal control within the context of achieving the Group's objectives. The system of control the Board has established covers both the Group's financial reporting and the mitigation of business and operational risks. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Financial Reporting

The Executive Directors oversee the preparation of the Group's annual corporate plan; the Board reviews and approves it and monitors actual performance against it on a monthly basis.

Where appropriate, during the year, revised forecasts are prepared and presented for Board review and approval.

To ensure that information to be consolidated into the Group's financial statements is in compliance with relevant accounting policies, internal reporting data is comprehensively reviewed. Reviews of the appropriateness of Group accounting policies take place at least twice a year, under the scrutiny of the Audit Committee, which considers reports on this from the Group's Auditor, the application of IFRS and the reliability of the Group's system of control of financial information.

No material changes have occurred in 2018 which have or are likely to have a material effect on the Group's internal controls over financial reporting. Controls are designed to ensure that the Group's financial reporting presents a true and fair reflection of the Group's financial position. The Board has concluded that, as at 31 December 2018, the Group's systems of control over financial reporting were effective.

Operational and Other Risks

Operational management is charged by the Board with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis and is supported by the Risk Control Group (RCG), a Committee formed of two Executive Directors, the Company Secretary and Group Heads of Information Technology and Internal Audit. The approach to risk control and the work of the RCG are described on pages 45 and 46.



RISK OVERVIEW & MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
STRATEGY AND BUSINESS RELATIONSHIPS			
1	<p>Our Strategy: Failure to adopt the right strategy or, Failure of our adopted strategy to deliver the desired outcomes or, Failure to implement our strategy effectively or, Our ability to deliver our strategy is impacted by the UK's decision to leave the EU</p>	<p>We miss our profit growth and/or debt management target, alienate key stakeholders and are unable to invest adequately in our business</p> <p>We receive complaints or poor customer satisfaction scores which damage our reputation and 'customer service' ethos</p>	<ul style="list-style-type: none"> • Our strategy is informed by significant research and market data • We communicate effectively our adopted strategy to our stakeholders • We invest appropriately in the technological, physical and human resources to deliver our strategy, closely monitor performance against our objectives, and adjust our actions to meet our strategic goals • Our sophisticated management information identifies threats to the success of our strategy both during the planning and implementation phases, and informs mitigating actions, both directionally and operationally • We ensure that we monitor our manufacturer and third party customer service measures and take action in the event of low scores • We focus strongly on efficient use of working capital through embedded disciplines, especially in relation to vehicle inventory • We review capital expenditure plans to ensure our ROI objectives are achievable • Our mitigation steps in respect of Brexit are set out in risk 4
2	<p>Our Manufacturer Relationships: Dependence on vehicle manufacturers for the success of our business</p>	<p>Failure of, or weaknesses in, our vehicle manufacturers' financial condition, reputation, marketing, production and distribution capabilities, including the potential for supply disruption caused by the UK's decision to leave the EU and lack of alignment with manufacturers' remuneration systems for dealers impairs our investments and prevents us achieving our profit goals</p> <p>Failure to maintain good relations with our franchisors either through day-to-day activities or our strategic decisions impairs our ability to generate good quality earnings</p> <p>The Manufacturers change the business model towards direct sales to customers</p>	<ul style="list-style-type: none"> • Our diverse franchise representation avoids over reliance on any single manufacturer • Our close contact with our vehicle manufacturers seeks to ensure our respective goals and strategic decisions are communicated, understood and aligned, to deliver mutually acceptable performance • Our appropriately targeted investment in franchise assets and our performance maintains our reputation as a quality representative for our brand manufacturers • Our investment in marketing initiatives and our online presence supplement and enhance our market presence and offering over and above manufacturers' marketing efforts • Our diverse franchise representation ensures new vehicle inventory is sourced from a wide variety of countries • Our strategy to develop and maintain revenues from used vehicles, aftersales, and our software and leasing segments reduces our overall reliance on new vehicle franchises

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
3	Our Competitors: Failure to meet competitive challenges to our business model or sector	<p>Customers migrate to alternative providers</p> <p>Intermediary companies establish a barrier between us and our customers</p> <p>Revenues and profits fall owing to competitor action</p>	<ul style="list-style-type: none"> • Our detailed market and sector monitoring systems assist early identification and effective response to any competitive or intermediary threats • Our scale, expertise and technological capabilities enable rapid and flexible response to market opportunities • Our well-developed customer relationship management capabilities and online customer offer of fulfilment tools aim to drive industry-leading service and attract customer loyalty • We continually seek to develop new methods of customer interaction, particularly online. This enables the business to anticipate changing customer needs

THE UK'S DECISION TO LEAVE THE EUROPEAN UNION ("BREXIT")

4	Failure to prepare for the UK's departure from the EU	<p>Changes in regulation as a result of Brexit</p> <p>Consumer confidence and economic activity falls</p> <p>New vehicle prices rise as a result of exchange rate changes</p> <p>Fewer purchasers of vehicles</p> <p>Lower demand for vehicle servicing</p> <p>Availability and cost base of appropriate team member resource to run our business effectively</p>	<ul style="list-style-type: none"> • We maintain the right level of legal expertise to interpret, assess and respond to proposed changes in regulation, enabling us to adapt to our model and processes to comply with changes in a seamless manner • We constantly monitor used vehicle market trends and adjust our inventory, pricing and procurement accordingly. • Our diverse franchise representation ensures new vehicle inventory is sourced from a wide variety of countries • Our strategy to develop and maintain revenues from used vehicles, aftersales and our software and legal segments reduces our overall reliance on new vehicle franchises • We constantly monitor and evaluate alternative recruitment, training and apprenticeship methods to fulfil our employment needs
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ENVIRONMENTAL

5	<p>Progression towards greener technologies, autonomous driving, and/or pay-per-use, rather than owning a vehicle</p> <p>UK taxes change to penalise road use, fuel type, vehicle use and to increase VAT</p>	<p>Customers choose greener vehicles we cannot supply</p> <p>Overall vehicle parc reduces Vehicle purchase and use declines, adversely affecting revenue opportunities</p> <p>Lower demand for diesel vehicles and potential impact on diesel vehicle residual values</p> <p>Government policy and consumer sentiment in respect of diesel vehicles impacts the sale of diesel vehicles</p>	<ul style="list-style-type: none"> • We represent vehicle brands which are responding effectively to the greener technology agenda • We identify trends in demand through our sophisticated management information and analysis tools and tailor our model accordingly • We monitor diesel sales to maintain an appropriate inventory profile • Our breadth of relationships with asset finance companies and geographic footprint help us to provide innovative mobility solutions for private and business vehicle users, whatever their needs • We maintain the right level of tax expertise to interpret and assess proposed changes, respond with well-informed advice and effectively assist our strategic planning and the design and implementation of appropriate mitigating actions
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RISK OVERVIEW & MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
LEGAL AND REGULATORY			
6	<p>Significant litigation</p> <p>Regulator action against or otherwise impacting the Group</p> <p>Changes in regulations impacting the Group, eg trade tariffs</p>	<p>Resources are diverted to taking proceedings or defending legal or regulatory action, at the expense of business efficiency and profit</p> <p>Reputation is damaged by regulatory censure or punitive action</p> <p>Fines and penalties reduce profits</p> <p>The ability to obtain appropriate inventory is impeded and/or purchase costs rise</p> <p>Disruption to the regulatory environment as a result of the UK's decision to leave the EU</p>	<ul style="list-style-type: none"> • We maintain the right level of legal expertise to interpret, assess and respond to proposed changes in regulation, enabling us to adapt our model and processes to comply with changes in a seamless manner • Our culture focuses strongly on good compliance delivering good performance • Our team of compliance specialists design, and we communicate effectively, processes that support our businesses to minimise the risk of non-compliance • In the case of new vehicles, our diverse representation mitigates the risk and for parts we maintain alternative sources of supply where possible
TECHNOLOGY, INFORMATION SYSTEMS AND ESTIMATES			
7	<p>Failure of systems</p> <p>Cyber security</p> <p>Data loss, including non compliance with GDPR</p>	<p>Data loss interrupts business, incurs cost of recreating records, causes loss of or impairment to financial and operational control and loss of business opportunities and potentially results in regulator action and possible fines and penalties</p> <p>Website interruptions and other potential consequences of system failure or cyber attack</p> <p>Customer confidence is impaired</p>	<ul style="list-style-type: none"> • We adopt and regularly update robust business continuity measures, including within our dealer management systems • Our geographic diversity allows prompt deployment of key functions to alternative locations • Our Pinewood business monitors cyber security threats and has systems and processes in place to deal with incidents • We have cyber liability insurance in place • We regularly review our data protection policies, controls, team member training and the use of third party systems
8	<p>Reliance on the use of significant estimates which prove to be incorrect</p>	<p>Group's financial statements will be wrong, affecting vehicle values where we have committed to purchase at a pre-set price, and the discounted cashflows used to test impairment of goodwill, expected profit or loss on sale of our inventory items and the retirement benefit obligation</p> <p>Reputational damage and inability to raise funding for the Group's business</p> <p>Revenue and profits all suffer damage</p>	<ul style="list-style-type: none"> • We assess actual outturns of previous estimates to test the robustness of adopted assumptions, and adjust the estimating approach accordingly • We support estimates with reliable external research where available

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
MACRO-ECONOMIC, POLITICAL AND ENVIRONMENTAL			
9	<p>European economic instability and/or UK or USA economic and business conditions deteriorate</p> <p>UK Governmental spending constraints</p>	<p>Fewer purchasers of vehicles</p> <p>Vehicle manufacturers oversupply into UK market or alterations to supply terms, damages margins and vehicle values</p> <p>Lower demand for vehicle servicing</p>	<ul style="list-style-type: none"> • Our business model derives revenues from every stage of the vehicle's life-cycle and has expanded into the older vehicle parc for both vehicle sales and aftersales • We carefully control new vehicle inventory to mitigate effects of overstocking • We invest in and vigorously pursue customer retention initiatives to secure longer term loyalty
FINANCE & TREASURY			
10	<p>Availability of debt funding</p> <p>Pension liabilities</p>	<p>Unable to meet debt obligations</p> <p>Unsustainable demand of funding occupational pensions schemes</p>	<ul style="list-style-type: none"> • Our business model produces strong free cash flow generation • We maintain adequate committed facilities to meet forecast debt funding requirements • Diversification of funding sources, monitor daily our funding requirements • Regular review by our pension trustees of investment strategy and liability reduction and risk mitigation, taking professional advice
TEAM MEMBERS AND THE ENVIRONMENT WE WORK IN			
11	<p>Failure to attract, develop, motivate and retain good quality team members and leaders</p> <p>Failure to provide safe working and retail environments</p> <p>Failure to control environmental hazards</p>	<p>Poor decision making and inability to deliver our strategy and meet our business objectives</p> <p>Lack of innovation in our business</p> <p>Loss of custom owing to poor quality customer experience delivered by demotivated or untrained team members</p> <p>Illness and injury, lost working time and civil claims</p> <p>Reputational damage and clean-up costs, leading to loss of custom and revenues</p> <p>Regulatory censure, suspension of business, convictions and fines; reputational damage, leading to loss of custom and revenues</p> <p>Availability of appropriate team member resource as a result of Brexit as noted in risk 4 above</p>	<ul style="list-style-type: none"> • We invest in online means of attraction and recruitment, targeting the right quality candidates • We set clear competencies and career goals to prevent mishires • We continually review and adapt for the market conditions our employment terms, salaries and performance related pay elements at all levels • We adopt and renew responsive succession plans for all key roles • We leverage our scale to afford training opportunities and progression within the Group • We work to the Health & Safety Executive's 'Plan, Do, Check, Act' framework for managing risk in the workplace and our retail spaces • We allocate clear responsibilities for delivery of safe places to work and shop • We adopt process-driven initiatives to mitigate specific risk areas • We measure and review our performance against appropriate benchmarks • We allocate local accountability for sites' compliance and provide specialist support to responsible leaders • We monitor site conditions and drive corrective action through audit follow-up

VIABILITY STATEMENT

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014 (the 'Code'), the Directors have assessed the viability of the company over the three year period to 31 December 2021.

The Directors believe this period to be appropriate as:

- i) The Group's detailed plan encompasses this period.
- ii) We typically, at inception, look to attain a revolving credit facility for at least four years.

The three year review considers the Group's profit and loss, cash flows, debt and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing several of the main assumptions underlying the forecast. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring. The three year review also makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required. Based on the results of this analysis, the Directors have a reasonable expectation that the company will be able to continue in operation, comply with facility covenants and meet its liabilities as they fall due over the three year period of their assessment.

In addition, further discussion of the principal risks and material uncertainties affecting Pendragon PLC can be found within the Annual Report and Accounts on pages 36 to 39. The risk disclosures section of the consolidated financial statements set out the principal risks the Group is exposed to, including strategic, operational, economic, market, environmental, credit, technological, regulatory and team member resource, including the impact of Brexit together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers risks during the year on triannual basis through the Risk Control Group and annually at a Board meeting with ad hoc reporting as required.

The principal risks and the mitigation steps that the Board considered as part of this viability statement were as follows:

- The ability to adopt and implement an appropriate strategy, including our goal to double used vehicle revenue over five years to 2021 with investment in capacity in the UK and the implementation of the disposals we announced in 2017. This is mitigated by our management information and market data, appropriate investment, monitoring of our performance and focus on financial discipline.
- The availability of debt funding, in particular, the successful refinancing of the RCF, when it expires in 2021.

- The ability to adapt to changing environments outside our direct control such as macro-economic, political and environmental factors, regulation changes, manufacturer and competitor behaviour. The Board has specifically reviewed the potential impacts and available mitigating actions as a result of Brexit. In particular the Board reviewed the causes and consequences of the reduction in profitability year on year in assessing the risks. We mitigate these risks through the diverse revenue generation from all parts of the vehicle cycle and wide range of franchise representation together with regular monitoring to identify changes quickly.

During 2018, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2021.



DIRECTORS REPORT

- 42 Board of Directors
- 44 Corporate Governance Report
- 48 Corporate Social Responsibility Report
- 50 Committee Reports
- 56 Directors' Remuneration Report
- 69 Directors' Report



BOARD OF DIRECTORS

CHRIS CHAMBERS

Non-executive Chairman
(N*) (R)

Chris joined Pendragon on 28 January 2013 and became Chairman on 23 October 2017. He is a banker with particular expertise in retail and property, and is Chairman of Leonteq, Lonrho and a member of the supervisory board of Berenberg Bank.

RICHARD LAXER

Non-Executive Director
(A*) (N) (R) (SID)

Richard joined Pendragon on 12 November 2018. Formerly the Chairman and CEO of GE Capital, he has extensive board experience, being a former Non-Executive Director serving on the Boards of several European based banks.

GILLIAN KENT

Non-Executive Director
(A) (N) (R)

Gillian joined Pendragon on 23 May 2013. Formerly Managing Director of MSN, UK, Microsoft and holds a number of Non-Executive roles including Ascential plc, Mothercare and NAHL plc as well as working with high growth technology start-ups.

MIKE WRIGHT

Non-Executive Director
(A) (N) (R*)

Mike joined Pendragon on 2 May 2018, following an executive career in the international automotive sector, including senior roles at Jaguar Land Rover, Ford and BMW. In addition to his extensive executive experience, he is involved with a number of government related initiatives, as well as activities spanning education, sport and the arts.

MARTIN CASHA

Chief Operating Officer

Having spent his entire career with Pendragon businesses, from apprentice mechanic to Group General Manager, Martin became Operations Director in September 1995 and Chief Operating Officer in November 2001.

Key to memberships and roles

* Committee Chairman

(A) Audit Committee

(N) Nomination Committee

(R) Remuneration Committee

(F) Audit Committee member with recent and relevant financial experience

(SID) Senior Independent Director

More detailed professional biographies of the Directors are on the company's website www.pendragonplc.com

TREVOR FINN

Chief Executive

Having spent a career in the retail motor industry, starting as an apprentice mechanic, Trevor became Chief Executive of Pendragon in 1989, when the company first listed on the London Stock Exchange. Trevor retires from the role of Chief Executive of Pendragon PLC on 31 March 2019.

MARK HERBERTChief Executive
Designate

Mark joined Pendragon on 4 March 2019 as Chief Executive Officer Designate. He will assume the role of Chief Executive Officer on 1 April 2019. Mark brings the experience of a 20 year executive career with Jardine Matheson Group, including positions as a Group Finance Director and a Chief Executive Officer.

TIM HOLDEN

Finance Director

Tim is a chartered accountant and joined Pendragon from KPMG in June 2008, as Group financial controller. He became Finance Director in December 2009. Tim steps down from the company on 31 March 2019.

MARK WILLIS

Chief Finance Officer

Mark will join Pendragon on 8 April 2019 as Chief Finance Officer. Mark joins Pendragon from Ten Entertainment Group PLC where he has been its Chief Finance Officer since taking it through its IPO in April 2017.

Company Secretary

Richard Maloney

Registered Office

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2 Oakwood Court
Little Oak Drive
Annesley
Nottingham NG15 ODR
Telephone 01623 725200

Registered in England and Wales

Group motor businesses websites

www.evanshalshaw.com
www.stratstone.com
www.carstore.com
www.hornburg.com

Group Support business websites

www.pinewood.co.uk
www.pendragonvehiclemanagement.co.uk
www.quickco.co.uk

Registered number 2304195

CORPORATE GOVERNANCE REPORT

The UK Corporate Governance Code (Code) applies to the company and is available on the FRC website at <https://www.frc.org.uk>. Other than where expressly stated, throughout 2018, the company complied in full with the applicable provisions of the Code. The corporate governance statement as required by Disclosure and Transparency Rule 7.2.1 is set out below.

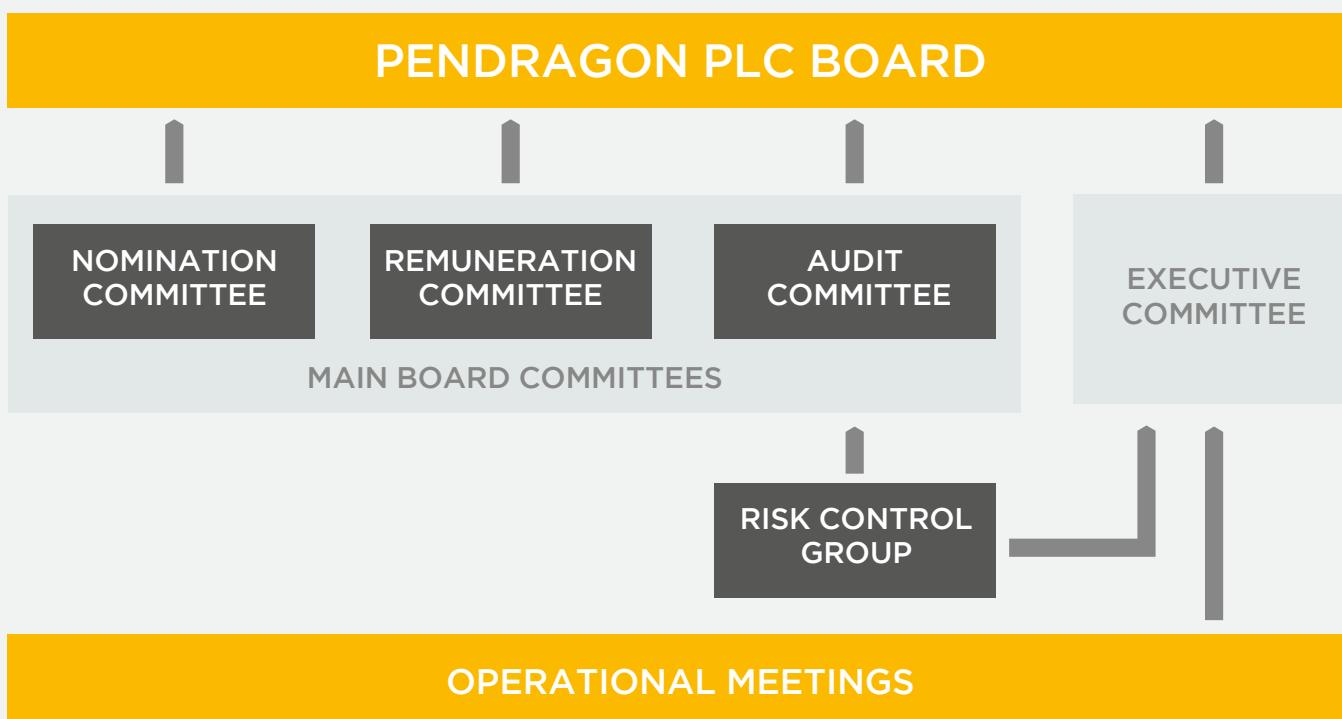
OUR BOARD

The Board sets our company's strategy and ensures we have in place the financial and human resources we need to meet our objectives. We take collective responsibility for Pendragon's long term success. The Executive Directors, led by the Chief Executive, are responsible for running the company and our Group to effect that strategy, and work within prescribed delegated authority, such as capital expenditure limits. The Executives direct and monitor business performance through regular operational meetings with their respective leadership teams and set and regularly review the effectiveness of key operating controls, reporting to the Board on these and any variances. The Board as a whole reviews management performance. Although the Board delegates to the Chief Executive and Finance Director responsibility for briefing key stakeholders, major shareholders and the investor community, the Chairman holds himself available to engage with shareholders, and the Senior Independent Director is ready to perform a similar role, where appropriate. Information from engagement with all stakeholders is shared with the entire Board and taken into account in financial planning and strategy. The Board has three Committees: Audit, Nomination

and Remuneration, each made up entirely of Non-Executive Directors. The Risk Control Group (RCG) is a Committee of the Executive Directors, the Company Secretary and Group Heads of Information Technology and Internal Audit. Each Committee operates within delegated authority and terms of reference, set by the Board, reviewed annually and available to view on the company's website. Details of each Committee's work appear on the next few pages of this Report. Executive Directors can attend Board Committees at times, to assist their business, but only with the Committee's prior agreement.

LEADERSHIP AND BOARD COMPOSITION

As at 12 March 2019, the Board is made up of three Executive Directors and four Non-Executive Directors, one of whom is Chairman. The respective responsibilities of the Board, the Chairman and the Chief Executive are clearly defined by the Board in formal responsibilities documents, which the Board reviewed and readopted in 2018. The Board is committed to the progressive refreshing of our membership, so as to maintain the right balance of skills, experience, independence and knowledge of the company to enable us to continue operating effectively. In March 2018, Mike Wright joined the Board as an additional Non-Executive Director and assumed the Chair of the Remuneration Committee. In November 2018, Jeremy King stepped down as a Non-Executive Director, Senior Independent Director and chair of the Audit Committee and Richard Laxer joined the Board as a Non-Executive Director and Senior Independent Director, and assumed chair of the Audit Committee. The Board is actively seeking to





recruit an additional Non-Executive Director. In October 2018, the company announced that Tim Holden would be standing down as Finance Director on 31 March 2019. Mark Willis joins Pendragon on 8 April 2019 as Chief Finance Officer. On 18 February 2019, the company announced that Mark Herbert joined the company as Chief Executive Officer designate, and will assume the role of Chief Executive Officer and join the Board on 1 April 2019. As announced on 14 December 2018, Trevor Finn will retire from the role of Chief Executive of Pendragon PLC on 31 March 2019. Trevor will hand over his Chief Executive Officer responsibilities to Mark Herbert and will remain available to support an orderly transition until his leaving. Other than the changes described above, no other changes to Board membership occurred to the date of publication of this report. In accordance with the UK Corporate Governance Code, all Directors will be subject to annual re-election (or election in the case of newly joined Directors) at the Annual General Meeting of the company. Details of the Directors offering themselves for election in 2019, together with Directors' brief biographical details appear on page 42, and gender balance details are on page 48.

HOW THE BOARD MANAGES RISK

The Board and our Committees each operate to a set meeting agenda which ensures that all relevant risks are identified and addressed by appropriate controls. We review management information which helps us to prescribe operating controls and monitor performance against our strategy and business plans. The Non-Executive Directors have particular responsibility for monitoring financial and performance reporting, to ensure that progress is being made towards our agreed goals. The Board's responsibilities also include assessing the effectiveness of internal controls and the management of risk. Specific areas of

risk assessment and control fall within the remit of Committees of the Board; details of their work in 2018 appear below.

THE BOARD'S REVIEW OF RISKS AND CONTROLS IN 2018

During the year, the Board considered all strategic matters, received key performance information on operating, financial and compliance matters and reviewed the results of corresponding controls and risk management. We received from the Audit Committee and from the RCG timely information and reports on all relevant aspects of risk and corresponding controls. We reviewed all our key company policies and ensured all matters of internal control received adequate Board scrutiny and debate. At Board meetings, and informally via the Chairman, all Directors had the opportunity to raise matters of particular concern to them. There were no unresolved concerns in 2018. We concluded that all appropriate controls are in place and functioning effectively.

The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to its business and the proper assessment and mitigation of those risks. Based on the Audit Committee's and the RCG's work, the Board has performed a high level risk assessment, to ensure that (i) the principal risks and uncertainties facing the Group's business have been identified and assessed, taking into account any adaptations made to the Group's business strategies, and (ii) that appropriate mitigation is in place. Our company policies on managing financial risk and application of hedging are set out in note 4.2 to the financial statements. The principal risks and uncertainties we have identified are on pages 35 to 39 and our viability statement is on page 40.

CORPORATE GOVERNANCE REPORT

WORK OF THE RISK CONTROL GROUP

The accountability framework described on page 35 is designed to ensure comprehensive management of risk across the Group's businesses. The Risk Control Group (RCG), made up of the Chief Operating Officer, Finance Director, Company Secretary, and Group Heads of Information Technology and Internal Audit, performs detailed work on risk assessment and oversees the effective implementation of new measures designed to mitigate or meet any specific risks or threats. The Chair of the Audit Committee, a representative of the external Auditor and the Group Insurance Risk Leader attend by invitation. The RCG reports to the Audit Committee on its work. The Board and any of its Committees is able to refer specific risks to the RCG for evaluation and for controls to be designed or modified; this occurs in consultation with operational management. The Executive Directors are responsible for communicating and implementing mitigating controls and operating suitable systems of check. The RCG met three times in 2018. In addition to reviewing and refining the Group's corporate risk register, for Board review and adoption, the RCG continues to monitor and review the Group's anti-bribery controls and data protection controls Consumer Rights Act 2015 training, Modern Slavery Act 2015 awareness and further initiatives to reduce incidences of theft and fraud. Following its review of the Group's systems of internal control, the RCG has reported to the Audit Committee that it has not identified any weakness in controls which would have a material effect on the Group's business. The Audit Committee has reviewed and accepted the processes adopted by the RCG in this respect and accepted its conclusions.

NON-EXECUTIVE DIRECTORS AND INDEPENDENCE

The Non-Executive Chairman (who, on appointment to that role, fulfilled the requirement to be independent) has ensured that the Board performs effectively through a well-functioning combination of Board and Committee meetings and other appropriate channels for strategic input and constructive challenge from Non-Executive Directors. The Chairman has held meetings with the Non-Executive Directors without the Executive Directors present, where necessary to assist Board effectiveness, and, following the 2018 year end, conducted individual meetings with each Director to arrive at his and the Board's assessment of the Directors' respective contributions, training needs and independence. Led by the Senior Non-Executive Director, the Directors have assessed the Chairman's effectiveness in his role. The Board has routinely operated conflict management procedures and has deemed these procedures effective. Through these, and the evaluations which are described below, we have concluded that:-

- the Board's collective skills, experience, knowledge of the company and independence allow it and its Committees to discharge their respective duties properly;

- subject to the recruitment of an additional Non-Executive Director, the Board and each of its Committees is of the right size and balance to function effectively;
- we have satisfactory plans for orderly succession to Board roles;
- the Chairman and respective Committee chairmen are performing their roles effectively;
- all Non-Executive Directors are independent in character and judgment;
- no Director has any relationships or circumstances which could affect their exercising independent judgement; and
- the Chairman and each of the Non-Executive Directors is devoting the amount of time required to attend to the company's affairs and their duties as a Board member.

BOARD EVALUATION

Between January and March 2018 recruitment of an additional Non-Executive Director was ongoing. For nine months from March 2018, the Board consisted of seven Directors, consisting of three executive and four Non-Executive Directors, including the non-executive Chairman and was considered to be of the correct size and balance to function effectively. During 2018, the Board received informal briefings from company executives to familiarise Directors with strategic developments and key aspects of the Group's business. Formal presentations to the Board by senior Group executives focussed on matters of strategic importance. The Board and its Committees conducted formal evaluations of their effectiveness in 2018, facilitated by the Chairman, addressing questions based closely on the Code, applicable good governance topics and drawn from best corporate practice. The results were reviewed by the Chairman, the Committee chairmen and the Board as a whole and the Chairman has factored suggested improvements into our 2019 Board programme. More details on the Board's approach to individual and Board evaluation are on the company's website. The company is currently outside of the FTSE 350, so is not required to facilitate the evaluation externally.

RE-ELECTION OF DIRECTORS

In accordance with the UK Corporate Governance code, all Directors will be subject to annual re-election or election (in the case of new Directors) at the AGM.

INFORMATION AND SUPPORT

To ensure our decisions are fully informed and debated, the Chairman ensures our Board's business agenda is set timely to allow appropriately detailed information to be circulated to all Directors before meetings. The Company Secretary facilitates the flow of information within the Board, attends all Board meetings and is responsible for advising the Board and its Committees, through their respective chairmen, on corporate governance and matters of procedure. All Directors have

Director	Board	Audit	Nomination ^e	Remuneration
Chris Chambers ^(B) ^(I) ^(N)	10/10	N/A	3/3	3/3
Gillian Kent ^(I)	10/10	3/3	3/3	3/3
Jeremy King* ^(I) ^(A)	8/8	3/3	3/3	2/2
Mike Wright** ^(I) ^(R)	7/9	2/2	2/2	2/2
Richard Laxer*** ^(I) ^(A)	2/2	N/A	N/A	N/A
Trevor Finn	9/10	N/A	N/A	N/A
Martin Casha	10/10	N/A	N/A	N/A
Tim Holden	9/9	N/A	N/A	N/A

(I) Considered by the Board to be independent; the Chairman is required to fulfil this criterion at appointment but not thereafter.

(B) Chairman of the Board.

(A) Audit Committee Chairman (N) Nomination Committee Chairman (R) Remuneration Committee Chairman.

*Resigned from the Board as Non-Executive Director, Senior Independent Director and Chair of Audit Committee on 12 November 2018. Acting Remuneration Committee Chairman until appointment of Mike Wright.

**Appointed as Non-Executive Director and chair of the remuneration Committee on 26 March 2018.

*** Appointed as Non-Executive Director, Senior Independent Director and chair of the Audit Committee on 12 November 2018.

Shows the number of meetings attended out of the total a Director was eligible to attend.

Where the Nomination Committee is undertaking a specific recruitment, continuing Directors only are eligible to attend.

access to support from the Company Secretary on matters of procedure, law and governance and in relation to their own induction and professional development as Board members. All Directors are entitled to take independent advice at the company's expense, and to have the company and other Board members provide the information required to enable them to make informed judgements and discharge their duties effectively.

COMMUNICATION

We aim to meet the challenges presented by our size and geography through innovation in internal communications. Internal website messaging, video and face to face presentations as well as electronic newsletters and social media content keep team members up-to-date with the company's strategy and performance. Team members' views on our performance and services are actively gathered via targeted electronic surveys. Regular briefings for all team members, held at each

location, provide a forum for sharing both company and local information. At all levels, communications aim particularly to recognise the achievements of individual team members and celebrate outstanding personal and business performance, through peer recognition and widely publicised awards. Each year we review our incentive and recognition programmes aligned to the Group's business objectives.

DIVERSITY AND EQUALITY OF OPPORTUNITY

We are an equal opportunity employer, committed to ensuring that our workplaces are free from unfair discrimination, within the framework of the law. We aim to ensure that our team members achieve their full potential and that, throughout all our attraction, recruitment, selection, employment and internal promotion processes, all employment decisions are taken without reference to irrelevant or discriminatory criteria. The company's diversity and equal opportunities policy is available at www.pendragonplc.com



CORPORATE SOCIAL RESPONSIBILITY REPORT

Number of Group Employees by category

	as at 31 December 2018			as at 31 December 2017		
	Female	Male	Total	Female	Male	Total
Director	1	6	7	1	5	6
Senior Manager	0	5	5	0	5	5
All Employees	2,438	6,756	9,194	2,379	6,973	9,352

GENDER BALANCE

We describe our approach to Board composition diversity in the Nomination Committee's report on page 54.

HEALTH AND SAFETY

We take seriously our responsibility to our team members, customers and the public. We aim to ensure that all team members in the course of their roles, and all who work in or visit our facilities or receive our services, so far as is reasonably practicable, experience an environment and practices which are safe and without risk to their health.

Our policy is to identify and assess all potential risks and hazards presented by our activities and to provide systems and procedures which allow all team members in their daily work to take responsible decisions in relation to their own and others' health and safety. We publish a clear hierarchy of responsibility to team members and reinforce this through regular monitoring by a variety of means. We promote awareness of potential risks and hazards and the implementation of corresponding preventative or remedial actions through our on-line health and safety systems, operations manuals and regular communications on topical issues. Our health and safety management system provides our UK leadership and team members with detailed access to information, guidance and control measures.

ACCIDENTS AT WORK

Historically, we have assessed our safety record against relevant published benchmarks. This year, as a result of changes to the Health & Safety Executive sector categorisations, the natural sector comparator for our Group is Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles. There has been an increase in RIDDOR¹ reported accidents in 2018, rising to 38 per 10,000 employees (2017: 31 per 10,000 employees). Whilst this is higher than the relevant sector average (24 per 10,000 employees), this is primarily as a result of our improved reporting system for accidents, the increased accuracy of our reporting and improved classification of RIDDOR and non-RIDDOR accidents. We continue to target specific hazards and risks for improved results through additional monitoring and promotion of safe working processes.

¹RIDDOR: the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

COMMUNITY

We are predominantly a retail operator, with a tangible presence in the many communities our businesses serve. During 2018, our monthly fundraising events supported a range of national charities, including the British Heart Foundation, Help for Heroes, Macmillan Cancer Support, Cancer Research, Comic Relief and Children in Need. Our Academy and retail businesses also generate community involvement through local engagement, contributing to their local areas in a variety of ways. Individuals and businesses organise charity events to support schools, hospitals and local children's and medical charities as well as the Group wide monthly nominated charity. The company supports and encourages these activities and we welcome the opportunities they present for team-building within our businesses, engagement with the communities they serve and recognition of charitable causes with whom our team members and their families have connections.

RESPONSIBLE SOURCING

All our Group's sites are situated within the UK or US and at each of them we operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present any risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way, free from the exploitation of labour. We have adopted an Anti-Slavery and Human Trafficking Policy, available to view on our website, together with our Anti-Slavery and Human Trafficking Statement for the year ending 2018.

ENVIRONMENT AND GREEN HOUSE GAS (GHG) EMISSIONS REPORTING

Although not generally regarded as a high environmental impact sector, motor retailing and its associated after sales service activities carries with it a range of responsibilities relating to protection of the environment. Our policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground; and to manage responsibly the by-products of our activities, such as noise, waste packaging and substances and vehicle movements. During the year, we have

Global Greenhouse Gas Emissions Data

Source	Tonnes of CO ₂	
	01.01.18 – 31.12.18	01.01.17 – 31.12.17
CO ₂ emitted from facilities	11,461	14,517
CO ₂ emitted from driving activities	9,179	9,403
Intensity ratio (tonnes of CO₂ per £k)	4.5	5.1

continued to be registered with and have complied with our obligations under the Department for Environment, Food and Rural Affairs' (DEFRA) carbon reduction commitment scheme. The company's statement of environment policy is available at www.pendragonplc.com

GREENHOUSE GAS EMISSIONS

This section includes our mandatory reporting of greenhouse gas emissions for the period 1 January 2018 to 31 December 2018, pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Our methodology to calculate our greenhouse gas emissions is based on the 'Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance' (June 2013) issued by DEFRA using DEFRA's 2018 conversion factors. In some cases, we have extrapolated total emissions by utilising available data from part of the reporting period, and extending it to apply to the full reporting period.

We report our emissions data using an operational control approach to define our organisational boundary. We have reported all material emission sources for which we deem ourselves to be responsible, including both our UK businesses

and estimated usage for our US businesses. We also include emissions from driving activity, comprising data verified internally, including estimates of distances travelled during test drives, transportation of vehicles and parts between sites, and business travel (excluding commuting by means which are not owned/controlled by us).

REDUCING CARBON AND WASTE

During the year, we have continued to assess and monitor our energy use and, where practicable, to implement measures designed to reduce our activities' environmental impact, which, over time, we anticipate will help reduce our carbon footprint.

The Group has undertaken mandatory energy assessments of our sites in accordance with the ESOS Regulations 2014. We continue to use the results of this assessment to identify further energy saving opportunities. To conserve energy, we continue, where practicable, to install LED lights at our sites, limit the duration of periods when full lighting is used on our sites out of hours, keep external doors closed when not in use, and fit insulators to limit the escape of heat.

We continue to seek to limit our paper consumption and waste, through increasingly paperless communications and systems.



AUDIT COMMITTEE REPORT

The Audit Committee is a Committee of the Board and has been chaired by Richard Laxer since November 2018, made up entirely of Independent Non-Executive Directors. Their names and qualifications are on page 42 and attendance at meetings in the table on pages 47.

KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

- monitors the integrity of the financial statements and formal announcements
- reviews and approves the Annual Report and Accounts for adoption by the Board
- recommends to the Board the selection of the external Auditor and its terms of appointment and monitors its effectiveness and independence
- governs policy for the allocation of non-audit work to the audit firm
- reviews internal controls and risk management
- monitors the effectiveness of the internal audit function
- reviews and monitors whistleblowing arrangements

Its terms of reference detail its key responsibilities and appear, with relevant background information, on the company's website www.pendragonplc.com.

THE COMMITTEE'S WORK IN 2018

The Audit Committee met three times in 2018 and this report describes its work and conclusions.

FINANCIAL STATEMENTS REVIEW

The Committee received the Auditor's memorandum on the company's 2017 financial statements and the Auditor's memorandum on the unaudited 2018 interim results. In each case, it discussed the Auditor's findings with the Auditor, satisfied itself of the integrity of the financial statements and recommended the financial statements for approval by the Board. In addition, the Committee has been through the findings of the FRC review of the audit in 2017 with KPMG

LLP, and are satisfied that KPMG have addressed these in the 2018 audit cycle. KPMG LLP also gave formal assurance to the company of its ability as Auditor to place reliance on the work of the internal audit team and concluded that the scope and quality of the internal audit work done reflects an effective, well-functioning team. Key aspects of those discussions and relevant considerations and conclusions are below:-

KEY ACCOUNTING JUDGEMENTS

The table on page 90 are the key accounting judgements that the Committee considered and discussed with the Auditor. The Committee is satisfied that appropriate judgements have been made.

AUDIT RISK CONSIDERED BY THE COMMITTEE

The table below sets out the key audit risks applied, for the 2018 year results, which the Committee considered and discussed with the Auditor, and the Committee's conclusions.



Audit risk considered by the Committee

GOODWILL VALUATION

The judgements in relation to asset impairment of the carrying value of goodwill largely related to the achievability of the assumptions underlying the calculation of the value in use of the business being tested for impairment, set out in note 3.1 to the financial statements. These primarily consist of the Group's forecasts from 2019 to 2022, which underpin the valuation process.

Evidence considered and conclusion reached

The Committee considered the risk that goodwill could be materially overstated in the context of the sensitivity analysis, also set out in note 3.1. The Committee addressed these matters through receiving reports from management outlining the basis for the assumptions used, assessing the range and depth of information underpinning the assumptions and calculations, commissioning a report from a third party export valuer and discussions with the Auditors.

VALUATION OF PARENT COMPANY INVESTMENT

This is the risk that the company has investments in its subsidiary companies, which could be overstated when considered with current market capitalisation of the company and could impact the ability of the company to pay dividends should the investment be impaired. The value of investments is underpinned by expectation of discounted future profits and net assets of the subsidiary companies. There is an inherent uncertainty in forecasting future profits following the decline in the share price and the profit warning issued in October 2018.

The Committee is supportive of ongoing work to restructure the company's balance sheet as between PLC and its subsidiaries as an exercise in redressing this balance.

The Committee received a report from management detailing the controls in place to ensure the appropriate recording of impairments to the value of subsidiary assets, which was performed in conjunction with the work done to establish goodwill impairment as described above. The Committee were satisfied with management's conclusion that appropriate controls were in place to book impairment in the value of subsidiary assets.

VEHICLE INVENTORY VALUATION

This is the risk that the value of inventory set out in note 3.4 to the financial statements could be materially overstated and whether or not an appropriate provision had been calculated. The risk for used vehicles is seen as the most relevant, for scrutiny. Used vehicle prices can vary depending on a number of factors, including general economic conditions and the levels of new vehicle production.

The Committee received a report from management which set out factors relevant to an assessment of used inventory valuation, including the level of inventory held across the business, the ageing of the inventory, the stock turn of the inventory and an analysis of market factors including the parc of used vehicles, the used vehicle market sales rate and historic movements in used vehicle prices.

The Committee discussed the report from management with the Auditors together with all audit findings. The Committee was satisfied that a comprehensive assessment of inventory valuation had been undertaken and concluded that the judgements applied were appropriate. Overall, the level of used inventory risk remained the same as in the prior year.

PENSION SCHEME LIABILITIES

The amounts reflected in the financial statements in respect of pension scheme liabilities involve judgements made in relation to actuarial assumptions, long-term interest rates, inflation, longevity and investment returns. The liabilities are set out in note 5.1 to the financial statements. There is a risk that the value of the pension scheme liabilities could be materially under or over stated in the context of the sensitivity analysis in that note. Following a court ruling during the year regarding equalisation of GMP between men and women an additional pension liability has been recorded

The Committee ascertained that judgements made on pension scheme were all based on advice from the Group's pension adviser. The final calculations in respect of the Group's defined benefit pension scheme liability were performed by our pension scheme actuary. The Committee discussed with the Auditor the assumptions applied, in particular the findings of the Auditor's own pension specialist.

The Committee concluded that the judgements applied were appropriate.

UK EXIT FROM THE EUROPEAN UNION (BREXIT)

Currency devaluation of Sterling following the 2016 referendum result has continued in subsequent years, and remains as an upward pressure on new vehicle prices and associated finance offers. The risk of a "no-deal" Brexit may cause further upward pressure on vehicle prices due to import tariffs imposed and Sterling's expected devaluation. Share prices of all UK car dealers fell after the EU Referendum and have only partly recovered. A decline in consumer confidence has continued to reduce UK new sales since April 2017 and the expectation is that this will continue into 2019. Other factors such as changes in regulation and the availability and cost base appropriate team member resource could also impact the company's operations.

The Committee received a report from the Risk Control Group, which had carried out an initial assessment of potential Brexit risk to the Group in early December 2018.

The Committee considered that the Group retained sufficient financial liquidity and operational facility headroom to cover any short-term financial stress scenarios resulting from a hard Brexit.

The Committee noted that in the event that Brexit caused a significant short term financial impact on the Group's operations, elements of our strategy could be accelerated to mitigate the impact.

AUDIT COMMITTEE REPORT

EXTERNAL AUDITOR

APPOINTMENT AND PERFORMANCE EVALUATION

The Committee considered Auditor effectiveness and independence of the audit, during the year.

The Committee arrived at its recommendation to the Board on the Auditor's appointment by:

- applying exclusively objective criteria;
- evaluating the ability of the audit firm to demonstrate its independence;
- assessing the effectiveness of the audit firm in the performance of its audit duties;
- reviewing and discussing with the Auditor the results of an independent review of their audit of the 2017 financial statements by the FRC; and
- assessing the audit firm's adherence to applicable professional standards.

The Committee Chairman oversaw the company's evaluation of the Auditor's performance, using questionnaires covering all aspects of the company and Auditor relationship and reviewed the results with the Committee members and the company's management. The Committee noted that the current Auditor, KPMG had issued to the company all requisite assurances of its independence. The Committee reported its conclusions to the Board, namely, that there are no existing or historical relationships or other matters which adversely affect the independence of KPMG as the company's Auditor, and no performance shortcomings or unresolved issues relating to fee levels.

The lead audit partner, John Leech, has held the position for three years.

POLICY ON AUDIT TENDERING

KPMG was appointed as Auditor in September 1997, since when, audit services have not been tendered competitively. The Committee has concluded that a competitive tender of the audit service is not necessary at this time, but acknowledged that circumstances could arise where a competitive tender for audit services is desirable. It recommended the re-appointment of KPMG as the company's Auditor. The Board accepted the Committee's recommendation and concluded that:-

- there are no matters warranting a competitive tender exercise in relation to the provision of audit services, but this position would change if there were to arise at any time any concerns as to the continuing independence or performance of the current audit firm (no such concerns have arisen as at the date of this report);

- none of the Directors' independence in considering this matter is impaired in any way and none has a potential or actual conflict of interest in relation to KPMG, whether in regard to its appointment, fees, the evaluation of its performance, any decision as to competitive tender for audit services, or any other matter.

The Committee also took into account that under the current EU legislation on audit firm rotation the current Auditor could not be reappointed after 2023.

REVIEW OF NON-AUDIT SERVICES

The Committee reviewed the company's policy on its use of its audit firm for non-audit work. Its main principles are that the Auditor is excluded from providing certain non-audit services the performance of which is considered incompatible with its audit duties, but is eligible to tender for other non-audit work on a competitive basis and can properly be awarded such work if its fees and service represent value for money. The policy can be viewed on the company's website. The Committee considered reports on the extent and nature of non-audit work available, the allocation during the year of that work to accountancy and audit firms, including KPMG LLP, and the associated fees. Details of audit and non-audit work performed by KPMG LLP and the related fees appear annually in the notes to the company's financial statements. A full statement of the fees paid to KPMG LLP for work performed during the year is set out in note 2.5 to the financial statements on page 106. Having satisfied itself on each item for its review, the Committee reported to the Board that:-

- the company's existing policy continues to be appropriate, has been adhered to throughout the year, and is operating effectively to provide the necessary safeguards to independence of the external Auditor;
- there are no facts or circumstances relating to the award or performance of non-audit work that affect the independence of KPMG LLP as Auditor or justify putting out audit work to competitive tender at this time;
- no contract for non-audit services has been awarded to KPMG LLP in any circumstance of perceived or potential conflict of interest or non-compliance with the company's policy; and
- the fees KPMG LLP have earned from non-audit services provided during the year are not, either by reason of their amount or otherwise, such as might impair its independence as Auditor. The ratio of non-audit to audit fees was 0.15:1 in 2018 (2017: 0.14:1).

The Board accepted these findings.

REVIEW OF INTERNAL AUDIT PERFORMANCE

The Committee Chairman oversaw the Committee's evaluation of the Internal Auditor's performance, using questionnaires covering all aspects of the internal Auditor work and relationship to the audit and received the Auditor's view on that performance. He reviewed the results with the Committee members and company management and reported the Committee's conclusions to the Board.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee reviewed the effectiveness of the company's system of internal control and financial risk management. It received reports from the Auditor on each of these areas and from the RCG, whose work is described on page 44) on the company's risk register, emerging risks and corresponding internal controls. It scrutinised the key risks register, as revised by the RCG, and approved it for adoption by the Board. Its work informed and supported the Board's assessments detailed under "How the Board manages risk" on page 45.

REVIEW OF ANTI-BRIBERY CONTROLS AND WHISTLEBLOWING

The Committee reviewed the company's anti-bribery processes and controls and evaluated and approved

these and the company's bribery risk assessment. On its recommendation, the Board readopted the company's anti-bribery policy statements and associated controls. The Committee considered reports on known instances of alleged wrongdoing and matters reported on the company's confidential reporting line and their investigation, reviewed the adequacy of whistleblowing procedures and commissioned follow-up action and improvements in risk-related controls.

Our current anti-bribery value statements and our policies on the control of fraud, theft and bribery risks appear on the company's website and are drawn to the attention of all parties seeking to transact with the Group. Our whistleblowing procedures are published internally on our intranet and their existence is regularly reinforced in our team member communications. The policy is available at www.pendragonplc.com

APPROVAL

This report was approved by the Committee and signed on its behalf by:-

Richard Laxer

Chairman of the Audit Committee
12 March 2019



NOMINATION COMMITTEE REPORT

The Nomination Committee is chaired by Chris Chambers, and made up entirely of independent Non-Executive Directors. Their names and qualifications are on page 42 and attendance at meetings in the table on page 47 above.

KEY RESPONSIBILITIES OF THE NOMINATION COMMITTEE

- reviews the Board's size, structure and composition and leads recruitment to Board positions
- undertakes annual Board performance evaluation
- satisfies itself on the company's refreshing of Board membership and succession planning

Its terms of reference detail its key responsibilities and appear, with relevant background information, on the company's website www.pendragonplc.com.

THE COMMITTEE'S WORK IN 2018

The Nomination Committee met three times in 2018. This report describes its work and conclusions.

REVIEW OF BOARD COMPOSITION AND BALANCE

In February 2018, the Committee reviewed the structure of the Board, in relation to its size, composition and potential vacancies. At this stage, as part of the annual review of the workings of the Board and its annual valuation, the Committee concluded that a cohort of four, made up of the Chairman and three Independent Non-Executive Directors is sufficient for the Board and its Committees to function effectively.

In October 2018, following the decisions of Tim Holden to step down as Finance Director and Jeremy King to step down as Non-Executive Director and Audit Committee Chairman, the Committee met for the purposes of recruitment and selection of a replacement Chief Finance Officer and Non-Executive Director and Audit Committee Chairman. Following recommendations of the Nomination Committee, Mark Willis was appointed Chief Finance Officer in October 2018 and will assume the role on 8 April 2019. Richard Laxer was appointed Non-Executive Director, Audit Committee Chairman and Senior Independent Director in early November 2018.

In February 2019, following Trevor Finn's decision in December 2018 to retire as Chief Executive Officer, the Committee met for the purposes of recruitment and selection of a replacement Chief Executive Officer. On 4 March 2019, following the recommendation of the Nomination Committee, Mark Herbert joined the company as Chief Executive Officer designate, and will assume the role of Chief Executive Officer on 1 April 2019. The Nomination Committee is actively leading the process to recruit an additional Non-Executive Director.

Subject to the recruitment of an additional Non-Executive Director, the Board concluded that the composition and balance of the Board was now appropriate to the requirements of the company. Details of the annual evaluation of the Board are set out below.

EVALUATION

The annual evaluations of the Board and its members were conducted by the Board and are described on page 46. As part of that process, the Committee conducted an evaluation of its own performance.

DIVERSITY

All appointments made, including those of Board members, adhere to the company's diversity and equal opportunities policy, which can be viewed on the company's website. For Non-Executive Director appointments, where executive search consultants are instructed, they are done so in a manner consistent with this policy. The company engaged an executive search agency for the purposes of recruiting the Chief Executive Officer and has retained them in the search for an additional Non-Executive Director, having considered it appropriate to do so. The company has not adopted a gender balance target for its Board.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a committee of the Board, and has been chaired by Mike Wright since March 2018. It is made up entirely of independent Non-Executive Directors. Their names and qualifications are on page 42 and attendance at meetings in the table on page 47.

KEY RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

- determines and agrees with the Board the framework for remuneration of Executive Directors
- ensures that Executive Directors are provided with appropriate incentives which align their interests with those of shareholders, and encourage enhanced performance in the short and medium term, as well as achievement of the company's longer term strategic goals
- determines targets for any performance related pay schemes
- seeks shareholder approval for any long-term incentive arrangements
- determines the remuneration of the Chairman

The terms of reference of the Remuneration Committee are available at www.pendragonplc.com.

THE COMMITTEE'S WORK IN 2018

The Remuneration Committee met three times in 2018. The Directors' Remuneration Report, beginning at page 56, describes its work and conclusions.

REMUNERATION DISCLOSURE

This report complies with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Large and Medium-sized

Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) and has been prepared in accordance with the UK Corporate Governance Code and the UKLA Listing Rules. The parts of the report which have been audited in accordance with the Regulations have been identified.

REMUNERATION POLICY

There are no changes to the remuneration policy that was approved by our shareholders at the 2017 AGM. The full, shareholder approved, policy is available on the company's website and sets out our policy on Directors' remuneration, recruitment, loss of office, termination of employment and change of control. Consistent with market practice, the Remuneration Committee retains full discretion over all elements of variable remuneration, both in terms of annual bonus awards made and long term incentive awards granted and vesting. The extent of this discretion is more particularly described in the table on page 60.

REMUNERATION POLICY

The table below summarises the individual elements of remuneration provided to the Executive Directors. It is a summary only and does not replace or override the full, shareholder policy, which is displayed on the company's website (www.pendragonplc.com).

DIRECTORS REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2018. This report has been prepared by the Remuneration Committee and approved by the Board.

This remuneration report is split into two sections:

the Directors' Remuneration Policy; which provides an "at a glance" summary of the remuneration policy for which shareholder approval was obtained at the 2017 AGM and which will continue to apply without amendment for the forthcoming year; and the Annual Report on Remuneration.

Aligning the Remuneration Policy with strategy and performance

The accelerated transformation of our business continued throughout the last year, with significant investment in our used car business in new start up locations and the roll out of used car factories for the refurbishment of used inventory. However, the Remuneration Committee also recognises that despite the ability of our remuneration policy to incentivise and drive the internal delivery of our strategic objectives, the policy does not operate in isolation from sector specific and market factors.

In October 2018, we announced that the introduction of the Worldwide Harmonised Light Vehicle Test Procedure ("WLTP") had created disruption in new car sales, causing significant new vehicle supply disruption and concern in terms of new vehicle sales and profitability. Exogenous factors such as WLTP, uncertainty caused by Brexit and the more general automotive sector downturn currently being experienced means that, in the coming months, the Remuneration Committee will more closely monitor the appropriateness of our remuneration policy in terms of its ability to both incentivise and drive strategic change in our business.

Whilst maintaining this watching brief, no changes to our remuneration policy are proposed for the coming year, and the company's remuneration policy is not subject to shareholder approval. The Remuneration Committee continues to maintain that our current remuneration policy, approved by our shareholders at the 2017 AGM, provides a strong and clear link between our business strategy and incentive arrangements. The full policy is available on the company's website at www.pendragonplc.com, and in our 2016 remuneration report, and is summarised in the policy table on pages 57 to 59.

In October 2018, the company announced that Tim Holden would be stepping down as Finance Director on 31 March 2019. In December 2018, the company announced Trevor Finn's decision to retire as Chief Executive Officer and Director by no later than 31 March 2019. The Committee thank both Tim and Trevor for their service, and confirm that their exit arrangements will be in line with the approved remuneration policy and disclosed on the company's website.

Mark Herbert joined the company on 4 March 2019 as Chief Executive Officer designate, and assumes the role of Chief Executive Officer on 1 April 2019. Mark Willis joins the company as Chief Finance Officer on 8 April 2019. The remuneration packages for both incoming Executive Directors will be in line with our remuneration policy and will be fully disclosed in our 2019 Annual Report.

The Committee intends to fully implement the changes introduced to remuneration reporting by the UK Corporate Governance Code (July 2018) and the Companies (Miscellaneous Reporting) Regulations 2018, and will reflect the new disclosures in our Directors' remuneration report to be published next year.

We continue to maintain the bias in our remuneration policy towards long term incentives, supported through interlinked share ownership and part-deferral requirements within the annual bonus plan.

2018 Outturn

The company delivered underlying profit of £47.8m, a decline of - 20.9% year on year. Year end net had has increased by £3.5m or 2.8%, as a result of further investments in line with our clear strategy to provide more reliable and sustainable returns. As both the profit and debt metrics of the bonus targets have not exceeded the prior years result, the Executive Directors did not receive an annual bonus award in respect of 2018 performance.

In addition, upon conclusion of the three-year performance period, the Remuneration Committee determined that long term incentives awarded in 2016 will not vest, as the relevant performance conditions to achieve vesting were not satisfied. The 2016 LTIP therefore lapsed in its entirety. Full details of remuneration decisions for 2018 are set out in the Directors' annual remuneration report on pages 63 to 68.

At last year's AGM, 82.88% of shareholders voted in favour of the Directors' Remuneration Report. Details of the votes cast are set out on page 68. I hope that you find the information in this report helpful and I look forward to your continued support at the company's AGM.

Yours sincerely

Mike Wright

Chairman of the Remuneration Committee

FUTURE REMUNERATION FOR EXECUTIVE DIRECTORS

BASE SALARY

ELEMENT AND PURPOSE

Provide competitive remuneration that will attract and retain executives of the calibre required to take forward the company's strategy.

MAXIMUM OPPORTUNITY

Salary levels are eligible for increases during the three-year period that the remuneration policy operates (policy effective from 27 April 2017). During this time, salaries may be increased each year. Salary increases are determined after taking due account of market conditions and any increases awarded to the wider workforce.

Significant changes in role scope may require further adjustments to bring salary into line with new responsibilities. For recent joiners or promotions, whose pay was initially set below market rate, higher than usual increases may be awarded to bring them into line with the market over a phased period as they develop in their role.

OPERATION

Base salaries are reviewed annually, effective from 1 January. The Committee sets base salaries taking into account:

- the performance and experience of the individual concerned;
- any change in responsibilities;
- appropriate executive remuneration benchmarking, which may include the following comparator Groups (i) FTSE 250 companies (excluding investment trusts); (ii) companies of a similar size to the Group, currently being those in the bottom quartile of the FTSE 250 and the top quartile of the FTSE Small Cap; (iii) FTSE retailers, broadly the FTSE All Share General Retailers index excluding companies with a market cap greater than £3.5bn; and (iv) selected automotive retailers which are deemed to be the closest comparators to the company. Alternative peer Groups may need to be referenced depending on the business circumstances.

Base salaries are paid monthly in arrears.

PERFORMANCE METRICS

Individual performance is an important factor considered by the Committee when reviewing base salary each year.

BENEFITS

ELEMENT AND PURPOSE

Cost-effective, market competitive benefits are provided to assist Executive Directors in the performance of their roles.

MAXIMUM OPPORTUNITY

Benefit levels are set to be competitive relative to companies of a comparable size. The cost of some of these benefits is not pre-determined and may vary from year to year based on the overall cost to the company of securing these benefits for a population of employees (particularly health insurance and death in service cover).

OPERATION

Life assurance, private health cover, professional subscriptions, home telephone costs and (at executive's option) company cars.

PERFORMANCE METRICS

None.

DIRECTORS REMUNERATION REPORT

PENSION

ELEMENT AND PURPOSE

Provide cost-effective long-term retirement benefits that will form part of a remuneration package that will attract and retain executives who are able to take forward the company's strategy.

OPERATION

Post-2009 executives: participation in a defined contribution pension scheme. Pre-2009 executives: deferred membership of defined benefit pension scheme.

MAXIMUM OPPORTUNITY

Post-2009 executives: contribution of 10% of base salary or payment of a 10% cash alternative at the option of the executive.

Pre-2009 executives: 26% of salary cash supplement in lieu of pension contribution.

In line with the UK Corporate Governance Code (July 2018), the Committee intends to ensure that pension contributions for incoming Executive Directors are aligned with those available to the workforce

ANNUAL BONUS

ELEMENT AND PURPOSE

Incentivises achievement of annual objectives which support the short-term goals of the company, as reflected in the annual business plan.

OPERATION

Annual bonuses are earned over the year and are paid annually in arrears after the end of the financial year to which they relate, based on performance against targets over the year. 25% of after tax bonus earned is subject to compulsory deferral into the company's shares until such time as the company's share ownership guidelines are met. In such situations where bonus is deferred into shares, an Executive Director may be entitled to receive dividend payments on such shares.

MAXIMUM OPPORTUNITY

Maximum available bonus is equivalent to 100% of base salary. No award is made for flat or negative growth. Maximum bonus is available only for material outperformance of the company's annual business plan.

PERFORMANCE METRICS

Annual bonus is earned based on performance against stretching company financial performance measures as set and assessed by the Committee. At present, financial measures used are underlying (adjusted) profit and year-end net debt. A sliding scale of targets is set for each measure, with 12.5% of salary for each element being payable for achieving the relevant threshold hurdles.

The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy over each year. The measures will be dependent on the company's goals over the year under review.

VALUE CREATION PLAN (VCP)

ELEMENT AND PURPOSE

The VCP rewards and retains Executive Directors over the longer term, whilst also aligning the incentives of those participating with the long-term performance of the business and returns for our shareholders. The VCP is the company's principal long term incentive plan for rewarding and incentivising Executive Directors.

MAXIMUM OPPORTUNITY

Under the VCP, the maximum aggregate number of ordinary shares in the company that can be issued to satisfy awards under the VCP to all participants is limited to 5% of the company's issued share capital at the end of the four year performance period. At the outset, entitlements of participants in the pool of returns were split as follows:-

Chief Executive Officer - up to a maximum of 30%
Chief Operating Officer - up to a maximum of 20%
Finance Director - up to a maximum of 10%
other below board participants - share of remaining balance of 40%

FUTURE REMUNERATION FOR EXECUTIVE DIRECTORS

VALUE CREATION PLAN (VCP)

OPERATION

The VCP operates over a four year period which commenced on 1 January 2017. Executive Directors, and other eligible team members are granted an entitlement to a percentage share in a pool of returns delivered to shareholders, above a hurdle rate of return. The participant's percentage entitlement is awarded under nil-cost options over shares, with a value calculated to be a proportion of the total shareholder return created for shareholders. This is measured over a four year VCP performance period, with a further one year holding period being applicable to any awards vesting.

The overall effect of the VCP is that the Executive Directors and other eligible team members will be able to earn shares equivalent to 10% of any total shareholder return created above a 10% per annum compound annual growth rate based on the measurement of absolute total shareholder return generated over the four year VCP performance period. In other words, until shareholders receive a 10% p.a. return, the VCP will not pay out. Beyond that, broadly participants may receive 10% of any further value created subject to cap of 5% of issued share capital. The company used an initial or base share price of the Q4 2016 average share price, which was £0.3016.

LONG TERM INCENTIVE PLAN (LTIP)

ELEMENT AND PURPOSE

Incentivises executives to achieve EPS growth over a three year period. EPS growth is the measure most appropriate to the company's strategy.

OPERATION

Awards are subject to performance conditions measured over three years and a service requirement.

The Committee retains a discretion to refine the choice of performance metrics in each year in light of developments in the company's strategy. In the event of a significant or material change, the Committee would engage in dialogue with shareholders and, if necessary, seek a renewed shareholder approval by ordinary resolution.

PERFORMANCE METRICS

The performance condition is based on the absolute total shareholder return performance of the company over a four-year period. Participants in the VCP are able to earn shares equivalent to 10% of any total shareholder return created above a 10% p.a. threshold.

The VCP replaced the LTIP as the company's selected long term incentive plan from 1 January 2017.

MAXIMUM OPPORTUNITY

No further awards will be made to Executive Directors under the LTIP.

PERFORMANCE METRICS

Awards vest at the end of a three year performance period, based on achievement of stretching underlying EPS targets. The underlying EPS targets operate subject to a positive total shareholder return (TSR) underpin. Threshold performance attracts vesting of 25% of the award with 100% of awards being achieved for maximum performance. There is a straight line vesting between performance points.

Following approval of the VCP at the 2017 AGM, the company does not intend to use the long term incentive plan to reward the Executive Directors over the period of the remuneration policy and in the future, and the LTIP remains solely for a legacy award made in 2016.

DIRECTORS REMUNERATION REPORT

POLICY ON EXECUTIVE DIRECTOR SHARE OWNERSHIP

The company continues to recognise the importance of Executive Directors building significant holdings of the company's shares. To encourage share ownership among Executive Directors joining the company, these require Executive Directors to aim, within five years of joining the Board, to have built a stake in value equal to 100% of their annual salary (200% in case of the Chief Executive). Until such time as the policy is met, Executive Directors will be required to defer 25% of annual bonus into the company's shares and retain half the after tax number of vested shares received under the VCP.

POLICY ON NON-EXECUTIVE DIRECTORS' REMUNERATION

The company's policy on Non-Executive Directors' remuneration is reviewed annually by the Board. Remuneration for Non-Executive Directors is confined to fees alone, without a performance related element. Non-Executive Directors may elect to receive all or part of their fees in the form of benefits in kind, typically the provision of a motor vehicle for their use. The company considers that the remuneration of the Non-Executive Directors remains consistent with the time commitments associated with individual positions and wider market practice among companies of a comparable size.

Fee Type	Fee Level	Change in 2018
Chairman fee	£150,000	None
Basic fee:	£40,000	None
Supplementary fees:		None
Senior Independent Director	£4,000	None
Audit Committee Chairman	£10,000	None
Remuneration Committee Chairman	£5,000	None
Nomination Committee Chairman	Nil	None

Notes accompanying the future Remuneration Policy table:-

- Malus and clawback** - malus and clawback may operate in respect of the annual bonus, VCP, and long term incentive plan. These provisions will permit the company to reclaim annual bonus payments or reverse VCP or LTIP awards or claim proportionate payments in exceptional circumstances of misstatement or misconduct. These are kept under review, in the light of prevailing Financial Reporting Council guidance.
- Salary** - base salaries are set by reference to the criteria specified in the table above. If a salary is initially set below the market rate, a phased realignment may be made over time.
- Annual bonus** - targets of underlying (adjusted) profit (50%) and year-end net debt (50%) were selected as these measures correlate to measures used in the company's overall business plan. The split between net debt and profit, and the performance measures attributable to them is determined by the Remuneration Committee who seek external guidance on the appropriateness of any performance targets set relative to the market.
- Long term incentive plans** - (i) LTIP: under the company's current long term incentive plan, performance shares are awarded up to a maximum of 150% of salary if significantly challenging performance targets are attained. The Remuneration Committee selected EPS as this remains the key internal measure of long term financial performance, as well as being well understood by the executives and our investors as providing a clear incentive to deliver the company's long term growth prospects. An underpin of creating absolute shareholder return has been adopted as this further aligns the interests of executives with those of shareholders. The vesting schedule outlines the vesting percentages in relation to EPS performance targets, which were set after taking into account internal scenario analysis, current market expectations and the current trading environment. (ii) VCP: the introduction of the VCP ensures alignment of rewards with the performance and delivery of our business strategy. The initial or base share price under the VCP was set at £0.3016, being the three month average share price prior to 01 January 2017. The hurdle price was set at £0.442, being the initial or base share price plus 10% compounded annual growth over the four plan years. The total participation pool for the VCP is 10% of the total value created above the hurdle.
- Pensions** - Trevor Finn and Martin Casha ceased to be active members of the Pension Plan in 2006. Tim Holden participated in the defined contribution section of the Pendragon Group Pension Scheme, to which the company made a contribution of 10% of his basic salary. In April 2016, Tim Holden elected to receive a payment of 10% of salary, rather than continue to receive pension contributions.
- Benefits:** benefit levels are set to be competitive relative to companies of a comparable size.
- Annual Bonus, VCP and LTIP Policy - Remuneration Committee Discretions:** The Committee will operate the annual bonus plan, VCP and LTIP in accordance with their respective rules and in accordance with the Listing Rules, where relevant. Consistent with market practice, the Committee retains discretion in a number of respects with regard to the operation and administration of these plans. These include the following (albeit with quantum and performance targets restricted to the descriptions detailed in the future policy table above):-

who participates in the plans;

- the timing of grant of award and/or payment;
- the size of an award and/or payment;
- the determination of vesting and/or meeting targets;
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group;
- determination of good/bad leaver cases for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, share buybacks and special dividends); and
- the annual review of performance measures and weighting, and targets for the annual bonus plan, VCP and LTIP from year to year or on award.

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the VCP or LTIP if events occur (such as a material divestment of Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

The company retains the authority to honour any commitments entered into with current or former Directors that have been disclosed to shareholders in previous remuneration reports (e.g. all historic awards that were granted under any LTIPs that remain outstanding, as detailed in the company's latest Annual Report), and which remain eligible to vest based on their original award terms. Details of any payments to former Directors will be set out in the Annual Report on remuneration as they arise. With regard to any promotions to Executive Director positions, the company will retain the ability to honour payments agreed prior to executives joining the Board, albeit any payments agreed in consideration of being promoted to the Board will be consistent with the policy on new appointments as an Executive Director detailed in the Remuneration Policy at www.pendragonplc.com



ILLUSTRATION OF OUR REMUNERATION POLICY FOR 2019

The tables below illustrates the operation of the remuneration policy and provide estimates of the potential future remuneration that Executive Directors would receive, in the scenarios shown, in accordance with the Directors' Remuneration Policy. Potential outcomes based on different

performance scenarios are provided for each Executive Director. A significant percentage of remuneration is linked to performance, particularly at maximum levels.

The table below illustrates the remuneration that could be paid to each of the Executive Directors, based on salaries at the start of the financial year 2019.

Element	Description	Minimum	On Target	Maximum
Fixed	Fixed (comprises base salary, benefits, pension)	Included	Included	Included
Annual Bonus	Annual bonus	0%	25% of the maximum bonus ¹	100% of the maximum bonus ¹
Value Creation Plan	Long term incentive plan	0%	50% of the average annual IFRS 2 value of the award ²	100% of the average IFRS 2 value of the award ²

¹The maximum bonus available for Executive Directors is equivalent to 100% of base salary.

²Awards made under the VCP will be on a one-off basis with a four year measurement period. For illustrative purposes only, the maximum value displayed here represents 100% of the IFRS 2 value of the award, which is intended to give an estimate of the value of the award on grant.

³The additional reference point under the regulations to show the indicative of indirect share price growth of 50% over the VCP has not been included, as the basis that a 50% share growth would result in a payment less than the maximum scenario already displayed.

DIRECTORS REMUNERATION REPORT

We list below the areas of policy the company has adopted in the shareholder approved remuneration policy (available to view on the company's website).

New appointments as Executive Director Including each component of remuneration	All these policy areas remain unchanged from the policy approved by shareholders at the 2017 AGM.
New appointments as Non-Executive Director	
Non-executive remuneration	
How employees' pay is taken account in executive remuneration	
Directors' service contracts and exit payments	
Treatment of fees earned from external Directorships	

NON-EXECUTIVE DIRECTORS' APPOINTMENTS

Name	Commencement	Expiry/cessation	Unexpired at date of report (months)
Chris Chambers	23.10.17	31.12.20	21
Richard Laxer	12.11.18	31.12.21	33
Mike Wright	02.05.18	31.12.21	33
Gillian Kent	20.04.18	31.12.21	33



ANNUAL REPORT ON REMUNERATION

THE COMMITTEE'S WORK IN 2018

- determined annual bonus awards in respect of 2017 performance
- set the annual bonus plan terms for 2018
- reviewed performance to target under the Value Creation Plan
- tested the performance targets for the company's 2016 Long Term Incentive Award vesting
- set 2019 Executive Director salary levels
- noted remuneration trends across the Group

ADVISERS

During 2018, the Chief Executive, Trevor Finn provided advice to the Committee but not in respect of his own pay. In addition, external advice was provided by PwC. Pinsent Masons LLP continue to be retained as the company's share incentive scheme legal advisors, although did not earn fees in 2018. In 2018, fees of £3,240 were paid to PwC. Pinsent Masons and PwC are considered to be independent. Pinsent Masons and PwC do not provide any other services to the Group. The Company Secretary also acts as secretary to the Committee and provides additional advice.

SINGLE TOTAL FIGURE (AUDITED INFORMATION)

	Salary or fees ¹ £000		Taxable benefits ⁴ £000		Pension ⁵ £000		Bonus ⁶ £000		Long term incentive plan ⁷ £000		Single total figure £000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive Directors												
Trevor Finn	464	464	4	4	121	121	-	138	-	-	589	727
Martin Casha	292	292	8	8	76	76	-	87	-	-	376	463
Tim Holden	221	221	7	6	22	22	-	66	-	-	250	315
Non-Executive Directors												
Chris Chambers	150	69	1	-	-	-	-	-	-	-	151	69
Richard Laxer ²	9	-	-	-	-	-	-	-	-	-	9	-
Gillian Kent	40	40	-	-	-	-	-	-	-	-	40	40
Jeremy King ³	45	50	-	-	-	-	-	-	-	-	45	50
Mike Wright	30	-	-	-	-	-	-	-	-	-	30	-

¹In the case of Non-Executive Directors, fees include Committee chair fees in addition to the basic Non-Executive Director fee of £40,000, as detailed in the Policy on Non-Executive Directors' Remuneration in the policy table above at page 57.

²Richard Laxer was appointed on 12.11.2018. Accordingly, his fees are for the period 12.11.18 to 31.12.18.

³Jeremy King stood down from the Board on 12.11.2018. Accordingly, his fees are for the period 01.01.18 to 12.11.18

⁴Benefits in kind include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and provision of up to two cars (at the Director's election), one of which is fully expensed.

⁵Salary supplement in lieu of employer pension contribution, or in the case of Tim Holden, company contribution to defined contribution pension scheme of 10% of basic salary (£22,083 in 2018, £22,083 in 2017). Trevor Finn and Martin Casha ceased to be active members of the Pendragon defined benefit Pension Plan in 2006. Trevor Finn elected to take early retirement benefits from 08.02.08 and is therefore a pensioner member. Martin Casha also elected to take early retirement benefits from 01.07.16 and is therefore also a pensioner member. In April 2016, Tim Holden elected to receive a payment of 10% of salary rather than continue to receive pension contributions.

⁶Bonus Award for 2018 total equivalent to 0% of base salary, 2017 total equivalent to 29.8% of base salary - see page 64 for more detail.

⁷The performance conditions for the LTIP awarded in 2016 have not been achieved, and consequently these awards lapsed in their entirety.

DIRECTORS REMUNERATION REPORT

PENSIONS

The Pendragon Pension Plan (Pension Plan) is established for the benefit of the Group's eligible employees. The Pension Plan operates through a trustee company which holds and administers its assets entirely separately from the Group's assets. There is no direct investment in Pendragon PLC. Trevor Finn and Martin Casha ceased to be active members of the Pension Plan in 2006. Tim Holden participated in the Pendragon Group Pension Scheme, a defined contribution pension scheme, until April 2016. From April 2016, Tim Holden elected to receive a payment of 10% of basic salary, rather than continue to receive pension contributions (10% in 2017). The Non-Executive Directors are not eligible to participate in the Pension Plan.

PERFORMANCE RELATED PAY FOR 2018: ANNUAL BONUS

Given their commercial sensitivity, we do not publish the details of targets in advance. However, the Committee considers the targets to be measurable and appropriately stretching. For 2018, the maximum available annual bonus opportunity was 100% of base salary, only achievable for performance in excess of the company's strategic plan. Payouts are achievable for demanding performance, measured against underlying (adjusted) profit (50%) and year-end net debt (50%). This structure for bonus opportunity for 2018 reflects both the investor feedback received and the competitive market in which the company currently operates. Details of the percentages of salary payable at threshold, target and maximum are set out in the table below.

Available			Actual outturn 2018			
Performance measure	Underlying profit	Year end net debt	Underlying profit		Year end net debt	
Target aligned to business plan	% of basic salary payable		Level	% of basic salary payable	Level	% of basic salary payable
Threshold performance (10% below Target) must exceed prior year's result	12.5	12.5	-	-	-	-
In line with Target	31.25	31.25	-	-	-	-
Maximum ≥10% above Target	50	50	-	-	-	-

Straight line vesting between performance points

It is a pre-requisite requirement that in order to receive a bonus payment on either metric, performance must exceed the prior years result. For the year ended 31 December 2018, the

Committee determined that as underlying profit was behind the prior year, and year net debt performance marginally above that of the prior year, no bonus award would be payable.

Measure	Performance metrics			2018 outturn	
	Threshold	Target	Maximum	Performance Actual	Payout % of basic salary payable
Underlying profit	>£60.4m	≥£63.4m	≥£69.7m	£47.8m	0
Net debt	<£124.1m	<£124.1m	≤£117.7m	£127.6m	0
Total bonus achieved				0	0

LONG TERM INCENTIVES VESTING IN 2018

The Remuneration Committee assesses the extent to which the performance conditions that apply to the performance related elements of the remuneration framework have been met, following sign off of the company's audited Annual Report and Accounts. This ensures that incentive payments are made following independently audited results being known.

Following an assessment of the performance conditions applicable to the 2016 award, the Remuneration Committee determined that the relevant performance conditions to achieve vesting were not satisfied (namely that actual underlying EPS achieved in the financial year ending 31 December 2018 be 4.5p or above for 25% vesting; actual EPS achieved was 2.9p. The 2016 LTIP therefore lapsed in its entirety.

BASE SALARY FOR 2019

Base salaries for the Executive Directors will remain unchanged from the 2018 salary levels. For incoming Executive Directors, base salaries will be disclosed in the 2019 Annual Report.

PERFORMANCE RELATED PAY FOR 2019

The annual bonus for the 2019 financial year will operate on the same basis as for the 2018 financial year and will be consistent with the policy detailed in the remuneration policy section of this report having maximum bonus opportunity, deferral and clawback provisions identical to those in place for 2018. The performance metrics selected are underlying profit and year-end net debt, with an equal weighting given to each. Underlying profit and year-end net debt targets have been set to be challenging relative to the 2019 business plan. The targets themselves, as they relate to the 2019 financial year,

are considered to be commercially sensitive, and we do not publish details of these in advance.

VALUE CREATION PLAN (VCP) AWARDS

No VCP awards were made in 2018. The Executive Directors were granted a nil cost option over ordinary shares of the company on 26 May 2017. Vesting is based on the growth of absolute total shareholder return generated over the VCP performance period. The performance period for the award comprises the four years ("Performance Period") commencing on 1 January 2017. The VCP award gives the Executive Directors the opportunity to share in a proportion of the total value created for shareholders above a hurdle ("Threshold Total Shareholder Return") measured at the end of the Performance Period on 31 December 2020 ("Measurement Date"). The price used for this measurement ("Measurement Total Shareholder Return") will be the sum of the average share price for the three months ending on the Measurement Date plus the cumulative dividends paid per share over the Performance Period. The starting share price was set at £0.3016 ("Initial Price"), being the three month average share price prior to 1 January 2017. The hurdle price was set at £0.442, being the Initial Price plus 10% compounded annual growth over the Performance Period ("Hurdle"). The total participation pool for the VCP will be 10% of the total value created above the Hurdle ("Pool"). The number of shares under the nil cost option will be determined at the end of the Performance Period on the Measurement Date and will be calculated by reference to the Executive Director's percentage entitlement to growth in value below. Any awards which vest after the four year Performance Period will be subject to a further one year holding period.

Details of VCP Awards made in 2017			
Director	Position	Percentage entitlement of 10% Pool	Percentage entitlement of growth in value
Trevor Finn	Chief Executive	30%	3%
Martin Casha	Chief Operating Officer	20%	2%
Tim Holden	Finance Director	10%	1%

RECOVERY AND WITHHOLDING PROVISIONS

As detailed in the summary of remuneration policy on pages 57 to 59, the clawback provisions that operate in the annual bonus, the LTIP and the VCP enable the Remuneration Committee to recover value overpaid in the event of either a material misstatement of the company's financial results for any period or misconduct. Should it be considered appropriate to enforce these provisions, value can be recovered through

the withholding of future incentive payouts (including at the point of vesting of an LTIP or VCP award) or through requiring the overpayment be refunded to the company on a net of tax basis. The clawback provisions are included in the relevant plan documentation so that there is a clear basis on which the Remuneration Committee could seek to enforce the provisions should it consider it necessary to do so.

DIRECTORS REMUNERATION REPORT

DIRECTORS' SHAREHOLDINGS (AUDITED)

	Legally owned as at 31.12.2018	Legally owned as at 31.12.2017	Subject to deferral under the annual bonus plan	Subject to performance conditions under the relevant long term incentive plan	Vested but unexercised share options
			2016 LTIP ¹ award	2016 LTIP ² award	
Trevor Finn	19,127,976	19,127,976	No	1,931,250	0
Martin Casha	9,559,780	9,559,780	No	1,218,375	0
Tim Holden	2,131,331	2,131,331	No	920,104	0

1. Performance conditions: vesting is subject to the satisfaction of performance conditions based on achieving defined earnings per share targets measured from the 2015 earnings per share result over a three-year performance period - 4.5p (25% vesting) rising to 5.3p (100% vesting). Actual EPS for the financial year 2018: 2.8p.

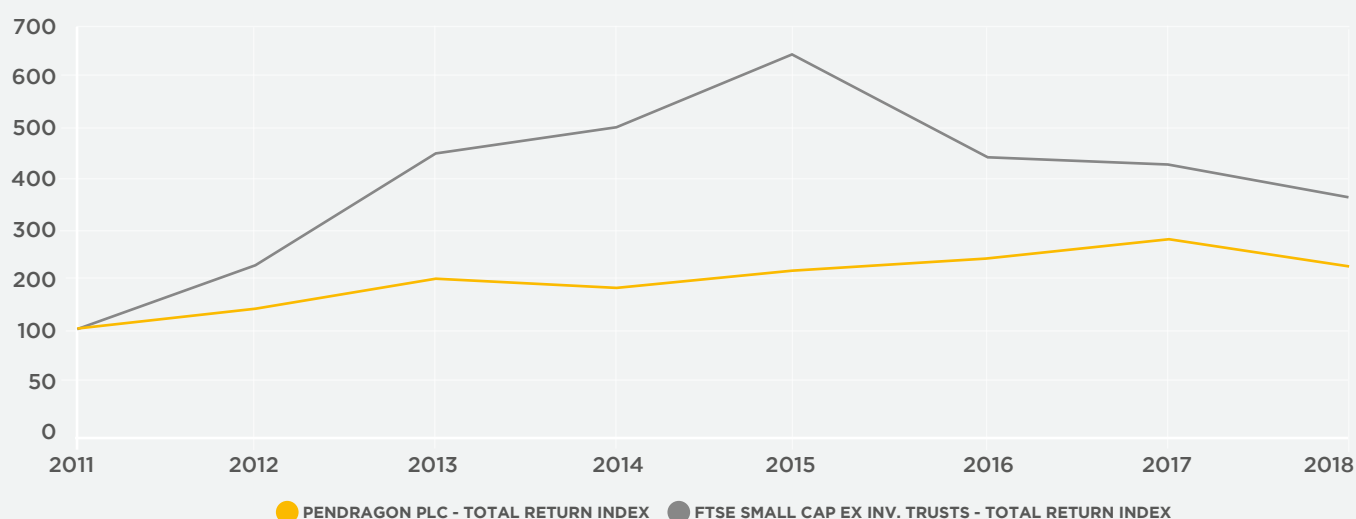
DIRECTORS' SHAREHOLDINGS (AUDITED) INFORMATION

Directors' Shareholdings (Audited Information) Each Executive Director fulfils the requirements of the company share ownership policy applicable to them (i.e. building a 200% of salary share ownership in the case of the Chief Executive and 100% in the case of the other Executive Directors). There is no company policy on Non-Executive Director share ownership.

TOTAL SHAREHOLDER RETURN¹

The graph below shows the total shareholder return ("TSR")² on the company's shares in comparison to the FTSE Small Cap Index (excluding investment companies).³ TSR has been calculated as the percentage change, during the relevant period, in the market price of the shares, assuming that any dividends paid are reinvested on the ex-dividend date. The relevant period is the seven years ending 31 December 2018. The notes at the foot of the graph provide more detail of the TSR calculation.

PENDRAGON PLC TSR 2011 - 2018



1. This report is required, pursuant to the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, regulation 18, Performance Graph.

2. Total Shareholder Return ("TSR") is calculated over the seven years ended on 31 December 2018 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends (if any) are reinvested in shares in the company. The price at which dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index, the TSR statistics are normalised to a common start point, which gives the equivalent to investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain TSR growth of the relevant index over the chosen period, the weighted average of TSR for all the companies in the index is calculated. In this case, it is the FTSE Small Cap Index (excluding investment companies) as explained in Note 3. The weighting is by reference to the market capitalisation of each company in the index in proportion to the total market capitalisation of all the companies in the index at the end of the chosen measurement period.

3. The FTSE Small CAP index has been selected as it represents the equity market in which the Company was a constituent member for the majority of the relevant seven year period ending 31 December 2018 detailed above.

HISTORY OF CHIEF EXECUTIVE REMUNERATION

Chief Executive	2018	2017	2016	2015	2014	2013	2012
Total Remuneration £m (single figure)	589	727	1,605	1,775	3,472	2,961	857
Annual bonus award (% of maximum that could have been paid)	0%	30%	87%	100%	100%	100%	54%
Percentage of LTIP ¹ vesting	0%	0%	100%	56%	100%	100%	0%

1. Percentage of shares vesting under the Pendragon Long Term Incentive Plan (for 2012, the Pendragon ExSOP) against the maximum number of shares that could have been received.

PERCENTAGE CHANGE IN CHIEF EXECUTIVE REMUNERATION

The table below illustrates the percentage change in the remuneration awarded to the chief executive between the preceding year and the reported year and that of the Group's employees across its entire UK business.

	Chief Executive	Employees of Company as a whole
% change in salary 2018 compared to 2017	0%	4.80%
% change in benefit 2018 compared to 2017	0%	15.48%
% change in bonus 2018 compared to 2017	-100%	-11.01%

RELATIVE IMPORTANCE OF SPEND ON PAY

The graph below illustrates the difference between spend on remuneration paid to all employees of the company, and dividend (interim and final proposed dividend) compared to the prior year.



DIRECTORS REMUNERATION REPORT

SHAREHOLDERS' VOTE ON REMUNERATION AT THE 2018 AGM

2017 Directors' Remuneration Report	Number	Proportion of votes cast
Votes cast in favour	739,947,663	82.88%
Votes cast against	152,840,583	17.12%
Total votes cast in favour or against	892,788,246	100%
Votes withheld	9,596,353	

SHARE PRICE INFORMATION AND PERFORMANCE

Other than those detailed above, there are no share option or long term incentive schemes in which the Directors are eligible to participate. The middle market price of Pendragon ordinary shares at 31 December 2018 was 22.50 pence and the range during the year was 20.05 pence to 30.85 pence.

APPROVAL

This report was approved by the Committee and signed on its behalf by:-

Mike Wright

Chairman of the Remuneration Committee
12 March 2019



DIRECTORS REPORT

STRATEGIC REVIEW AND PRESCRIBED REPORTING

Our Strategic Review at pages 4 to 25 contains the information, prescribed by the Companies Act 2006, required to present a fair review of the company's business, a description of the principal risks and uncertainties it faces, and certain of the information on which reports and statements are required by the UK Corporate Governance Code. The Board approved the Strategic Review set out on pages 9 to 33 and the Viability Statement set out on page 40. Additional information on which the Directors are required by law to report is set out below and in the following:-

- Corporate Governance Report
- Board of Directors
- Corporate Social Responsibility Report
- Audit Committee Report
- Nomination Committee Report
- Directors' Remuneration Report
- Directors' Report
- Directors' Responsibility Statement

In the interests of increasing the relevance of the Report and reducing the environmental impacts of over-lengthy printed reports, we have placed on our website certain background information on the company the disclosure of which, in this Report, is not mandatory. We monitor reaction to the publication of shareholder information on our website, to help shape our shareholder communication and future improvements.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 90 to 159. An interim dividend of 0.80 pence per ordinary share was paid to shareholders on 23 October 2018 (2017: 0.75 pence). The Directors are recommending a final dividend of 0.70 pence per ordinary share (2017: 0.80 pence) which would, if approved by shareholders at the 2019 AGM, bring total dividends for 2018 to 1.5 pence (2017 total: 1.5 pence).

APPOINTMENT AND POWERS OF THE COMPANY'S DIRECTORS

Appointment and removal of Directors is governed by the company's articles of association (the Articles), the UK Corporate Governance Code (the Code), the Companies Acts and related legislation. Subject to the Articles (which shareholders may amend by special resolution), relevant legislation and any directions given by special resolution, the company and its Group is managed by its Board of Directors. By resolutions passed at company general meetings, the shareholders have authorised the Directors: (i) to allot and issue ordinary shares; (ii) to offer and allot ordinary shares in lieu of some or all of the dividends; and (iii) to make market

purchases of the company's ordinary shares (in practice, exercised only if the Directors expect it to result in an increase in earnings per share). Details of movements in the company's share capital are given in note • to the financial statements.

In May 2016, the company announced the commencement of a programme to buyback an initial £20 million of its ordinary shares. Between 20 May 2016 and 31 December 2018, the company purchased and cancelled a total of 61,171,630 ordinary shares in the company. In addition, from time to time, Pendragon provides financial assistance to its independent employee benefits trust to facilitate the market purchase of ordinary shares in the company for use in connection with various of the company's employee incentive schemes. The company did not purchase any shares in this way in 2018.

BUSINESS AT THE AGM

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will issue shareholders with the company's annual report and financial statements together with the notice of AGM, giving not less than the requisite period of notice. The notice sets out the resolutions the Directors are proposing and has explanatory notes for each. At the AGM, Directors' terms of appointment are available for inspection and, as well as dealing with formal AGM business, the Board takes the opportunity to give an update shareholders on the company's trading position. The Chairman and each Committee Chairman are available to answer questions put by shareholders present.



DIRECTORS REPORT

DIRECTORS AND THEIR INTERESTS IN SHARES

Current Directors are listed on page 42. Details of the terms of appointment and notice period of each of the current Directors, together with Executives Directors' respective interests in shares under the company's long term incentive plan (Non-Executive Directors have none), appear in the Directors' Remuneration Report on pages 55 to 68. Directors who served during 2018 and their respective interests in the company's

issued ordinary share capital are shown in the table below. All holdings shown are beneficial. None of the Directors holds options over company shares. Each Executive Director fulfils the requirements of the company's share ownership policy applicable to them. There is no company policy requiring Non-Executive Directors to hold a minimum number of company shares.

Directors' shareholdings	Number at 31.12.18	Number at 31.12.17
Martin Casha	9,559,780	9,559,780
Chris Chambers	2,000,000	2,000,000
Trevor Finn	19,127,976	19,127,976
Tim Holden	2,131,331	2,131,331
Gillian Kent	Nil	Nil
Richard Laxer	Nil	n/a
Mike Wright	Nil	n/a
Jeremy King (resigned 12.11.18)	145,030	145,030

DIRECTORS' ROTATION

The UK Corporate Governance Code (July 2018) imposes an obligation that all Directors should be subject to annual re-election.

INDEMNITIES TO DIRECTORS

In line with market practice and the company's Articles, each Director has the benefit of a deed of indemnity from the company, which includes provisions in relation to duties as a

Director of the company or an associated company, qualifying third party indemnity provisions and protection against derivative actions.

Copies of these are available for shareholders' inspection at the AGM.

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 28 February 2019 the Directors had been advised of the following interests in the shares of the company:-

Shareholder	Number of shares	Percentage of voting rights of the issued share capital
Teleios Capital Partners (Zug)	297,762,244	21.30
Odey Asset Mgt (London)	193,426,898	13.84
Anders Hedin Invest AB (Regional (Sweden)	158,792,303	11.36
Hosking Partners (London)	85,494,471	6.12
Schroder Investment Mgt (London)	75,251,586	5.40
Dimensional Fund Advisors (London)	43,008,008	3.08
Black Rock Inc	41,159,326	2.94
Government of Norway	31,853,532	2.28

SHARE CAPITAL

As at 31 December 2018, Pendragon's issued share capital comprised a single class: ordinary shares of 5 pence each. The Articles permit the creation of more than one class of share, but there is currently none other than ordinary shares. Details of the company's share capital are set out in note 4.4 to the accounts. All issued shares are fully paid. The company did not issue any new shares during the period under review. The rights and obligations attaching to the company's ordinary shares are set out in the Articles. The company is currently authorised to issue up to two-thirds of its current issued share capital pursuant to a resolution passed at its 2018 AGM.

VOTING RIGHTS, RESTRICTIONS ON VOTING RIGHTS AND DEADLINES FOR VOTING RIGHTS

Shareholders (other than any who, under the Articles or the terms of the shares they hold, are not entitled to receive such notices) have the right to receive notice of, and to attend and to vote at, all general and (if any) applicable class meetings of the company. A resolution put to the vote at any general or class meeting is decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded. At a general meeting, every member present in person has, upon a show of hands, one vote, and on a poll, every member has one vote for every 5 pence nominal amount of share capital of which they are the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings whilst any amount of money relating to his shares remains outstanding.

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the AGM. Details of the exercise of voting rights attached to the ordinary shares held by the company's Employee Benefit Trust are set out below. None of the ordinary shares, including those held by the Employee Benefit Trust, carries any special voting rights with regard to control of the company. To be effective, electronic and paper proxy appointments and voting instructions must be received by the company's registrars not later than 48 hours before a general meeting.

By order of the Board

Richard Maloney
Company Secretary
12 March 2019

The Articles may be obtained from Companies House in the UK or upon application to the Company Secretary. Other than those prescribed by applicable law and the company's procedures for ensuring compliance with it, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are governed by the Articles and prevailing legislation. The Directors are not aware of any agreement between holders of the company's shares that may result in restrictions on the transfer of securities or the exercise of voting rights. No person has any special rights of control over the company's share capital.

SHARES HELD BY THE PENDRAGON EMPLOYEE BENEFIT TRUST

As at 31 December 2018, the company's Employee Benefit Trust with Accuro Trustees (Jersey) Limited (the Trustee) held 6,420,093 shares, representing 0.46% of the total issued share capital at that date (2017: 7,676,226; 0.42%). The Trustee has waived its voting rights attached to these shares. It holds these shares to enable it to satisfy entitlements under the company's share schemes. During the year, the Trustee transferred 1,160,935 shares to satisfy such entitlements (2017: 6,515,291).

CONTRACTS

None of the Directors had an interest in any contract with the Group (other than their service agreement or appointment terms and routine purchases of vehicles for their own use) at any time during 2018. The company and members of its Group are party to agreements relating to banking, properties, employee share plans and motor vehicle franchises which alter or terminate if the company or Group company concerned undergoes a change of control. None is considered significant in terms of its likely impact on the business of the Group as a whole.

POLITICAL DONATIONS

The company and its Group made no political donations (2017: £ nil).

AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that: so far as they are each aware, there is no relevant audit information of which the Group's Auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.

FINANCIAL STATEMENTS

73	Director's Responsibility Statements	89	Notes to the Financial Statements
74	Independent Auditor's Report	160	Company Balance Sheet
83	Consolidated Income Statement	161	Company Statement of Comprehensive Income
84	Consolidated Statement of Comprehensive Income	162	Company Statement of Changes in Equity
85	Consolidated Statement of Changes in Equity	163	Notes to the Financial Statements of the Company
86	Consolidated Balance Sheet	170	Advisors, Banks and Shareholder Information
87	Consolidated Cash Flow Statement	171	5 Year Group Review
88	Reconciliation of Net Cash Flow to Movement in Net Debt		



STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy

at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Approved by order of the Board

Tim Holden
Finance Director
12 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Pendragon PLC ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Statement of Comprehensive Income, Company Statement of Changes in Equity, Company Balance Sheet and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 28 April 1997. The period of total uninterrupted engagement is for the 22 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC (CONTINUED)

2. Key audit matters: including our assessment of risks of material misstatement *continued*

The impact of uncertainties due to the UK exiting the European Union on our audit Risk vs 2017: ↑

51 Audit Committee report, page 37 of the Risk Overview and Management, page 40 Viability Statement

The risk – Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverable amount of goodwill and investments in subsidiaries key audit matter below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response – Our procedures included:

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks;
- **Sensitivity analysis:** When addressing going concern, the recoverable amount of goodwill and investments in subsidiaries, and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty;
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on going concern, recoverable amount of goodwill, carrying value of investments, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results: As reported under the key audit matters for going concern and the recoverable amount of goodwill and investments in subsidiaries, we found the resulting estimates and related disclosures to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC (CONTINUED)

2. Key audit matters: including our assessment of risks of material misstatement *continued*

Going Concern Risk vs 2017: ↑

Refer to page 89 of the Notes to the financial statements

The risk – Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's and Company's available financial resources over this period were :

- Relationship with manufacturers;
- Execution of the Car Stores new strategy;
- The impact of Brexit on customer demand.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our response – Our procedures included:

- **Funding assessment:** We agreed current facilities available to the relevant facility agreements and recent lender correspondence. We inspected the loan agreements in order to determine the covenants attached to the loans and assessed the evidence available to support that they will be met;
- **Historical comparisons:** We assessed historical accuracy of management forecasting by comparing the actual cashflows for the year ended 31 December 2018 to the forecast cashflows over the same period;
- **Key dependency assessment:** We assessed the impact of assumptions underpinning the cash flow forecasts in order to identify the key dependencies within the forecasts.
- **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. In particular, we assessed the Group's downside forecasts based on the risks resulting from Brexit;
- **Benchmarking assumptions:** We compared the assumptions behind the Group's cashflow forecasts to externally derived data including market forecasts and projected growth and cost inflation;
- **Evaluating directors' intent:** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialize. We considered the extent to which the intent and ability of the directors to pursue mitigating actions should such be required were realistic;
- **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure by considering whether they accurately reflected the Group's financing arrangements and the risks associated with the Group's ability to continue as a going concern.

Our results: We found the going concern disclosure without any material uncertainty to be acceptable (2017 result: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC (CONTINUED)

2. Key audit matters: including our assessment of risks of material misstatement *continued*

Recoverable amount of goodwill and investment in subsidiaries Risk vs 2017: ↑

(Goodwill £265.9 million, impairment £88.8 million (2017: £361.2 million), parent company investment in subsidiaries £912.4 million, impairment £10.2 million (2017: £922.6 million))

Refer to page 50 Audit Committee report, page 113 (accounting policy) and pages 113-118 (financial disclosures).

The risk – Forecast-based valuation

Goodwill in the group and the carrying amount of the parent company's investment in subsidiaries are significant and at risk of irrecoverability following, the profits warning issued by the Group in October 2018 and the Group's failure to achieve its financial forecasts in the past two years.

The Group's significant goodwill balance is allocated across its Cash Generating Units (CGU's) which are generally the franchises. During the year, an impairment of £88.8million was recognised against the carrying value of goodwill in a number of CGUs, and an impairment of £10.2million was recognised against the parent company investment in subsidiaries.

The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill (and the parent company's investment in subsidiaries) has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.1) disclose the sensitivity estimated by the Group, and the sensitivity in relation to the investment is disclosed in the parent company accounts (note 5).

Our response – Our procedures included:

- **Historical comparisons:** We assessed the Group's budgeting procedures by comparing the Group's historical budgets to actual performance by CGU;
- **Benchmarking assumptions:** We compared the Group's assumptions to externally derived data in relation to key inputs such as projected market growth and its expected impact on forecasted results, cost inflation, and discount rates;
- **Our valuation experience:** We used our own valuation specialist to assist us in evaluating the assumptions and methodology used by the Group;
- **Sensitivity analysis:** We performed sensitivity analysis for the reasonably possible downsides for key assumptions such as discount rate, growth rate into perpetuity and EBITDA noted above.
- **Comparing valuations:** We compared the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cash flows; and
- **Assessing transparency:** We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Our results: We found the Group's estimate of the recoverable amount of goodwill and investment in subsidiaries, and the resulting impairment charges recognised, to be acceptable (2017 result: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC (CONTINUED)

2. Key audit matters: including our assessment of risks of material misstatement *continued*

Carrying amount of used vehicle inventory in the UK (£563.2 million (2017: £397.4 million)) ↑

Refer to page 51 Audit Committee report, page 124 (accounting policy) and page 124 (financial disclosures).

The risk – subjective valuation

The Group holds significant levels of used vehicle inventory in the UK. Used vehicle selling prices vary depending upon a number of factors including general economic conditions, falling diesel sales and the levels of new vehicle production.

Accounting standards require inventory to be held at the lower of cost and net realisable value. History has shown that the average price of a used vehicle may decline significantly over a short period of time, and therefore the estimation of the net realisable value of used vehicles is a significant judgement area. The risk increases as the age of the used vehicle inventory increases.

The effect of these matters is that, as part of our risk assessment, we determined that the carrying amount of used vehicles in the UK has a high degree of estimation uncertainty, with a potential range of reasonable outcomes which are within our materiality for the financial statements as a whole. The financial statements (note 3.4) disclose the sensitivity estimated by the Group.

Our response – Our procedures included:

- **Reperformance:** We recalculated the provision provided by the Group and assessed the impact of sensitivity testing on the input assumptions;
- **Historical comparisons:** We considered the Group's historical trading patterns including performing an analysis of the ageing of the vehicles to challenge the assumptions made in the used vehicle inventory provision. We also assessed the Group's methodology for calculating the provision by performing a retrospective review of sales prices achieved during the year compared to the prior year provision;
- **Benchmarking assumptions:** We compared the Group's expectations for used car prices to the expectations of market commentators;
- **Tests of details:** We assessed the appropriateness of the related inventory provision by comparing the losses incurred on used car sales subsequent to the year end to the level of the year end provision;
- **Assessing transparency:** We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the vehicle inventory provision.

Our results: We found the group's estimate of the carrying value of UK used inventory to be acceptable (2017 result: acceptable).

Post- retirement benefits obligation (£486.3 million (2017: £521.8 million)) Risk vs 2017: ↔

Refer to page 51 Audit Committee report, page 147 (accounting policy) and page 147-156 (financial disclosures).

The risk – subjective valuation

Significant assumptions are made in valuing the Group's post retirement benefit obligation within the overall net pension liability. Small changes in assumptions used to value the Group's post retirement benefit obligation would have a significant effect on the Group's net pension liability.

The effect of these matters is that, as part of our risk assessment, we determined that the estimated post retirement benefits obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 5.1) disclose the sensitivity estimated by the Group.

Our response – Our procedures included:

- **Benchmarking assumptions:** With the support of our own actuarial specialists, we challenged the key assumptions applied to determine the Group's post-retirement benefit obligation against externally derived data. The key assumptions tested include discount rate, inflation rate, mortality/life expectancy and rate of pension payments;
- **Assessing transparency:** We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

Our results: We found the valuation of the post-retirement benefits obligation to be acceptable (2017 result: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC (CONTINUED)

3. Our application of materiality and an overview of the scope of our audit

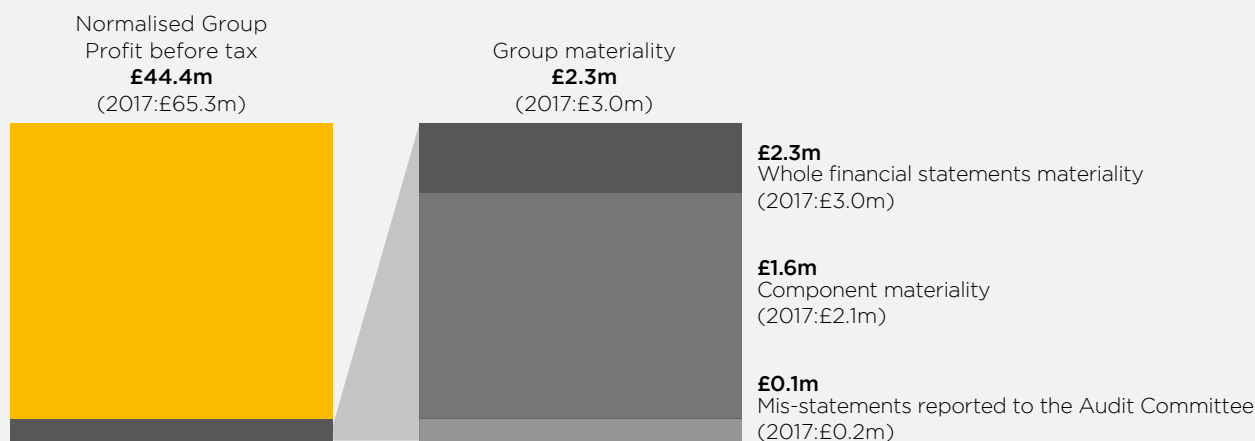
Materiality for the Group financial statements as a whole was set at £2.25million (2017: £3.0million) determined with reference to a benchmark of Group loss before tax normalised to exclude the impairment charge recognised in the year, giving a normalised Group profit before tax of £44.4million of which it represents 5.1% (2017: 4.6% of group profit before tax).

Materiality for the parent company financial statements as a whole was set at £1.6million (2017: £2.1million), determined with reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to a benchmark of company net assets, of which it represents 0.4% (2017: 0.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1million (2017: £0.2million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all twenty four (2017: all six) of the Group's reporting components to full scope audits for Group purposes. The components within the scope of our work accounted for 100% (2017:100%) of the Group's revenue, profit before tax and total assets.

The Group audit team approved the component materialities, which ranged from £0.1million to £1.6 million (2017: £2.1 million), having regard to the mix of size and risk profile of the Group across the components. The Group audit team performed all of the audit work in relation to the twenty four (2017: six) components, including the audit of the parent company.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 81 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC *(CONTINUED)*

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures on pages 35 to 39 describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC (CONTINUED)

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 73, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following area as those most likely to have such an effect: Anti-bribery and Corruption Act 2011, recognising the financial and regulated nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC *(CONTINUED)*

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**John Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
One Snowhill, Snowhill Queensway, Birmingham B4 6GH
12 March 2019

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

	Notes	Continuing operations £m	Discontinued operations* £m	2018 £m	Continuing operations £m	Discontinued operations* £m	2017 £m
Revenue	2.1	4,148.6	478.4	4,627.0	4,324.3	414.8	4,739.1
Cost of sales		(3,658.2)	(418.3)	(4,076.5)	(3,825.6)	(360.6)	(4,186.2)
Gross profit		490.4	60.1	550.5	498.7	54.2	552.9
Operating expenses	2.2	(529.1)	(51.5)	(580.6)	(418.0)	(43.4)	(461.4)
Operating (loss)/profit before other income		(38.7)	8.6	(30.1)	80.7	10.8	91.5
Other income - gains/(losses) on the sale of businesses and property	2.6	13.0	2.7	15.7	(0.1)	-	(0.1)
Operating (loss)/profit		(25.7)	11.3	(14.4)	80.6	10.8	91.4
Analysed as:							
Underlying operating profit		67.6	8.6	76.2	73.0	10.8	83.8
Non-underlying operating (loss)/ profit	2.6	(93.3)	2.7	(90.6)	7.6	-	7.6
Finance expense	4.3	(27.5)	(2.5)	(30.0)	(24.5)	(1.6)	(26.1)
Net finance costs		(27.5)	(2.5)	(30.0)	(24.5)	(1.6)	(26.1)
Analysed as:							
Underlying net finance costs		(25.9)	(2.5)	(28.4)	(21.8)	(1.6)	(23.4)
Non-underlying net finance costs	2.6	(1.6)	-	(1.6)	(2.7)	-	(2.7)
(Loss)/profit before taxation		(53.2)	8.8	(44.4)	56.1	9.2	65.3
Analysed as:							
Underlying profit before taxation		41.7	6.1	47.8	51.2	9.2	60.4
Non-underlying (loss)/ profit before taxation	2.6	(94.9)	2.7	(92.2)	4.9	-	4.9
Income tax expense	2.7	(3.8)	(2.3)	(6.1)	(8.7)	(3.3)	(12.0)
(Loss)/profit for the year		(57.0)	6.5	(50.5)	47.4	5.9	53.3
Earnings per share							
Basic earnings per share	2.8	(4.1p)	0.5p	(3.6p)	3.3p	0.4p	3.7p
Diluted earnings per share	2.8	(4.1p)	0.5p	(3.6p)	3.3p	0.4p	3.7p
Non GAAP measure:							
Underlying basic earnings per share	2.8	2.5p	0.3p	2.8p	2.9p	0.4p	3.3p
Underlying diluted earnings per share	2.8	2.5p	0.3p	2.8p	2.9p	0.4p	3.3p

* The discontinued operations are in respect of the Group's US business which is currently classified as held for sale (see note 3.3). The notes on pages 90 to 159 form part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 £m	2017 £m
(Loss)/profit for the year		(50.5)	53.3
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement (losses) and gains	5.1	(0.9)	35.8
Income tax relating to defined benefit plan remeasurement (gains) and losses	2.7	-	(6.3)
		(0.9)	29.5
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences of foreign operations		-	(0.6)
		-	(0.6)
Other comprehensive income for the year, net of tax		(0.9)	28.9
Total comprehensive income for the year		(51.4)	82.2
Total comprehensive income for the period attributable to equity shareholders of the company arises from:			
Continuing operations		(58.0)	76.9
Discontinued operations - see note 3.3		6.6	5.3
		(51.4)	82.2

The notes on pages 90 to 159 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation differences £m	Retained earnings £m	Total £m
Balance at 1 January 2018	71.2	56.8	4.3	12.6	(0.8)	281.3	425.4
Total comprehensive income for 2018							
Loss for the year	-	-	-	-	-	(50.5)	(50.5)
Other comprehensive income for the year, net of tax	-	-	-	-	-	(0.9)	(0.9)
Total comprehensive income for the year	-	-	-	-	-	(51.4)	(51.4)
Dividends paid (note 4.5)	-	-	-	-	-	(22.5)	(22.5)
Own shares purchased for cancellation	(1.2)	-	1.2	-	-	(6.7)	(6.7)
Own shares issued by EBT	-	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	-	0.7	0.7
Balance at 31 December 2018	70.0	56.8	5.5	12.6	(0.8)	201.5	345.6
Balance at 1 January 2017	71.8	56.8	3.7	12.6	(0.2)	228.1	372.8
Total comprehensive income for 2017							
Profit for the year	-	-	-	-	-	53.3	53.3
Other comprehensive income for the year, net of tax	-	-	-	-	(0.6)	29.5	28.9
Total comprehensive income for the year	-	-	-	-	(0.6)	82.8	82.2
Dividends paid (note 4.5)	-	-	-	-	-	(21.3)	(21.3)
Own shares purchased for cancellation	(0.6)	-	0.6	-	-	(4.0)	(4.0)
Own shares purchased by EBT	-	-	-	-	-	(2.8)	(2.8)
Own shares issued by EBT	-	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	-	(1.7)	(1.7)
Income tax relating to share based payments	-	-	-	-	-	0.1	0.1
Balance at 31 December 2017	71.2	56.8	4.3	12.6	(0.8)	281.3	425.4

The notes on pages 90 to 159 form part of these financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	3.2	463.9	479.9
Goodwill	3.1	265.9	361.2
Other intangible assets	3.1	8.2	7.5
Deferred tax assets	2.7	9.8	11.4
Total non-current assets		747.8	860.0
Current assets			
Inventories	3.4	959.6	1,003.5
Trade and other receivables	3.6	114.8	132.8
Current tax assets		4.3	-
Cash and cash equivalents	4.2	51.4	53.3
Assets classified as held for sale	3.3	137.6	11.0
Total current assets		1,267.7	1,200.6
Total assets		2,015.5	2,060.6
Current liabilities			
Trade and other payables	3.7	(1,175.4)	(1,224.2)
Deferred income	3.9	(49.7)	(50.3)
Current tax payable		-	(2.1)
Provisions	3.8	(0.7)	(0.7)
Liabilities directly associated with the assets held for sale	3.3	(88.6)	-
Total current liabilities		(1,314.4)	(1,277.3)
Non-current liabilities			
Interest bearing loans and borrowings	4.2	(179.0)	(177.4)
Trade and other payables	3.7	(54.4)	(59.0)
Deferred income	3.9	(52.2)	(49.9)
Retirement benefit obligations	5.1	(68.3)	(62.8)
Provisions	3.8	(1.6)	(8.8)
Total non-current liabilities		(355.5)	(357.9)
Total liabilities		(1,669.9)	(1,635.2)
Net assets		345.6	425.4
Capital and reserves			
Called up share capital	4.4	70.0	71.2
Share premium account	4.4	56.8	56.8
Capital redemption reserve	4.4	5.5	4.3
Other reserves	4.4	12.6	12.6
Translation reserve	4.4	(0.8)	(0.8)
Retained earnings		201.5	281.3
Total equity attributable to equity shareholders of the Company		345.6	425.4

Approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

T G Finn

Chief Executive

Registered Company Number: 02304195

T P Holden

Finance Director

The notes on pages 90 to 159 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
(Loss)/profit for the year		(50.5)	53.3
Adjustment for taxation		6.1	12.0
Adjustment for net financing expense		30.0	26.1
		(14.4)	91.4
Depreciation and amortisation		27.4	28.5
Share based payments		0.7	(1.7)
Pension past service costs		10.5	-
(Profit)/loss on sale of businesses and property		(15.7)	0.1
Impairment of goodwill		88.8	-
Impairment of assets held for sale		1.2	-
Impairment of property, plant and equipment		5.8	-
Contribution into defined benefit pension scheme		(7.5)	(7.3)
Changes in inventories	3.4	(23.6)	(102.3)
Changes in trade and other receivables		(7.6)	20.8
Changes in trade and other payables		61.6	134.0
Changes in provisions		(7.2)	(2.9)
Movement in contract hire vehicle balances	3.5	(31.9)	(31.7)
Cash generated from operations		88.1	128.9
Taxation paid		(10.9)	(16.1)
Interest paid		(24.8)	(20.0)
Net cash from operating activities		52.4	92.8
Cash flows from investing activities			
Business acquisitions	6.1	-	(17.8)
Proceeds from sale of businesses	6.2	10.9	-
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	(133.2)	(193.0)
Proceeds from sale of property, plant, equipment and intangible assets	3.1, 3.2	96.0	114.1
Net cash used in investing activities		(26.3)	(96.7)
Cash flows from financing activities			
Dividends paid to shareholders		(22.5)	(21.3)
Repurchase of own shares		(6.7)	(4.0)
Own shares acquired by EBT		-	(2.8)
Disposal of shares by EBT		0.1	0.1
Repayment of loans		(10.0)	(15.0)
Proceeds from issue of loans		7.1	20.4
Net cash outflow from financing activities		(32.0)	(22.6)
Net decrease in cash and cash equivalents		(5.9)	(26.5)
Cash and cash equivalents at 1 January		53.3	84.0
Effects of exchange rate changes on cash held		4.0	(4.2)
Cash and cash equivalents at 31 December	4.2	51.4	53.3

The notes on pages 90 to 159 form part of these financial statements

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2018 £m	2017 £m
Net decrease in cash and cash equivalents	(5.9)	(26.5)
Repayment of bond and loans	10.0	15.0
Proceeds from issue of loans (net of directly attributable transaction costs)	(7.1)	(20.4)
Non-cash movements	(0.5)	(0.5)
Increase in net debt in the year	(3.5)	(32.4)
Opening net debt	(124.1)	(91.7)
Closing net debt	(127.6)	(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.

The notes on pages 90 to 159 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2018 or later years. To facilitate the understanding of each note to the financial statements those accounting policies that are relevant to a particular category are presented within the relevant notes.

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2018 comprise the company and its subsidiaries and the Group's interest in jointly controlled entities, together referred to as the 'Group'

The Group 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 company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 160 to 169.

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention and where other bases are applied these are identified in the relevant accounting policy in the notes below.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational Review sections on pages 9 to 17 and pages 26 to 33. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review section on pages 32 to 34. In addition, note 4.2 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

At 31 December 2018, there are undrawn available facilities and, as highlighted in note 4.2 to the financial statements, the Group meets its day-to-day working capital requirements through bank, manufacturer and third party vehicle financing facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

At 31 December 2018, the Group has access to a £300m RCF facility that expires in March 2021. The Group meets its day to day working capital needs, principally through the additional manufacturer and vehicle financing facilities.

The Group has forecast daily cashflows for the period to 30 June 2020, based on the Directors current expectation of the Group's financial performance.

The Directors have prepared a reasonably possible down-side scenario forecast taking into account mitigations which are under the Directors control, considering the impact of a no Deal Brexit. This downside scenario forecasts a positive headroom on cash and covenant throughout the period to 30 June 2020.

It is on this basis that the Directors believe the Group has adequate resources to continue in operational existence for at least the period to 30 June 2020. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Judgements

The Group applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. The key accounting judgements, without estimation, that have been applied in these financial statements are as follows:

Key judgements	Effect on Financial Statements	Alternative accounting judgement that could have been applied	Effect of that alternative accounting judgement
Deferred tax assets:			
No recognition of certain deferred tax assets as the Group believes their recovery to be too uncertain.	No recognition of potential assets of £7.9m relating to unutilised tax losses of £13.8m and unrecognised net capital losses of £38.0m.	If the Group had determined that the utilisation of the losses was more certain then full or partial recognition of deferred tax assets would have taken place.	Recognition of assets within the range £0-£7.9m.
Assets held for sale:			
The Group has announced its intention to dispose of its US business and reduce its premium franchise locations.	Assets held for sale included £37.0m for the US business which we were actively selling at 31 December 2018. The disclosure of the assets and liabilities relating to the other businesses which we expect to sell remain unchanged.	If the Group had determined that some or all of the planned disposals were sufficiently advanced to meet the criteria to be classified as assets held for sale then other businesses could have been classified as assets held for sale.	Reclassification of further businesses as assets held for sale.
Intangibles:			
Internally generated intangible assets relate to activities that involve the development of dealer management systems by the Software operating segment.	Capitalisation of development expenditure is completed only if development costs meet certain criteria. Full detail of the criteria is in note 3.1.	Not capitalising development costs.	Reduction of £7.1m of asset carrying value.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Accounting Estimates

The preparation of 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 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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. The Directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long term:

Key estimate area	Key assumption	Potential impact within the next financial year	Potential impact in the longer term	Note reference
Goodwill impairment	Within the Goodwill calculation we undertake an exercise to estimate future cashflows from each Cash Generating Unit (CGU). We have key assumptions on the growth rates of revenue and gross margin in each of new, used and aftersales which impacts the profit assumed and hence cashflow generation in each CGU. These assumptions are key to calculation of the net present value of cashflows. The further key assumptions are the perpetuity growth rate and discount rate.	✓	✓	3.1
Inventory fair value (UK used inventory of £563.2m)	The Group assessment of fair values of used inventory involves an element of estimation. The key assumption is estimating the likely sale period and the expected profit or loss on sale for each of our inventory items that are held at the year end point. We conduct this analysis by looking at stock by age category and comparing historical trends and our forward expectations on these assumptions.	✓		3.4
Retirement benefit obligations	The main assumptions in determining the Group's retirement benefit obligations are: discount rate, mortality and rate of inflation. Full detail is included in the pension note, 5.1.	✓	✓	5.1
Contract hire vehicle residual values	The vehicles within the Group's contract hire fleet are subject to a repurchase commitment from the vehicle's funders at the end of the contract hire period which is pre-determined at the commencement of each contract. The Group has to assess the likely value of these vehicles at the end of their contracts and determine if any impairment is necessary when compared against the repurchase price. This involves estimating the future value of these vehicles using industry data of projected used car values over the periods during which the vehicles are due to be returned together with its own historic data and expectations based on past trends and the model mix in the fleet.	✓	✓	3.2

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Basis of consolidation

The consolidated financial statements include the financial statements of Pendragon PLC, all its subsidiary undertakings and investments. Consistent accounting policies have been applied in the preparation of all such financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments

Investments in entities in which the Group has no control are stated at their fair value.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

IntraGroup balances and any unrealised gains or losses or income and expenses arising from intraGroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the entity.

Foreign currencies

Transactions in foreign currencies are translated to the respective functional currency of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity, in the foreign currency translation reserve, to the extent the hedge is effective. To the extent the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit and loss on disposal.

In respect of all foreign operations, any differences that have arisen after 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and financial institutions, bank and cash balances, and liquid investments, net of bank overdrafts. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. In the balance sheet, bank overdrafts are included in current borrowings.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Impairment

The carrying amounts of the Group's assets, other than inventories (see note 3.4) and deferred tax assets (see note 2.7), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For the purpose of impairment testing, assets are Grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other Groups of assets ('the cash generating unit'). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash generating units. Management have determined that the cash generating units of the Group are the motor franchise Groups and other business segments.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The impact of the current year impairment review can be seen in note 3.1.

Adoption of new and revised standards and new standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

Annual Improvements 2014-2016 cycle

Transfers to Investment Property – Amendments to IAS 40

Interpretation 22 Foreign Currency Transactions and Advance Consideration

The adoption of the new standards and amendments above have had no significant impact.

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

IFRS 16 Leasing

IFRS 16 Leasing is effective for annual periods beginning on or after 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases of 12 months or less and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases, most notably in respect of property. IFRS 16 is not anticipated to affect the existing accounting treatment of the leasing segment.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Group will also use practical expedient to account for a lease as a short term lease if it has a remaining term of 12 months or less on transition. Under this approach, the Group would not recognise a ROU asset or lease liability for this lease. Instead, the Group would recognise rentals payable as an expense in its disclosure of total short-term lease expense. The USA segment is classified as an asset held for sale and accordingly the impact of IFRS 16 on that segment has not been calculated.

As at the reporting date, the Group has non-cancellable operating lease commitments of £480m, (see note 4.8). Of these commitments, approximately £72m relate to leases in the US Motor segment which is classified as held for sale and £6m relate to short-term leases and low value leases which will be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the Group expects to recognise ROU assets of approximately £196m on 1 January 2019, lease liabilities of approximately £286m, finance lease receivables of approximately £29m and deferred tax assets of approximately £9m (before adjustments including prepayments and accrued lease payments recognised as at 31 December 2018 of approximately £3m). Overall net assets will be approximately £49m lower, and net current liabilities will be approximately £20m higher due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately £0.5m for 2019 as a result of adopting IFRS 16.

Adjusted EBITDA as presented in note 4.2 is expected to increase by approximately £32m, as the operating lease payments were included in EBITDA, but the amortisation of the ROU assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately £32m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on the information currently available, the Group expects that it will reclassify 17 sub-leases as a finance lease, resulting in recognition of a finance lease receivable of approximately £29m as at 1 January 2019. No significant impact is expected for other leases in which the Group is a lessor.

The adoption of IFRS 16 will have no impact on the Group's current banking covenants.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

IFRIC 23 Uncertainty over Tax Treatments.

Prepayment Features with Negative Compensation (Amendments to IFRS 9).

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards.

Amendments to References to Conceptual Framework in IFRS Standards.

IFRS 17 Insurance Contracts.

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 KPIs 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 KPIs 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 KPIs on a consistent basis and they are defined and reconciled as follows:

Dividend per share - dividend per share is defined as the interim dividend per share plus the proposed final year dividend for a given period.

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 - results on an underlying basis exclude items that have non-trading attributes due to their size, nature or incidence. The detail of the non-underlying results is shown in note 2.6 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Operating profit reconciliation	2018 £m	2017 £m
Underlying operating profit	76.2	83.8
Settlement of historic VAT issues (see note 2.6)	-	7.7
Gains/(losses) on the sale of businesses and property (see note 2.6)	15.7	(0.1)
Past service costs (see note 2.6)	(10.5)	-
Impairment of goodwill (see note 2.6)	(88.8)	-
Impairment of assets held for sale (see note 2.6)	(1.2)	-
Impairment of property, plant and equipment (see note 2.6)	(5.8)	-
Non-underlying operating (loss)/profit items	(90.6)	7.6
Operating (loss)/profit	(14.4)	91.4
 (Loss)/profit before tax reconciliation		
	2018 £m	2017 £m
Underlying profit before tax	47.8	60.4
Non-underlying operating profit items (see reconciliation above)	(90.6)	7.6
Non-underlying finance costs (see note 2.6)	(1.6)	(2.7)
Non-underlying operating (loss)/profit and finance costs items	(92.2)	4.9
(Loss)/profit before tax	(44.4)	65.3
 (Loss)/profit after tax reconciliation		
	2018 £m	2017 £m
Underlying profit after tax	38.7	47.6
Non-underlying operating (loss)/profit and finance costs items (see reconciliation above)	(92.2)	4.9
Non-underlying tax (see note 2.6)	3.0	0.8
Non-underlying operating (loss)/profit, finance costs and tax items	(89.2)	5.7
(Loss)/profit after tax	(50.5)	53.3

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

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 2.8.

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 2.8.

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.

Net franchise capital expenditure - total franchise specific (manufacturer new vehicle partners) capital expenditure incurred in the period less franchise specific disposal proceeds.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

This section contains the notes and information to support the results presented in the income statement:

2.1	Revenue	2.5	Audit fees
2.2	Net operating expenses	2.6	Non-underlying items
2.3	Operating segments	2.7	Taxation
2.4	Staff costs	2.8	Earnings per share

2.1 Revenue

Accounting policy

The Group has adopted and applied IFRS 15 for the year ended 31 December 2018, using the cumulative effect method. The comparative information therefore has not been restated and continues to be reported under IAS 18 and IAS 11. The Group has quantified the effect of IFRS 15 on the reported revenue for the year ended 31 December 2017 and due to its amount being immaterial no comparison table is presented in these financial statements to quantify the impact of the adoption of IFRS 15. Accordingly the Group has not made any significant changes in its accounting policy for revenue other than addressing the small areas identified that were not in line with IFRS 15. As these amounted to a value of less than £0.1m no further disclosure is presented.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

The following is a description of principal activities from which the Group generates its revenue categorised by the reportable segments as detailed in note 2.3.

UK Motor segment and US Motor segment

The UK and US Motor segments principally generate revenue from the sale of new and used motor vehicles, together with the supply of motor vehicle parts, servicing and repair activities, collectively referred to as aftersales. Products and services may be sold separately or in bundled packages. Examples of a bundled package will include the supply of a vehicle with an extended warranty or a servicing plan. For bundled packages, the Group accounts for individual products and services separately as they are distinct items, as each performance obligation within that contract is separately identifiable from other items in the bundled package. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells these items and are separately identified on the customer's invoice.

The Group has a number of manufacturer partners who will provide goods/services to customers, for example a warranty or free servicing when purchasing a new vehicle. Such items do not have a contractual obligation on the Group as the obligation lies with the manufacturer and therefore no revenue is recognised in respect of these items.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
New and used vehicles, parts and accessories	The Group recognises revenue on the sale of motor vehicles and parts revenue when they have been supplied to the customer. The satisfaction of the performance obligation occurs on delivery or collection of the product. Vehicles are usually paid for prior to delivery though selected corporate operators may be granted terms of up to seven days. Parts are either paid for on delivery or within one month, dependant upon whether or not the customer is retail or has trade terms.
Service and repairs	The Group recognises revenue when service has been completed. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to time expended on services that are charged on a labour rate basis. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Payment terms are upon completion of the service or within one month, dependant upon whether or not the customer is retail or trade.
Commissions received	The Group receives commissions when it arranges finance and insurance packages for its customers to purchase its products and services, acting as agent on behalf of various finance and insurance companies. Any commission earned is recognised when the customer draws down the finance or commences the insurance policy from the supplier which coincides with the delivery of the product or service. Commissions receivable are paid typically in the month after the finance is drawn down.
Vehicle warranty	The Group offers a warranty product on vehicles supplied with a guarantee period typically ranging from 3 months to 3 years. The Group recognises revenue on warranties on a straight-line basis over the warranty period. The performance obligation of the Group, being the rectification of mechanical faults on vehicles sold, will be the period over which the customer can exercise their rights under the warranty and therefore revenue should be recognised over the period of the warranty. Warranties are paid for prior to the commencement of the policy. The unrecognised income is held within deferred income (see note 3.9).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Leasing

The leasing segment generates revenue from the provision of vehicle leasing services, principally to fleets run by various commercial operators. Vehicles are supplied to customers on operating leases and may include servicing and maintenance agreements, which are bundled into the overall contract. For bundled packages, the Group accounts for individual products and services separately as they are distinct items, as each performance obligation within that contract is separately identifiable from other items in the bundled package. At the end of each contract the Group will generate revenue from the disposal of the vehicle, recovery of any rectification work and in some instances additional rentals beyond the original contract term.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Leasing	Where vehicles are supplied to a leasing company for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset to generate future rentals and, in accordance with IAS 17 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are held as deferred income allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. A finance charge is accrued against the present value of the repurchase commitment and recorded as a finance expense in the income statement. The remaining deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term. No additional disclosures are made under IAS 17 as there are no future rentals receivable. These vehicles are held within 'property, plant and equipment' at their cost to the Group and are depreciated to their residual values over the terms of the leases. These assets are transferred into inventory at their carrying amount when they cease to be rented and they become available for sale as part of the Group's ordinary course of business. Rentals are billed and paid for on a monthly basis.
Maintenance	The Group offer a maintenance contract to customers to cover routine servicing and unexpected repairs of vehicles under a leasing contract. Revenue is recognised over the period of the contract on a straight line basis. Maintenance contracts are billed and paid for on a monthly basis.
Used Vehicles	The Group recognises revenue on the sale of ex-contract hire motor vehicles when they have been supplied to the customer. This occurs on delivery or collection of the product. Vehicles are paid for on delivery.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Software

The Group, through its Pinewood business, supplies dealer management systems to motor vehicle dealers. These systems include consultancy, training and installation services and the right to use the Group's software over a contractual period. Products and services may be sold separately or in bundled packages. Examples of a bundled package will include system consultancy, on and off site training for users together with the right for a number of users to use the software. For bundled packages, the Group accounts for individual products and services separately as they are distinct items, as each performance obligation within that contract is separately identifiable from other items in the bundled package. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells these items and are separately identified on the customer's contract and subsequent invoice.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Software	Pinewood supply its software on a hosting basis and licence specific numbers of users to access this service. As such Pinewood supply 'Software as a Service' (SaaS). The software licences are provided only in conjunction with a hosting service, the customer cannot take control of the licence or use the software without the hosting service and as such the customer cannot benefit from the licence on its own and the licence is not separable from the hosting services. Therefore, the licence is not distinct and would be combined with the hosting service. The Group's assessment of its performance obligation under IFRS 15 of providing SaaS is that revenue is recognised over the period of the contract. SaaS is billed one month in advance of a quarterly billing cycle ensuring payment is received prior to commencement of usage.
Training and consultancy	The Group recognises revenue on the provision of any consultancy time and training at the point of providing and delivering the service. Consultancy hours are billed at the time of delivery. Training courses are billed at the time of booking which may be in advance of the date the training is scheduled for.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's four strategic divisions, which are its reportable segments, see note 2.3.

	UK Motor		Software		Leasing		discontinued US Motor		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Primary geographical markets										
Europe	4,074.4	4,243.6	16.3	15.2	57.3	64.9	-	-	4,148.0	4,323.7
North America	-	-	-	-	-	-	478.4	414.8	478.4	414.8
Africa	-	-	0.6	0.6	-	-	-	-	0.6	0.6
Revenue from external customers	4,074.4	4,243.6	16.9	15.8	57.3	64.9	478.4	414.8	4,627.0	4,739.1
Major products/service lines										
Aftersales revenue	337.4	350.6	-	-	-	-	43.2	37.0	380.6	387.6
Used vehicle revenue	2,092.4	2,125.5	-	-	-	-	97.9	85.7	2,190.3	2,211.2
New vehicle revenue	1,644.6	1,767.5	-	-	-	-	337.3	292.1	1,981.9	2,059.6
Software revenue	-	-	16.9	15.8	-	-	-	-	16.9	15.8
Leasing revenue	-	-	-	-	57.3	64.9	-	-	57.3	64.9
Revenue from external customers	4,074.4	4,243.6	16.9	15.8	57.3	64.9	478.4	414.8	4,627.0	4,739.1
Timing of revenue recognition										
At point in time	4,066.9	4,239.1	1.7	1.5	16.5	28.7	478.4	414.8	4,563.5	4,684.1
Over time	7.5	4.5	15.2	14.3	40.8	36.2	-	-	63.5	55.0
Revenue from external customers	4,074.4	4,243.6	16.9	15.8	57.3	64.9	478.4	414.8	4,627.0	4,739.1

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.2 Net operating expenses

	2018 £m	2017 £m
Net operating expenses:		
Distribution costs	(252.7)	(264.0)
Administrative expenses	(332.6)	(202.5)
Rents received	4.7	5.1
	(580.6)	(461.4)

2.3 Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. The segments offer different ranges of products and services and are managed separately because they require their own specialisms in terms of market and product. For each of these segments, the Executive Committee which is deemed to be the Chief Operating Decision Maker (CODM), reviews internal management reports on at least a monthly basis. The review of these management reports enables the CODM to allocate resources to each segment and form the basis of strategic and operational decisions, such as acquisition strategy, closure programme or working capital allocation. The Group operating segment represents franchise groups and other businesses. The Group operating segment represents franchise groups and other businesses. The franchise groups have been aggregated into the following reportable segments: UK Motor and US Motor due to the fact that they have similar economic characteristics such as similar margins and cost structures and therefore aggregations is deemed to be appropriate. The following summary describes the operations in each of the Group's reportable segments:

UK Motor This segment comprises the Group's motor vehicle retail, parts wholesale and fleet operations, encompassing the sale of new and used motor cars, motorbikes, trucks and vans, together with associated aftersales activities of service, body repair and parts sales.

Software This segment comprises the Group's activities as a dealer management systems provider.

Leasing This segment comprises the Group's contract hire and leasing activities.

US Motor This segment comprises the Group's retail operation in California in the United States encompassing the sale of new and used motor cars, together with associated aftersales activities of service and parts sales.

The tables of financial performance presented in the Operational and Financial Review on pages 26 to 33 are based upon these segmental reports.

For a breakdown of segment revenue stream please refer to note 2.1.

Inter-segment transfers and transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2018

	UK Motor £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	Total £m
Total gross segment revenue	4,074.4	28.3	81.2	-	4,183.9	478.4	4,662.3
Inter-segment revenue	-	(11.4)	(23.9)	-	(35.3)	-	(35.3)
Revenue from external customers	4,074.4	16.9	57.3	-	4,148.6	478.4	4,627.0
Operating profit before non-underlying items	41.1	11.7	14.8	-	67.6	8.6	76.2
Non-underlying items	(93.3)	-	-	-	(93.3)	2.7	(90.6)
Operating (loss)/profit	(52.2)	11.7	14.8	-	(25.7)	11.3	(14.4)
Finance expense	-	-	-	(27.5)	(27.5)	(2.5)	(30.0)
Finance income	-	0.8	-	(0.8)	-	-	-
Segmental (loss)/profit before tax	(52.2)	12.5	14.8	(28.3)	(53.2)	8.8	(44.4)

Other items included in the income statement are as follows:

Depreciation and impairment	(22.3)	(0.3)	(39.3)	-	(61.9)	(0.3)	(62.2)
Impairment of goodwill	(88.8)	-	-	-	(88.8)	-	(88.8)
Impairment of property, plant and equipment	(5.8)	-	-	-	(5.8)	-	(5.8)
Amortisation	(0.5)	(2.5)	(0.1)	-	(3.1)	-	(3.1)
Share based payments	(0.7)	-	-	-	(0.7)	-	(0.7)
Impairment of assets held for sale	(1.2)	-	-	-	(1.2)	-	(1.2)
Pension past service costs	(10.5)	-	-	-	(10.5)	-	(10.5)
Other income - gains on the sale of businesses and property	13.0	-	-	-	13.0	2.7	15.7

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2017

	UK Motor £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	Total £m
Total gross segment revenue	4,243.6	27.1	71.2	-	4,341.9	414.8	4,756.7
Inter-segment revenue	-	(11.3)	(6.3)	-	(17.6)	-	(17.6)
Revenue from external customers	4,243.6	15.8	64.9	-	4,324.3	414.8	4,739.1
Operating profit before non-underlying items	52.3	10.9	9.8	-	73.0	10.8	83.8
Non-underlying items	7.6	-	-	-	7.6	-	7.6
Operating profit	59.9	10.9	9.8	-	80.6	10.8	91.4
Finance expense	(11.1)	-	(2.0)	(11.4)	(24.5)	(1.6)	(26.1)
Finance income	-	0.8	-	(0.8)	-	-	-
Segmental profit before tax	48.8	11.7	7.8	(12.2)	56.1	9.2	65.3

Other items included in the income statement are as follows:

Depreciation and impairment	(21.9)	(0.3)	(36.0)	-	(58.2)	(1.3)	(59.5)
Amortisation	(0.4)	(2.2)	(0.1)	-	(2.7)	-	(2.7)
Share based payments	1.7	-	-	-	1.7	-	1.7
Other income - losses on the sale of businesses and property	(0.1)	-	-	-	(0.1)	-	(0.1)

Geographical information.

All segments, with the exception of the US Motor Group in the United States originate in the United Kingdom. The US Motor Group segment is a discontinued operation.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.4 Staff costs

The average number of people employed by the Group in the following areas was:

	2018 Number	2017 Number
Sales	3,260	3,296
Aftersales	4,446	4,495
Administration	2,174	2,198
	9,880	9,989

Costs incurred in respect of these employees were:

	2018 £m	2017 £m
Wages and salaries	272.4	272.1
Social security costs	24.1	24.8
Contributions to defined contribution plans (see note 5.1)	7.9	5.2
Cost recognised for defined benefit plans (see note 5.1)	12.1	2.7
Share based payments (see note 4.6)	0.7	(1.7)
	317.2	303.1

Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 55 to 68.

2.5 Audit fees

Auditors' remuneration:	2018 £m	2017 £m
Fees payable to the company's Auditor for the audit of the company's annual accounts:	267.0	253.0
Fees payable to the company's Auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	174.8	162.9
Audit-related assurance services	45.0	45.0
Tax compliance services	95.0	65.0
Other assurance services	10.0	10.0
	591.8	535.9

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.6 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 operating expenses:		
Settlement of historic VAT issues	-	7.7
Impairment of goodwill	(88.8)	-
Impairment of assets held for sale	(1.2)	-
Impairment of property, plant and equipment	(5.8)	-
Past service costs in respect of pension obligations	(10.5)	-
	(106.3)	7.7
Within other income - gains on the sale of businesses, property and investments:		
Gains on the sale of businesses	3.3	-
Gains/(losses) on the sale of property	12.4	(0.1)
	15.7	(0.1)
Within finance expense:		
Net interest on pension scheme obligations	(1.6)	(2.7)
	(1.6)	(2.7)
Total non-underlying items before tax	(92.2)	4.9
Non-underlying items in tax (see note 2.7 for analysis)	3.0	0.8
Total non-underlying items after tax	(89.2)	5.7

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

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £88.8m made during the year (2017: £nil) (see note 3.1).

Group property, plant and equipment and assets held for sale have been reviewed for possible impairments. As a result of this review there was an impairment charge against assets held for sale of £1.2m during the year (2017: £nil) and property, plant and equipment of £5.8m (2017: £nil). There were no reversals of previous impairment charges in respect of assets held for sale where anticipated proceeds less a costs to sell have increased over their impaired carrying values (2017: £nil).

The past service costs in respect of pension obligations is an estimate of the cost of GMP equalisation, as more fully explained in note 5.1 of these financial statements.

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 irregularity of this amount historically and it is not incurred in the normal course of business. A net expense of £1.6m has been recognised during the year (2017: £2.7m).

Other income consists of the profit or loss on disposal of businesses and property. This comprises a £3.3m profit on disposals of motor vehicle dealerships during the year (of which £2.7m was in respect of discontinued operations) (2017: £nil) and a £12.4m profit on sale of properties (2017: loss £0.1m). This does not include routine transactions in relation to the disposal of individual assets, and only relates to the disposal of motor vehicle dealerships and associated properties.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.6 Non-underlying items *continued*

During 2017, the Group recognised a £7.7m credit in respect of the numerous offsets resulting from the 2015 Supreme Court decision in favour of HMRC, in respect of the Group's long running litigation in respect of financing. The credit of £7.7m was made up of VAT reclaims of £2.2m, interest on VAT reclaims of £3.3m and other items resulting from settlement of historic issues and litigation of £2.2m.

2.7 Taxation

Accounting policy

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of comprehensive income

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, recognising temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Estimates and judgements

The actual tax on the Group's profits is determined according to complex laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on profits which are recognised in the financial statements. The Group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of tax liabilities could be different from the estimates reflected in the financial statements but the Group believes that none have a significant risk of causing a material adjustment to the carrying amount of the liability within the next financial year.

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. The unrecognised deferred tax assets are disclosed below.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Taxation - Income statement	2018 £m	2017 £m
UK corporation tax:		
Current tax on (loss)/profit for the year	5.9	10.0
Adjustments in respect of prior periods	(2.5)	(2.7)
	3.4	7.3
Overseas taxation:		
Current tax on profit for the year	1.1	3.5
Adjustments in respect of prior periods	0.1	(0.3)
	1.2	3.2
Total current tax	4.6	10.5
Deferred tax expense:		
Origination and reversal of temporary differences	1.5	1.5
Total deferred tax	1.5	1.5
Total income tax expense in the income statement	6.1	12.0
Factors affecting the tax charge for the period:		
The tax assessed is different from the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)		
The differences are explained below:	2018 £m	2017 £m
(Loss)/profit before taxation	(37.4)	65.3
Tax on (loss)/profit at UK rate of 19.00% (2017: 19.25%)	(7.1)	12.6
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	0.1	0.2
Permanent differences arising in respect of fixed assets	0.9	0.7
Tax rate differential on overseas income	0.7	2.0
Non-underlying items (see below)	14.0	(1.9)
Impact of UK corporation tax rate change	(0.1)	(0.2)
Impact of US corporate tax rate change	-	(0.8)
Adjustments to tax charge in respect of previous periods	(1.1)	(0.6)
Total income tax expense in the income statement	6.1	12.0
Taxation - Other comprehensive income	2018 £m	2017 £m
Relating to defined benefit plan remeasurement (gains) and losses	-	(6.3)
	-	(6.3)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Tax rate

The reduction in the UK corporation tax rate to 19% from 20% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. This will reduce the Group's future UK tax charge accordingly. The UK deferred tax asset as at 31 December 2018 has been calculated based on the expected long term rate of 17% substantively enacted at the balance sheet date.

The reduction in the US federal corporate tax rate to 21% (effective from 1 January 2018) was substantively enacted on 20 December 2017. This has reduced the Group's US tax charge accordingly. The USA deferred tax liability as at 31 December 2018 has been calculated based on the expected long term rate of 21% substantively enacted at the balance sheet date.

Factors affecting the tax charge

The tax charge/credit is decreased/increased by the release of prior year provisions relating to UK corporation tax returns and also non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

Non-underlying tax credit

The tax credit in relation to non-underlying items referred to in note 2.6 is £3.0m (2017: £0.8m). This includes a tax credit of £0.7m (2017: £1.9m) relating to the settlement of certain historic corporation tax issues, a tax charge of £0.8m (2017: £nil) in respect of tax on business disposals (all of which relates to discontinued operations), a tax credit of £0.3m (2017: £nil) in respect of tax on property disposals, a tax credit in respect of the impairment of property, plant and equipment of £0.7m (2017: £nil), a tax credit of £0.3m (2017: £0.4m) in respect of pension scheme interest and a tax credit of £1.8m (2017: £nil) in respect of pension scheme past service costs. In the prior year a £1.5m charge in respect of the settlement of historic VAT issues was also made.

Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £13.8m (2017: £13.8m) relating to former overseas businesses for which no deferred tax asset has been recognised pending the clarity of the availability of intra-EU losses. There are also unrecognised capital losses net of rolled over gains of £38.0m (2017: £35.0m).

Deferred tax assets/(liabilities)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2018 £m	2017 £m
Deferred tax assets	12.6	13.1
Deferred tax liabilities	(2.8)	(1.7)
	9.8	11.4

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

The table below outlines the deferred tax assets/(liabilities) that are recognised on the balance sheet, together with their movements in the year;

	At 1 January 2017 £m	(Charged) to consolidated income statement £m	(Charged) to other comprehensive income £m	Exchange differences £m	At 31 December 2017 £m
Property, plant and equipment	(2.8)	(0.5)	-	0.2	(3.1)
Retirement benefit obligations	17.6	(0.6)	(6.3)	-	10.7
Other short term temporary differences	2.9	(0.4)	-	-	2.5
Losses	1.3	-	-	-	1.3
Tax assets/(liabilities)	19.0	(1.5)	(6.3)	0.2	11.4

	At 1 January 2018 £m	(Charged) /credited to consolidated income statement £m	(Charged) to other comprehensive income £m	Exchange differences £m	At 31 December 2018 £m
Property, plant and equipment	(3.1)	(1.8)	-	(0.1)	(5.0)
Retirement benefit obligations	10.7	1.0	-	-	11.7
Other short term temporary differences	2.5	(0.7)	-	-	1.8
Losses	1.3	-	-	-	1.3
Tax assets/(liabilities)	11.4	(1.5)	-	(0.1)	9.8

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.8 Earnings per share

Accounting policy

The Group presents basic and diluted earnings per share ('eps') data for its ordinary shares. Basic eps is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares in issue during the period. The shares held by the EBT have been excluded from the calculation until such time as they vest unconditionally with the employees. Diluted eps is calculated by dividing the profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees and LTIPs.

Earnings per share calculation

	2018 Earnings per share pence	2018 Earnings Total £m	2017 Earnings per share pence	2017 Earnings Total £m
Basic earnings per share from continuing operations	(4.1)	(57.0)	3.3	47.4
Basic earnings per share from discontinued operations	0.5	6.5	0.4	5.9
Basic earnings per share	(3.6)	(50.5)	3.7	53.3
Adjusting items:				
Non-underlying items attributable to the parent from continuing operations	6.8	94.9	(0.3)	(4.9)
Non-underlying items attributable to the parent from discontinued operations	(0.2)	(2.7)	-	-
Non-underlying items attributable to the parent (see note 2.6)	6.6	92.2	(0.3)	(4.9)
Tax effect of non-underlying items from continuing operations	(0.3)	(3.7)	(0.1)	(0.8)
Tax effect of non-underlying items from discontinued operations	0.1	0.7	-	-
Tax effect of non-underlying items	(0.2)	(3.0)	(0.1)	(0.8)
Underlying earnings per share from continuing operations (Non-GAAP measure)	2.5	34.2	2.9	41.7
Underlying earnings per share from discontinued operations (Non-GAAP measure)	0.3	4.5	0.4	5.9
Underlying earnings per share (Non-GAAP measure)	2.8	38.7	3.3	47.6
Diluted earnings per share from continuing operations	(4.1)	(57.0)	3.3	47.4
Diluted earnings per share from discontinued operations	0.5	6.5	0.4	5.9
Diluted earnings per share	(3.6)	(50.5)	3.7	53.3
Diluted earnings per share - underlying from continuing operations (Non-GAAP measure)	2.5	34.2	2.9	41.7
Diluted earnings per share - underlying from discontinued operations (Non-GAAP measure)	0.3	4.5	0.4	5.9
Diluted earnings per share - underlying (Non-GAAP measure)	2.8	38.7	3.3	47.6

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

	2018 Number	2017 Number
Weighted average number of ordinary shares in issue	1,405.7	1,422.5
Weighted average number of dilutive shares under option	1.4	2.3
Weighted average number of shares in issue taking account of applicable outstanding share options	1,407.1	1,424.8
Non-dilutive shares under option	10.8	20.2

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

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

This section contains the notes and information to support those assets and liabilities presented in the Consolidated Balance Sheet that relate to the Group's operating activities.

3.1	Intangible assets and goodwill	3.6	Trade and other receivables
3.2	Property, plant and equipment	3.7	Trade and other payables
3.3	Assets held for sale and discontinued operations	3.8	Provisions
3.4	Inventories	3.9	Deferred income
3.5	Movement in contract hire vehicle balances		

3.1 Intangible assets and goodwill

Accounting policies

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary undertakings at the effective date of acquisition and is included in the balance sheet under the heading of intangible assets. The goodwill is allocated to cash generating units (CGUs), which are franchise Groups and other business units. An impairment test is performed annually as detailed below. Goodwill is then held in the balance sheet at cost less any accumulated impairment losses.

Adjustments are applied to bring the accounting policies of the acquired businesses into alignment with those of the Group. The costs associated with reorganising or restructuring are charged to the post acquisition income statement. For those acquisitions made prior to 1 January 2004, goodwill is recorded on the basis of its deemed cost which represented its carrying value as at 1 January 2004 under UK GAAP. Fair value adjustments are made in respect of acquisitions. If at the balance sheet date the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

Internally generated intangible assets relate to activities that involve the development of dealer management systems by the Group's Pinewood division. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of labour and overhead costs that are directly attributable to preparing the asset for its intended use. If the development expenditure does not meet the above criteria it is expensed to the income statement.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses and is amortised over a period of five years.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and any impairment losses. This category of asset includes purchased computer software and internally generated intangible assets which are amortised by equal instalments over four years and the fair value of the benefit of forward sales orders assumed on acquisition, which is amortised by reference to when those orders are delivered.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets arising on an acquisition are recognised separately from goodwill if the fair value of the asset can be identified separately and measured reliably. Amortisation is calculated on a straight line basis over the estimated useful life of the intangible asset. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

	Goodwill £m	Development costs £m	Other intangibles £m	Total £m
Cost				
At 1 January 2017	426.9	15.5	11.4	453.8
Business acquisitions	6.1	-	-	6.1
Other additions	-	2.9	1.7	4.6
Disposals	(0.1)	-	(0.2)	(0.3)
Classified as non-current assets held for sale	(1.4)	-	-	(1.4)
At 31 December 2017	431.5	18.4	12.9	462.8
At 1 January 2018	431.5	18.4	12.9	462.8
Other additions	-	3.5	0.5	4.0
Disposals	(0.4)	-	(0.4)	(0.8)
Exchange adjustments	0.3	-	-	0.3
Classified as non-current assets held for sale	(23.9)	-	(0.3)	(24.2)
At 31 December 2018	407.5	21.9	12.7	442.1
Amortisation				
At 1 January 2017	70.4	10.1	11.1	91.6
Amortised during the year	-	2.2	0.5	2.7
Disposals	(0.1)	-	(0.1)	(0.2)
At 31 December 2017	70.3	12.3	11.5	94.1
At 1 January 2018	70.3	12.3	11.5	94.1
Amortised during the year	-	2.5	0.6	3.1
Impairment	88.8	-	-	88.8
Disposals	-	-	(0.2)	(0.2)
Classified as non-current assets held for sale	(17.5)	-	(0.3)	(17.8)
At 31 December 2018	141.6	14.8	11.6	168.0
Carrying amounts				
At 1 January 2017	356.5	5.4	0.3	362.2
At 31 December 2017	361.2	6.1	1.4	368.7
At 1 January 2018	361.2	6.1	1.4	368.7
At 31 December 2018	265.9	7.1	1.1	274.1

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

The following have been recognised in the income statement within net operating expenses:	2018 £m	2017 £m
Amortisation of internally generated intangible assets	2.5	2.2
Amortisation of other intangible assets	0.6	0.5
Impairment of goodwill	88.8	-
Research and development costs	0.5	0.8

Goodwill is allocated across multiple cash-generating units which are franchise Groups and other business units and consequently a consistent approach to performing an annual impairment test to assess the carrying value of this amount is taken. This value was determined by comparing the carrying value of the asset with the higher of its fair value and value in use (which value is determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions):

Future cash flows were projected into perpetuity with reference to the Group's forecasts from 2019 to 2021. The 2019 forecast was derived from the corporate plan, approved by the Board and compiled on a bottom up basis with reference to SMMT data. The 2020-2021 forecasts represent a projection from the 2019 bottom up forecast. It is recognised that the net asset value of the company is lower than the market capitalisation which is a prima facie indicator of impairment. The Group therefore commissioned an independent third party expert valuer to perform calculations, based on the Group's Board approved corporate plan, to test those forecasts and reconcile them to the Group's market capitalisation. As a result of this process, the Group adopted a more prudent view of its future cashflows, for the purposes of impairment testing, compared to the Board approved corporate plan. The results of the impairment review indicated that the carrying values of certain CGUs exceeded the higher of the fair value and value in use and a total impairment charge of £88.8m arises on certain CGUs, as described below. For all but three CGUs, value in use was higher than fair value. For the three CGUs where this was not the case, the fair value has been estimated using a Level 2 method, but the differences between value in use and fair value in respect of each affected CGU was not significant.

It is anticipated that the units will grow revenues in the future. For the purpose of the impairment testing, a growth rate of 2.0% (2017: 2.4%) has been assumed beyond the business plan.

The discount rates are estimated to reflect current market estimates of the time value of money and is calculated after consideration of market information and risk adjusted for individual circumstances. The pre-tax discount rates used are specific to each CGU and vary between 9.7% and 21.1% (2017: single discount rate 10.2%).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Movements of the principal CGUs are summarised in the table below:

	BMW £m	Ford £m	Mercedes £m	Vauxhall £m	Aston Martin £m	Body- shops £m	Car Store £m	Renault £m	JLR £m	Citroën £m	Others £m	Total £m
At 1 January 2017	32.1	69.7	47.8	77.8	5.3	2.8	10.0	25.1	18.0	13.5	54.4	356.5
Additions	-	-	-	-	-	-	-	-	-	-	6.1	6.1
Classified as non-current assets held for sale	-	-	-	-	-	-	-	-	-	-	(1.4)	(1.4)
At 31 December 2017	32.1	69.7	47.8	77.8	5.3	2.8	10.0	25.1	18.0	13.5	59.1	361.2
At 1 January 2018	32.1	69.7	47.8	77.8	5.3	2.8	10.0	25.1	18.0	13.5	59.1	361.2
Business disposals	-	-	-	-	-	-	-	-	-	-	(0.4)	(0.4)
Impairment of goodwill	(24.2)	-	(20.0)	(13.4)	(2.7)	(2.8)	(10.0)	(12.9)	(0.8)	(2.0)	-	(88.8)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	0.3	0.3
Classified as non-current assets held for sale	-	-	-	-	-	-	-	-	-	-	(6.4)	(6.4)
At 31 December 2018	7.9	69.7	27.8	64.4	2.6	-	-	12.2	17.2	11.5	52.6	265.9
Goodwill by segment										2018 £m		2017 £m
UK Motor										237.2		332.8
US Motor										6.4		6.1
Pinewood										0.3		0.3
Leasing										22.0		22.0
										265.9		361.2

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Sensitivity of assumptions

The forecasts used to determine impairment are sensitive to the key assumptions used in preparing those forecasts. Future uncertainty with respect to the markets we operate in, further heightened at present as the UK prepares to leave the EU, could all have an effect on our sales volumes and margins and the general costs of doing business. The key assumptions used in our forecasts are therefore the gross profits, profit growth rates and discount rate applied. The sensitivities below indicate the total change in the value in use forecast, keeping other assumptions constant. Such changes would only result in further impairment to the extent that the impact of the sensitivities reduced the calculation of value in use below the carrying value of the respective CGU. For those CGUs already impaired, any worsening of assumptions would lead to further impairment on a pound for pound basis. For those CGUs not already impaired, the estimated headroom before impairment is disclosed.

	Increase/(decrease) in assumptions	Increase/(decrease) in value in use
Profit growth rate	1.0%/(1.0%)	£78.8m/£(66.4m)
Discount rate	1.0%/(1.0%)	£(50.7m)/£57.3m
Gross Profit	2.0%/(2.0%)	£159.1m/(£159.1m)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill continued

Sensitivity by CGU

	BMW*	Ford	Mercedes	Vauxhall	Aston Martin	Body- shops	Car Store	Renault	JLR	Citroën	Others**	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Carrying value	7.9	69.7	27.8	64.4	2.6	-	-	12.2	17.2	11.5	52.6	265.9
Current headroom	-	48.2	-	-	-	-	-	-	-	-	258.3	306.5
Headroom increase												
Profit growth rate 1.0% increase	0.4	11.5	2.7	6.3	0.3	-	0.3	1.2	1.7	1.2	53.3	
Discount rate 1.0% decrease	N/A	8.4	2.0	4.6	0.2	-	0.2	0.9	1.2	0.9	38.8	
Gross profit 2.0% increase	0.8	23.2	5.5	12.6	0.5	0.1	0.6	2.4	3.4	2.5	107.6	
Fair value multiples 10% increase	1.0											
Further impairment												
Profit growth rate 1.0% (decrease)	(0.3)	-	(2.3)	(5.3)	(0.2)	-	(0.3)	(1.0)	(1.4)	(1.0)	(18.9)	
Discount rate 1.0% (increase)	N/A	-	(1.7)	(4.0)	(0.2)	-	(0.2)	(0.8)	(1.1)	(0.8)	(14.5)	
Gross profit 2.0% (decrease)	(0.8)	-	(5.5)	(12.6)	(0.5)	(0.1)	(0.6)	(2.4)	(3.4)	(2.5)	(45.4)	
Fair value multiples 10% (decrease)	(1.0)											

* Valued at fair value less costs of sale.

** Note that "Others" comprises individual CGUs amalgamated for the purposes of disclosure.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment

Accounting policy

Freehold land is not depreciated. Depreciation is provided to write off the cost less the estimated residual value of other assets by equal instalments over their estimated useful economic lives. On transition to IFRS as at 1 January 2004, all land and buildings were restated to fair value as permitted by IFRS 1, which is then treated as the deemed cost. All other assets are initially measured and recorded at cost.

Depreciation rates are as follows:

- Freehold buildings – 2% per annum
- Leasehold property improvements – 2% per annum or over the period of the lease if less than 50 years
- Fixtures, fittings and office equipment – 10 – 20% per annum
- Plant and machinery – 10 – 33% per annum
- Motor vehicles – 20 – 25% per annum
- Contract hire vehicles are depreciated to their residual value over the period of their lease

The residual value of all assets, depreciation methods and useful economic lives, if significant, are reassessed annually.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is possible that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in the income statement.

The depreciation and impairment charge in respect of property, plant and equipment is recognised within administrative expenses within the income statement.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	Total £m
Cost					
At 1 January 2017	254.4	76.2	63.0	185.3	578.9
Business acquisitions	11.4	0.2	-	-	11.6
Other additions	63.5	14.0	110.9	82.1	270.5
Exchange adjustments	(2.4)	(0.7)	(0.1)	-	(3.2)
Disposals	(0.7)	(2.7)	(121.8)	-	(125.2)
Contract hire vehicles transferred to inventory	-	-	-	(54.2)	(54.2)
Classified as non-current assets held for sale	(6.8)	(1.0)	-	-	(7.8)
At 31 December 2017	319.4	86.0	52.0	213.2	670.6
At 1 January 2018	319.4	86.0	52.0	213.2	670.6
Additions	21.7	15.0	92.5	65.5	194.7
Exchange adjustments	2.1	0.5	-	-	2.6
Business disposals	(4.3)	(0.8)	-	-	(5.1)
Other disposals	(1.6)	(4.7)	(96.0)	-	(102.3)
Contract hire vehicles transferred to inventory	-	-	-	(48.6)	(48.6)
Classified as non-current assets held for sale	(43.0)	(8.8)	(1.8)	-	(53.6)
At 31 December 2018	294.3	87.2	46.7	230.1	658.3
Depreciation					
At 1 January 2017	55.1	50.1	17.6	50.8	173.6
Exchange adjustments	(0.9)	(0.6)	-	-	(1.5)
Charge for the year	6.2	8.1	11.5	33.7	59.5
Disposals	(0.4)	(1.0)	(12.0)	-	(13.4)
Contract hire vehicles transferred to inventory	-	-	-	(25.0)	(25.0)
Classified as non-current assets held for sale	(1.8)	(0.7)	-	-	(2.5)
At 31 December 2017	58.2	55.9	17.1	59.5	190.7
At 1 January 2018	58.2	55.9	17.1	59.5	190.7
Exchange adjustments	0.6	0.4	-	-	1.0
Charge for the year	6.5	8.9	8.9	37.9	62.2
Impairment	1.8	4.0	-	-	5.8
Business disposals	(0.2)	(0.6)	-	-	(0.8)
Other disposals	(1.3)	(4.3)	(19.8)	-	(25.4)
Contract hire vehicles transferred to inventory	-	-	-	(20.8)	(20.8)
Classified as non-current assets held for sale	(11.8)	(6.3)	(0.2)	-	(18.3)
At 31 December 2018	53.8	58.0	6.0	76.6	194.4

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	Total £m
Carrying amounts					
At 1 January 2017	199.3	26.1	45.4	134.5	405.3
At 31 December 2017	261.2	30.1	34.9	153.7	479.9
At 1 January 2018	261.2	30.1	34.9	153.7	479.9
At 31 December 2018	240.5	29.2	40.7	153.5	463.9

Included in the amounts for property, plant and equipment above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	Land & buildings £m
Depreciation	
Charge for the year	-
Carrying amounts	
At 31 December 2017	0.1
At 31 December 2018	0.1

	2018 £m	2017 £m
Building projects currently under construction for which no depreciation has been charged during the year	11.7	26.8
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment	5.7	7.3
Cumulative interest charges capitalised as construction costs and included in land and buildings	3.6	2.6
The following items have been charged to the income statement as operating expenses during the year:		
Depreciation of property, plant and equipment - owned	62.2	59.5
Impairment	5.8	-

As part of the impairment review of the carrying value of assets described in detail in note 3.1, an impairment of land and buildings and plant and equipment has been recorded in the year.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.3 Assets held for sale and discontinued operations

Accounting policy

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are measured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. Non-current assets classified as held for sale are available for immediate sale and a resultant disposal is highly probable within one year.

A non-current asset that stops being classified as held for sale is remeasured at the lower of its carrying amount prior to the asset or disposal Group being classified as held for sale, adjusted for any depreciation or amortisation that would have been recognised if the asset had not been classified as held for sale, or, its recoverable amount at the date of the decision not to sell.

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 during 2019. As such the results of the US Business are shown as a discontinued operation within these 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 year to 31 December 2018 in respect of this transaction.

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

Assets and liabilities of a disposal Group held for sale

As at 31 December 2018, the US motor business was classified as a disposal Group which was stated at fair value less costs to sell and comprised the following assets and liabilities.

	£m
Goodwill	6.5
Other intangible assets	0.1
Property plant and equipment	32.0
Inventories	68.9
Trade and other receivables	25.1
Assets held for sale	132.6
Trade and other payables	(88.6)
Liabilities held for sale	(88.6)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.3 Assets held for sale and discontinued operations *continued*

	2018 £m	2017 £m
Exchange differences on translation of discontinued operation	-	(0.6)
Other comprehensive income from discontinued operation	-	(0.6)
	2018 £m	2017 £m
Net cash from operating activities	7.9	10.6
Net cash from/(used in) investing activities	1.1	(18.5)
Net cash from financing activities	-	13.3
Net cash increase generated by discontinued operation	9.0	5.4
	2018 pence	2017 pence
Basic earnings per share from discontinued operation	0.5	0.4
Underlying basic earnings per share from discontinuing operation	0.3	0.4
Diluted earnings per share from discontinued operation	0.5	0.4

Balance sheet

The Group has classified the non current assets of the US motor business as held for sale as at 31 December 2018. These comprise of goodwill, intangible fixed assets, property, plant and equipment. The assets in this disposal Group have been reviewed for possible impairment with reference to the expected proceeds on sale less costs to sell, with no impairment deemed necessary. There are no non-current liabilities within the US disposal Group.

The Group also holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during 2019. Properties are valued using a combination of external qualified valuers and in-house experts. Due to the nature of the market, especially in light of current economic conditions, a property may ultimately realise proceeds that vary from those valuations applied.

Assets classified for sale (including disposal Group) comprise:

	2018 £m	2017 £m
Goodwill	6.5	1.4
Other intangible assets	0.1	-
Property, plant and equipment	37.0	9.6
Inventories	68.9	-
Trade and other receivables	25.1	-
	137.6	11.0

Income statement

The following items have been credited/(charged) to the income statement during the year:	Income statement category	2018 £m	2017 £m
Profit on sale of assets classified as held for sale	Other income - gains/(losses) on the sale of businesses and property	0.3	0.2
Impairment of assets held for sale	Net operating expenses	(1.2)	-

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £0.5m would have been recognised (2017: £0.4m).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.4 Inventories

Accounting policies

Motor vehicle inventories are stated at the lower of cost and net realisable value. Cost is net of incentives received from manufacturers in respect of target achievements. Fair values of stock are conducted regularly utilising our market intelligence and analysis of the market which we conduct by segment and by model, these fair values are updated in the light of any changing trends by model line. The assessment of fair values involves an element of estimation: the Group takes the age profile of our inventories at the year end, estimates the likely sale period and the expected profit or loss on sale to determine the fair value at the balance sheet date. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied. Parts inventories are based on an average purchase cost principle and are written down to net realisable value by providing for obsolescence on a time in stock based formula approach.

Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables. Movements in consignment vehicle inventory and its corresponding liability within trade and other payables are not included within movements of inventories and payables as stated in the consolidated cash flow statement as no cash flows arise in respect of these transactions until the vehicle is either sold or purchased at which point it is reclassified within new and used vehicle inventory.

Motor vehicles are transferred from contract hire activities at the end of their lease term to inventory at their depreciated cost. No physical cash flow arises from these transfers.

Balance sheet

	2018 £m	2017 £m
New and used vehicles	858.1	870.8
Consignment vehicles	71.8	95.5
Vehicle parts and other inventories	32.5	37.2
	959.6	1,003.5
	2018 £m	2017 £m
Carrying value of inventories subject to retention of title clauses	931.8	897.3

The sensitivity of the key assumptions on our sales prices could have the following impact on the net realisable value of inventory. If our assumptions were £100 per unit worse for those vehicles that are expected to make a loss per unit, the net realisable value of inventory would reduce by £0.4m in the year.

Cash flow statement information

	2018 £m	2017 £m
Movement in inventory	43.9	(157.3)
Inventory changes in business combinations and disposals	(2.0)	0.3
Impact of exchange differences	(0.7)	0.3
Non cash movement in consignment vehicles	(23.7)	25.2
Classified as held for sale	(68.9)	-
Transfer value of contract hire vehicles from fixed assets to inventory	27.8	29.2
Cash flow decrease due to movements in inventory	(23.6)	(102.3)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.5 Movement in contract hire vehicle balance

	2018 £m	2017 £m
Depreciation	37.9	33.7
Changes in trade and other payables and deferred income	(1.5)	19.3
Purchases of contract hire vehicles	(65.5)	(82.1)
Unwinding of discounts in contract hire residual values	(2.8)	(2.6)
	(31.9)	(31.7)

3.6 Trade and other receivables

Accounting policy

Trade and other receivables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

Impairment losses are measured in accordance with IFRS 9, which replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The transition to IFRS and the subsequent change in accounting policy had no material effect on the financial position at 31 December 2017 and therefore no restatement was required.

The calculation of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The Group considers a trade or other receivable to be in default when the borrower is unlikely to pay its credit obligations to the Group in full after all reasonable actions have been taken to recover the debt.

Credit risk management

The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropriate evaluation of credit risk. Credit risk arises in respect of amounts due from vehicle manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due and management's belief that it does not expect any manufacturer to fail to meet its obligations. Financial assets comprise trade and other receivables (as above) and cash balances. The counterparties are banks and management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Before granting any new customer credit terms the Group uses external credit scoring systems to assess the potential new customer's credit quality and defines credit limits by customer. These limits and credit worthiness are regularly reviewed and use is made of monitoring alerts provided by the providers of the credit scoring systems. The Group has no customer that represents more than 5% of the total balance of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.6 Trade and other receivables *continued*

Balance sheet	2018 £m	2017 £m
Trade receivables	46.3	60.6
Allowance for doubtful debts	(0.4)	(0.3)
	45.9	60.3
Other receivables	52.5	56.6
Prepayments	16.4	15.9
	114.8	132.8

All amounts are due within one year.

All trade receivables are classified as loans and receivables and held at amortised cost in the current year and prior year. Total trade receivables held by the Group at 31 December 2018 was £60.1m (2017: £60.3m). No trade receivables have been classified as held for sale (2017: £nil).

The average credit period taken on sales of goods is 29 days (2017: 29 days). No interest is charged on trade receivables. The Group makes an impairment provision based on the expected credit losses it deems likely to incur. An expense has been recognised in respect of impairment losses during the year of £0.6m (2017: £0.8m).

The ageing of trade and other receivables at the reporting date was:

	Trade receivables 2018 £m	Other receivables 2018 £m	Trade receivables 2017 £m	Other receivables 2017 £m
Not past due	31.9	41.7	45.3	46.1
Past due 0-30 days	10.3	4.6	11.5	5.1
Past due 31-120 days	3.3	6.2	3.2	5.4
Past due 120+ days	0.8	-	0.6	-
	46.3	52.5	60.6	56.6
Provision for impairment	(0.4)	-	(0.3)	-
	45.9	52.5	60.3	56.6

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 £m	2017 £m
Balance at 1 January	0.3	0.3
Utilisation	(0.5)	(0.8)
Impairment loss recognised	0.6	0.8
Balance at 31 December	0.4	0.3

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.7 Trade and other payables

Accounting policy

Trade and other payables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any write-offs.

Balance sheet

	2018 £m	2017 £m
Trade payables	940.5	968.6
Contract hire buyback commitments	81.2	79.5
Consignment vehicle liabilities	71.8	95.5
Payments received on account	11.4	16.7
Other taxation and social security	17.7	12.1
Accruals	107.2	110.8
	1,229.8	1,283.2
Non-current	54.4	59.0
Current	1,175.4	1,224.2
	1,229.8	1,283.2

Trade payables are classified as other financial liabilities and principally relate to vehicle funding. Fair value is deemed to be the same as carrying value.

The non-current element of trade and other payables relates to contract hire buyback commitments where the Group has contracted to repurchase vehicles, at predetermined values and dates, that have been let under operating leases or similar arrangements.

The Group enters into leasing arrangements whereby it agrees to repurchase vehicles from providers of lease finance at the end of the lease agreement, typically two to four years in the future. The repurchase price is determined at the time the agreement is entered into based on the then estimate of a vehicle's future residual value. The actual value of the vehicles at the end of the lease contract, and therefore the proceeds that can be realised from eventual sale, can vary materially from these estimates. Annual reviews are undertaken to reappraise residual values and to recognise impairment write downs where necessary.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.8 Provisions

Accounting policy

A provision is recognised if as a result of a past event the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that the Group will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Vacant property provision

A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a lease contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments less any contributions from income derived from the subletting of these properties. The present value of future net lease commitments is calculated using a 1.27% discount rate. It is expected that the majority of this expenditure will be incurred over the next four years. The present value of the income from the subleases is £6.7m over the period of the leases and assumes that any sublet properties will remain so until the end of the sublease.

VAT assessment

The Group has settled its dispute with HM Revenue and Customs in respect of potential VAT issues arising from purchases of vehicles from Motability.

The movements in provisions for the year are as follows:

	Vacant property provision £m	VAT assessment £m	Total £m
At 31 December 2017	2.7	6.8	9.5
Provisions made during the year	0.5	-	0.5
Provisions used during the year	(0.7)	(4.5)	(5.2)
Provisions released during the year	(0.2)	(2.3)	(2.5)
At 31 December 2018	2.3	-	2.3
Non-current	1.6	-	1.6
Current	0.7	-	0.7
	2.3	-	2.3

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.9 Deferred income

Property leases

Deferred income arose in 2006 from a sale and leaseback arrangement relating to certain dealership properties leased by the Group over a 25 year period.

Warranty policies sold

The income received in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis. The unrecognised income is held within deferred income.

Contract hire

Vehicles supplied to a leasing company for contract hire purposes where the Group undertakes to repurchase the vehicle at a predetermined date are accounted for in accordance with IAS 17 Leases, where the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term.

	Property leases £m	Warranty policies £m	Contract hire £m	Total £m
At 31 December 2017	12.3	13.0	74.9	100.2
Created in the year	-	12.6	37.6	50.2
Recognised as income during the year	(0.9)	(6.8)	(40.8)	(48.5)
At 31 December 2018	11.4	18.8	71.7	101.9
Non-current	10.4	5.7	36.1	52.2
Current	1.0	13.1	35.6	49.7
	11.4	18.8	71.7	101.9

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

This section contains the notes and information to support the elements of both net debt and equity financing as presented in the Consolidated Balance Sheet.

4.1	Accounting policies	4.5	Dividends
4.2	Financial instruments and derivatives	4.6	Share based compensation
4.3	Net financing costs	4.7	Obligations under finance leases
4.4	Capital and reserves	4.8	Operating lease arrangements

4.1 Accounting policies

IFRS 9 Financial Instruments is mandatory for reporting periods commencing on or after 1 January 2018 and is therefore adopted in these financial statements. Compared to the previous accounting standard IAS 39, whilst there are changes in disclosure, there are no material changes in the quantification or measurement of financial assets or financial liabilities. A summary of the differences between IFRS 9 and IAS 39, as applied to these financial statements, is provided at the end of this section.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expires. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled. Financial instruments comprise both derivative and non-derivative financial instruments.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Trade and other receivables - see note 3.6

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The effective interest basis is a method of calculating the amortised cost of a financial liability and of allocating interest payments over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Trade and other payables - see note 3.7

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.1 Accounting policies *continued*

Hedging Instruments

The Group holds hedging instruments to hedge currency risks arising from its activities. Hedging instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the income statement. However, the treatment of gains or losses arising from hedging instruments which qualify for hedge accounting depends on the type of hedge arrangement. The fair value of hedging instruments is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date. The only hedging instrument held by the Group at the balance sheet date was its borrowing in USD to hedge its investment in overseas operations. A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

4.2 Financial instruments and derivatives

Net Debt

	2018 £m	2017 £m
Cash and cash equivalents	51.4	53.3
Non-current interest bearing loans and borrowings	(179.0)	(177.4)
	(127.6)	(124.1)

Cash and cash equivalents

Bank balances and bank overdrafts set out below are stated net of legal rights of set-off resulting from pooling arrangements operated by individual banks.

	Carrying value and fair value 2018 £m	Carrying value and fair value 2017 £m
Bank balances and cash equivalents	51.4	53.3

Borrowings

As at 31 December 2018, the Group had a £240m credit facility and a £60m senior note, expiring as set out below:

	Expiry Date	£m
Revolving credit facility	March 2021	240.0
Senior note	March 2023	60.0
		300.0

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

During 2016 the company signed a £240m 5 year committed bank facility and a £60m 5.75% 7 year debt private placement. The fees and expenses associated with this debt of £2.1m are amortised over the expected life of the facility commencing in 2016. At 31 December 2018, £1.4m had been amortised and £0.7m remains to be amortised in future periods.

	Current margin	Commitment (non-utilisation) fee
Revolving credit facility	1.40%	0.49%
Senior note	5.75%	n/a

The margin on the revolving credit facility varies according to a ratchet mechanism linked to the ratio of net debt to underlying EBITDA (after stocking interest). At 31 December 2018, the margin was 1.40%, consequent on the Group having achieved a ratio of less than 1.0. The commitment fee is calculated at 35% of the margin. The interest rate in respect of the senior note is a fixed rate of 5.75% until maturity.

The revolving credit facility and the senior note are both subject to the same performance covenants with respect to net debt : underlying EBITDA (after stocking interest) and fixed charge cover.

Security

Both the revolving credit facility and the senior note are unsecured and rank pari-passu.

Summary of borrowings

	Carrying value 2018 £m	Fair value 2018 £m	Carrying value 2017 £m	Fair value 2017 £m
Non-current:				
Bank borrowings	117.3	117.3	115.7	115.7
5.75% Senior note 2023	60.0	60.0	60.0	60.0
Other loan notes	0.2	0.2	0.2	0.2
Finance leases	1.5	1.5	1.5	1.5
Total non-current	179.0	179.0	177.4	177.4
Total borrowings	179.0	179.0	177.4	177.4

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Borrowings		Equity			Total £m
	Long term borrowings £m	Finance Lease £m	Share capital £m	Other reserves £m	Retained earnings £m	
At 1 January 2018	175.9	1.5	71.2	72.9	281.3	602.8
Cash flows from financing activities						
Dividends paid to shareholders	-	-	-	-	(22.5)	(22.5)
Repurchase of own shares	-	-	(1.2)	1.2	(6.7)	(6.7)
Disposal of shares by EBT	-	-	-	-	0.1	0.1
Repayment of loans	(10.0)	-	-	-	-	(10.0)
Proceeds from issue of loans	7.1	-	-	-	-	7.1
	(2.9)	-	(1.2)	1.2	(29.1)	(32.0)
Other changes						
The effect of changes in foreign exchange rates	4.0	-	-	-	-	4.0
Liability-related : Amortisation of fees and expenses	0.5	-	-	-	-	0.5
Equity-related : Total other changes	-	-	-	-	(41.2)	(41.2)
At 31 December 2018	177.5	1.5	70.0	74.1	211.0	534.1

Interest payments in respect of the above borrowings are reported in operating cash flows in the Consolidated Cash Flow Statement.

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The revolving credit facility and senior note have been measured by a Level 2 valuation method.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The effective interest rates for all borrowings are all based on LIBOR for the relevant currency, except for the 5.75% Senior note 2023, which is at a fixed rate. Finance leases are effectively held at fixed rates of interest within the range set out below. Information regarding classification of balances and interest, the range of interest rates applied in the year to 31 December 2018 and repricing periods, is set out in the table below.

	Classification	Carrying value £m	Classification	Interest classification	Interest rate range	Repricing periods
Bank balances and cash equivalents	Loans and receivables	51.4	Amortised cost	Floating GBP	0.25% - 2.09%	6 months or less
Borrowings						
Non - current:						
Bank borrowings	Other financial liabilities	44.4	Amortised cost	Floating GBP	1.88% - 2.12%	6 months or less
Bank borrowings	Other financial liabilities	72.9	Amortised cost	Floating USD	2.88% - 3.84%	6 months or less
5.75% Senior note 2023	Other financial liabilities	60.0	Amortised cost	Fixed GBP	5.75%	n/a
Other loan notes	Other financial liabilities	0.2	Amortised cost	Fixed GBP	12.50%	n/a
Finance leases	Other financial liabilities	1.5	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a
Total non-current		179.0				
Total current		-				
Total borrowings		179.0				

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2018 £m	2017 £m
Pound sterling	106.1	115.5
US dollar	72.9	61.9
	179.0	177.4

Treasury policy, financial risk, funding and liquidity management

Financial risk management

The Group is exposed to the following risks from its use of financial instruments:

Funding and liquidity risk - the risk that the Group will not be able to meet its financial obligations as they fall due

Credit risk - the risk of financial loss to the Group on the failure of a customer or counterparty to meet its obligations to the Group as they fall due

Market risk - the risk that changes in market prices, such as interest rates and foreign exchange rates, have on the Group's financial performance

The Group's quantitative exposure to these risks is explained throughout these financial statements whilst the Group's objectives and management of these risks is set out below.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Treasury policy and procedures

Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity, interest rate and foreign exchange exposure. Management of these areas is the responsibility of the Group's central treasury function. Hedging financial instruments are utilised to reduce exposure to movements in foreign exchange rates. The Board does not permit the speculative use of derivatives.

Funding and liquidity management

The Group is financed primarily by its issued Senior note, revolving credit facility, vehicle stocking credit lines and operating cash flow. Committed facilities mature within appropriate timescales, are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the Group.

Each business within the Group is responsible for its own day-to-day cash management and the overall cash position is monitored on a daily basis by the Group treasury department.

The maturity of non-current borrowings is as follows:

	2018 £m	2017 £m
Between 2 and 5 years	179.0	115.7
Over 5 years	-	61.7
	179.0	177.4

Maturities include amounts drawn under revolving credit facilities which are contractually repayable generally within a month of the year end but which may be redrawn at the Group's option. The maturities above therefore represent the final repayment dates for these facilities. If the amounts drawn at the year end were redrawn at the Group's usual practice of monthly drawings, the total cash outflows associated with all borrowings, assuming interest rates remain at the same rates as at the year end, are estimated on an undiscounted basis as follows:

	Carrying amount	Con- tractual cashflows	Within 6 months	6 - 12 months	1-2 years	2-5 years	over 5 years
Bank borrowings	117.3	125.2	1.2	1.2	2.5	120.3	-
Senior note	60.0	74.7	1.7	1.7	3.5	67.8	-
Loan notes	0.2	0.4	-	-	-	0.4	-
Finance leases	1.5	5.8	-	0.1	0.1	0.3	5.3
	179.0	206.1	2.9	3.0	6.1	188.8	5.3

The Group has the following undrawn borrowing facilities:

	2018 £m	2017 £m
Expiring in more than two years	122.7	124.3

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Interest rate risk management

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not actively manage cash flow interest rate risk as the Board believes that the retail sector in which the Group operates provides a natural hedge against interest rate movements. Consequently, it is normal Group policy to borrow on a floating rate basis and all fair value interest rate risk arising from fixed rate borrowings entered into by the Group are usually managed by swaps into floating rate. However, the Group decided on a deviation from this policy in respect of its former 6.875% bond 2020. This bond was issued at a fixed rate of interest and, due to the historically low rates in current floating interest rates, there was relatively low downside risk in maintaining the bond at fixed rate. This policy has been continued in respect of the Group's £60m Senior note 2023.

Interest rate risk sensitivity analysis

As some of the Group's borrowings and vehicle stocking credit lines are floating rate instruments they therefore have a sensitivity to changes in market rates of interest. The table below shows the effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end, showing how profit or loss would have varied in the period on the assumption that the instruments at the period end were outstanding for the entire period.

	Profit/(loss) 2018 £m	Profit/(loss) 2017 £m
100 basis points increase	(7.6)	(7.6)
Tax effect	1.4	1.5
Effect on net assets	(6.2)	(6.1)
100 basis points decrease	7.6	7.6
Tax effect	(1.4)	(1.5)
Effect on net assets	6.2	6.1

Foreign exchange risk management

The Group faces currency risk in respect of its net assets denominated in currencies other than sterling. On translation into sterling, movements in currency will affect the value of these assets. The Group's policy is therefore to match, where possible, net assets in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. The Group has therefore borrowed USD 93.0m (2017: USD 83.5m) against its net assets held in overseas subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Hedges of net investments in overseas operations

A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

Included within bank borrowings are balances denominated in US dollars which are designated as a hedge of the net investment in the Group's US subsidiaries. Foreign exchange differences on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange differences in respect of the net investments being hedged.

	2018 \$m	2017 \$m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	93.0	83.5

	£m	£m
Foreign exchange (losses)/gains on translation of borrowings to sterling at balance sheet date	(4.0)	4.2
Foreign exchange gains/(losses) on translation of net investments to sterling at balance sheet date	4.0	(4.8)
Net exchange gain/(loss) recognised within translation reserve in equity	-	(0.6)

Capital management

The Group views its financial capital resources as primarily comprising share capital, issued Senior note, bank loans, vehicle stocking credit lines and operating cashflow.

Core debt i.e. total debt required to fund the Group's net debt : underlying EBITDA target of 1.0 to 1.5, is essentially funded by the Group's issued Senior note and revolving credit facility. The Group requires its revolving credit facility to fund its day-to-day working capital requirements. A fundamental element of the Group's financial resources revolves around the provision of vehicle and parts stocking credit lines, provided by the vehicle manufacturers' funding arms and other third party providers. The Group's funding of its vehicle and parts inventories is set out below:

	2018 £m	2017 £m
Manufacturer finance arm	524.2	598.6
Third party stock finance	407.6	298.7
Bank	96.7	106.2
Total inventories	1,028.5	1,003.5

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the vehicle manufacturers through their related finance arms and that funded through third party stock finance facilities and bank borrowings. Financing for stock other than through bank borrowings is shown in trade creditors in the balance sheet. Manufacturers' finance arms tend to vary the level of finance facilities offered dependent on the amount of stocks their manufacturer wishes to put into the network and this varies depending on the time of year and the level of production. Undrawn third party stock finance facilities at 31 December 2018 amounted to £22m (2017: £85m).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group is also responsible for funding the pension deficit. The total financial resources required by the Group to fund itself at 31 December 2018 comprises:

	2018 £m	2017 £m
Net debt	127.6	124.1
Stock finance	931.8	897.3
Pension deficit	68.3	62.8
	1,127.7	1,084.2

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group, to grow organically and service its debt requirements through generating cash flow. The Group had set a net debt : underlying EBITDA target range of 1.0 to 1.5 : 1. At 31 December 2018 the net debt : underlying EBITDA ratio achieved was 0.9 : 1, calculated as follows:

	2018 £m	2017 £m
Underlying operating profit	76.2	83.8
Depreciation	62.2	59.5
Amortisation	3.1	2.7
Underlying EBITDA	141.5	146.0
Net debt (being net debt as set out above)	127.6	124.1
Net debt : underlying EBITDA ratio	0.9	0.9

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2018 and 2017 are set out below:

	2018	2017
Underlying profit before tax (£m)	47.8	60.4
Underlying earnings per share (p)	2.8	3.3
Net debt : underlying EBITDA	0.9	0.9

The Group's capital structure and capital allocation priorities were reassessed during 2017 and the conclusion of that review in December 2017 decided the following priorities: UK new car business - a review of capital allocation of Premium Brands was completed and certain franchise locations will be reduced over a three year period. It is estimated that £100m capital will be released through a mixture of disposal proceeds and investment not deployed over the three years from December 2017. US Motor Group - given the strong performance of this division, it is economically right to sell the business to realise its value of approximately £100m before tax. UK used car business - this remains our focus for growth with continued investment to complete our national network achieving our objective to double used car revenue by 2021.

The Group has a target range of 1.0 to 1.5 times net debt to underlying EBITDA and is currently trading with financial leverage below this level.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group will continue to pursue organic and acquisitive growth and investment opportunities and evaluate them against the returns generated via the share buyback programme. The buyback programme is currently paused and is capable of being stopped and restarted and this flexibility will enable the Group to pursue other, higher returning, capital allocation opportunities if they arise. The Group may also issue shares or purchase them in the market to satisfy share incentives issued to employees of the Group. The Group encourages employees to be shareholders of the Group, providing selective share option and LTIP schemes from time to time.

Certain of the company's subsidiaries are required to maintain issued share capital at levels to support capital adequacy under Financial Conduct Authority (FCA) requirements. The Group ensures these requirements are met by injections of equity to the subsidiaries in question, when required.

Other than specifically set out above, there were no changes to capital management in the year.

IFRS 9 v IAS 39

Financial assets

IAS 39 classifies financial assets into classes according to their nature i.e. loans and receivables, held to maturity or available for sale. IFRS 9, by contrast, classifies assets according to the business model for their realisation, as determined by the expected contractual cashflows. This classification determines the accounting treatment, and the new classification under IFRS 9 is by reference to the accounting treatment i.e. amortised cost, fair value through other comprehensive income or fair value through profit and loss.

Impairment of financial assets

IAS 39 adopts an incurred loss approach for measuring impairment while IFRS 9 adopts an expected credit loss approach (ECL). The IAS 39 incurred loss approach relied on a credit event occurring (an actual loss or a debt past a number of days due) before an impairment could be recognised. The IFRS 9 approach does not require a credit event to occur but is based on changes in expectations of credit losses. IFRS 9 also requires that impairment of financial assets be shown as a separate line item in either the statement of comprehensive income or the income statement. Under IAS 39 the Group recorded the impairment of its financial assets (trade and other receivables) within operating expenses.

Financial liabilities

IFRS 9 largely retains the classification requirements of IAS 39 so there are no material differences. The following table summarises the differences between IFRS 9 and IAS 39, as applied to these financial statements.

	IFRS 9 classification	IAS 39 classification	IFRS 9 Carrying value £m	Remeas- urement £m	IAS 39 Carrying value £m
Financial assets					
Trade and other receivables	Amortised costs	Loans and receivables	139.8	-	139.8
Cash and cash equivalents	Amortised costs	Loans and receivables	51.4	-	51.4
Financial liabilities					
Loans and borrowings	Amortised cost	Amortised cost	(179.0)	-	(179.0)
Trade and other payables	Amortised cost	Amortised cost	(1,318.3)	-	(1,318.3)
Foreign currency loans used to hedge overseas investments	Fair value hedging instrument	Fair value hedging instrument	(72.9)	-	(72.9)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.3 Net financing costs

Accounting policy

Finance income comprises interest income on funds invested, return on net pension scheme assets and gains on hedging instruments that are recognised in profit and loss. Interest income is recognised as it accrues in profit and loss, using the effective rate method.

Finance expense comprises interest expense on borrowings, unwinding of the discount on provisions, interest on net pension scheme obligations and losses on hedging instruments recognised in profit and loss. All borrowing costs are recognised in profit and loss using the effective interest method.

Gross finance costs directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets until such a time as the assets are substantially ready for their intended use or sale.

Finance expense

	2018	2017
	£m	£m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note, bond and loan notes	8.4	7.0
Vehicle stocking plan interest	18.1	14.5
Interest payable on finance leases	0.1	0.1
Net interest on pension scheme obligations (non-underlying - see note 2.6)	1.6	2.7
Less: interest capitalised	(1.0)	(0.8)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	27.2	23.5
Unwinding of discounts in contract hire residual values	2.8	2.6
Total finance expense	30.0	26.1

Interest of £1.0m has been capitalised during the year on assets under construction at an average rate of 5.75% (2017: £0.8m).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2017	1,424,814,004	71.2
Shares cancelled during the year	(25,664,979)	(1.2)
Allotted, called up and fully paid shares of 5p each at 31 December 2018	1,399,149,025	70.0

There were no issues of ordinary shares during the year.

25,664,979 ordinary shares having a nominal value of £1.2m were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders in the Annual General Meeting on 2 May 2018. The aggregate consideration paid, including directly attributable costs, was £6.7m. Since the commencement of the current share buyback programme in 2016, as at 31 December 2018, 61,171,630 shares have been bought back and cancelled representing 4.2% of the issued ordinary shares, at a cost of £18.2m.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All shares rank equally with regard to the company's residual assets.

Capital redemption reserve

The capital redemption reserve has arisen following the purchase by the company of its own shares and comprises the amount by which distributable profits were reduced on these transactions in accordance with s733 of the Companies Act 2006. £1.2m (2017: £0.6m) was transferred into the capital redemption reserve during the year in respect of shares purchased by the company and subsequently cancelled.

Other reserves

Other reserves comprise the amount of demerger reserve arising on the demerger of the company from Williams Holdings PLC in 1989.

Own shares held by Employee Benefit Trust (EBT)

Transactions of the Group-sponsored EBT are included in the Group financial statements. In particular, the trust's purchases of shares in the company, which are classified as own shares, are debited directly to equity through retained earnings. When own shares are sold or reissued the resulting surplus or deficit on the transaction is also recognised within retained earnings.

The market value of the investment in the company's own shares at 31 December 2018 was £1.4m (2017: £2.2m), being 6.4m (2017: 7.7m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2017: £0.33). During the year the trust acquired no shares (2017: 8.3m shares, for a consideration of £2.8m) and disposed of 1.3m (2017: 8.1m) shares in respect of LTIP and executive share option awards for a consideration of £0.1m (2017: £0.1m). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2018 was £18.1m (2017: £18.2m). The trustee of the EBT is Salamanca Group Trust (Jersey) Limited. The shares in trust may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and to satisfy amounts under LTIPs and the VCP. Details of the plans are given in the Directors' Remuneration Report on pages 55 to 68.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves *continued*

Dividends on the shares owned by the trust, the purchase of which were funded by interest free loans to the trust from Pendragon PLC, are waived. All expenses incurred by the trust are settled directly by Pendragon PLC and charged in the accounts as incurred.

The trust is regarded as a quasi subsidiary and its assets and results are consolidated into the financial statements of the Group.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the net investment in foreign operations as well as from the translation of liabilities held to hedge the respective net investment in foreign operations.

4.5 Dividends

Final dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised when they are paid.

	2018 £m	2017 £m
Ordinary shares		
Final dividend in respect of 2017 of 0.8p per share (2016: 0.75p per share)	10.7	10.7
Interim dividend in respect of 2018 of 0.8p per share (2017: 0.75p per share)	11.8	10.6
	22.5	21.3

The Board is recommending a final dividend for 2018 of 0.7p (2017: 0.8p) per ordinary share equating to £9.8m in total in respect of shares in issue at the date of this report (2017: £11.3m).

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation

Accounting policy

The Group operates a number of employee share option schemes and an executive share ownership plan 'exsop' awarded in 2010. The fair value at the date at which the share options are granted is recognised in the income statement on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

Executive share options

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2018	Number of options millions 2018	Weighted average exercise price 2017	Number of options millions 2017
Outstanding at beginning of period	29.89p	12.9	29.76p	14.7
Exercised during the period	11.17p	(1.3)	12.55p	(0.8)
Lapsed during the period	39.45p	(6.1)	38.76p	(1.0)
Outstanding at the end of the period	23.63p	5.5	29.89p	12.9
Exercisable at the end of the period	23.63p	5.5	21.83p	7.1

The options outstanding at 31 December 2018 have an exercise price in the range of 8.8p to 31.82p and a weighted contractual life of 4.5 years. All share options are settled in equity.

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2018 were as follows:

Exercise period	Date of grant	Exercise price per share	At 31 December 2017 Number	Exercised Number	Lapsed Number	At 31 December 2018 Number
20 September 2013 to 19 September 2020	20 September 2010	14.22p	435,977	-	-	435,977
7 October 2014 to 6 October 2021	6 October 2011	8.82p	1,384,451	(626,133)	-	758,318
31 March 2015 to 30 March 2022	30 March 2012	13.50p	1,730,000	(630,000)	-	1,100,000
19 September 2017 to 19 September 2024	18 September 2014	31.82p	3,579,500	-	(350,000)	3,229,500
1 April 2018 to 31 April 2025	31 March 2015	39.92p	5,729,019	-	(5,729,019)	-
			12,858,947	(1,256,133)	(6,079,019)	5,523,795

All grants of share options were issued pursuant to the 2009 Executive Share Option Scheme, which prescribed an earnings per share performance criterion. It is a precondition to the exercise of grants made under the 2009 Scheme that the growth in the company's earnings per share over the prescribed three year period must exceed by at least 3 percent per annum compound the annual rate of inflation as shown by the RPI Index.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

The weighted average share price at the date of exercise for share options exercised in the year was 25.5p (2017: 32.4p).

All options are settled by physical delivery of shares.

The fair value of the services received in return for share options is measured by reference to the fair value of the options granted. The estimate of the fair value of the services received in respect of share option schemes is measured using the Black-Scholes option pricing model. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2018 is 6.4p (2017: 7.0p).

Executive Long Term Incentive Plan ('LTIPs')

The number and weighted average exercise prices of executive LTIPs is as follows:

	Weighted average exercise price 2018	Number of options millions 2018	Weighted average exercise price 2017	Number of options millions 2017
Outstanding at the start of the period	0.0p	6.3	0.0p	7.7
Lapsed during the period	0.0p	(6.3)	0.0p	(1.4)
Outstanding at the end of the period	-	-	0.0p	6.3

Movements in the number of options to acquire ordinary shares under the Group's LTIP, together with the outstanding position at 31 December 2018 were as follows:

Exercise period	Date of grant	At 31 December 2017 Number	Lapsed Number	At 31 December 2018 Number
31 March 2018	31 March 2015	3,937,633	(3,937,633)	-
14 September 2019	14 September 2016	2,400,000	(2,400,000)	-
		6,337,633	(6,337,633)	-

All grants of LTIPs were issued pursuant to the Long Term Incentive Plan, which prescribed an earnings per share performance criterion. It is a precondition that vesting will not occur if earnings per share growth in the three year performance period does not exceed RPI by at least 4 percent. Vesting will occur between performance points on a straight line basis. All is subject to an underpin of creating absolute total shareholder value. In the case of the company, this means that growth in the value of a shareholding in the company must exceed the growth in the value of shares in the comparator index the company is in, currently the FTSE Small Cap.

The fair value of the services received in return for the LTIPs is measured by reference to the fair value of the LTIPs granted. The estimate of the fair value of the services received in respect of the LTIPs is measured using the Black-Scholes option pricing model. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2018 is nil (2017: 34.2p).

The Group recognised a total net expense of £0.7m (2017: £1.7m credit) as an employee benefit cost in respect of all equity-settled share based payment transactions included within administration costs.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases

Accounting policies

Leases are classified as finance leases wherever the lease transfers substantially all the risks and rewards of ownership to the Group. All other leases are treated as operating leases.

Assets held under finance leases are recorded at inception at the lower of the fair value of the asset and the present value of the minimum payments required to be made under the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is recorded as a finance lease obligation. The finance charge element of rentals paid under these leases is expensed so as to give a constant rate of finance charge on the remainder of the obligation. Finance charges are expensed in the income statement and the capitalised leased asset is depreciated over the shorter of the lease term and the asset's useful economic life.

Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts payable under finance leases:				
Within one year	0.1	0.1	0.1	0.1
In the second to fifth years inclusive	0.4	0.4	0.3	0.3
After five years	5.3	5.4	1.1	1.1
	5.8	5.9	1.5	1.5
Less: future finance charges	(4.3)	(4.4)	-	-
Present value of lease obligations	1.5	1.5	1.5	1.5
Amount due for settlement within one year			-	-
Amount due for settlement in over one year			1.5	1.5
			1.5	1.5

The Group's obligations under finance leases comprise properties on long term leases with a lease term of between 50 and 75 years. The effective interest rates are shown in note 4.2 above. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.8 Operating lease arrangements

Leases are classified as operating leases wherever the lease does not transfer substantially all the risks and rewards of ownership to the Group.

Rentals paid under operating leases are charged directly to the income statement on a straight line basis over the period of the lease. Leases subject to predetermined fixed rental uplifts have their rentals accounted for on a straight line basis recognised over the life of the lease. Lease incentives received and paid are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £m	2017 £m
Within one year	46.0	43.4
In the second to fifth years inclusive	169.2	159.3
After five years	264.5	338.0
	479.7	540.7

The Group leases a number of properties, the majority of which are motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of the leases includes contingent rentals. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles hired for short term usage, typically as courtesy cars.

The following amounts have been charged to the income statement as operating expenses during the year:

	2018 £m	2017 £m
Operating lease rentals payable		
- hire of plant and machinery	2.1	2.1
- property rentals	43.8	43.8

The Group as lessor

Property rental income earned during the year was £4.7m (2017: £5.1m). No contingent rents were recognised in income (2017: £nil). The Group currently receives rental income on 32 (2017: 32) properties on short term leases. These properties are not treated as investment properties.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2018 £m	2017 £m
Within one year	4.6	4.3
In the second to fifth years inclusive	15.9	13.7
After five years	18.5	24.0
	39.0	42.0

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

This section explains the pension scheme obligations of the Group.

5.1 Pension obligations

Accounting policy

The Group operated a number of defined benefit and defined contribution plans during the year. The assets of the defined benefit plan and one defined contribution plan are held in independent trustee administered funds. The Group also operates a Group Personal Pension Plan which is a defined contribution plan where the assets are held by the insurance company under a contract with each individual.

Defined contribution plans - A defined contribution plan is one under which the Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. Therefore, no assets or liabilities of these plans are recorded in these financial statements. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due.

Defined benefit plans - Pension accounting costs for defined benefit plans are assessed by determining the pension obligation using the projected unit credit method after including a net return on the plan assets. Under this method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing historical accrued benefits. The Group recognises all actuarial gains and losses arising from defined benefit plans in the statement of other comprehensive income immediately.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Under IAS 19 Employee Benefits, the Group recognises an interest expense or income which is calculated on the net defined benefit liability or asset respectively by applying the discount rate to the net defined benefit liability or asset.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest) are immediately recognised directly in the statement of other comprehensive income. Actuarial gains and losses are the differences between actual and interest income during the year, experience losses on scheme liabilities and the impact of any changes in assumptions. Details of the last independent statutory actuarial valuation and assumptions are set out below.

Pension arrangements

The Group operated six defined benefit pension schemes which provides benefits based on final salary (one of which had a defined contribution section) which closed to new members and accrual of future benefits on 30 September 2006 and a defined contribution scheme which was closed to new contributions from April 2006. All affected employees were offered membership of a defined contribution pension arrangement with Friends Provident. A Group Personal Pension arrangement with Legal & General replaced the Friends Provident arrangement from 1 January 2010. Total contributions paid by the Group in 2018 to the Legal & General arrangement were £2.7m (2017: £2.5m). To comply with the Government's automatic enrolment legislation, the Group chose to participate in the People's Pension Scheme in April 2013. This is a defined contribution occupational pension scheme provided by B&CE. Total contributions paid by the Group to the People's Pension in 2018 were £5.1m (2017: £2.6m). The combined contributions to the Group's Personal Pension arrangement (including the US Motor business) and the Peoples Pension scheme totalled £7.8m in the period.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

During 2012 the Trustees merged the six defined benefit schemes into one new defined benefit scheme, 'the Pendragon Group Pension Scheme', which remains closed to new members and accrual of future benefits. The assets of the six schemes have all been transferred into the new scheme and the benefits previously accrued in the six schemes were transferred without amendment of the benefit entitlement of members to the new scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The Board of the Trustees of the pension scheme is currently composed of two member nominated trustees (i.e. members of the pension scheme nominated by other members to be trustees), two employer representatives and a professional independent trustee. The former independent chair of trustees retired at 31 December 2017 and the professional independent trustee became chair during 2018. The Trustee of the scheme is required to act in the best interest of the scheme's beneficiaries. The appointment of the Trustee is determined by the scheme's trust documentation.

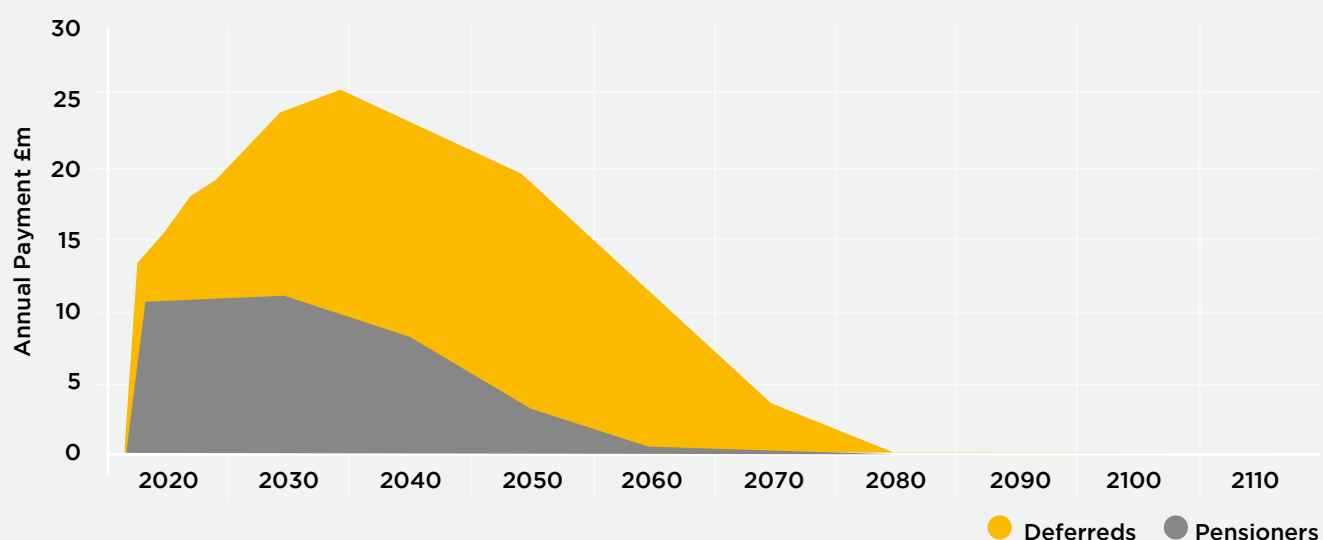
Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2018 there was an outstanding balance of £0.8m (2017: £0.8m) payable to the pension schemes.

Funding

The Pendragon Group Pension Scheme is the liability of the parent company only, and not of any subsidiaries: it is therefore only recognised in the financial statements of the parent company. The Scheme is fully funded by the subsidiary companies of the group, as the parent company does not generate cash inflows itself. The funding requirements are based on the Scheme's actuarial measurement framework set out in the funding policies of the Scheme. Employees are not required to contribute to the plans.

Explanation of the Pension Deficit

The liability to pay future pensions is a liability to settle a stream of future cashflows. These future cashflows have the following profile:



NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

'Deferred' are those pension scheme members not yet drawing a pension as at 31 December 2018; 'Pensioners' are those in receipt of pension at 31 December 2018.

The actual total cash liabilities shown above are estimated at £796m. The value of these liabilities discounted to present value at 31 December 2018 are £486.3m.

In order to meet those future cashflows, the Pension Scheme has to grow its assets sufficient to settle those liabilities. The risk of the future value of those assets is dependent on the financial return; the liabilities will change dependent on the rate of inflation (as most pensions are inflation adjusted) and longevity (how long the pensioner lives for and therefore in receipt of pension). The pension deficit is the gap between those assets and liabilities and can be calculated in one of two ways, both of which are arithmetically identical: either forecast future assets at the asset growth rate to offset against actual liabilities or discount future liabilities by the asset growth rate and compare with the present value of the assets. The latter method is the one commonly adopted and accounting standards require that the asset growth rate (the discount rate) should be estimated on a similar basis for every company, to enhance comparability and to assume a relatively low level of risk. The more realistic picture is provided by the actuarial valuation which considers what the best estimate of the asset growth rate should be and hence what the gap is that the Group will be required to fund through cash contributions. These actuarial valuations are conducted every three years (the triennial valuation). The last triennial valuation was conducted as at 31 December 2015 giving the following comparison:

As at 31 December 2015	IAS 19 (Accounts) £m	Actuarial valuation £m
Assets	396.9	397.0
Liabilities	(440.3)	(432.1)
Pension deficit	(43.4)	(35.1)
Discount rate used	3.90%	4.20%
Inflation	2.1%-3.9%	1.8%-3.7%

The triennial valuation of the pension scheme reflecting the position as at 31 December 2015 was agreed by the Trustees on 13 March 2017. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years and 7 months from 1 January 2017 by the payment of deficit recovery contributions of £7.0m each year, increasing at 2.25% p.a. These contributions include the expected quarterly distributions from the Central Asset Reserve over the recovery period. The next triennial valuation of the pension scheme will reflect the position as at 31 December 2018.

Central Asset Reserve

Pendragon PLC is a general partner and the Pendragon Group Pension Scheme is a limited partner of the Pendragon Scottish Limited Partnership (the Partnership). The Partnership holds £34.5m of properties which have been leased back to the Group at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. As such, the Partnership is consolidated into the results of the Group. During the year the Group has paid £2.9m to the Pendragon Group Pension Scheme through the Partnership (2017: £2.8m) and will increase by 2.25% on 1 August each year until the leases expire on 31 July 2032. These payments could cease in advance of that date if the Pension Scheme's actuarial valuation reaches a point where there is a surplus of 5% over the liability value (on the actuarial triennial valuation basis). The Pension Scheme therefore has a right to receive a future stream of rental receipts. No asset is recognised in these financial statements as the Group has to consent to any proposed disposal of this asset by the Pension Scheme. However, if the Group became insolvent the properties themselves would be retained by the Pension Scheme.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

IAS 19 assumptions

The assumptions used by the actuary in performing the triennial valuation at 31 December 2015 are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS 19 assumptions have been updated at 31 December 2018 and differ from those used for the earlier independent statutory actuarial valuations explained above.

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 for all schemes were:

	2018	2017	2016
Inflation - RPI	3.25%	3.25%	3.35%
Inflation - CPI	2.25%	2.25%	2.35%
Discount rate	2.85%	2.55%	2.70%
Mortality table assumption *	VitaCurves CMI 2017 M (1%) / VitaCurves CMI 2017 F (1%)	S2PMA CMI 2016 M (1%) / S2PFA CMI 2016 F (1%)	S2PMA CMI 2015 M (1%) S2PFA CMI 2015 F (1%)

*The mortality table assumption implies the following expected future lifetime from age 65:

	2018 Years	2017 Years	2016 Years
Males aged 45	22.8	23.0	23.2
Females aged 45	24.9	25.0	25.4
Males aged 65	21.8	21.9	21.9
Females aged 65	23.7	23.7	23.9

During 2010 the Government announced a change to the index to be used for pension increases from RPI to CPI. The change applied to certain elements of pension increases depending on the nature of the pension entitlement, the period in which it was earned and the rules of each scheme. The application of either RPI or CPI to calculate the pension liability has been assessed for each scheme and the relevant elements of pension increases within each scheme.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase of £8.4m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease of £5.3m
Mortality	Increase in life expectancy of 1 year	Increase by £15.6m

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the period ending 31 December 2018 is 17 years (2017: 18 years).

The scheme typically exposes the Group to actuarial risks such as investment risk in assets (the return and gain or loss on assets invested in), inflation risk (as pensions typically rise in line with inflation) and mortality risk (the length of time a pensioner lives for) in respect of liabilities. As the accounting deficit is calculated by reference to a discount rate linked to corporate bonds then the Group is also exposed to interest rate risk i.e. the discounted value of liabilities will rise or fall in line with changes in the interest rate used to calculate (discount) the future pension liabilities to present value. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to scheme liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future income statements. This effect could be partially offset by an increase in the value of the scheme's assets. In order to further mitigate risk, the scheme's investment strategy was changed during 2017 and now operates within a liability driven framework known as Liability Driven Investments ('LDI') i.e. the scheme invests in a mix of assets that are broadly expected to match the expected movement in the net present value of liabilities. This is achieved by investing in assets that are broadly expected to hedge the underlying inflation and interest rate risks of 90% of the liabilities (2017: 80% of the liabilities).

The nature of the products available for liability driven investing mean that a greater proportion of the scheme's assets can be used to invest in assets that are expected to have a higher growth rate than low risk assets. Traditionally, a pension scheme would typically invest in low risk assets such as gilts or cash to broadly match the liabilities of pensions already in payment and invest in higher risk assets such as equities in an attempt to seek growth to fund future pensions for deferred members. Today, the products available for liability driven investing means that each £100 of gilts formerly held can now be replaced with c. £25 of collateral LDI assets and £75 of higher growth assets in order to generate a higher expected return with a similar expected level of risk of volatility. When the LDI investment strategy was put in place in 2017, the investments were rebalanced to hold the required level of LDI collateral assets and the balance invested in a range of diversified growth funds which typically target a return of 3-5% per annum. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation. During 2018 a new investment advisor was appointed to the Pension Scheme and the current focus is on further reducing the risk the pension scheme runs in investing in equities, which by their nature are volatile: the pension scheme is considering a strategy to 'bank' gains on equities when certain trigger points are met and to re-invest in lower yielding but less risky assets.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

The fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the schemes liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

Scheme assets and liabilities	2018 £m	2017 £m	2016 £m
UK equities	129.1	193.0	234.5
Overseas equities	1.9	0.2	7.8
Unit trust	13.2	17.8	21.9
Corporate bonds	-	-	10.9
Government bonds	-	-	161.2
Liability driven investments	58.9	65.6	-
Diversified growth fund	163.1	163.1	-
Cash	51.8	19.3	5.1
Fair value of scheme assets	418.0	459.0	441.4
Present value of funded defined benefit obligations	(486.3)	(521.8)	(544.6)
Net liability on the balance sheet	(68.3)	(62.8)	(103.2)

None of the fair values of the assets shown above include any of the company's own financial instruments or any property occupied by, or other assets used by, the company. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

UK equities are held as a mixture of pooled funds (where cash is invested in a quoted fund designed by the fund manager) or via a segregated mandate where cash is advanced to a fund manager for direct investment in equities at the discretion of the fund manager.

Liability driven investments ('LDI') comprises of investments in funds invested mostly in assets akin to gilts. The diversified growth fund comprises of investments with a number of different fund managers in their individual funds, which funds invest in a mixture of UK and global equities, government and non-government bonds, cash and derivatives.

An LDI solution does not remove all risks within a pension scheme. Those that remain include:

- Demographic risks. For example mortality experience may differ from that assumed when projecting the liability cashflows.
- Basis risk. The valuation of the liabilities by the Scheme Actuary may be based on a specific discount rate, or perhaps a market reference yield. The LDI portfolio will be subject to either underlying gilt or swap market rates. To the extent that these differ, it may result in a residual variation between the two valuation approaches.
- LIBOR target risk. With derivative positions in place, the assets need to achieve a LIBOR (cash return) based target in order to keep pace with the liabilities. To the extent that this return is not achieved (through poor cash funds, or underperformance of growth assets), this will detract from the funding position.
- Counterparty risk. The instruments used in an LDI solution rely on investment bank counterparties to provide the required exposures. If a counterparty defaults, this can lead to a loss of that particular exposure and potentially a loss of any accrued profit on the position. This latter is mitigated by the counterparty placing assets as security or 'collateral' to cover accrued profits.

It is the policy of the Trustee and the company to review the investment strategy at the time of each funding valuation and keep this under review. The Trustee investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the scheme's Statement of Investment Principles.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

The Group has reviewed implications of the guidance provided by IFRIC 14 and have concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2018 and at 31 December 2017.

Movements in the net liability for defined benefit obligations recognised in the balance sheet

	2018 £m	2017 £m
Net liability for defined benefit obligations at 1 January	(62.8)	(103.2)
Contributions received	7.5	7.3
Expense recognised in the income statement	(12.1)	(2.7)
Actuarial gains and losses recognised in the statement of other comprehensive income	(0.9)	35.8
Net liability for defined benefit obligations at 31 December	(68.3)	(62.8)

The defined benefit obligation can be allocated to the plan's participants as follows:

	2018 %	2017 %
Deferred plan participants	58	58
Retirees	42	42

	2018 £m	2017 £m
Actual return on assets	(27.3)	40.1
Expected contributions in following year	7.3	7.2

Total in the income statement

	2018 £m	2017 £m
Net interest on obligation	1.6	2.7
Past service cost	10.5	-
	12.1	2.7

The expense is recognised in the following line items in the income statement:

	2018 £m	2017 £m
Administration costs	10.5	-
Finance costs	1.6	2.7

The discount rate used to calculate interest cost for the period ending 31 December 2018 was 2.55%. This compares to the discount rate of 2.70% used in the calculation of the interest cost for the period ending 31 December 2017.

Based on the reported deficit of £68.3m at 31 December 2018 and the discount rate assumption of 2.85% the charge in 2019 is expected to be £1.9m.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Past service costs - GMP equalisation

Between 6 April 1978 and 5 April 1997, UK legislation on state pensions included provisions as to a state earnings related pension (SERPS). It was possible to contract out of SERPS by making alternative arrangements which provided for guaranteed minimum pensions ("GMPs"), but the regime created a number of inherent inequalities between men and women. Therefore, many occupational pension schemes that involved contracting out of SERPS, despite being compliant with the legislation, created inequalities in relation to the benefits available to male and female members of those schemes.

The English High Court ruling in *Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others* was published on 26 October 2018, and held that UK pension schemes with GMPs accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women.

The trustees of the scheme will need to obtain legal advice covering the impact of the ruling on the scheme, before deciding with the employer on the method to adopt. The legal advice will need to consider (amongst other things) the options for GMP equalisation solutions, whether there should be a time limit on the obligation to make back-payments to members (the "look-back" period) and the treatment of former members (e.g. members who have died without a spouse and members who have transferred out).

The Lloyds case gave some guidance on related matters, including the methods for equalisation and decided that method 'C2' was lawful in principle and met the minimum requirements to achieve equality. Method C2 is the basis adopted for the purposes of estimation in these financial statements. The past service cost is an estimate of the impact on the accounting liabilities as at 31 December 2018 if the method 'C2' were to apply to past and future benefit payments (referred to below as the 'GMP equalisation impact'), assuming that there would be no limit on the 'look-back' period for rectification and only considers members who currently have GMP liabilities within the scheme (and not, for example, members who have died without a spouse or members who have transferred out).

GMP equalisation impact

The calculation approach involves applying judgement to derive a combined percentage impact on the total value of GMP liabilities within the preliminary results of the scheme funding valuation as at 31 December 2015. This impact is expressed as a percentage of the total scheme funding liabilities (the technical provisions) that is then applied to the accounting liabilities as at 31 December 2018. The estimated GMP equalisation impact for the scheme is an increase of 2.2% of the total value of scheme liabilities on the IAS 19 basis as at 31 December 2018, or £10.5m. The potential estimated range is 1.9% to 2.4% of liabilities (£9.2m to £11.7m charge). The estimates are also sensitive to the mix between pensioners and deferred members. The £10.5m charge (2.2% of liabilities) in these financial statements is based on a mix of 30% pensioners: 70% deferred members. A 50%: 50% mix would result in a charge of £9.7m (2.0% of liabilities).

Where companies had not provided for equalisation in the past then the additional obligation is considered to arise from a plan amendment, and the past service cost arising from the change in the benefits payable would be recognised in the income statement. This is the accounting treatment adopted in these financial statements.

Actuarial gains and losses recognised directly in the statement of other comprehensive income

	2018 £m	2017 £m
Cumulative amount at 1 January	(50.7)	(86.5)
Recognised during the period	(0.9)	35.8
Cumulative amount at 31 December	(51.6)	(50.7)

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Defined benefit income recognised in statement of other comprehensive income

	2018 £m	2017 £m
Return on plan assets excluding interest income	(38.8)	28.4
Experience (loss)/gain on scheme liabilities	(5.2)	4.9
Changes in assumptions underlying the present value of scheme obligations	43.1	2.5
	(0.9)	35.8

Changes in the present value of the defined benefit obligation

	2018 £m	2017 £m
Opening present value of defined benefit obligation	521.8	544.6
Interest cost	13.2	14.3
Past service cost	10.5	-
Remeasurements:		
Experience adjustments	5.2	(4.9)
Actuarial gains due to changes in demographic assumptions	(17.6)	(4.7)
Actuarial (gains)/losses due to changes in financial assumptions	(25.5)	2.2
Benefits paid	(21.3)	(29.7)
Closing present value of defined benefit obligation	486.3	521.8

Movement in fair value of scheme assets during the period

	2018 £m	2017 £m
Opening fair value of assets	459.0	441.4
Interest income	11.6	11.6
Return on plan assets, excluding interest income	(38.8)	28.4
Contributions by employer	7.5	7.3
Benefits paid	(21.3)	(29.7)
End of period	418.0	459.0

NOTES TO THE FINANCIAL STATEMENTS

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

History of experience adjustments	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of defined benefit obligation	486.3	521.8	544.6	440.3	495.1
Fair value of scheme assets	418.0	459.0	441.4	396.9	428.7
Deficit in schemes	68.3	62.8	103.2	43.4	66.4
Actuarial gains and losses on scheme liabilities:					
Amount	(37.9)	(7.4)	111.2	(22.9)	40.5
Percentage of scheme liabilities (%)	(7.8%)	(1.4%)	20.4%	(5.2%)	8.2%
Actuarial gains and losses on scheme assets:					
Amount	(38.8)	28.4	49.9	(0.5)	16.5
Percentage of scheme liabilities (%)	(8.0%)	5.4%	9.2%	(0.1%)	3.3%

NOTES TO THE FINANCIAL STATEMENTS

SECTION 6 - OTHER NOTES

This section contains the notes and information relating to acquisitions and disposals and related party transactions:

6.1 Business combinations	6.3 Related party transactions
6.2 Business disposals	6.4 Contingent liabilities and contingent assets

6.1 Business combinations

Accounting policy

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see Basis of preparation in Section 1 above). The results of companies and businesses acquired during the year are included from the effective date of acquisition.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market based value of the replacement awards compared with the market based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 6 - OTHER NOTES

6.1 Business combinations *continued*

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Activity

There were no business combinations in the year.

During the prior year, on 26 September 2017 the Group acquired the trade and assets of a Chevrolet franchised dealership in California for a total cash consideration paid on completion of £17.6m. In addition the Group acquired the entire ordinary share capital of Suresell Limited on 31 January 2017 for a total cash consideration paid on completion of £0.2m.

6.2 Business disposals

Accounting policy

The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

Activity

During the year the Group disposed of four UK dealerships representing Jaguar and Land Rover and an Aston Martin franchise in the US.

Net assets at the date of disposal:

	Net book value £m
Goodwill	0.4
Property, plant and equipment	4.3
Assets held for sale	1.4
Inventories	2.0
Trade and other payables	(0.5)
	7.6
Profit on sale of businesses	3.3
Proceeds on sale satisfied by cash and cash equivalents	10.9

No cash was disposed as part of any business disposal during the year.

During the previous year there were no business disposals.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 6 - OTHER NOTES

6.3 Related party transactions

Subsidiaries

The Group's ultimate parent company is Pendragon PLC. A listing of subsidiaries, all of which are wholly owned, is shown within the financial statements of the company on page 167.

Transactions with key management personnel

The key management personnel of the Group comprise the executive and Non-Executive Directors. The details of the remuneration, long term incentive plans, shareholdings, share option and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 55 to 68.

During the three years ended 31 December 2018, and as of 12 March 2019, no Director, nor any associate of any Director, was indebted to the company.

During the three years ended 31 December 2018, and as of 12 March 2019, the company has not been a party to any other material transaction, or proposed transactions, in which any member of the key management personnel had or was to have a direct or indirect material interest.

Directors of the company and their immediate relatives control 2.35% of the ordinary shares of the company.

During the year key management personnel compensation was as follows:

	2018 £m	2017 £m
Short term employee benefits	1.3	1.6
Post-employment benefits	0.2	0.2
Share based payments	0.3	(0.6)
	1.8	1.2

6.4 Contingent assets

The Group is in discussion with HM Revenue and Customs over issues which may result in additional amounts of VAT receivable to be recognised in future periods. These relate to historical claims in respect of VAT overpaid in prior periods ('Fleming claims'). Although these amounts, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2018 financial statements in respect of these issues.

COMPANY BALANCE SHEET

At 31 December 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Investments	5	912.4	922.6
Loans to subsidiary undertakings		90.0	90.0
		1,002.4	1,012.6
Current assets			
Debtors	6	40.9	41.2
		40.9	41.2
Creditors: amounts falling due within one year	7	(431.1)	(437.9)
Net current liabilities		(390.2)	(396.7)
Total assets less current liabilities		612.2	615.9
Creditors: amounts falling due after more than one year	8	(177.3)	(175.7)
Retirement benefit obligations		(68.3)	(62.8)
Net assets		366.6	377.4
Capital and reserves			
Called up share capital	11	70.0	71.2
Share premium account		56.8	56.8
Capital redemption reserve		5.5	4.3
Other reserves		13.9	13.9
Profit and loss account		220.4	231.2
Equity shareholders' funds		366.6	377.4

Approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

T G Finn

Chief Executive

Registered Company Number: 2304195

T P Holden

Finance Director

The notes on pages 163 to 169 form part of these financial statements

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		16.6	31.9
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and (losses)		0.8	37.7
Income tax relating to defined benefit plan remeasurement (gains) and losses		0.2	(6.1)
Other comprehensive income for the year, net of tax		1.0	31.6
Total comprehensive income for the year		17.6	63.5

The notes on pages 163 to 169 form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2018	71.2	56.8	4.3	13.9	231.2	377.4
Total comprehensive income for 2018						
Profit for the year	-	-	-	-	16.6	16.6
Other comprehensive income for the year, net of tax	-	-	-	-	1.0	1.0
Total comprehensive income for the year	-	-	-	-	17.6	17.6
Transactions with owners, recorded directly in equity						
Own shares purchased for cancellation	(1.2)	-	1.2	-	(6.7)	(6.7)
Own shares issued by EBT	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	0.7	0.7
Dividends paid (see note 4)	-	-	-	-	(22.5)	(22.5)
Total contributions by and distributions to owners	(1.2)	-	1.2	-	(28.4)	(28.4)
Balance at 31 December 2018	70.0	56.8	5.5	13.9	220.4	366.6
Balance at 1 January 2017						
	71.8	56.8	3.7	13.9	196.3	342.5
Total comprehensive income for 2017						
Profit for the year	-	-	-	-	31.9	31.9
Other comprehensive income for the year, net of tax	-	-	-	-	31.6	31.6
Total comprehensive income for the year	-	-	-	-	63.5	63.5
Transactions with owners, recorded directly in equity						
Own shares purchased for cancellation	(0.6)	-	0.6	-	(4.0)	(4.0)
Own shares purchased by EBT	-	-	-	-	(2.8)	(2.8)
Own shares issued by EBT	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	(0.6)	(0.6)
Dividends paid (see note 4)	-	-	-	-	(21.3)	(21.3)
Total contributions by and distributions to owners	(0.6)	-	0.6	-	(28.6)	(28.6)
Balance at 31 December 2017	71.2	56.8	4.3	13.9	231.2	377.4

The notes on pages 163 to 169 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1 Accounting Policies

(a) Basic of preparation Pendragon PLC is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

Cash Flow Statement and related notes;

- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument
- Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements

The Company applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. There are however no such key accounting judgements applied in these financial statements.

Accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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. The Directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long-term:

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1 Accounting Policies *continued*

Key estimate area	Key assumption	Potential impact within the next financial year	Potential impact in the longer term	Note reference
Retirement benefit obligations	The main assumptions in determining the Company's Retirement Benefit Obligations are: discount rate, mortality and rate of inflation. Full detail is included in the pension note in the Consolidated Financial Statements in note 5.1.	✓	✓	5.1 Group
Investment impairment	The balances of investment in subsidiary companies are held at cost less any impairment. It is considered that these investments are one CGU. An impairment exists when their recoverable amount is less than the costs held in the accounts. There are a number of factors which could impact the recoverable amount which creates a risk of this recoverable amount being lower than the investment balance held.	✓		5

(b) Deferred taxation Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

- (i) tax payable on the future remittance of the past earnings of subsidiaries is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute all past earnings exists;
- (ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

(c) Financial instruments The Company holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the profit and loss account. However, the treatment of gains or losses arising from derivatives which qualify for hedge accounting depends on the nature of the hedged item itself. The fair value of derivatives is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date.

Fair value hedges

Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in profit and loss. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in profit and loss. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates.

(d) Investments held as fixed assets are stated at cost less any impairment losses. For Investments the recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(e) Employee benefits - Share based payments The Company operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in profit and loss on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1 Accounting Policies *continued*

(f) Pension obligations The Company operated a defined benefit and defined contribution plan during the year, the assets of which are held in independent trustee administered funds. Pension accounting costs for defined benefit plans are assessed by determining the pension obligation using the projected unit credit method after including a net return on the plan assets. Under this method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing historical accrued benefits. The Company recognises all actuarial gains and losses arising from defined benefit plans in the statement of other comprehensive income immediately.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. When the calculation results in a benefit to the Company, the recognised asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Company if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Under IAS 19 Employee Benefits, the Group recognises an interest expense or income which is calculated on the net defined benefit liability or asset respectively by applying the discount rate to the net defined benefit liability or asset.

A defined contribution plan is one under which the Company pays fixed contributions and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due.

In accordance with IFRIC 14 surpluses in schemes are recognised as assets only if they represent unconditional economic benefits available to the Company in the future. Provision is made for future unrecognisable surpluses that will arise as a result of regulatory funding requirements. Movements in unrecognised surpluses are included in the statement of recognised income and expense. If the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is an obligation for the Company to pay deficit funding, this is also recognised.

Under the provisions of FRS 101 Pendragon PLC is designated as the principal employer of the Pendragon Group Pension Scheme and as such applies the full provisions of IAS 19 Employee benefits (2011). In line with IAS 19 Employee benefits (2011), the Company has recognised a pension prepayment with respect to an extraordinary contribution made during 31 December 2011 as this does not meet the definition of a planned asset and therefore the amount is held in pension prepayment and will be unwound over the period in which Scottish Limited Partnership Limited makes contributions to the pension scheme.

Information relating to pension obligations can be found in the Consolidated Financial Statements in note 5.1.

(g) Dividends Dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

(h) Own shares held by ESOP trust Transactions of the Group-sponsored ESOP trust are included in the Company financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1 Accounting Policies *continued*

(i) Contingent liabilities Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

2 Profit and loss account of the company and distributable reserves

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the profit and loss account of the company is not presented. The profit after taxation attributable to the company dealt with in its own accounts for the year ended 31 December 2018 is £26.8m (2017: £31.9m).

The profit and loss account of the Parent company does not include any unrealised profits. The amount available for distribution under the Companies Act 2006 by reference to these accounts is £220.4m (2017: £231.2m) which is stated after deducting the ESOT reserve of £18.2m (2017: £15.5m). The Group's subsidiary companies which earn distributable profits themselves are expected to make distributions each year up to the Parent company in due course to ensure a regular flow of income to the company such that surplus cash generated can continue to be returned to our external shareholders

3 Directors

Total emoluments of Directors (including pension contributions) amounted to £1.2m (2017: £1.8m). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 55 to 68.

The Directors are the only employees of the company.

4 Dividends

	2018 £m	2017 £m
Ordinary shares		
Final dividend in respect of 2017 of 0.8p per share (2016: 0.75p per share)	10.7	10.7
Interim dividend in respect of 2018 of 0.8p per share (2017: 0.75p per share)	11.8	10.6
	22.5	21.3

The Board is recommending a final dividend for 2018 of 0.7p (2017: 0.8p) per ordinary share equating to £9.8m in total in respect of shares in issue at the date of this report (2017: £11.3m).

5 Investments

	Shares in subsidiary undertakings £m
At 31 December 2017	922.6
Impairment	(10.2)
At 31 December 2018	912.4

In conjunction with the impairment review of goodwill performed for the Group (see note 3.1 of the Group financial statements), a related exercise was performed with relation to the company's carrying value of its investment in subsidiaries, resulting in an impairment charge of £10.2m.

The calculation is sensitive to the assumptions used in valuing the expected future cashflows of subsidiaries. A 2% increase/(decrease) in the value of expected future cashflows would reduce/(increase) the impairment by £5.6m/(£5.6m).

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

5 Investments *continued*

Incorporated in Great Britain having a registered office at Loxley House, 2 Little Oak Drive, Annesley, Nottingham, NG15 0DR:

Alloy Racing Equipment Limited	Bletchley Motor Contracts Limited	Manchester Garages Limited
Bramall Quicks Dealerships Limited	Bletchley Motor Group Limited	Merlin (Chatsworth) Limited
Car Store Limited	Bletchley Motor Rentals Limited	Miles (Chesham) Limited
CD Bramall Dealerships Limited	Bletchley Motors Car Sales Limited	Motors Direct Limited
Chatfields Limited	Bletchley Properties Limited	Motown Limited
Derwent Vehicles Limited	Boxmoor Motors Limited	Munn & Chapman Limited
Evans Halshaw Limited	Bramall Contracts Limited	Munn Holdings Limited
National Fleet Solutions Limited	Bridgegate Limited	Neville (EMV) Limited
Pendragon Vehicle Management Limited	Brightdart Limited	Newport (Gwent) Motor Company Limited
Pendragon Finance & Insurance Services Limited *	Buist Manor Limited	Northside Truck Centre Limited
Pendragon Management Services Limited	C P Evinson Limited	Oggelsby's Limited
Pendragon Motor Group Limited	C.G.S.B Holdings Limited	P J Evans (Holdings) Limited
Pendragon Premier Limited	Calmoon Limited	Paramount Cars Limited
Pendragon Property Holdings Limited	CD Bramall Motor Group Limited	Parkhouse Garage (Newcastle) Limited
Pendragon Sabre Limited	CD Bramall Pensions Limited	Pendragon Company Car Finance Limited
Pinewood Technologies PLC *	CD Bramall Pension Trustee Limited	Pendragon Demonstrator Finance Limited
Reg Vardy (MML) Limited	CD Bramall York Limited	Pendragon Demonstrator Finance November Limited
Reg Vardy (VMC) Limited **	Central Motor Company (Leicester) Limited	Pendragon Demonstrator Sales Limited
Reg Vardy Limited *	Charles Sidney Holdings Limited	Pendragon Extra Limited
Stratstone Limited	Charles Sidney Limited	Petrogate Properties Limited
Stripstar Limited	Comet Vehicle Contracts Limited	Pinewood Computers Limited
Victoria (Bavaria) Limited	Cumbria Vehicles Limited	Plumtree Motor Company Limited
Chatfields - Martin Walter Limited	Davenport Vernon Finance Limited	Portmann Limited
Pendragon Group Services Limited *	Davenport Vernon Milton Keynes Limited	Premier Carriage Limited
Pendragon Overseas Limited *	Davies Holdings Limited	Quicks (1997) Motor Holdings Limited
Pendragon Stock Limited	Dunham & Haines Limited	Quicks Finance Limited
Pendragon Stock Finance Limited	Evans Halshaw (Cardiff) Limited	Reades of Telford Limited
Vardy Contract Motoring Limited	Evans Halshaw (Chesham) Limited	Regency Automotive Limited
Vardy Marketing Limited	Evans Halshaw (Dormants) Limited *	Reg Vardy (AMC) Limited
Pendragon Limited Partner Limited *	Evans Halshaw (Halifax) Limited	Reg Vardy (Property Management) Limited
Bramall Quicks Limited	Evans Halshaw (Midlands) Limited	Reg Vardy (RTL) Limited
Car Store.com Limited	Evans Halshaw Group Pension Trustees Limited	Rudds Limited
CD Bramall Limited *	Evans Halshaw Motor Holdings Limited	Sanderson Murray & Elder Limited
Executive Motor Group Limited	Evans Halshaw Vehicle Management Services Limited	Skipper of Aintree Limited
Stratstone Motor Holdings Limited *	Evinson Tractors Limited	Skipper of Cheltenham Limited
Petrogate Limited	Excalibur Motor Finance Limited	Skipper of Darlington Limited
Reg Vardy (Property Management) Limited	Executive Motor Group Limited	Skipper of Plymouth Limited
Reg Vardy (TMC) Limited	Executive Motors (Stevenage) Limited	Skipper of Torbay Limited
Reg Vardy (TMH) Limited	Extra Rentals Limited	Skipper of Wakefield Limited
Evans Halshaw.com Limited	Folletts Limited	Storm of Leicester Limited
Pendragon Automotive Services Limited *	G.E. Harper Limited	Strattons (Service) Limited
Stratstone.com Limited	Giltbase Limited	Strattons (Wilmslow) Limited
Vardy (Continental) Limited	Godfrey Davis (Trust) Limited	Suresell Limited
Pendragon Group Pension Trustees Limited *	Godfrey Davis Motor Group Limited	The Car and Van Store Limited
Allens (Plymouth) Limited	Hemel Hempstead Motors Limited	The McGill Group Limited
AMG Limited	Kingston Reconditioning Services Limited	The Skipper Group Limited
Andre Baldet Limited	Leveling Limited	Tins Limited *
Arena Auto Limited	Lewcan Limited	Trust Motors Limited
Automend Limited	Longton Garages Limited	Trust Properties Limited
Berkhamsted Motor Company Limited	Manchester Garages (Cars) Limited	Vertcell Limited
Bletchley Motor Company Limited	Manchester Garages Holdings Limited	Wayahead Fuel Services Limited

Incorporated in Great Britain having a registered office at Citypoint, 65 Haymarket Terrace, Edinburgh, Scotland, EH12 5HD:
Pendragon General Partner Limited *

Incorporated in Great Britain having a registered office at 221 Windmillhill Street, Motherwell, Lanarkshire, ML1 2UB:
Reg Vardy (MME) Limited

Incorporated in Great Britain having a registered office at 1 Forth Avenue, Kirkcaldy, Fife, KY2 5PS:
Bramall Laidlaw Limited

Incorporated in the United States of America having a registered office at 2171 Campus Dr Ste 260, Irvine, California:
Pendragon North America Automotive, Inc. Penegon Glendale, Inc. South County, Inc.
Penegon West, Inc. Lincoln Irvine, Inc. Bauer Motors, Inc.
Penegon Mission Viejo, Inc. Penegon South Bay, Inc. Penegon Properties, Inc.
Penegon Newport Beach, Inc. Penegon Santa Monica, Inc. Penegon East, Inc.

Incorporated in Germany having a registered office at 40210 Düsseldorf, Nordrhein-Westfalen, Germany:
Pendragon Overseas Holdings GmbH.

* Direct subsidiary of Pendragon PLC

** Pendragon PLC owns 95% of the issued ordinary share capital

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

6 Debtors

	2018 £m	2017 £m
Amounts due within one year:		
Prepayments	28.7	29.9
	28.7	29.9
Amounts due after more than one year:		
Deferred tax (see note 9)	12.2	11.3
	12.2	11.3
	40.9	41.2

7 Creditors: amounts falling due within one year

	2018 £m	2017 £m
Amounts due to subsidiary undertakings	418.9	407.5
Bank loans and overdrafts	12.2	30.4
	431.1	437.9

8 Creditors: amounts falling due after more than one year

	2018 £m	2017 £m
Bank loans (repayable between two and five years)	117.3	115.7
5.75% Senior notes 2023	60.0	60.0
	177.3	175.7

9 Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. There are no offset amounts as follows:

	2018 £m	2017 £m
Deferred tax assets	12.2	11.3

The movement in the deferred tax assets for the year is as follows:

	Retirement benefit obligations	Other provisions £m	Total £m
At 1 January 2017	17.7	0.4	18.1
(Charged)/credited to income statement	(0.8)	0.1	(0.7)
(Charged) to equity	(6.1)	-	(6.1)
At 31 December 2017	10.8	0.5	11.3
At 1 January 2018	10.8	0.5	11.3
(Charged)/credited to income statement	0.7	-	0.7
(Charged) to equity	0.2	-	0.2
At 31 December 2018	11.7	0.5	12.2

Deferred tax asset is shown within debtors (see note 6)

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

10 Share based payments

Details of share schemes in place for the Group of which the company participates as at 31 December 2018 are fully disclosed above in note 4.6 of this report.

11 Called up share capital

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2017	1,424,814,004	71.2
Shares cancelled during the year	(25,664,979)	(1.2)
Allotted, called up and fully paid shares of 5p each at 31 December 2018	1,399,149,025	70.0

There were no issues of ordinary shares during the year.

25,664,979 ordinary shares having a nominal value of £1.2m were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders in the Annual General Meeting on 2 May 2018. The aggregate consideration paid, including directly attributable costs, was £6.7m. Since the commencement of the current share buyback programme in 2016, as at 31 December 2018, 61,171,630 shares have been bought back and cancelled representing 4.2% of the issued ordinary shares, at a cost of £18.2m.

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2018 are fully disclosed above in note 4.6 of this report.

The market value of the investment in the company's own shares at 31 December 2018 was £1.4m (2017: £2.2m), being 6.4m (2017: 7.7m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2017: £0.33). During the year the trust acquired no shares (2017: 8.3m shares, for a consideration of £2.8m) and disposed of 1.3m (2017: 8.1m) shares in respect of LTIP and executive share option awards for a consideration of £0.1m (2017: £0.1m). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2018 was £18.1m (2017: £18.2m). The trustee of the EBT is Salamanca Group Trust (Jersey) Limited. The shares in trust may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and to satisfy amounts under LTIPs and the VCP. Details of the plans are given in the Directors' Remuneration Report on pages 55 to 68.

Dividends on the shares owned by the trust, the purchase of which were funded by interest free loans to the trust from Pendragon PLC, are waived. All expenses incurred by the trust are settled directly by Pendragon PLC and charged in the accounts as incurred.

12 Retirement benefit obligations

Details of Pendragon Group Pension Scheme are fully disclosed above in note 5.1 of this report.

13 Related party transactions

Identity of related parties

The company has related party relationships with its subsidiaries, its joint venture and with its key management personnel.

Transactions with related parties

The transaction with Directors of the company are set out in note 6.3 to the consolidated financial statements.

14 Contingent liabilities

(a) The company has entered into cross-guarantees with its bankers whereby it guarantees payment of bank borrowings in respect of UK subsidiary undertakings.

(b) The company has given performance guarantees in the normal course of business in respect of subsidiary undertaking obligations.

ADVISORS, BANKS AND SHAREHOLDER INFORMATION

Financial Calendar 2019

12 March	date of this Report
12 March	preliminary announcement of 2018 results
18 April	ex-dividend date 2018 proposed final dividend
23 April	record date 2018 proposed final dividend
30 May	payment of proposed 2018 final dividend
19 September	ex-dividend date interim dividend 2019
20 September	record date 2019 interim dividend
24 October	payment of 2019 interim dividend

Auditor

KPMG LLP

Banks

Barclays Bank PLC
Lloyds TSB Bank plc
Royal Bank of Scotland plc
Allied Irish Banks plc
HSBC Bank plc

Stockbrokers

Joh. Berenberg, Gossler & Co. KG
Jefferies International Limited

Solicitors

CMS Cameron McKenna Nabarro Olswang LLP
Geldards LLP
Eversheds LLP

How to find Pendragon PLC's offices

Visit Contacts on the company's website
www.pendragonplc.com.

Stock Classification

The company's ordinary shares are traded on the London Stock Exchange. Investment codes for Pendragon's shares are:

London Stock Exchange: PDG
Bloomberg: PDG.LN
GlobalTOPIC and Reuters: PDG.L

Share dealing service

Pendragon's company registrar offers a share dealing service, provided by Link Asset Services (a trading name of Link Market Services). Details appear at www.linksharedeal.com

Shareholder and investor information

Making some of our corporate materials and policies available on our website reduces the length of this Report. This year we have placed certain background information on policy and governance on our website. We also display historic financial reports and have a section on company news, which we regularly update on www.pendragonplc.com

Online services

Shareholders can choose to receive communications and access a variety of share-related services online via the share portal offered by Pendragon's company registrar. This allows shareholders to manage their shareholding electronically and is free of charge. For details, visit www.mypendragonshares.com

Getting company reports online

Reduces the environmental impacts of report distribution. To choose online only reporting, visit the share portal and register for electronic form reporting, or contact our registrar, whose details are:

Registrar and shareholder enquiries

Link Asset Services
The Registry
34 Beckenham Road
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Kent
BR3 4TU

shareholderenquiries@linkgroup.co.uk
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5 YEAR GROUP REVIEW

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	4,627.0	4,739.1	4,537.0	4,453.9	4,000.4
Gross profit	550.5	552.9	559.6	548.9	522.6
Operating (loss)/profit before other income	(30.1)	91.5	100.1	96.4	89.8
(Loss)/profit before taxation	(44.4)	65.3	73.0	79.0	64.6
Basic earnings per share	(3.6p)	3.7p	3.8p	5.0p	3.5p
Net assets	345.6	425.4	372.8	395.1	339.9
Net borrowings (note 1)	127.6	124.1	79.6	108.8	139.6

Other financial information

Underlying profit before tax	47.8	60.4	75.4	70.1	60.2
Underlying earnings per share (note 4)	2.8p	3.3p	3.9p	3.7p	3.1p
Net debt : underlying EBITDA (note 6)	0.9	0.9	0.6	0.5	0.8
Gross margin	11.9%	11.7%	12.3%	12.3%	13.1%
Total operating margin (note 2)	(0.7%)	1.8%	2.2%	2.3%	2.2%
After tax return on equity (note 3)	(13.1%)	13.4%	14.5%	19.8%	15.4%
Dividends per share (note 5)	1.50p	1.55p	1.45p	1.3p	0.9p
Dividend cover (times)	2.0	2.4	2.7	3.9	3.8
Interest cover (times)	(0.5)	3.5	3.7	2.9	3.0
Gearing (note 7)	36.9%	29.2%	24.6%	20.1%	32.0%

Business summary

Number of franchise points	186	194	196	200	213
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note 1 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments.

note 2 Total operating margin is calculated after adding back non-underlying items, and excluding other income.

note 3 Return on equity is profit after tax for the year as a percentage of average shareholders' funds.

note 4 Basic earnings per share adjusted to eliminate the effects of non-underlying operating, non-underlying finance and tax items, see note 2.8 of the financial statements.

note 5 Dividends per share are based on the interim dividend paid and final dividend proposed for the year.

note 6 Full details of the calculation of the net debt : underlying EBITDA ratio are given in note 4.2 to the financial statements.

note 7 Gearing is calculated as net borrowings as a percentage of net assets.



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