Pendragon PLC

FULL YEAR RESULTS FOR 31 DECEMBER 2018 (issued 12 March 2019)

Trevor Finn, Chief Executive

"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."

2018 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 – investment discipline
  - 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, will retire from the role of Chief Executive of Pendragon 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. His successor, Mark Willis, will take up the role of Chief Finance Officer and join the Board on 8 April 2019.

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 which 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% benefitting 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** – 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 £(95.8m) 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.

Summary of Results

£m	Revenue	Gross Profit	Operating Profit / (Loss)	PBT	EPS
Like for Like*	£4,509.8 (-1.3%)	£540.4 (+0.6%)	£79.2 (-9.3%)	£50.8 (-20.5%)	n/a
Continuing	£4,148.6 (-4.1%)	£490.4 (-1.7%)	£(25.7)	£(53.2)	-4.1p
Discontinued**	£478.4 (+15.3%)	£60.1 (+10.9%)	£11.3 (+4.6%)	£8.8 (-4.3%)	0.5p
Underlying***	£4,627.0 (-2.4%)	£550.5 (-0.4%)	£76.2 (-9.1%)	£47.8 (-20.9%)	2.8p (-15.2%)
TOTAL	£4,627.0 (-2.4%)	£550.5 (-0.4%)	£(14.4)	£(44.4)	-3.6p

* like for like results include only current trading businesses which have been trading for 12 consecutive months.
** discontinued operations are in respect of the Group's US business which is currently classified as held for sales.
*** underlying results that exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business
Continuing results are stated on an underlying basis.

Contents

Contacts

Name	Title	Responsibility	Contact
Trevor Finn	Chief Executive	Pendragon PLC	01623 725114
Tim Holden	Finance Director	Pendragon PLC	01623 725114
Howard Lee	Partner	Headland	0203 805 4822
Henry Wallers	Associate Director	Headland	0203 805 4822

- The business has 4 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 ROI, stable profitability stream and used vehicle supply
    - US Motor - sale and servicing of vehicles in the U.S.

Underlying £m	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%
	£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%
	£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%**

Strategy

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

Underlying £m	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%
	£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%
	£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%
	11.2%	**11.1%**	**0.1%**	**0.1%**
Operating Margin %				
	1.0%	**1.2%**	**-0.2%**	**-0.3%**

Business Review

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 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. We have 32 Car Stores in total.

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 £83.6 million, 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 £11.9 million (2017: £6.9 million).

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 settlement of 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 £3.5 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.

Software

Strategy

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

Underlying £m	2018	2017	Change (%)	L4L Change (%)
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 Profit %	**69.2%**	**69.0%**	**0.2%**	**0.2%**

Business Review

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. (December 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.

Leasing

Strategy

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

Underlying £m	2018	2017	Change (%)	L4L Change (%)
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 Profit %	**25.8%**	**15.1%**	**10.7%**	**10.7%**

Business Review

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

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 £2.8 million 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 £5.0 million (+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.

US Motor

Strategy

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

Underlying £m	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%
	£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%
	£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%
	12.6%	13.1%	-0.5%	-0.5%
Operating Margin %				
	1.8%	2.6%	-0.8%	-0.8%

Business Review

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 £2.6 million. 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.

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 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 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.

UK New Car Registrations '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%
Total UK 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* Registrations	**1,607.1**	**1,738.2**	**-7.5%**

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

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.

Financials

£m	2018			2017			
	Continuing	Discontinued	TOTAL	Continuing	Discontinued	TOTAL	Change %
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**	
Tax	(3.8)	(2.3)	**(6.1)**	(8.7)	(3.3)	**(12.0)**	-49.2%
(Loss) / profit After Tax	(57.0)	6.5	**(50.5)**	47.4	5.9	**53.3**	
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%
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%

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

Financial Highlights

The Group 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.

Non-underlying Items

	2018 £m	2017 £m
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**

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.

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.

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:

£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.

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 was 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 £5.6 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. 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.

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.

Consolidated Income Statement Year ended 31 December 2018	Continuing operations £m	Discontinued operations * £m	2018 £m	Continuing operations £m	Discontinued operations * £m	2017 £m
Revenue	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	(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	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 **	(93.3)	2.7	(90.6)	7.6	-	7.6
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 **	(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 **	(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)
(Loss)/profit for the year	**(57.0)**	**6.5**	**(50.5)**	**47.4**	**5.9**	**53.3**
Earnings per share						
Basic earnings per share	(4.1p)	0.5p	(3.6p)	3.3p	0.4p	3.7p
Diluted earnings per share	(4.1p)	0.5p	(3.6p)	3.3p	0.4p	3.7p
Non-GAAP Measure						
Underlying basic earnings per share	2.5p	0.3p	2.8p	2.9p	0.4p	3.3p
Underlying diluted earnings per share	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.

* Non-underlying, see note 2 for explanation.

Consolidated Statement of Comprehensive Income Year ended 31 December 2018	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 gains and (losses)	(0.9)	35.8
Income tax relating to defined benefit plan remeasurement gains and (losses)	-	(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)
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	6.6	5.3
	(51.4)	82.2

Consolidated Statement of Changes in Equity Year ended 31 December 2018	Share Capital £m	Share Premium £m	Other Reserves £m	Translation Differences £m	Retained Earnings £m	Total £m
Balance at 1 January 2018	**71.2**	**56.8**	**16.9**	**(0.8)**	**281.3**	**425.4**
Total comprehensive income for 2018						
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	-	-	-	-	(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**	**18.1**	**(0.8)**	**201.5**	**345.6**
Balance at 1 January 2017	**71.8**	**56.8**	**16.3**	**(0.2)**	**228.1**	**372.8**
Total comprehensive income for 2017						
Profit for the 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	-	-	-	-	(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**	**16.9**	**(0.8)**	**281.3**	**425.4**

Consolidated Balance Sheet At 31 December 2018	2018 £m	2017 £m
Non-current assets		
Property, plant and equipment	463.9	479.9
Goodwill	265.9	361.2
Other intangible assets	8.2	7.5
Deferred tax assets	9.8	11.4
Total non-current assets	**747.8**	**860.0**
Current assets		
Inventories	959.6	1,003.5
Trade and other receivables	114.8	132.8
Current tax assets	4.3	-
Cash and cash equivalents	51.4	53.3
Assets classified as held for sale	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	(1,175.4)	(1,224.2)
Deferred income	(49.7)	(50.3)
Current tax payable	-	(2.1)
Provisions	(0.7)	(0.7)
Liabilities directly associated with the assets held for sale	(88.6)	-
Total current liabilities	**(1,314.4)**	**(1,277.3)**
Non-current liabilities		
Interest bearing loans and borrowings	(179.0)	(177.4)
Trade and other payables	(54.4)	(59.0)
Deferred income	(52.2)	(49.9)
Retirement benefit obligations	(68.3)	(62.8)
Provisions	(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	70.0	71.2
Share premium account	56.8	56.8
Capital redemption reserve	5.5	4.3
Other reserves	12.6	12.6
Translation reserve	(0.8)	(0.8)
Retained earnings	201.5	281.3
Total equity attributable to equity shareholders of the Company	**345.6**	**425.4**

Consolidated Cash Flow Statement **Year ended 31 December 2018**	**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	-
Retirement benefit obligations	(7.5)	(7.3)
Changes in inventories	(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	(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	-	(17.8)
Proceeds from sale of businesses	10.9	-
Purchase of property, plant, equipment and intangible assets	(133.2)	(193.0)
Proceeds from sale of property, plant, equipment and intangible assets	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 bond and 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	**51.4**	**53.3**

Reconciliation of net cash flow to movement in net debt Year ended 31 December 2018	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	(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.

Notes

1 Basis of Preparation

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

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

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

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

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

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.

	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	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 summary 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)

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 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 guaranteed minimum pensions equalisation (GMP). 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 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 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, being £10.5m.

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.

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.

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 £0.8 (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.

3 Earnings per share

	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	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.

4 Net finance expense

	2018 £m	2017 £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)	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**

5 Net borrowings

	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)**

6 Movement in contract hire vehicle balances

	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)**

7 Pension Funds

The net liability for defined benefit obligations has increased from £62.8m at 31 December 2017 to £68.3m at 31 December 2018. The increase of £5.5m comprises contributions of £7.5m, net expense recognised in the income statement of £12.1m (comprising past service costs of £10.5m and an interest expense of £1.6m) and a net actuarial loss of £0.9m. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate of 2.85% (2017: 2.55%), inflation rate (RPI) of 3.25% (2017: 3.25%) and inflation rate (CPI) of 2.25% (2017: 2.25%).

8 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 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

Operating profit reconciliation

	2018 £m	2017 £m
Underlying operating profit	**76.2**	**83.8**
Settlement of historic VAT issues (see note 2)	-	7.7
Gains/(losses) on the sale of businesses and property (see note 2)	15.7	(0.1)
Past service costs (see note 2)	(10.5)	-
Impairment of goodwill	(88.8)	-
Impairment of assets held for sale (see note 2)	(1.2)	-
Impairment of property, plant and equipment (see note 2)	(5.8)	-

Non-underlying operating 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)	(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 profit and finance costs items (see reconciliation above)	(92.2)	4.9
Non-underlying tax (see note 2)	3.0	0.8
Non-underlying operating profit, finance costs and tax items	(89.2)	5.7
(Loss)/profit after tax	**(50.5)**	**53.3**

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

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

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

9 Annual Report

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2018 are published on the Group's website at www.pendragonplc.com and will be posted to shareholders and after adoption at the Annual General Meeting on 25 April 2019 they will be delivered to the registrar.

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