

Pendragon | PLC

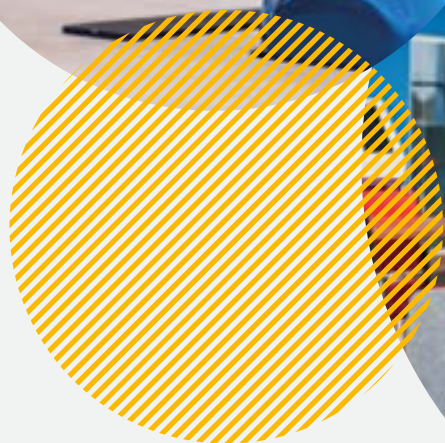


**2019**

ANNUAL REPORT

“ A much improved second half performance and a return to profitability in challenging market conditions were more than offset by significant underlying losses in the first half of the year, resulting in an overall underlying loss before tax in FY19. Financial performance in the first half was impacted by a combination of issues, with the principal driver being the impact of the clearance of used car stock from excess levels. The second half performance improved as a result of actions taken by management to re-set performance, which included the closure of 22 underperforming Car Store locations, better management of used vehicle inventory and a clear focus on operational cost management. The improvement in performance during the second-half puts the business on a much stronger footing for FY20. The company is closely monitoring the unprecedented impact of the COVID-19 virus and its potential impact on the economy. At the moment, and excluding any impact from COVID-19, the company expects Group underlying profit before tax for FY20 to be in line with market expectations, but will continue to watch the situation closely, particularly in light of the measures that were announced by the UK Government on 16 March. At this stage, it is too early to accurately quantify what the impact may be. ”





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# CHIEF EXECUTIVE OFFICER STATEMENT

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Bill Berman, Chief Executive Officer

*“I am excited to have been appointed to the role of Chief Executive Officer of Pendragon and look forward to the prospect of leading the business through a period of rapid change and innovation in the automotive retail sector. Despite having only been with the business for a short period of time, it is clear this is a company with great potential and a very strong team.*”

*2019 was a year of transition for the Group, that played out against challenging market conditions, however, we returned to profitable growth in the second half and this provides us with a solid platform for the coming year. At the moment, we are closely monitoring the impact of COVID-19 on the economy as the situation continues to develop.*

*We will be providing a fuller update on the Group strategy later in the year, which will continue to be based on four strategic pillars; the opportunity to create a strong, stand-alone used car brand, an improved and stable platform in the Franchised UK Motor division, delivering growth in Pinewood and further strengthening our leasing business. I am confident in the long-term prospects for Pendragon and look forward to communicating our strategy in more detail in due course.”*

## **BOARD AND MANAGEMENT CHANGES**

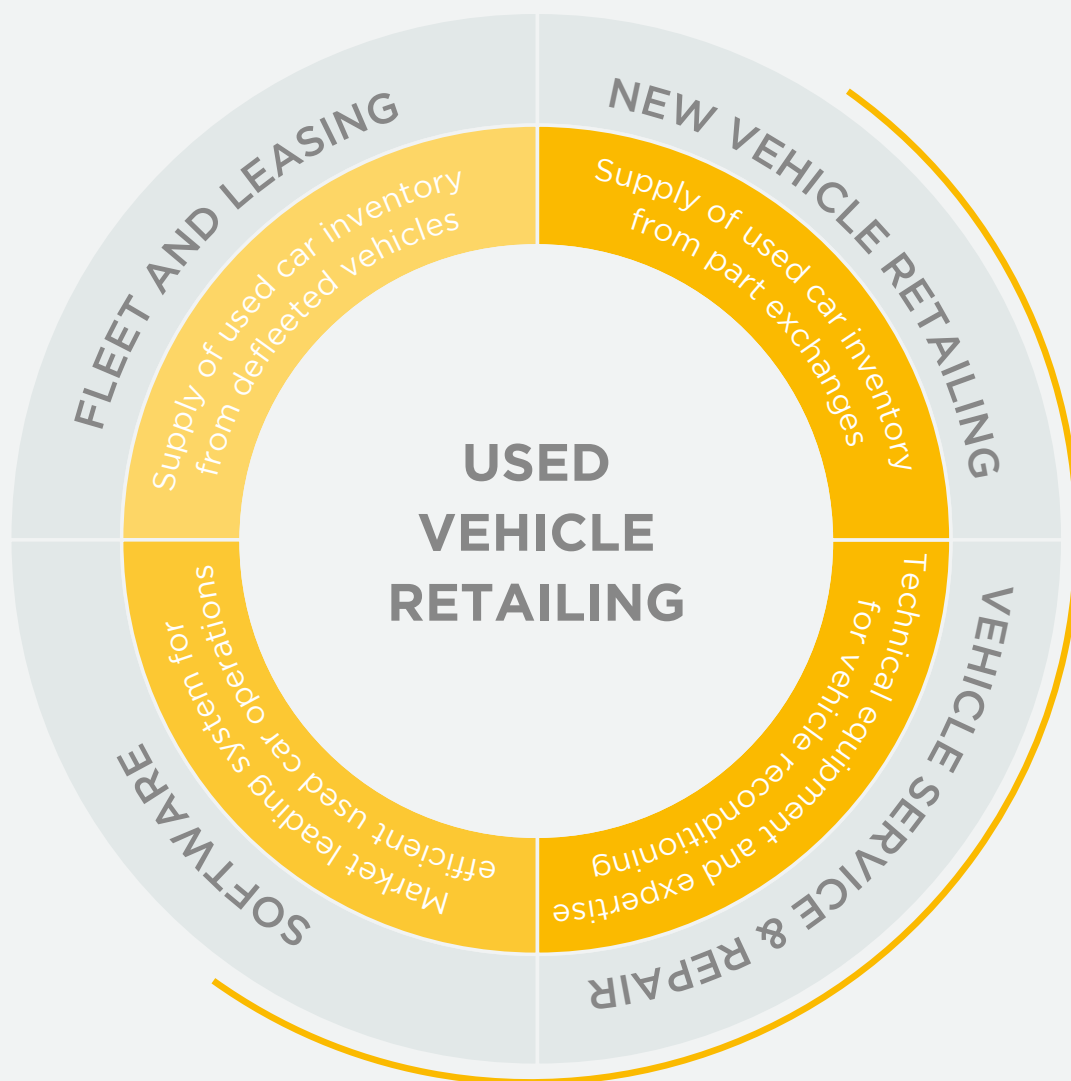
- A number of Board and senior management positions have been added to strengthen the business to support its future growth potential.
- Bill Berman appointed as Chief Executive Officer.
- Two new Non-Executive Board members appointed.
- New roles of Chief Information Officer and Chief Marketing Officer created and appointed.

## **OUTLOOK**

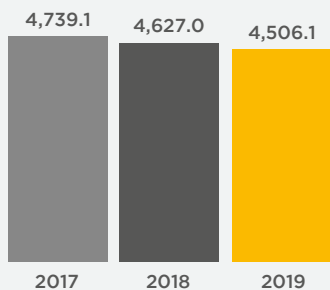
- We remain cautious given the ongoing level of economic uncertainty post the UK's exit from the EU, with trade terms only agreed until the end of 2020. We will continue to monitor market conditions and respond accordingly.
- The company has considered and will continue to monitor the threat and economic implications of COVID-19. At the moment, and excluding any impact from COVID-19, the company expects Group underlying profit before tax for FY20 to be in line with market expectations, but will continue to watch the situation closely, particularly in light of the measures that were announced by the UK government on 16 March. At this stage, it is too early to accurately quantify what the impact maybe.
- The Group has taken some additional protective measures such as deferring commitments in our capital expenditure programme, increasing the flexibility we have in our marketing spend, closely monitoring inventory levels and developing alternating work schedules and home working options for employees.

# BUSINESS SEGMENTS

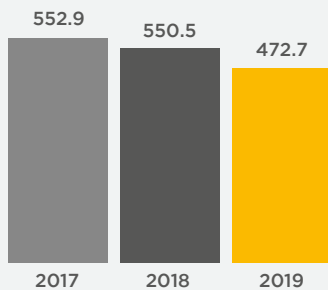
We have five main business divisions that make up our Group:



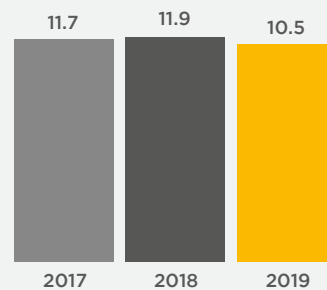
# FINANCIAL SUMMARY



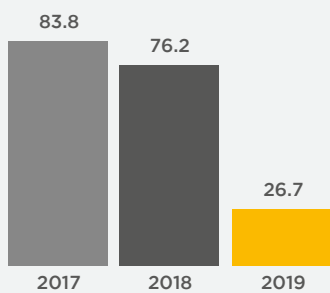
**£4,506.1M**  
REVENUE



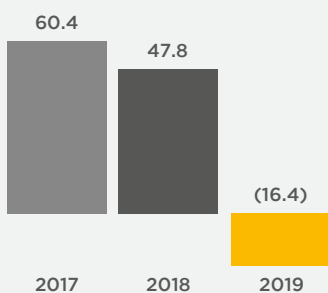
**£472.7M**  
GROSS PROFIT



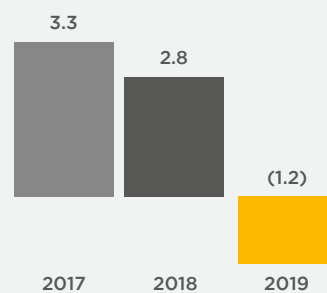
**10.5%**  
GROSS MARGIN



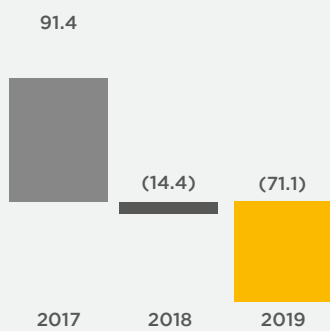
**£26.7M**  
UNDERLYING OPERATING PROFIT



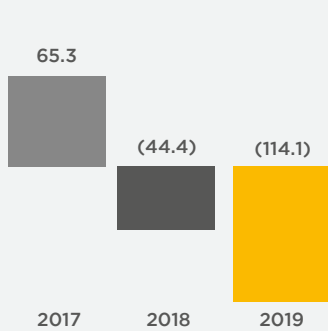
**£(16.4)M**  
UNDERLYING PROFIT BEFORE TAX



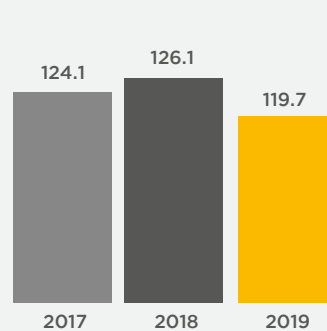
**(1.2)P**  
UNDERLYING EPS



**£(71.1)M**  
OPERATING (LOSS)/PROFIT



**£(114.1)M**  
(LOSS)/PROFIT BEFORE TAX



**£119.7M**  
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.



# OPERATIONAL AND FINANCIAL HIGHLIGHTS

## OPERATIONAL AND FINANCIAL HIGHLIGHTS

- **Group Revenue £4,506.1m +3.8% LFL (-2.6% total)**
- **Underlying (Loss) / Profit Before Tax £(16.4)m loss** (2018 : £47.8m profit). H1 loss of £(32.2)m loss, H2 profit of £15.8m
- **Non-Underlying Charge of £97.7m** (2018 : £92.2m charge) including a non-cash charge principally for impairment of goodwill and non-current assets of £130.2m.
- **Loss After Tax £(117.4)m** (2018 : £(50.5)m loss)
- **Dividend** – The Group is not proposing a final dividend for FY19 (2018: 0.7p)
- **Closing Net Debt – £119.7m** (FY18 : £126.1m), down 5.1w%

## PERFORMANCE INDICATORS

### KEY FINANCIAL MEASURES

KPI	Definition	2019 Performance	Change
<b>Underlying EPS</b>	Underlying profit after tax divided by weighted average number of shares	<b>(1.2)p</b>	down >100%
<b>Underlying PBT</b>	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	<b>£(16.4)m</b>	down >100%
<b>Underlying Operating Margin</b>	Underlying operating profit divided by underlying revenue	<b>0.6%</b>	down 62.5%
<b>Underlying Net Debt</b>	Net debt : underlying EBITDA is the ratio of our net debt to underlying EBITDA	<b>Ratio 1.5</b>	up 66.6%

### KEY STRATEGIC MEASURES

KPI	Definition	2019 Performance	Change
<b>Aftersales Retail Labour Sales</b>	Retail labour sales is activity direct to consumers for the servicing and repair of motor vehicles (like for like)	<b>Retail growth 3.6%</b>	up 1.5%
<b>Used Revenue</b>	All used revenues (like for like)	<b>£1,829.0m</b>	down 0.0%
<b>Online Growth</b>	Website visits to Evanshalshaw.com, Stratstone.com and Carstore.com	<b>34.9m visitors</b>	up 21.8%

# s172 STATEMENT

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## Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The board of directors of Pendragon PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a)-(f) of the Act) in the decisions taken during the year ended 31 December 2019.

- Our plan was designed to have a long-term beneficial impact on the company and to contribute to its success in delivering a high quality of service across all of our business divisions: Franchised UK Motor, Software, Leasing and UK Motor.
- Our team members are fundamental to the delivery of our plan. We aim to be responsible employer in our approach to the pay and benefits our team members receive. The health, safety and well-being of our team members is one of our primary considerations in the way we do business.
- Engagement with suppliers and customers is key to our success. We meet with our major manufacturing partners regularly throughout the year and take the appropriate action, when necessary, to prevent involvement in modern slavery, corruption, bribery and breaches of competition law.
- Our plan took into account the impact of the Group's operations on the community and environment and our wider social responsibilities, and in particular how we comply with environmental legislation and pursue waste-saving opportunities and react promptly to local community concerns.
- As the Board of Directors, our intention is to behave responsibly and ensure that the management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so, will contribute to the delivery of our plan. The intention is to nurture our reputation, through both the construction and delivery of our plan, that reflects our responsible behaviour.
- As the Board of Directors, our intention is to behave responsibly towards our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan.



# BUSINESS PROFILES

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- 10 Car Store
- 10 Franchised UK Motor
- 12 Software - Pinewood
- 14 Leasing - Pendragon Vehicle Management
- 15 US Motor Group



# BUSINESS PROFILES

## CAR STORE

Own brand proposition for the sale of used vehicles in the U.K..

### Operating Highlights

- A full market and operating model assessment of Car Store was completed during H1, which confirmed there is a significant and attractive market opportunity and that the proposition is well received by its target customers.
- Following this, a clear roadmap of short-term and long-term steps were established. The short-term actions included the closure of 22 Car Stores and one preparation centre in H2. In addition, following a review of capacity, a further preparation centre was closed.
- During the first half of FY19, Car Store incurred underlying operating losses of £(19.1)m, of which £(6.1)m resulted from the clearance of used car stock from excess levels that had built up at the end of FY18, and £(13.0)m was due to operational performance constraints. In the second half of FY19, Car Store had operating losses of £(6.1)m.
- Significant performance improvements in the remaining 12 stores since the closure programme was completed, with underlying operating losses from the remaining 12 stores reducing to £(1.1)m in the fourth quarter. Further improvements are targeted during 2020.



***“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”***

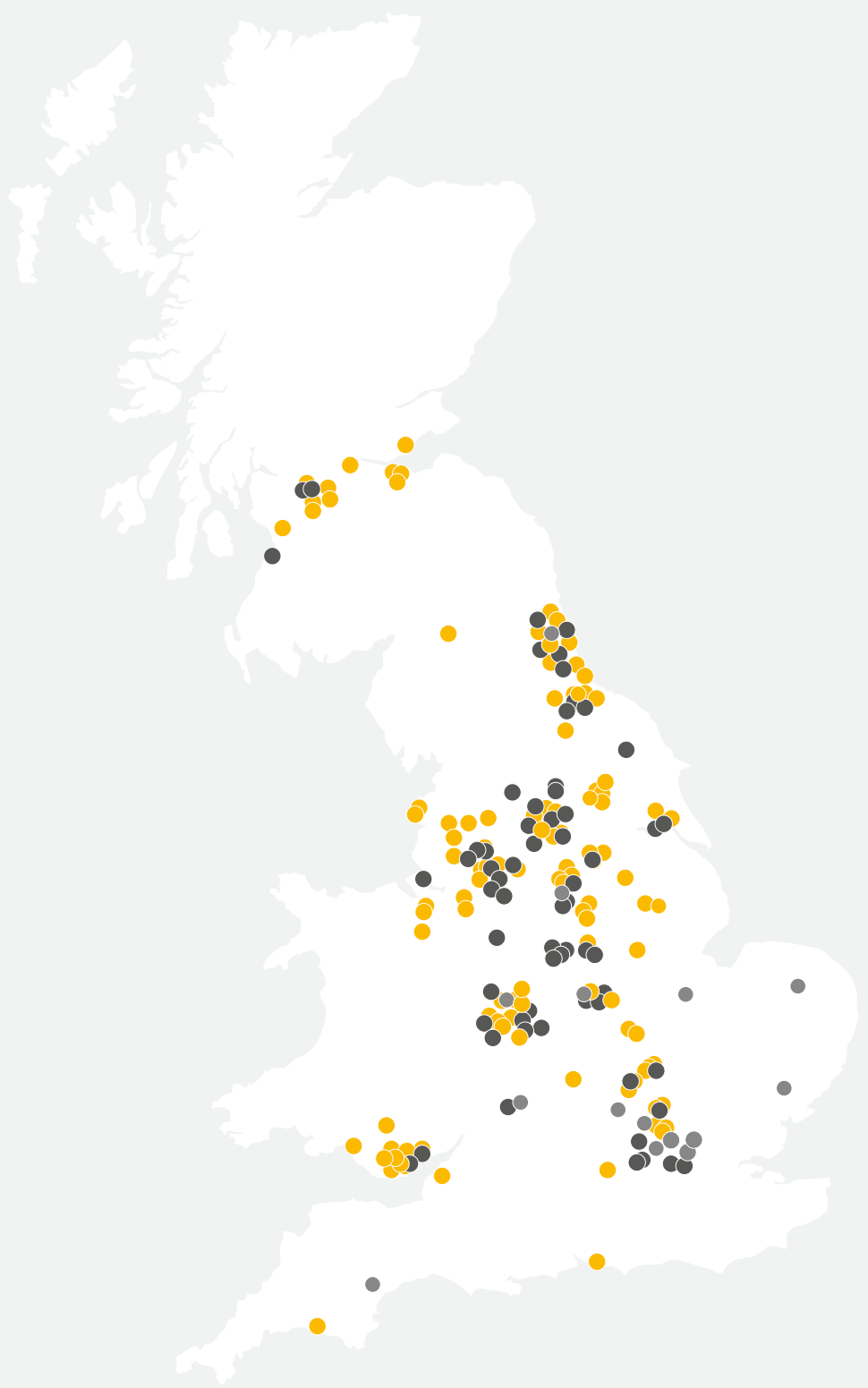


## FRANCHISED UK MOTOR

Sale and servicing of vehicles in the UK.

### Operating Highlights

- H1 reported underlying operating loss of £(7.7)m (H1 2018 : £31.8m) , H2 reported underlying operating profit of £20.7m (H2 2018 : £21.2m).
- H1 2019 was impacted by the previously disclosed clearance of used car stock from excess levels.
- Used car gross margins stabilised at 7.8% in H2 vs 4.9% in H1.
- Further progress has been made with right-sizing the Franchised UK Motor operation with 6 Jaguar Land Rover sites either disposed of or closed in FY19.
- While market conditions remained challenging during H2, with the new car market down (1.1)%. The Group outperformed the new car market in the period, with H2 like-for-like new car unit sales growth of 2.3%.
- Underlying operating costs were well managed in H2 and on a proforma IAS17 basis, in total were down 5.6% (down 0.8% on a LFL basis) as a result of the previously announced cost reduction programmes.



- **Evans Halshaw 120**
  - Ford 38
  - Vauxhall 30
  - Citroën 14
  - Renault 6
  - Dacia 6
  - Peugeot 6
  - DAF 4
  - Hyundai 4
  - Nissan 4
  - Kia 3
  - SEAT 1
  - EH Used Car Centres 4

- **Stratstone 46**
  - Land Rover 5
  - Jaguar 5
  - Mercedes-Benz 8
  - BMW 7
  - MINI 7
  - Smart 2
  - Porsche 5
  - Aston Martin 3
  - Harley-Davidson 2
  - Ferrari 1
  - SS Used Car Centres 1

- **Car Stores 12**

# 178 UK RETAIL POINTS



**253K VEHICLES SOLD**



WEBSITE VISITS UP

**22%**  
35M VISITS

# BUSINESS PROFILES

## SOFTWARE - PINWOOD

Licencing of Software as a Service to automotive business users.

### Operating Highlights

- Underlying operating profit up 14.5% to £13.4m (2018 : £11.7m).
- The software business continues to perform well, with continued international expansion.
- Additional customers were added in multiple territories, including Norway and Sweden during 2019.

*“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.”*



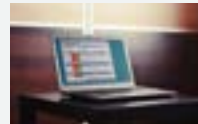
Integration with Microsoft Outlook



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. Pinwood 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.

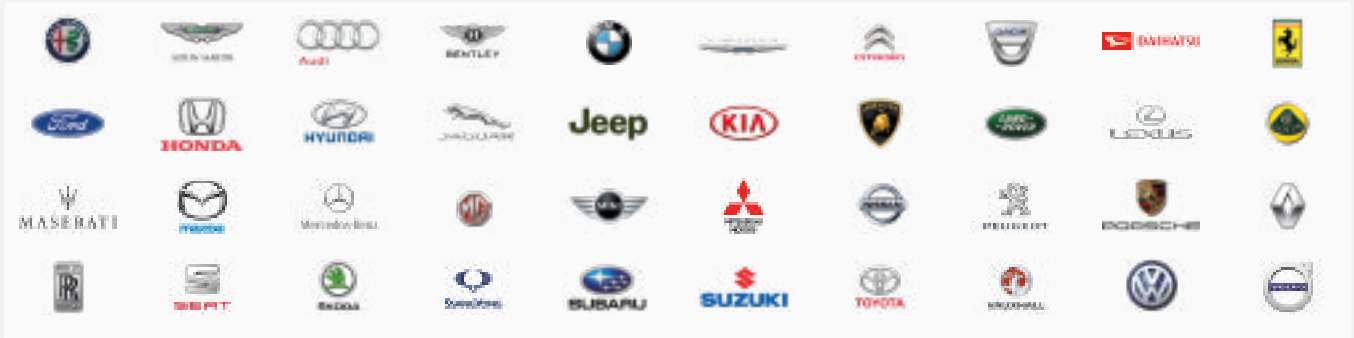
This is a valuable time saving asset for our users, facilitating increased productivity and reduced inputting time.

**8% GROWTH**  
IN REVENUE

MICROSOFT  
 PARTNER

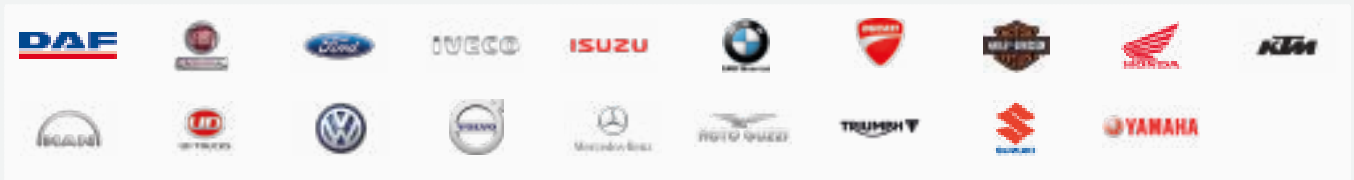
Integration with over 50 manufacturers

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

## LEASING - PENDRAGON VEHICLE MANAGEMENT

Fleet and contract hire provider. Source of used vehicle supply.

### Operating Highlights

- Underlying operating profit down 13.5% to £12.8m (2018 : £14.8m), as a result of the previously disclosed provision release of £2.8m in FY18.
- Continued high return on investment from a low capital base.
- Valuable source of used car stock to the group.

### Pendragon Vehicle Management

At [pendragonvehiclemanagement.co.uk](http://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.

### Fleet Management



Telematics



Duty of Care



Fuel Cards



Outsourced  
Administration



Maintenance and  
Repair



Accident  
Management

### 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.

*“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 Funding



Contract Hire For Cars



Contract Purchase



Contract Hire For Vans



Sale and Leaseback

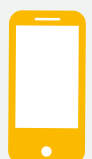
### Rental Solutions

- 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.

**BVRLA**  
MEMBER



DRIVER  
**APP**



## US MOTOR GROUP

Sale and servicing of vehicles in the U.S.

### Operating Highlights

- Disposal of two franchise locations in 2019 (Mission Viejo and Newport Beach) for a combined consideration of £59.3m.
- This followed the initial disposal of Newport Beach Aston Martin in 2018 for £3.1m.

- Puente Hills Chevrolet disposal was completed in February 2020 for consideration of £16.5m.
- Discussions for the remaining two sites in the US Motor Group are continuing.
- On target for expected total gross proceeds from the combined sale of US assets of c.£100m pre-tax.



### 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 two 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  
2



Land Rover  
2



Chevrolet  
1





# LIFE AT PENDRAGON

Our team members are what makes us great and what sets us apart from our competition. We believe we have the best people in the business, and that's not through luck.

We adopt a simple people strategy focussed on three key areas:

## IDENTIFY | RETAIN | GROW

### IDENTIFY:

It's all about enhancing and empowering career experiences; offering great employment opportunities for external job seekers, whilst maximising career opportunities for all current team members. Our strategy of identifying the best talent starts with our current team members. We maximise career development opportunities and offer the chance to progress and diversify their careers with us.

As a retailer operating in an ever-changing industry we have created new roles that appeal to a wider and more diverse market, making a real difference to our diversity agenda. We remain focussed on making our business and our sector appeal to future generations to continue the success of our business.

Over the past few years we have utilised market-leading digital attraction solutions to embed our online recruitment strategy and have implemented a new recruitment systems and associated processes. Continually investing in technology enables us to build game changing experiences for us and the candidate.

Additional apprenticeships in aftersales workshops, customer services and IT have been introduced in the past year along with the continuation of our ever-popular graduate and undergraduate schemes across Central Operations and our retailer network.

In recent years our resourcing team have been shortlisted for the Best Online Candidate Experience Award, and won Best Use of Mobile in the OnRec Awards; but far more valuable to us is the fantastic feedback we get from candidates.



### RETAIN:

The automotive industry is changing more quickly than it ever has and we recognise that there is a great demand for flexibility and personal development from our team members. We've addressed this by introducing more flexible working patterns designed to allow greater work-life balance and meet the needs of modern families.



In 2019 we furthered our commitment to Time to Change in support of mental health through increased Mental Health first aider training and learning programmes for leaders, showing our dedication to the mental wellbeing of our Team Members and customers alike. Team Members have participated in a number of events throughout the included Time to Talk day and Mental Health Week, where Team Members took the opportunity to break the stigma surrounding mental health issues by talking openly and fundraising for the charity Mind.

Our MyReward benefits mobile application is available to all Team Members and can be used to access exclusive company benefits, from retail discounts and offers on shopping to finding support and advice on wellbeing.

### GROW:

Our Learning and Development team offer comprehensive and tailored development programmes for every team member. Training is offered as a mix of classroom, on the job and digital modules designed to suit team member's individual learning styles.

During 2019 the Learning and Development team worked in partnership with Leaders to support our rapidly evolving business needs, including the development and implementation of a new and successful company-wide approach to managing performance, On-Track.

The team also introduced a fully revised and updated Learning Management System "Pendragon Learn", providing access to online learning from any device for the first time.

2019 also saw the launch of a number of new leadership development initiatives to support our talent pipelines including Aspiring Leaders for Team Members wanting to take the step up into a Leadership role, and STARS for aspiring Business Managers. These new programmes sat naturally alongside our flagship High Potential Talent programme which was expanded to all our motor retail brands ready for 2020.

Customer satisfaction is key to our success and we have a renewed focus on developing a customer service culture, supported by sales, leadership and operational training through our online and classroom courses delivered at our Training Academy in Mansfield and regional locations across the country.

Our development programmes are delivered by a dedicated team of trainers who work closely with external training partners to further upskill our front-line teams. We also work closely with our manufacturer partners to provide training on the latest automotive technologies, as well as with local educational authorities to give Team Members the support and recognition their hard work and commitment deserves.

**TRAINING**  
**DAYS COMPLETED**  **6,439**

**172,609 HOURS OF**  
**E LEARNING COMPLETED**

 **42,793 TRAINING**  
**HOURS COMPLETED**

### CELEBRATING SUCCESS

Celebrating Team Members success, both individually and as part of a team, is an essential part of life at Pendragon and helps everyone feel valued. Daily peer-to-peer recognition is encouraged through initiatives such as our Extra Mile recognition programme and high performer incentive schemes run annually, with winners enjoying prizes such as short European group trips.



### COMMUNITY

Our extensive footprint across the UK gives our dealerships a unique ability to operate locally within communities but with the backing of a large national organisation. We encourage our teams to be a responsible and valued part of their local community, supporting them however and whenever they can. We support national and local charitable activities through the year through both fundraising and Team Member activities and have in the past 12 months furthered our commitment to support activities aligned to our diversity and inclusion agendas.

### CAR CAFÉ

In 2019 we continued our popular Car Café community events over the summer months, spreading our love of cars further into communities across the UK. The events, which remained free to attend, hosted thousands of guests at locations including our Head Office in Nottingham and our dealerships up and down the country. The Car Café meets brought together some of the countries rarest, most desirable and much loved vehicles, both in person and via it's increasing social media following.

# INDUSTRY INSIGHT

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

	2019	2018	Change %
UK Retail Registrations	1,018.3	1,052.2	-3.2%
UK Fleet Registrations	1,292.8	1,314.9	-1.7%
<b>UK New Registrations</b>	<b>2,311.1</b>	<b>2,367.1</b>	<b>-2.4%</b>
Group Represented* UK Retail Registrations	660.0	700.6	-5.8%
Group Represented* UK Fleet Registrations	844.9	906.5	-6.8%
<b>Group Represented* UK New Registrations</b>	<b>1,504.9</b>	<b>1,607.1</b>	<b>-6.4%</b>

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

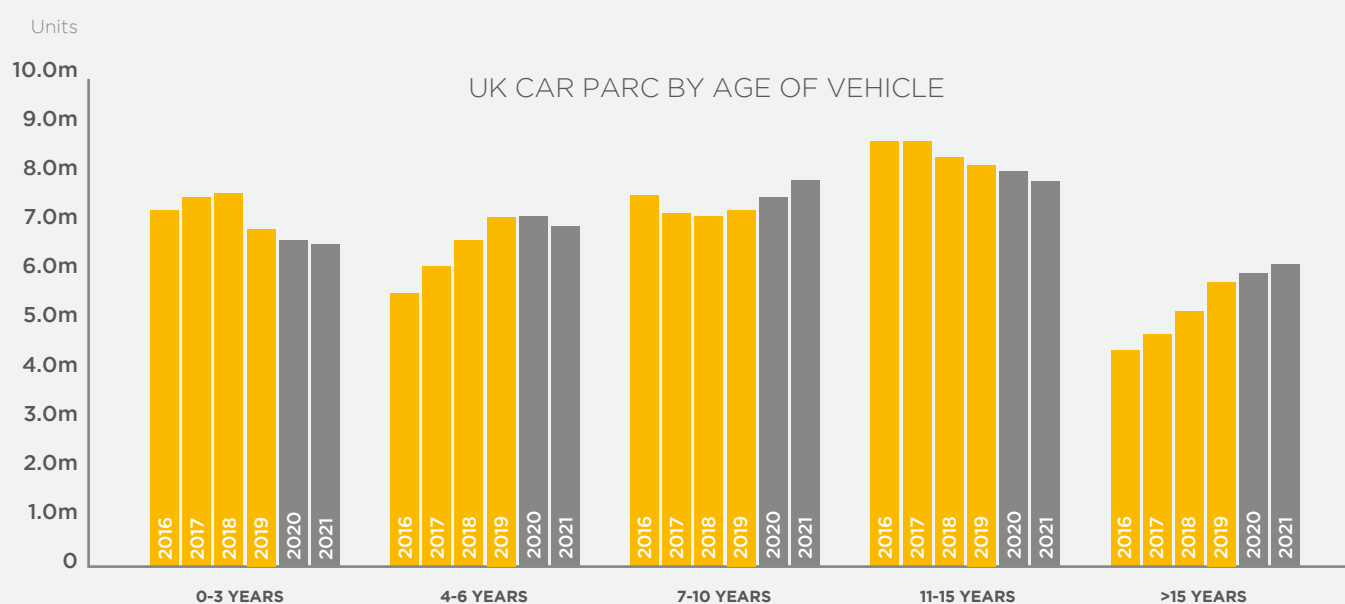
\*Group Represented is defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

### USED CAR MARKET

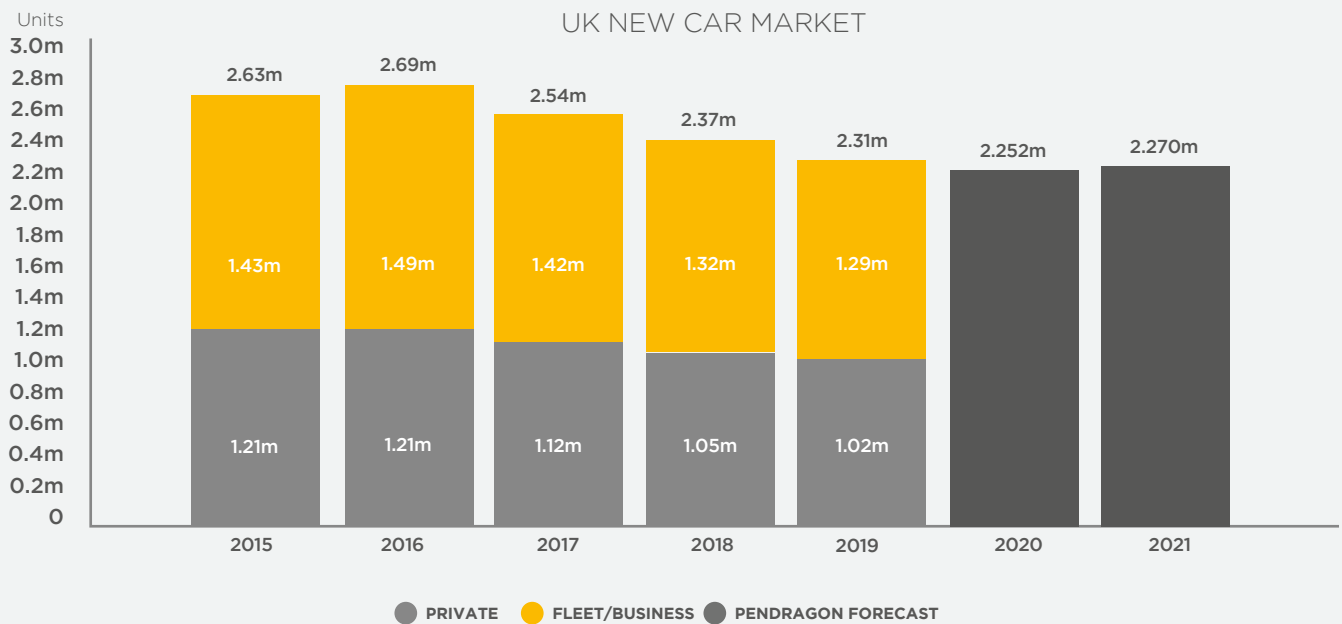
The used car market in FY19 in the UK was 7.6m units, a fall of 0.1% against 2018. This represents a market opportunity that is c.3.3 times the size by volume of the new car market. The used market is more stable than the new vehicle sector, being less affected by fluctuations in the UK economy and providing a more reliable supply chain than the new market.

### 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 35.1m vehicles at FY19, a rise of 1.4% on the prior year. The car parc can also be segmented into markets representing different age groups. At the end of HY19, around 20% of the car parc was represented by less than three-year-old cars, around 20% 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 affected than other sectors by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.



Source: GMAP (2016 to 2019) and Pendragon (2020 to 2021)



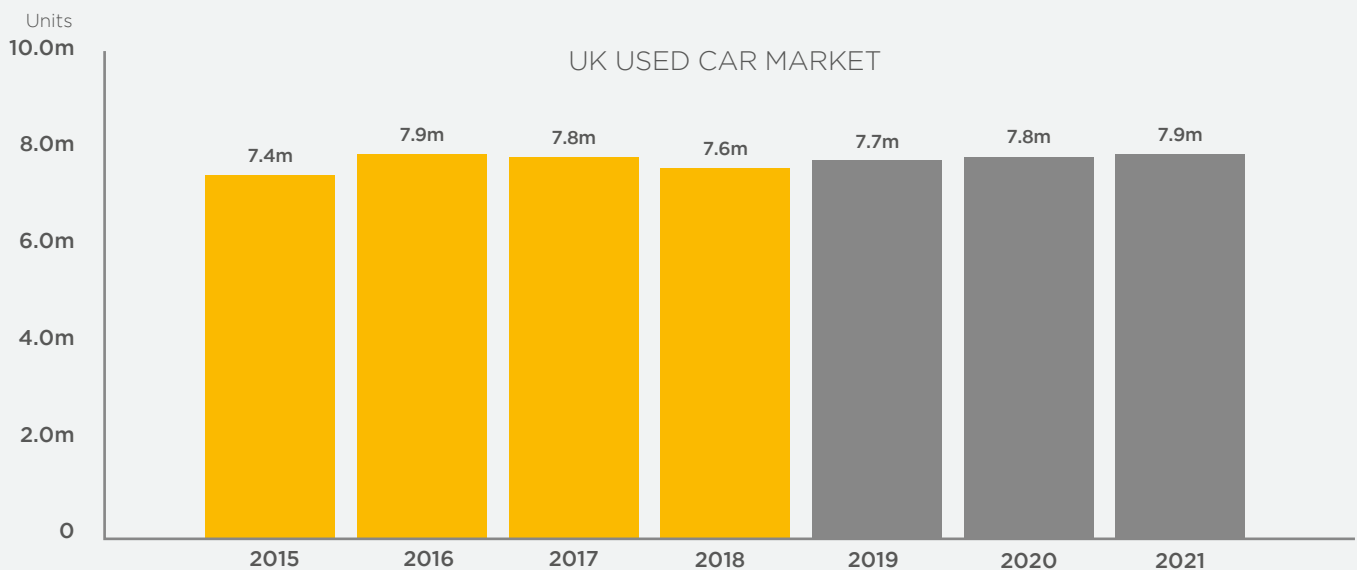
Source: SMMT (2015 to 2021)

#### NEW CAR MARKET

The UK new car market was 2.31m in FY19 which is a reduction of 2.4% 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 the year. 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 represents 56% of the market in the year.

The new retail market was down by 3.2% in FY19, and the new fleet market fell by 1.7% in the year. All new car market figures are from the Society of Motor Manufacturers and Traders (SMMT).



Source: GMAP (2015 to 2019) and Pendragon (2020 to 2021)



# OPERATIONAL AND FINANCIAL REVIEW

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# BUSINESS REVIEW

## SEGMENTAL PERFORMANCE

Units sold	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	LFL Change (%)
<b>USED UNITS</b>								
Car Store	17,474	10,392	27,866	12,944	15,499	28,443	-2.0%	13.3%
Franchised UK Motor	76,105	59,102	135,207	78,334	65,475	143,809	-6.0%	-2.1%
US Motor	1,452	1,046	2,498	1,630	1,658	3,288	-24.0%	-21.2%
<b>Total</b>	<b>95,031</b>	<b>70,540</b>	<b>165,571</b>	<b>92,908</b>	<b>82,632</b>	<b>175,540</b>	<b>-5.7%</b>	<b>-1.1%</b>
<b>NEW UNITS</b>								
Franchised UK Motor	43,085	38,338	81,423	45,060	38,365	83,425	-2.4%	-0.1%
US Motor	3,413	2,662	6,075	3,394	3,551	6,945	-12.5%	1.7%
<b>Gross Profit</b>	<b>46,498</b>	<b>41,000</b>	<b>87,498</b>	<b>48,454</b>	<b>41,916</b>	<b>90,370</b>	<b>-3.2%</b>	<b>0.0%</b>

## STRATEGY AND BUSINESS REVIEW

The business is organised into 5 segments, analysed as follows:

- Car Store – Own brand proposition for the sale of used vehicles in the U.K.
- Franchised UK Motor – sale and servicing of vehicles in the U.K.
- Software – Licencing of Software as a Service to global automotive business users
- Leasing – Fleet and contract hire provider. Source of used vehicle supply
- US Motor – Sale and servicing of vehicles in the U.S.

## (£m)

	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	LFL Change (%)
<b>REVENUE</b>								
Car Store	170.8	99.5	270.3	146.7	153.8	300.5	-10.0%	6.3%
Franchised UK Motor	1,999.2	1,731.6	3,730.8	2,048.3	1,725.6	3,773.9	-1.1%	3.8%
Software	8.9	9.4	18.3	8.4	8.5	16.9	8.3%	8.3%
Leasing	42.8	21.6	64.4	40.8	16.5	57.3	12.4%	12.4%
US Motor	233.9	188.4	422.3	232.0	246.4	478.4	-11.7%	1.2%
<b>Revenue</b>	<b>2,455.6</b>	<b>2,050.5</b>	<b>4,506.1</b>	<b>2,476.2</b>	<b>2,150.8</b>	<b>4,627.0</b>	<b>-2.6%</b>	<b>3.8%</b>
<b>GROSS PROFIT</b>								
Car Store	5.3	5.6	10.9	10.3	14.3	24.6	-55.7%	-46.5%
Franchised UK Motor	182.2	189.4	371.6	227.1	205.0	432.1	-14.0%	-10.4%
Software	7.9	8.5	16.4	7.4	7.5	14.9	10.1%	10.1%
Leasing	8.4	8.7	17.1	8.2	10.6	18.8	-9.0%	-9.0%
US Motor	31.4	25.3	56.7	30.1	30.0	60.1	-5.7%	-0.3%
<b>Gross Profit</b>	<b>235.2</b>	<b>237.5</b>	<b>472.7</b>	<b>283.1</b>	<b>267.4</b>	<b>550.5</b>	<b>-14.1%</b>	<b>-10.1%</b>
<b>UNDERLYING OPERATING PROFIT</b>								
Car Store	(19.1)	(6.1)	(25.2)	(6.4)	(5.5)	(11.9)	111.8%	166.7%
Franchised UK Motor	(7.7)	20.7	13.0	31.8	21.2	53.0	-75.5%	-66.0%
Software	6.5	6.9	13.4	5.6	6.1	11.7	14.5%	14.5%
Leasing	6.3	6.5	12.8	6.1	8.7	14.8	-13.5%	-13.5%
US Motor	3.3	9.4	12.7	5.6	3.0	8.6	47.7%	93.9%
<b>Underlying Operating Profit</b>	<b>(10.7)</b>	<b>37.4</b>	<b>26.7</b>	<b>42.7</b>	<b>33.5</b>	<b>76.2</b>	<b>-65.0%</b>	<b>-49.8%</b>
Gross Margin (%)	9.6%	11.6%	10.5%	11.4%	12.4%	11.9%	-1.4%	-1.6%
Operating Margin (%)	-0.4%	1.8%	0.6%	1.7%	1.6%	1.6%	-1.0%	-1.1%

# BUSINESS REVIEW

## CAR STORE (£m)

	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	FY19**
Revenue	170.8	99.5	270.3	146.7	153.8	300.5	-10.0%	270.3
Gross Profit	5.3	5.6	10.9	10.3	14.3	24.6	-55.7%	10.9
Gross margin rate	3.1%	5.6%	4.0%	7.0%	9.3%	8.2%	-4.2%	4.0%
Underlying Operating Expenses	(24.4)	(11.7)	(36.1)	(16.7)	(19.8)	(36.5)	-1.1%	(37.3)
Underlying Operating (Loss)	(19.1)	(6.1)	(25.2)	(6.4)	(5.5)	(11.9)	111.8%	(26.4)
<b>Underlying Operating Margin</b>	<b>(11.2)%</b>	<b>(6.1)%</b>	<b>(9.3)%</b>	<b>(4.4)%</b>	<b>(3.6)%</b>	<b>(4.0)%</b>	<b>-5.3%</b>	<b>(9.8)%</b>
Total Revenue Change	16.4%	-35.3%	-10.0%					
Like-for-like Revenue Change	27.5%	-11.8%	-6.3%					
Units Sold	17,474	10,392	27,866	12,944	15,499	28,443	-2.0%	
Number of Locations	34	12	12	25	32	32		
Average Selling Price*	8,283	8,333	8,307	9,502	9,022	9,231	-10.0%	

\*Trading dealerships only

\*\*Restated on a proforma IAS17 basis to exclude impact of IFRS16 for comparison purposes

## CAR STORE

### Operating Review

During the first half of FY19, Car Store incurred underlying operating losses of £(19.1)m, of which £(6.1)m resulted from the clearance of used car stock from excess levels that had built up at the end of FY18, with the remainder driven by operational performance constraints. As outlined in the Group's interim results, a detailed strategic and market review of the Car Store business was completed during the first half of the year and the decision was taken to close 22 of the 34 Car Stores and one of the three vehicle preparation centres. The review concluded that the stores that were identified for closure did not have the right physical characteristics to succeed as a Car Store location, for example, converted ex-franchised dealerships that had limited external display space. The closures were completed during September and October 2019.

Since the closure programme was completed, and following a further review of the production capacity of Car Stores main preparation centre in Coventry, an additional vehicle preparation centre has been closed, which will further improve the underlying cost performance of the business. This additional reduction was facilitated by an increase in capacity at Coventry following an operational process review to improve both the speed, and quality of vehicle preparation.

In addition to the store closure programme, a number of actions to improve performance were taken during H2, including:

Improved stock management. The levels of stock at each site has been subject to improved controls to prevent over-stocking re-occurring. The stock profile of Car Store vehicles was refined during the second half to limit the focus to the prime retail market of cars up to seven years old, and reducing the exposure to older vehicles.

Following the clearance in the over-age stock, improved controls have been put in place to manage the ageing of stock in order to mitigate losses on over-age cars. Used car gross margins increased from 3.8% in H1 2019 to 4.6% in quarter three 2019 and to 7.4% in quarter four 2019.

Increased management focus – The reduction in the size of the estate, combined with the improvement of the suitability of the remaining sites has enabled the Car Store management team to better focus on driving performance.

As a result of these actions, performance improved significantly in the last quarter of FY19 such that underlying operating losses for Car Store reduced from £(5.0)m in quarter three 2019 to £(1.1)m in quarter four FY19, giving a £(6.1)m underlying operating loss in the second half of the year. Whilst Car Store is expected to remain loss making in FY20, management now believe that this underlying loss will be limited to around £5m and believe there remains scope for further performance improvement in the remaining portfolio and will continue to focus on driving this during FY20.



Good progress has been made with the property management of the closed store estate. Of the total of 24 sites (22 stores and two preparation centres) closed, eight have been either sold, had the lease surrendered or been sublet as at the end of February 2020. The remaining sites will continue to be actively marketed, with several of the remaining sites currently under offer.

We remain confident that the strategic opportunity for a standalone used car proposition is significant. The strategic review completed during the first half (outlined in detail in the FY19 interim results) confirmed there is an attractive used-car market within the UK, where Car Store should be strategically advantaged against peers given its stock purchasing scale and relationships, its scale purchasing of parts and high levels of brand referrals and cross site traffic from the Group. Car Store will continue to focus on an omni-channel approach, positioning this business for a digitally-led future to serve early adopters who want to complete the end-to-end customer journey online, showcase the product and drive digital traffic, supported by physical locations of the optimal size and location for customers who want to view and test the product.

### Financial Review

Revenue reduced by 10.0% in FY19 as a result of the 22 store closures (6.3% revenue increase on an LFL basis in FY19). Units sold reduced by 2.0% in FY19 (13.3% units increase on a LFL basis in FY19). The average sales price per unit reducing from £9,231 to £8,307.

Gross profit reduced by 55.7% in FY19 (46.5% reduction in LFL gross profit in FY19). This was primarily a consequence of the clearance of used car stock from excess levels and a fall in national used car values. The falling national used car values in FY19 also adversely affected profitability.

Operating costs decreased by 1.1% in FY19 (3.9% reduction on a LFL basis in FY19). On a proforma IAS17 basis, operating costs were up 2.2% (2.8% on a LFL basis).

The underlying operating loss for Car Store in FY19 was £(25.2)m (FY18: £(11.9)m). Losses were reduced in line with expectations during the second Half of FY19 to total £6.1m.



# BUSINESS REVIEW

## FRANCHISED UK MOTOR (£m)

	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	FY19**
<b>REVENUE</b>								
Used	959.4	743.0	1,702.4	984.7	811.4	1,796.1	-5.2%	1,702.4
Aftersales	168.0	158.2	326.2	168.4	164.8	333.2	-2.1%	326.2
New	871.8	830.4	1,702.2	895.2	749.4	1,644.6	3.5%	1,702.2
<b>Revenue</b>	<b>1,999.2</b>	<b>1,731.6</b>	<b>3,730.8</b>	<b>2,048.3</b>	<b>1,725.6</b>	<b>3,773.9</b>	<b>-1.1%</b>	<b>3,730.8</b>
<b>GROSS PROFIT</b>								
Used	47.0	58.2	105.2	68.3	73.0	141.3	-25.5%	105.2
Aftersales	83.7	77.8	161.5	94.3	85.5	179.8	-10.2%	161.5
New	51.5	53.4	104.9	64.5	46.5	111.0	-5.5%	104.9
<b>Gross Profit</b>	<b>182.2</b>	<b>189.4</b>	<b>371.6</b>	<b>227.1</b>	<b>205.0</b>	<b>432.1</b>	<b>-14.0%</b>	<b>371.6</b>
Gross margin rate	9.1%	10.9%	10.0%	11.1%	11.9%	11.4%	-1.4%	10.0%
Underlying Operating Expenses	(189.9)	(168.7)	(358.6)	(195.3)	(183.8)	(379.1)	-5.4%	(369.3)
Underlying Operating (Loss) / Profit	(7.7)	20.7	13.0	31.8	21.2	53.0	-75.5%	2.3
<b>Underlying Operating margin</b>	<b>(0.4)%</b>	<b>1.2%</b>	<b>0.3%</b>	<b>1.6%</b>	<b>1.2%</b>	<b>1.4%</b>	<b>-1.1%</b>	<b>0.1%</b>
Total Revenue Change	-2.4%	0.3%	-1.1%					
Like-for-like Revenue Change	2.6%	5.2%	3.8%					
Used Units Sold	76,105	59,102	135,207	78,334	65,475	143,809	-6.0%	
New Units Sold	43,085	38,338	81,423	45,060	38,365	83,425	-2.4%	
Number of Locations	170	166	166	185	177	177		
Average Used Selling Price*	11,449	11,467	11,457	11,378	11,458	11,415	0.4%	
Average New Selling Price*	19,880	21,639	20,717	19,257	18,959	19,118	8.4%	

\*Trading dealerships only

\*\*Restated on a proforma IAS17 basis to exclude impact of IFRS16 for comparison purposes

## FRANCHISED UK MOTOR

### Operating Review

The Franchised UK Motor business operated from 161 franchise points and five used cars only retail points. The points represent a range of volume and premium products offering both sales and service functions.

In the first half of 2019, Franchised UK Motor had underlying operating losses of £(7.7)m. A significant increase in used car stock at the end of FY18 without an associated increase in sales rates, led to excess used car stock during the first-half of FY19. The subsequent programme to clear used car stock from excess levels, combined with a reduction in national used car values led to a c.£20m impact on the underlying operating performance in the first-half.

In the second half of FY19, a number of actions were taken to improve performance including:

Improved stock management. As with Car Store, improvements to the management of both the quantity and the ageing of stock levels resulted in significantly improved used car performance. Used Gross margins increased by 2.9% from 4.9% in H119 to 7.8% in H219 as a result of the improved stock management.

Cost management. The actions to reduce headcount outlined with the interim results were completed during the second half, and combined with an increased focus on all costs resulted in comparable like for like operating expense reductions of 0.8% (underlying down 5.6%) in H219 vs H218, compared with a 5.4% like for like increase in H119.

New car performance improvements. The division recorded a 16.8% increase in like for like new car revenue in H219, outperforming the overall market (SMMT data reports 1.1% H2 decline in new car registrations), which combined with an increase in gross margin of 50 basis points vs the first half resulted in new gross profit increasing by £6.9m in H2 2019 compared to last year.

As a result of these actions, underlying performance improved significantly, in what remained a challenging market, during the second half resulting in underlying operating profit for H219 of £20.7m (H218: £21.2m).

Overall for the year, the new car market was down 2.4%, with national new car registrations declining by 3.4% in the first half of the year and declining by 1.1% in the second half of 2019. The Group outperformed this market overall with like-for-like new unit volumes being flat vs FY18. During the second half of FY19 the business focussed on reducing the reliance on pre-registrations to achieve targets by achieving these targets through earlier sales to the end customer during each targeted period. This resulted in a slight decline in the gross margin rate to 6.2% (FY18: 6.7%), although for the second half the rate was marginally ahead year on year at 6.4% (H218: 6.2%) as performance improved.

A total of six Jaguar Land Rover sites were either disposed of or closed in FY19. In addition, five 'satellite' Vauxhall dealerships were closed in January 2020 as a result of a manufacturer review of the estate right-size. The Group will continue to monitor the overall size of the portfolio.

Aftersales gross profit was impacted by a combination of technician cost increases following a benchmarking exercise of industry rates of pay exercise in late 2018 and an increased mix of lower margin warranty work.

The Franchised Motor division will remain an important part of the Group's portfolio of operations. During FY20 work will continue to improve the performance of the business across Used, New and aftersales with a number of initiatives in place. There remains significant opportunity for improvement in both the underlying used car and aftersales performance through a series of self-help performance improvement measures, including used margin growth through improved pricing capabilities and process execution, driving aftersales performance through conversion of health checks and more efficient marketing. In addition, the Group will continue to focus on cost control and optimisation.

## Financial Review

Revenue decreased by 1.1% in FY19 (3.8% increase in LFL revenue in FY19). In the first half of FY19 revenue fell by 2.4% (2.6% LFL increase) and in the second half of FY19 revenue increased by 0.3% (5.2% LFL increase). Aftersales revenue fell by 2.1% (1.6% LFL increase), new revenue increased by 3.5% (8.3% LFL increase) and used revenue fell by 5.2% (flat LFL). The new revenue increase was despite UK new car registrations falling by 2.4% in 2019, with national new retail car registrations falling by 3.2%.

Gross profit fell by 14.0% in FY19 (10.4% reduction in LFL gross profit in FY19) with the principal driver being a 25.5% reduction (22.0% LFL reduction) in the used gross profit, largely as a result of the exercise to reduce excess stock during the first half of the year combined with a national fall in used car values during the same period. Used car margin rates improved significantly during the second half following the management actions set out above.

The reduction in aftersales gross profit of 10.2% (6.7% LFL reduction) is principally due to the increased cost of service technicians. Finally, new gross profit was down 5.5% (down 1.2% LFL), despite the new revenue increase as a result of lower new car margins to achieve natural registrations in a challenging market environment.

Underlying operating costs have decreased by 5.4% (0.7% decrease on an LFL basis). On a proforma IAS17 basis, operating costs were down 2.6% (up 2.3% on a LFL basis). During the second half, on a proforma IAS17 comparable basis, operating costs were 0.8% down, compared to a 5.4% increase in the first half as a result of the ongoing focus on the level of underlying operating costs, with a reduction in headcount and reduced advertising expenditure supporting the overall reductions.

In total, the division delivered a £13.0m underlying operating profit in FY19 (FY18: £53.0m), with the previously reported first half underlying operating losses of £7.7m (H118: £31.8m) offset by the improved performance of the second half underlying operating profit of £20.7m (H218: £21.2m).

# BUSINESS REVIEW

## SOFTWARE

### Operating Review

Pinewood, our software business provides Software as a Service (“SaaS”) in the UK and in a number of countries worldwide. Pinewood is strategically important to the Group and we believe it has potential for further expansion. Pinewood currently has SaaS users in 16 countries.

Pinewood has secured orders for the Pinewood DMS from dealers in both Sweden & Norway and implementations commenced in the second half of 2019. This is in addition to further orders secured by our partners in South Africa, Asia Pacific and The Netherlands. In total, over 1,000 net new users were added by Pinewood during FY19.

Our core UK business continues to grow with orders from new customers and existing customers extending their user subscriptions.

### Financial Review

As the Pinewood business expands its global footprint, revenue has grown by 8.3% in FY19. Gross profit has increased by 10.1% as the strong gross margins have been maintained.

Underlying operating profit was £13.4m, an increase of 14.5% on FY18.

### SOFTWARE (£m)

	FY19	FY18	Change (%)
<b>REVENUE</b>			
Revenue	18.3	16.9	8.3%
Gross Profit	16.4	14.9	10.1%
Gross margin rate	89.6%	88.2%	1.4%
Underlying Operating Expenses	(3.0)	(3.2)	-6.3%
Underlying Operating Profit	13.4	11.7	14.5%
<b>Underlying Operating margin rate</b>	<b>73.2%</b>	<b>69.2%</b>	<b>4.0%</b>
Revenue Change	8.3%		





## LEASING

### Operating Review

Pendragon Vehicle Management (PVM), our Leasing business offers a complete range of fleet leasing and contract hire solutions. Our customers are varied in both fleet size and business sector. The financing for the leasing business is provided by third parties leading to a high return on capital.

The British Leasing and Rental Association reported that the business contract hire car fleet sector fell 9% whilst light commercial vehicles increased by 2.8% compared to prior year. PVM grew its fleet size (number of cars) by 5.5% during FY19. The overall reduction in the market for new contracts put pressure on margins, and regardless of these market conditions PVM continued to adopt a responsible approach to future residual values. PVM's fleet is starting to experience a reduction in the levels of take up of diesel product and increased uptake in electric vehicles particularly post the June

budget announcement detailing zero Benefit in Kind Tax for these vehicles. During FY20 the Group will continue to focus on driving incremental growth in the overall size of the fleet whilst maintaining a sensible approach to the assessment of residual values.

### Financial Review

Revenue has grown by 12.4% in FY19, but there has been a 9.0% decrease in gross profit from a strong comparative, which included the benefit of the previously disclosed release of the provision in respect of loss-making disposals of £2.8m in FY18. Underlying operating costs were up 7.5% to £4.3m (FY18: £4.0m).

As a result, underlying operating profit decreased by 13.5% to £12.8m (FY18: £14.8m).

### LEASING (£m)

Underlying	FY19	FY18	Change (%)
<b>REVENUE</b>			
Revenue	64.4	57.3	12.4%
Gross Profit	17.1	18.8	-9.0%
Gross margin rate	26.6%	32.8%	-6.2%
Underlying Operating Expenses	(4.3)	(4.0)	7.5%
Underlying Operating Profit	12.8	14.8	-13.5%
<b>Underlying Operating margin rate</b>	<b>19.9%</b>	<b>25.8%</b>	<b>-5.9%</b>
Revenue Change	12.4%		



# BUSINESS REVIEW

## US MOTOR

### Operating Review

The disposal of the US Motor Group is ongoing with total proceeds expected to be c.£100m before tax. In FY18, the sale of the Newport Beach Aston Martin business for £3.1m was completed. During the second half of FY19 the previously announced transactions at sites in Mission Viejo and Newport Beach, California, were completed for a combined consideration of £59.3m. Post the year end, the previously announced transaction at Puente Hills, California, also completed on the 10 February 2020 for consideration of £16.5m.

The process to complete the disposals of the two remaining Jaguar Land Rover locations in Los Angeles (Beverly Hills) and Santa Monica are actively ongoing.

### Impact of IFRS 16

Leases in the US Motor Group are now subject to the application of IFRS16, which replaces the rent expense with depreciation and interest charges. In the case of the US Motor Group, all assets are classified as 'held for sale' which will include the lease assets capitalised under IFRS 16. A consequence of this

classification is that these non-current assets are not subject to a depreciation charge during the accounting period, an impairment test being undertaken instead. As a result, there has been a £2.7m adjustment to the reported performance of the business as a result of the application of IFRS16 by virtue of the lease expense for 2019 comprising a £0.8m interest expense and no depreciation charge, rather than a £3.5m rent expense.

### Financial Review

Revenue is down by 11.7% in the year (1.2% LFL increase) with new falling 9.3% (+7.3% LFL), aftersales falling 5.8% (+2.0% LFL) and used revenue falling by 22.7% (-21.5% LFL). Gross profit decreased by 5.7% (flat LFL), with aftersales gross profit down 7.0% (up 1.6% LFL), used gross profit up 5.6% (down 3.3% LFL) and new gross profit down 6.6% (down 0.6% LFL). Underlying operating costs decreased by 14.6% (down 11.2% LFL).

Underlying operating profit was up by £4.1m to £12.7m (2018 : £8.6m). Adjusting for the impact of the transition to IFRS 16 as outlined above, underlying operating profit was up £1.4m on a comparable basis to £10.0m.



**US MOTOR (£m)**

	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	FY19**
<b>REVENUE</b>								
Used	43.1	32.6	75.7	47.3	50.6	97.9	-22.7%	75.7
Aftersales	22.5	18.2	40.7	21.6	21.6	43.2	-5.8%	40.7
New	168.3	137.6	305.9	163.1	174.2	337.3	-9.3%	305.9
<b>Revenue</b>	<b>233.9</b>	<b>188.4</b>	<b>422.3</b>	<b>232.0</b>	<b>246.4</b>	<b>478.4</b>	<b>-11.7%</b>	<b>422.3</b>
<b>GROSS PROFIT</b>								
Used	3.5	2.2	5.7	2.9	2.5	5.4	5.6%	5.7
Aftersales	11.7	9.4	21.1	11.5	11.2	22.7	-7.0%	21.1
New	16.2	13.7	29.9	15.7	16.3	32.0	-6.6%	29.9
<b>Gross Profit</b>	<b>31.4</b>	<b>25.3</b>	<b>56.7</b>	<b>30.1</b>	<b>30.0</b>	<b>60.1</b>	<b>-5.7%</b>	<b>56.7</b>
Gross margin rate	13.4%	13.4%	13.4%	13.0%	12.2%	12.6%	0.8%	13.4%
Underlying Operating Expenses	(28.1)	(15.9)	(44.0)	(24.5)	(27.0)	(51.5)	-14.6%	(47.5)
Underlying Operating Profit	3.3	9.4	12.7	5.6	3.0	8.6	47.7%	9.2
<b>Underlying Operating margin</b>	<b>1.4%</b>	<b>5.0%</b>	<b>3.0%</b>	<b>2.4%</b>	<b>1.2%</b>	<b>1.8%</b>	<b>1.2%</b>	<b>2.2%</b>
Total Revenue Change	0.8%	-23.5%	-11.7%					
Like-for-like Revenue Change	8.9%	-6.0%	1.2%					
Used Units Sold	1,452	1,046	2,498	1,630	1,658	3,288	-24.0%	
New Units Sold	3,413	2,662	6,075	3,394	3,551	6,945	-12.5%	
Number of Locations	9	5	5	10	9	9		
Average Used Selling Price*	£19,744	£20,925	£20,293	£19,978	£20,376	£20,183	0.5%	
Average New Selling Price*	£45,209	£47,133	£46,119	£42,781	£44,634	£43,727	5.5%	

\*Trading dealerships only

\*\*Restated on a proforma IAS17 basis to exclude impact of IFRS16 for comparison purposes



# FINANCIAL REVIEW

## 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 £97.7m of pre-tax non-underlying items against a charge of £92.2m in FY18. These include non-cash impairments, principally of goodwill and non-current assets amounting to £130.2m. There is £102.4m impairment of goodwill, £23.3m impairment of property assets primarily within Car Store, £2.6m impairment of property, plant and equipment and £1.9m impairment of assets held for sale. These have been necessary following assessments of the carrying value of those assets which have been calculated by taking into account trading,

market conditions on future cash flows and the current market capitalisation of the Group.

Pension income of £3.0m represents a £4.8m credit relating to past service costs in respect of pension obligations and an interest charge on pension scheme obligations of £1.8m for FY19. The Group recorded gains on the sale of properties and businesses in the period of £33.3m. This included gains on disposal of businesses of £32.1m and gains on the sale of surplus property during the year of £1.2m. There were termination and severance costs of £5.5m in FY19, partially offset by a credit of £3.5m on settlement of historic VAT issues in respect of VAT reclaims and associated interest.

Non-underlying Items	H1 2019 £m	H2 2019 £m	2019 £m	2018 £m
Settlement of historic VAT issues	3.5	-	3.5	-
Impairment of goodwill, property, plant and equipment and assets held for sale	(102.5)	(27.7)	(130.2)	(95.8)
Termination and severance costs	(1.4)	(4.1)	(5.5)	-
Gains on the sale of businesses and property	(1.1)	34.4	33.3	15.7
Car Store closure costs	-	(1.8)	(1.8)	-
Pension income / (costs)	(0.9)	3.9	3.0	(12.1)
<b>Total non-underlying items before tax</b>	<b>(102.4)</b>	<b>4.7</b>	<b>(97.7)</b>	<b>(92.2)</b>
Non-underlying items in tax	(0.3)	(3.0)	(3.3)	3.0
<b>Total non-underlying items after tax</b>	<b>(102.7)</b>	<b>1.7</b>	<b>(101.0)</b>	<b>(89.2)</b>

## CAPITAL ALLOCATION

Net debt\* has reduced by £6.4m from £126.1m at 31 December 2018 to £119.7m at 31 December 2019. The net debt to underlying EBITDA ratio\* was 1.5x for the rolling 12 months to FY19. The net debt to underlying EBITDA ratio has moved from 0.9x at FY18 largely due to the trading impact of the stock clearance as detailed in the operating reviews.

The Group expects gross proceeds from the disposal of the entire US business of around £100m before tax. Proceeds of £3.1m had already been generated on the disposal of a single Aston Martin US business in July 2018, proceeds of £28.7m were generated from the disposal of the Mission Viejo Jaguar Land Rover business in July 2019 and proceeds of £30.6m were generated from the disposal of the Newport Beach Jaguar Land Rover business in December 2019. In February 2020, the Puente Hills Chevrolet business was disposed of for £16.5m. In total to date, total disposal proceeds of £78.8m have been received.

The final two disposals are expected to complete during FY20 with interest in both remaining sites.

6 Jaguar Land Rover franchise sites were either disposed of or closed in FY19. In addition, during January 2020 The Group announced it would be closing five Vauxhall franchise points. All of these are satellite locations and are not expected to materially impact on Group underlying profit.

## PROPERTY AND INVESTMENT, ACQUISITIONS AND DISPOSALS

Our property portfolio is a key strength for our business. At FY19, the Group had £238.7m (£396.5m including IFRS16 right of use assets) of land and property assets (FY18 : £240.5m). There was a small reduction in this value as our disposals were matched by new property acquisitions and developments. Property assets classified as held for sale were £71.8m (FY18 : £32.8m).

## DIVIDEND

The Group is not proposing a final dividend for 2019.

## PENSIONS

The net liability for defined benefit pension scheme obligations has decreased from £68.3m at FY18 to £59.0m at FY19. Movements in the respective assets and liabilities of the Pension Scheme largely offset each other, reflecting the hedging in place. The Group contributed £7.6m to the Pension Scheme in the period following the Group commitment to pay annual contributions of £7.0m from 1 January 2017, increasing by 2.25% thereafter until July 2022.

Following the full actuarial valuation of the company's pension scheme at 31 December 2018 showing a deficit of [£117m], the company and trustees agreed to raise its annual contribution to the pension scheme to £12.5 million from 1 January 2020 from £7.6m of contributions in 2019.

## REVOLVING CREDIT FACILITY (RCF)

In March 2020 the maturity date of the Group's RCF was

extended by one year to 31 March 2022 and the facility size was reduced from £240m to £175, in line with the Group's requirements going forward. The Group has agreed to pay an increased margin of 0.50%.

## ADOPTION OF IFRS 16

IFRS 16 Leasing is a new accounting standard that was effective from 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases. IFRS 16 introduces a single, on-balance sheet leases 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. IFRS 16 has been applied using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. Further details of this can be found in note 3. The impact of adopting IFRS 16 on the 2019 consolidated income statement can be seen below:

CONSOLIDATED INCOME STATEMENT				
Year ended 31 December	2019 £m	2018 £m	2019' £m	
Revenue	4,506.1	4,627.0	4,506.1	
Cost of sales	(4,033.4)	(4,076.5)	(4,033.4)	
<b>Gross profit</b>	<b>472.7</b>	<b>550.5</b>	<b>472.7</b>	
Underlying operating expenses	(446.0)	(474.3)	(461.4)	
Underlying operating (loss) profit	26.7	76.2	11.3	
Underlying net finance costs	(43.1)	(28.4)	(29.8)	
Underlying (loss) / profit before taxation	(16.4)	47.8	(18.5)	
Analysed as:				
Non-underlying (loss) / profit before taxation	(97.7)	(92.2)		
Total income tax credit / (expense)	(3.3)	(6.1)		
<b>Total (loss) / profit for the period</b>	<b>(117.4)</b>	<b>(50.5)</b>		
Earnings per share				
<b>Basic earnings per share</b>	(8.4)p	(3.6)p		
<b>Diluted earnings per share</b>	(8.4)p	(3.6)p		
Non GAAP Measure				
<b>Underlying basic earnings per share</b>	(1.2)p	2.8p		
<b>Underlying diluted earnings per share</b>	(1.2)p	2.8p		

# 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 2019 and 31 December 2018 as follows:

### SUMMARY CASHFLOW AND NET DEBT (£m)

	2019	2018	2019 <sup>2</sup>
<b>Underlying Operating Profit Before Other Income</b>	<b>26.7</b>	<b>76.2</b>	<b>11.3</b>
Depreciation and Amortisation	44.7	27.4	25.5
Share Based Payments	0.6	0.7	0.6
Non-underlying Items	(5.7)	-	(7.3)
Working Capital and Contract Hire Vehicle Movements*	(2.2)	(16.2)	(5.9)
<b>Underlying Operating Cash Flow</b>	<b>64.1</b>	<b>88.1</b>	<b>24.2</b>
Tax Received / (Paid)	(3.3)	(10.9)	(3.3)
Underlying Net Interest Paid	(26.8)	(24.8)	(26.8)
<b>Net Cash Flow From Operating Activities</b>	<b>34.0</b>	<b>52.4</b>	<b>(5.9)</b>
Capital Expenditure – Car Store	(3.8)	(6.8)	(3.8)
Capital Expenditure – Franchise	(20.2)	(12.6)	(20.2)
Capital Expenditure – Underlying Replacement	(9.3)	(30.6)	(9.3)
Capital Expenditure – Property	(16.1)	(6.5)	(16.1)
Business and Property Disposals	72.4	30.2	72.4
<b>Net Capital Expenditure Income/(Expenditure)</b>	<b>23.0</b>	<b>(26.3)</b>	<b>23.0</b>
Dividends	(9.7)	(22.5)	(9.7)
Share Buybacks	(0.5)	(6.7)	(0.5)
Lease Payments & Receipts	(39.9)	-	-
Other	(0.5)	(0.4)	(0.5)
<b>Decrease In Net Debt</b>	<b>6.4</b>	<b>(3.5)</b>	<b>6.4</b>
Opening Net Debt <sup>1</sup>	126.1	122.6	126.1
<b>Closing Net Debt</b>	<b>119.7</b>	<b>126.1</b>	<b>119.7</b>

<sup>1</sup> On adoption of IFRS 16 on 1 January 2019 the Group has opted to re-define its net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates. Net debt has been adjusted from £127.6m to £126.1m respectively at 31 December 2018.

<sup>2</sup> Restated to exclude impact of IFRS 16 for comparison purposes.

### RECONCILIATION TO CONSOLIDATED CASH FLOW STATEMENT

	2019	2018	2019 <sup>2</sup>
<b>Net Cash Flow From Operating Activities</b>	<b>34.0</b>	<b>52.4</b>	<b>(5.9)</b>
<b>Net cash from/(used) in investing activities</b>	<b>23.0</b>	<b>(26.3)</b>	<b>23.0</b>
Financing cash flows as included above			
Dividend	(9.7)	(22.5)	(9.7)
Net finance lease payments	(39.9)	-	-
Share buyback	(0.5)	(6.7)	(0.5)
Shares acquired EBT	-	0.1	-
Financing cash flows not included above relating to loans			
Repayment of loans	(5.0)	(10.0)	(5.0)
Proceeds from issue of loans	5.4	7.1	5.4
<b>Net cash outflow from financing activities</b>	<b>(49.7)</b>	<b>(32.0)</b>	<b>(9.8)</b>
<b>Net increase/(decrease) in cash and cash equivalents per consolidated cash flow statement</b>	<b>7.3</b>	<b>(5.9)</b>	<b>7.3</b>
Repayment of / proceeds from loans	(0.4)	2.9	(0.4)
Non-cash movements (other above)	(0.5)	(0.5)	(0.5)
<b>Movement in net debt as above</b>	<b>6.4</b>	<b>(3.5)</b>	<b>6.4</b>

<sup>2</sup> Restated to exclude impact of IFRS 16 for comparison purposes.

The underlying operating cash flow was 64.1m in FY19 compared to £88.1m in FY18. This reduction was largely due to the impact of the clearance of used car stock from excess levels.

Non-underlying cash items of £5.7m comprised of redundancy costs of £5.5m in relation to three former Executive Directors, and other senior executive team. In addition, there was a cash outflow of £1.8m in relation to the Car Store closure programme and a cash inflow of £1.6m in relation to the settlement of historic VAT issues.

The net capital expenditure inflow of £23.0m (FY18: outflow of £26.3m) was principally due to the £72.4m cash inflow from business and property disposals, which more than offset the outgoing capital expenditure in the year.

Dividends of £9.7m (FY18: £22.5m) reflects the payment of the FY18 final dividend. No interim dividend was paid for FY19. The adoption of IFRS 16 on 1 January 2019 has resulted in changes to the way the cash flows in respect of lease rentals paid and received are reported, as, in adopting the modified retrospective method of transition the Group have not restated comparative information in the cash flow statement. In the prior period the net rental expense was presented in the income statement as an operating expense and subsequently an operating cash flow but for FY19 the equivalent charge into the income statement has instead been accounted for as a depreciation charge and net interest expense. In terms of cash flow reporting, the net

interest expense of £13.3m is not a component of the operating result and a £19.2m depreciation charge, included in the underlying operating loss, has been added back. Under IFRS 16 the actual net cash paid and received of £39.9m in respect of lease payments and receipts is now presented as a financing cash flow.

### BALANCE SHEET SUMMARY

The following table summarises the balance sheet of the Group at 31 December 2019 and 31 December 2018. There is also a restated 2019 balance sheet that illustrates the balance sheet position presented on a proforma IAS 17 basis, excluding the impact of IFRS 16 for comparison purposes.

Net assets have reduced from £345.6 million at FY18 to £168.9 million. The reduction in goodwill and intangibles is principally a result of a goodwill impairment charge of £102.4m recorded in the period. The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on balance model for leases. As a result, the Group as a lessee has recognised a right of use asset of £159.2m representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This lease liability of £240.0m is the primary reason for the increase in creditors, partially offset by a reduction of £89.2m largely as a result of the lower level of stocking finance following the reduction in used car stock levels. Stock has been reduced by £120.6m versus FY18, principally as a result of the stock reduction exercise previously described.

### BALANCE SHEET

	2019	2018	2019 <sup>1</sup>
Property	237.8	240.5	241.4
Plant & Equipment	231.3	233.4	231.3
Goodwill & Intangibles	172.3	274.1	172.3
Right of Use Assets	159.2	-	-
Stock	839.0	959.6	839.0
Debtors	129.9	114.8	116.6
Net Assets Held for Resale	59.6	49.0	56.5
Creditors	(1,540.5)	(1,389.7)	(1,300.5)
Net Debt <sup>2</sup>	(119.7)	(126.1)	(119.7)
<b>Shareholders Funds</b>	<b>168.9</b>	<b>345.6</b>	<b>236.9</b>

<sup>1</sup> Restated to exclude impact of IFRS 16 for comparison purposes

<sup>2</sup> On adoption of IFRS 16 on 1 January 2019 the Group has decided to re-define its net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates. Net debt has been adjusted from £127.6m to £126.1m respectively at 31 December 2018.

# RISK OVERVIEW & MANAGEMENT

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## POTENTIAL IMPACT OF COVID-19

The Group is closely monitoring the evolution of COVID-19 and to date, we have seen minimal impact on our business. However, it is hard to predict with any certainty what may happen.

Pendragon's key priority is the health and wellbeing of our colleagues, customers and business partners, while we maintain our high standards of service to customers. We have clear business continuity plans in place to deal with a range of scenarios and we have taken appropriate preventative steps, such as minimising all non-essential business travel, and implementing contingency plans for alternative working locations.

Our new vehicles are predominantly sourced from the EU and UK and recently, some manufacturers have announced short term shut downs to their production facilities. However, we understand that the vehicle manufacturers have inventory buffers of several months. Therefore, we currently anticipate our supply of new vehicles should not be significantly disrupted before the Autumn of 2020.

As the virus spreads across the UK then this will likely influence the willingness of customers to visit our dealerships, which could affect our financial performance. Most of our new car sales and a substantial proportion of used car sales are made through a Purchase Car Plan or similar arrangement which provides an incentive to customers to change their vehicle at the expiry of the arrangement. Consumers can purchase both new and used cars with associated finance over the telephone or internet without visiting dealerships. We also offer vehicle delivery to the customer's chosen destination. This provides underpinning for vehicle sales, although if the situation worsens, we anticipate there may be some level of deferral. We also note that servicing and repair work is generally undertaken in compliance with manufacturer warranty, extended warranty or service plan arrangements that customers will continue to observe.

We have modelled the impact of a severe reduction in vehicle sales over a sustained period on our financial covenants and bank facility limits and we are comfortable that we are well positioned in this regard, with mitigants available in the more severe scenarios where headroom becomes more limited. However, we have taken some additional protective measures such as deferring commitments in our capital expenditure programme, increasing the flexibility we have in our marketing spend and closely monitoring inventory levels.

## 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 Board has carried out a robust assessment of the Group's emerging and principal risks. The table on pages 36 to 41 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. A thorough risk review, involving company-wide participation, has been completed during 2019. A small number of risks and mitigation disclosures have been updated as a result, including those relating to latest external factors such as the UK's exit from the EU and Government announcements in respect of future planned climate change action on diesel, petrol and hybrid vehicles. Two existing risks have been segmented into more detailed disclosures increasing the numbered risks by two. The developing situation in relation to the outbreak and spread of coronavirus (COVID-19) is constantly under the review as part of our risk management. Our immediate focus is the health, safety and well being of our team members and we have convened our crisis management team to co-ordinate our response and introduce new measures such as remote working. 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 47.



## 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 2019 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 understood that there are certain internal control deficiencies which it intends to remediate during 2020.

### 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 the Chief Operating Officer, Chief Finance Officer, Company Secretary, Group Head of Internal Audit and, by invitation, other members of the Group's senior operational and financial management.

We maintain risk registers and risks are reviewed as a top down and bottom up activity at the Group, Division and Functional level. The content of the risk registers are considered and discussed regularly through discussion with senior management and review within our governance committees. The approach to risk control and the work of the RCG are described on page 47.



# RISK OVERVIEW & MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>STRATEGY AND BUSINESS RELATIONSHIPS</b>			
1	<p>Strategy: Failure to adopt the right strategy, or</p> <p>Failure of our adopted strategy to deliver the desired outcomes, or</p> <p>Failure to implement our strategy effectively</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 do not meet our customers' needs by not achieving a coherent, connected and engaging customer journey, leading to us to be less competitive and losing market share</p>	<ul style="list-style-type: none"> <li>• Our strategy is informed by significant research and market data</li> <li>• We communicate effectively our adopted strategy to our stakeholders</li> <li>• 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</li> <li>• 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</li> <li>• We ensure that we monitor our manufacturer and third party customer service measures and take action in the event of low scores</li> <li>• We focus strongly on efficient use of working capital through embedded disciplines, especially in relation to vehicle inventory</li> <li>• We review capital expenditure plans to ensure our ROI objectives are achievable</li> </ul>
2	<p>Manufacturer Relationships: Dependence on vehicle manufacturers for the success of our business</p> <p>Failure to maintain sustainable, mutually rewarding relationships with our manufacturers</p>	<p>Failure of, or weaknesses in, our vehicle manufacturers' financial condition, reputation, marketing, production and distribution capabilities (including those arising from the ongoing effect of coronavirus COVID-19) 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>Manufacturers change their business model towards direct sales to customers</p>	<ul style="list-style-type: none"> <li>• Our diverse franchise representation avoids over reliance on any single manufacturer</li> <li>• 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</li> <li>• Our appropriately targeted investment in franchise assets and our performance maintains our reputation as a quality representative for our brand manufacturers</li> <li>• Our investment in marketing initiatives and our online presence supplement and enhance our market presence and offering over and above manufacturers' marketing efforts</li> <li>• Our diverse franchise representation ensures new vehicle inventory is supplied from a wide variety of sources</li> <li>• Our model of developing and maintaining revenues from used vehicles, aftersales, and our software and leasing segments reduces our overall reliance on new vehicle franchise</li> </ul>

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
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### STRATEGY AND BUSINESS RELATIONSHIPS

<b>3</b>	<p>Competition: Failure to meet competitive challenges to our business model or sector</p>	<p>Customers migrate to alternative providers</p> <p>Intermediary companies establish a barrier between us and our customers</p> <p>New forms of competition would have less barriers to their entering the market</p> <p>Revenues and profits could decrease owing to competitor action</p>	<ul style="list-style-type: none"> <li>• Our detailed market and sector monitoring systems assist early identification and effective response to any competitive or intermediary threats</li> <li>• Our scale, expertise and technological capabilities enable rapid and flexible response to market opportunities</li> <li>• Our well-developed customer relationship management capabilities and online customer offer of fulfilment tools aim to drive industry-leading service and attract customer loyalty</li> <li>• We continually seek to develop new methods of customer interaction, particularly online. This enables the business to anticipate changing customer needs</li> </ul>
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### TRADE DEALS AND OTHER OUTCOMES ARISING FROM THE UK'S EXIT FROM THE EUROPEAN UNION

<b>4</b>	<p>Dependence on the UK Government trade and other negotiations with the EU.</p> <p>Failure to secure arrangements which maintain the status quo or gain more favourable terms could adversely affect our supply base, and our ability to service our customers</p>	<p>This could lead to an adverse effect on our business, financial results and operations as a result of:</p> <ul style="list-style-type: none"> <li>• Changes in regulation</li> <li>• Consumer confidence and economic activity falls</li> <li>• New vehicle prices rise as a result of exchange rate changes</li> <li>• Fewer purchasers of vehicles</li> <li>• Lower demand for vehicle servicing</li> <li>• Availability and cost base of appropriate team member resources to run our business effectively</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• We constantly monitor used vehicle market trends and adjust our inventory, pricing and procurement accordingly</li> <li>• Our diverse franchise representation ensures new vehicle inventory is supplied from a wide variety of sources</li> <li>• 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</li> <li>• We constantly monitor and evaluate alternative recruitment, training and apprenticeship methods to fulfil our employment needs</li> </ul>
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# RISK OVERVIEW & MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>ENVIRONMENTAL</b>			
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>Failure to adapt to the changes arising as a result of the Government's future ban on sale of petrol, diesel and hybrid powered vehicles</p>	<p>Customers choose greener vehicles we cannot supply</p> <p>Overall vehicle parc reduces</p> <p>Vehicle purchase and use declines, adversely affecting revenue opportunities</p> <p>Lower demand for petrol, diesel and hybrid vehicles and potential impact on vehicle residual values</p> <p>Government policy and consumer sentiment in respect of petrol, diesel and/or hybrid vehicles impacts the sale of one or all types of these vehicle</p>	<ul style="list-style-type: none"> <li>• We represent vehicle brands which are responding effectively to the greener technology agenda</li> <li>• We identify trends in demand through our sophisticated management information and analysis tools and tailor our model accordingly</li> <li>• We monitor sales by fuel type to maintain an appropriate inventory profile</li> <li>• 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</li> <li>• 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 action</li> </ul>
<b>REGULATORY &amp; COMPLIANCE</b>			
6	<p>Significant litigation</p> <p>Failure to comply with legal and other requirements and respond to changes which could have a material effect on our business model, such as our ability to provide Finance &amp; Insurance products to our customers, or adverse changes in trade tariffs</p>	<p>This could lead to fines, criminal penalties, litigation and an adverse impact on our reputation, financial results, and/or our ability to do business.</p> <p>We may be restricted from continuing certain business activities, such as those regulated by the FCA</p> <p>Resources are diverted to address urgent remediation, as well as taking proceedings or defending legal or regulatory action</p> <p>The ability to obtain appropriate inventory is impeded and/or purchase costs rise</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Our culture focuses strongly on good compliance delivering good performance</li> <li>• We operate a Finance &amp; Insurance Services Regulatory Board with a supporting governance framework and continually invest in systems and processes to minimise the risk of non-compliance to FCA regulations</li> <li>• Our team of compliance specialists design, and we communicate effectively, processes that support our businesses to minimise the risk of non-compliance</li> <li>• In the case of new vehicles, our diverse representation mitigates the risk and for parts we maintain alternative sources of supply where possible</li> </ul>

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>TECHNOLOGY AND INFORMATION SYSTEMS</b>			
7	<p>Failure of our IT infrastructure or key systems, including failure to maintain and build resilience to events such as cyber threat</p> <p>Failure to invest in new technologies and maintain a cohesive and comprehensive technological capability</p>	<p>This could lead to an inability to operate and communicate effectively, loss of information and competitive advantage and potential regulator action resulting in fines and penalties</p>	<ul style="list-style-type: none"> <li>• We adopt and regularly update robust business continuity measures, including within our dealer management systems</li> <li>• Our business monitors cyber security threats and has systems and processes in place to deal with incidents</li> <li>• We have cyber liability insurance in place</li> </ul>
<b>DATA SECURITY AND DATA PRIVACY</b>			
8	<p>Failure to comply with legal or regulatory requirements relating to data security or data privacy in the course of our business activities</p>	<p>This could lead to data loss or misuse and have a significant effect on our reputation. Fines and criminal penalties could be imposed and disruption to business operations and our ability to serve customers. Financial results could be adversely affected.</p>	<ul style="list-style-type: none"> <li>• We regularly review our data protection policies, controls, team member training and the use of third party systems</li> <li>• Our business monitors cyber security threats and has systems and processes in place to deal with incidents</li> <li>• We have cyber liability insurance in place</li> <li>• We have appointed a Chief Information Officer who is reviewing and updating our cyber security measures</li> </ul>
<b>RELIANCE ON ESTIMATES</b>			
9	<p>Failure to maintain reliable systems and methods for provision of financial estimates</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"> <li>• We assess actual outturns of previous estimates to test the robustness of adopted assumptions, and adjust the estimating approach accordingly</li> <li>• We support estimates with reliable external research where available</li> </ul>

# RISK OVERVIEW & MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>PEOPLE</b>			
10	<p>Failure to attract, motivate, develop and retain the required capability and promote an appropriate culture</p>	<p>This could lead to instability, poor communication and decision making and an inability to deliver our strategy and achieve our business objectives. We could lose market share and adversely affect our customers owing to poor service</p>	<ul style="list-style-type: none"> <li>• We invest in online means of attraction and recruitment, targeting the right quality candidates</li> <li>• We set clear competencies and career goals</li> <li>• We have a clear performance management framework in place, linked to competencies and career pathways</li> <li>• We continually review and adapt for the market conditions our employment terms, salaries and performance related pay elements at all levels</li> <li>• We adopt and renew responsive succession plans for all key roles. Within our Motor Division we complete a Talent Review twice yearly</li> <li>• We leverage our scale to afford training opportunities and progression within the Group</li> </ul>
<b>MICRO-ECONOMIC, POLITICAL AND ENVIRONMENTAL</b>			
11	<p>European economic instability and/or UK or Global 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"> <li>• 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</li> <li>• We carefully control new vehicle inventory to mitigate effects of overstocking</li> <li>• We invest in and vigorously pursue customer retention initiatives to secure longer term loyalty</li> </ul>
<b>FINANCE &amp; TREASURY</b>			
12	<p>Lack of availability of debt funding</p> <p>Increasing 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"> <li>• Our business model produces strong free cash flow generation</li> <li>• We maintain adequate committed facilities to meet forecast debt funding requirements</li> <li>• Diversification of funding sources, monitor daily our funding requirements</li> <li>• Regular review by the pension trustees of investment strategy and liability reduction and risk mitigation, taking professional advice</li> </ul>



NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>HEALTH, SAFETY &amp; ENVIRONMENTAL</b>			
13	<p>Failure to provide safe working and retail environments</p> <p>Failure to control the environmental hazards present within our operations</p> <p>Failure to limit the impact of pandemic disaster</p>	<p>This could lead to illness and injury, lost working time, civil claims and clean-up costs.</p> <p>Our reputation could be adversely affected and regulatory action could result in fines and criminal penalties</p>	<ul style="list-style-type: none"> <li>• We work to the Health &amp; Safety Executive's 'Plan, Do, Check, Act' framework for managing risk in the workplace and our retail spaces</li> <li>• We allocate clear responsibilities for delivery of safe places to work and shop</li> <li>• We adopt process-driven initiatives to mitigate specific risk areas</li> <li>• We measure and review our performance against appropriate benchmarks</li> <li>• We allocate local accountability for sites' compliance and provide specialist support to responsible leaders</li> <li>• We monitor site conditions and drive corrective action through audit follow-up</li> <li>• In response to COVID-19 we have put in place additional measures to assist our team members in limiting the risk of spread of infection. We have specifically considered and will continue to monitor the potential impact of COVID-19 on our business in accordance with our business continuity plans</li> </ul>

# VIABILITY STATEMENT

## VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (the 'Code'), taking into account the company's current position and principal risks, the Directors have assessed the viability and prospects of the company over the three-year period to 31 December 2022.

The Directors believe this period to be appropriate as:

- i) The Group's planning cycle encompasses this period. The changes in Executive leadership during FY19 meant that a longer-term plan encompassing the 2022 period has been performed on a high-level basis, pending the new Chief Executive Officer to develop these plans accordingly.
- ii) The time period corresponds to the normal expected duration of the Groups Revolving Credit Facility. The Group's current facility runs until March 2022, so there remains risk that the terms of any refinancing may be less favourable to the Group. The Group has nominated external advisers to mitigate this risk and identify the most appropriate source of financing.

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, including the removal of expected proceeds from the sale of the Groups remaining US assets. In addition, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring via what the Directors consider to be a severe but plausible downside scenario. 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. Finally, the analysis takes into account the capital plans of the Group and the ability to mitigate downside risk through the cancellation of these plans.

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. The Directors consider that the current economic outlook presents significant challenges in terms of sales volume and pricing and both Brexit and the Coronavirus pandemic presents uncertainties to future trading conditions. Whilst the directors have instituted measures to preserve cash and improve performance, there remains a level of uncertainty over future trading results and cash flows.

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 93 to 193. 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 the ongoing negotiation of the terms of trade following the UK's withdrawal from the European Union. The Board has also considered and will continue to monitor the threat and implications of the Coronavirus, but it is too early to fully understand the impact that the virus will have on potential disruption to supply, potential for closures to retail outlets and the wider macro-economic environment. The risk disclosure section also sets out 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 to grow the business in the medium term following the appointment of the new Chief Executive Officer. The Board consider that Bill Berman is the right appointment to improve the performance of the business following the results of FY19 and restore the business to profitable growth. The availability of debt funding, in particular, the successful refinancing of the RCF, when it expires in 2022 is a further uncertainty. The Board intend to seek the right external advice to ensure the most appropriate debt funding sources are identified as part of any refinancing process. It is possible that the terms of any refinancing may be less favourable for the Group than the current RCF.

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 a downside trading scenario in the event of economic challenges resulting from either unfavourable trade terms at the end of the EU withdrawal agreement transition period, or a potential impact from the currently unknown effect of the Coronavirus. 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 2019, 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 able 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 2022.

Approved by order of the Board

**Mark Willis**

Chief Finance Officer

18 March 2020

# DIRECTORS REPORT

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# BOARD OF DIRECTORS

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## **BILL BERMAN**

Chief Executive &  
Interim Chairman

Bill joined Pendragon on 18 April 2019 as a non-executive director, and assumed the role of chief executive officer with effect from 19 February 2020. Bill continues to perform the role of interim chairman. Formerly the President and Chief Operating Officer of AutoNation, the largest automotive retailer in America, Bill brings to the Board significant experience in automotive retail, enabling him to provide effective executive leadership of Pendragon's Board and advise in relation to the Company's future strategy.

## **BRIAN SMALL**

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

Brian joined Pendragon on 10 December 2019, following an extensive executive career in the consumer and retail sector, where most recently he held the position of Chief Finance Officer at JD Sports Fashion Plc between 2004 and 2018. Mr Small is also a non-executive director and chair of the Audit Committee at online retailer, Boohoo.com, and a non-executive deputy chair and chairman of the Audit Committee of Mothercare Plc. Brian qualified as a chartered accountant with Price Waterhouse in 1981, and with industry experience across a range of retailers, he brings additional financial and strategic perspectives to the Board.

## **MIKE WRIGHT**

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

Mike joined Pendragon on 2 May 2018, following an executive career in the international automotive sector, retiring as Executive Director at Jaguar Land Rover in 2016. Since then he has developed a strong international portfolio of NED, Chair and Advising roles in FTSE and North American listed businesses, and the education, sports and arts sectors. His previous automotive sector specific executive experience, over a 40 year career enables Mike to contribute the industry perspective, and is of significant value to the Board.

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### **Key to memberships, roles and re-election status**

\* Committee chairman

\*\* Acting Committee chairman

(A) Audit Committee

(N) Nomination Committee

(R) Remuneration Committee

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

More detailed professional biographies of the Directors are on the company's website [www.pendragonplc.com](http://www.pendragonplc.com)

**MARTIN CASHA**

Chief Operating Officer

Having spent his entire career with Pendragon businesses, Martin became operations director in September 1995 and chief operating officer in November 2001. Martin's extensive knowledge of Pendragon's operations ensures he continues to be able to advise the Board as to the most appropriate operational action and response to changes in the automotive retail sector.

**MARK WILLIS**

Chief Finance Officer

Mark joined Pendragon on 08 April 2019 from Ten Entertainment Group PLC where he held the position of Chief Finance Officer since taking it through its IPO in April 2017. Prior to this Mark worked at Home Retail Group PLC, including roles as Argos Finance Director, Director of Group Finance and Investor Relations Director. Since joining Pendragon, Mark's wealth of accounting, financial and investor relations experience continues to add significant value to the Board.

**Company Secretary**

Richard Maloney

**Registered Office**

Loxley House  
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](http://www.evanshalshaw.com)  
[www.stratstone.com](http://www.stratstone.com)  
[www.carstore.com](http://www.carstore.com)

**Group Support business websites**

[www.pinewood.co.uk](http://www.pinewood.co.uk)  
[www.pendragonvehiclemanagement.co.uk](http://www.pendragonvehiclemanagement.co.uk)  
[www.quickco.co.uk](http://www.quickco.co.uk)

**Registered number** 2304195

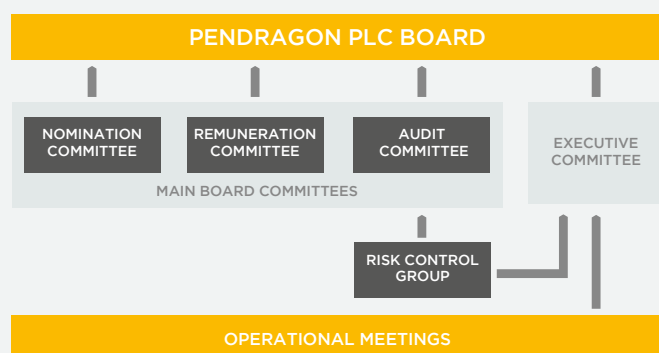
# CORPORATE GOVERNANCE REPORT

The UK Corporate Governance Code (the Code) applies to the company and is available on the FRC website at <https://www.frc.org.uk>. Other than where expressly stated below, throughout the financial year ended 31 December 2019, the company complied in full with all relevant provisions of the Code. The corporate governance statement as required by Rule 7.2.1 of the Disclosure and Transparency Rules 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 through the executive committee comprising of the executive directors and members of senior management 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 chief finance officer responsibility for briefing key stakeholders, major shareholders and the investor community, the interim chairman holds himself available to engage with shareholders, and the Senior Independent Director, when appointed, will perform a similar role, where appropriate. Information from engagement with shareholders 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 Head of Internal Audit. Other members from the senior management of the Group's operating group functions are co-opted onto the RCG as required from time to time. 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 18 March 2020, the Board is made up of three executive directors and two non-executive directors. The Board is actively seeking to recruit a non-executive chairman. The Board continues to recognise the need for an appropriate combination of executive and non-executive representation on the Board, and a clear division of responsibilities between the leadership of the Board and the executive leadership of the business. In this regard, 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 April 2019. The Board remains 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 to operate effectively.

In April 2019, Gillian Kent stood down from the Board as a non-executive director and Bill Berman joined the Board as an additional non-executive director. Subsequently, following the decision of Chris Chambers to step down as non-executive chairman on 01 October 2019, and pending the Company appointing a permanent chief executive officer following the departure of Mark Herbert on 30 June 2019, Bill Berman assumed the newly created role of interim executive chairman with effect from 01 October 2019. In this respect, the company recognises that for the final three months of 2019 and since, the company did not comply with provision 9 of the Code, in that in performing the role of Interim executive chairman and, latterly, Interim chairman, Bill Berman was effectively exercising both the role of chairman and chief executive. However, the company considers that, given the exceptional circumstances in which the company found itself, the creation of, and appointment of Bill Berman to this role at that time was in the company's best interests and the board considered it remained fully justified. The company acted both swiftly and responsively to ensure suitable leadership was in place at the time of Chris Chambers's departure, recognising that the process of finding, assessing and recruiting the right executive and non-executive directors requires careful consideration, to ensure that candidates with the requisite capabilities, attributes, skills and experience are appointed. Following Mr Chambers' departure, the Board instructed Longwater Partners, an independent external search consultancy, in connection with the recruitment of a separate chairman and chief executive.

The Board continues to remain fully committed to ensuring that



the company observes and maintains at all times the highest standards of corporate governance, and is now working to ensure that the appropriate combination of executive and non-executive directors will be in place in accordance with the Code as soon as practicable.

With effect from 30 December 2019, Richard Laxer stepped down as a non-executive director, senior independent director and chair of the Audit Committee, and Brian Small joined the Board as a non-executive director, assuming the role of chair of the Audit Committee in January 2020. Other than the changes described above, no other changes to Board membership occurred in 2019.

On 19 February 2020, Bill Berman was appointed chief executive officer of the Company, and continues to perform the role of Chairman on an interim basis while the process for the recruitment of a permanent non-executive chairman continues.

In March 2020, Nikki Flanders joined the Board as an additional non-executive director.

As noted below, in accordance with the Code, all directors will be subject to annual re-election (or election in the case of newly joined Directors) at the AGM of the company. Details of the directors offering themselves for election in 2020, together with directors' brief biographical details appear on pages 44 and 45, and gender balance details are on page 50.

#### **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 2019 appear below and in the Directors' Remuneration Report on pages 60 to 78.

#### **THE BOARD'S REVIEW OF RISKS AND CONTROLS IN 2019**

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 Risk Control Group ('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 2019. 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 page 153 and our viability statement is on page 42.

#### **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. Following a detailed review of our approach to risk management, in October 2019, an overarching Risk Management Policy was introduced, setting out the principles and approaches by which we will continue to implement effective enterprise risk management. The RCG, made up of the Chief Operating Officer, Chief Finance Officer, Company Secretary, Group Head of Internal Audit and, by invitation, other members of the Group's senior operational and financial management, meets regularly to consider the detailed work on risk assessment performed by leaders and key business areas, and oversees the effective implementation of new measures designed to mitigate or meet any specific risks or threats. The Chair of the Audit Committee, and a representative of the external auditor 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 twice in 2019. 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, including the development of e-learning, gifts and hospitality training, Consumer Rights Act 2015 training, Modern Slavery Act 2015 awareness and further initiatives to reduce incidences of theft and fraud. The Board has understood that there are certain internal control deficiencies which it intends to remediate during 2020.

# CORPORATE GOVERNANCE REPORT

## NON-EXECUTIVE DIRECTORS AND INDEPENDENCE

2019 has been a year of transition for the Board, presenting its own unique challenges. For 9 months of 2019, the non-executive chairman Chris Chambers (who on appointment to that role, fulfilled the requirement to be independent) ensured that the Board performed 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. Since his appointment to the role of interim executive chairman on 01 October 2019, and subsequently Interim Chairman following his appointment as Chief Executive Officer on 19 February 2020, Bill Berman has continued with the approach adopted by his predecessor, whilst remaining vigilant of the need to avoid any conflict of interest in such situations where exercising the responsibilities or functions ordinarily carried out by the Chairman may conflict with the responsibilities or functions ordinarily carried out by the chief executive officer. In this respect, the Board and interim chairman, as advised by the company secretary, has operated conflict management procedures with increased vigilance, in particular ensuring that the Mr Berman does not participate in any meetings or discussions in which he was being considered for the appointment to certain roles. These procedures were deemed effective. As outlined above, it remains the Board's intention to revert to a Board structure where the roles of non-executive chairman and chief executive officer are performed by separate individuals as soon as practically possible. Through the conflict management procedures outlined above, 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 balance of independent and non-independent directors allows it and its committees to discharge their respective duties properly;
- subject to the recruitment of a non-executive chairman, 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 interim executive 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 interim executive 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.

Between January and March 2019, recruitment of both an additional Non-Executive Director and Chief Executive Officer was ongoing.

- For the six month period between January 2019 and June 2019, 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.
- For the period between July 2019 and October 2019, the Board consisted of six Directors, consisting of two Executive and four Non-Executive Directors, including the Non-Executive Chairman. During this period, the Board was actively seeking to recruit an additional Executive Director to fulfil the Chief Executive Officer role.
- For the three month period between October 2019 and December 2019, the Board consisted of five Directors, consisting of two Executive Directors, two Non-Executive Directors and the Interim Executive Chairman.

As announced on 18 September 2019 and as noted above, during the final quarter, the Board was actively seeking to recruit both an additional executive director to fulfil the chief executive officer role, and a new non-executive chairman. On 19 February 2020, Bill Berman was appointed chief executive officer and will continue to perform the role of chairman on an interim basis whilst the process of recruiting a permanent non-executive chairman continues. The Board considers that Bill Berman has provided strategic leadership whilst fulfilling the role of interim executive chairman, and the Company considers that the Board has been able to function effectively, notwithstanding ongoing recruitment activity designed to redress the size and balance of the same. During 2019, 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.

## BOARD EVALUATION

The Board and its committees conducted formal evaluations of their effectiveness in 2019, facilitated by the interim executive chairman, addressing questions based closely on the Code, applicable good governance topics and drawn from best corporate practice. The results were reviewed by the interim chairman, the Committee chairmen and the Board as a whole and the interim chairman has factored suggested improvements into our 2020 Board programme. More details on the Board's approach to individual and Board evaluation are on the company's website.

Current Directors	Board	Audit	Nomination <sup>e</sup>	Remuneration
William Berman <sup>1 (B)</sup>	11/12	1/1	1/1	1/1
Martin Casha	19/19	N/A	N/A	N/A
Brian Small <sup>2 (I) (A)</sup>	1/1	N/A	N/A	N/A
Mark Willis <sup>3</sup>	15/15	N/A	N/A	N/A
Mike Wright <sup>(I) (R) (N) 4</sup>	16/19	2/3	7/7	4/4
Former Directors	Board	Audit	Nomination <sup>e</sup>	Remuneration
Chris Chambers <sup>5</sup>	11/11	N/A	5/5	2/2
Trevor Finn <sup>6</sup>	4/4	N/A	N/A	N/A
Mark Herbert <sup>7</sup>	4/4	N/A	N/A	N/A
Tim Holden <sup>8</sup>	4/4	N/A	N/A	N/A
Gillian Kent <sup>9</sup>	4/6	1/1	2/2	1/1
Richard Laxer <sup>10</sup>	19/19	3/3	7/7	4/4

(B) Chairman of the Board

(I) Considered by the Board to be independent

(A) Committee chairman

(N) Committee chairman

(R) Committee chairman

1 Appointed as non-executive director on 18 April 2019, and subsequently Interim Executive Chairman on 01 October 2019, and subsequently chief executive officer on 19 February 2020.

2 Appointed as non-executive director on 10 December 2019 and chair of the audit committee on 02 January 2020.

3 Appointed Chief Finance Officer on 08 April 2019.

4 Acting Nomination Committee chairman since 08 November 2019.

5 Resigned from the Board as Non-Executive Chairman on 01 October 2019.

6 Retired on 31 March 2019.

7 Left on 30 June 2019.

8 Resigned from the Board as Finance Director on 31 March 2019.

9 Resigned from the Board as Non-Executive director on 18 April 2019.

10 Resigned from the Board as Non-Executive Director, Senior Independent Director and Chair of Audit Committee on 31 December 2019.

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

## RE-ELECTION OF DIRECTORS

In accordance with the Code, all Directors will be subject to annual re-election or election (in the case of new Directors) at the Annual General Meeting.

## INFORMATION AND SUPPORT

To ensure that our decisions are fully informed and debated, the interim chairman ensures our Board's business agenda is set in a timely manner so as 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 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.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## Number of Group Employees by category

	as at 31 December 2019			as at 31 December 2018		
	Female	Male	Total	Female	Male	Total
Director	0	5	5	1	6	7
Senior Manager	0	5	5	0	5	5
All Employees	2,084	5,841	7,925	2,438	6,756	9,194

### 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](http://www.pendragonplc.com)

### GENDER BALANCE

We describe our approach to Board composition diversity in the Nomination Committee's report on page 58.

### GENDER PAY GAP REPORTING

The company's annual report containing data on our gender pay gap will be published in full on our website [www.pendragonplc.com](http://www.pendragonplc.com) in accordance with the statutory timescale.

### 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 health and safety record against relevant published benchmarks. Last year, as a result of changes to the Health & Safety Executive sector categorisations, we determined that the natural sector comparator for our Group is Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles. There has been a decrease in RIDDOR<sup>1</sup> reported accidents in 2019, falling to 34 per 10,000 employees (2018: 38 per 10,000 employees). Whilst this remains higher than the relevant sector average 22 per 10,000 employees, this is primarily as a result of our improved reporting system for accidents, the increased accuracy of our reporting of accidents 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 and in particular how behaviours are impacting on the safety culture of our business. The company's health and safety policy is available at [www.pendragonplc.com](http://www.pendragonplc.com).

### COMMUNITY

We are predominantly a retail operator, with a tangible presence in the many communities our businesses serve. During 2019, our monthly fundraising events supported a range of national charities, including Alzheimer's Research UK, Alzheimer's Society, MS Society, Loganberry Trust, Jerry Green Dog Rescue, Save the Children 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

<sup>1</sup>RIDDOR: the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

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 ended 31 December 2019.

### ENVIRONMENT AND GHG REPORTING

Although the retail sector is 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 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. We also actively co-operate with our manufacturing partners in relation to the move to green technologies, such as supporting the introduction of infrastructure designed to promote electric and battery powered vehicle technologies. The company's statement of environment policy is available at [www.pendragonplc.com](http://www.pendragonplc.com)



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).

#### Global Greenhouse Gas Emissions Data

Source	Tonnes of CO <sub>2</sub>	
	01.01.19 – 31.12.19	01.01.18 – 31.12.18
CO <sub>2</sub> emitted from facilities	9,630	11,461
CO <sub>2</sub> emitted from driving activities	7,934	9,179
<b>Intensity ratio (tonnes of CO<sub>2</sub> per £k)</b>	<b>3.9</b>	<b>4.5</b>

### GREENHOUSE GAS EMISSIONS

This section includes our mandatory reporting of greenhouse gas emissions for the period 1 January 2019 to 31 December 2019, 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 2019 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.

### 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

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*The Audit Committee is a committee of the Board and has been chaired by Brian Small since January 2020, made up entirely of independent non-executive directors. Their names and qualifications are on pages 44 and 45 and attendance at meetings in the table on page 49.*

## **BOARD COMPOSITION**

With effect from 30 December 2019 Richard Laxer stepped down as chair of the Audit Committee. Brian Small assumed the role of chair of the Audit Committee in January 2020 when there was a comprehensive induction and handover with Richard Laxer, Mark Willis (Chief Executive Officer) and Richard Maloney (Company Secretary)

## **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](http://www.pendragonplc.com) .

## **THE COMMITTEE'S WORK IN 2019**

The Audit Committee met three times in 2019 and this report describes its work and conclusions.

## **FINANCIAL STATEMENTS REVIEW**

The Committee received the auditor's memorandum on the company's 2018 financial statements and the auditor's memorandum on the unaudited 2019 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. Key aspects of those discussions and relevant considerations and conclusions are below:-

## **AUDIT RISK CONSIDERED BY THE COMMITTEE**

The table on pages 54 and 55 sets out the key audit risks and judgments applied, for the 2019 year results, which the Committee considered and discussed with the auditor, and the Committee's conclusions.





# AUDIT COMMITTEE REPORT

## Audit risk considered by the Committee

### GOING CONCERN

Given the losses incurred within FY19, the committee considered the Group's ability to continue as a going concern which included reviewing cash flow forecasts as prepared by the Directors for the period to 31 December 2021 against the Groups available borrowing facilities.

## Evidence considered and conclusion reached

The committee reviewed both the forecasts presented by the Directors, and further scenarios which had been sensitised to reflect severe but plausible downside scenarios. Those forecasts indicate that the group can continue to operate with the existing facilities. The base and sensitised forecasts which include a combined Brexit and COVID-19 sensitivity indicate that the group will remain in compliance with the relevant covenants, though headroom is limited in the period ended 31 December 2021 in the case of the sensitised forecasts after considering mitigants available to the Group such as deferral of capital expenditure. The committee concluded it remains appropriate to prepare the financial statements on a going concern basis. Further details can be found within the viability statement on page 42 and within the going concern statement on page 99.

### CGU ASSET VALUATION

The estimates in relation to asset impairment of the carrying value of goodwill, intangible assets, property, plant and equipment and right of use assets largely related to the achievability of the assumptions underlying the calculation of the recoverable amount of the business being tested for impairment, set out in note 3.1 to the financial statements. Key assumptions used are the FY20 budget, growth rate and discount rate as well as the EBIDTA multiples applied or fair value of individual assets.

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 and discussing this with the auditors.

The Committee concluded that the judgements applied were appropriate.

### DEFERRED TAX ASSET

The Group recognises deferred tax assets if they believe their recovery can be justified.

The Group has considered the business plans for 2020 and 2021 and determined that deferred tax assets of £25.5m can be recovered.

### 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.

Work continues to restructure the company's balance sheet as between PLC and its subsidiaries, and the Committee remains supportive of this ongoing work.

To assess the valuation of parent company investment and impairments to the value of subsidiary assets, analysis has been performed in conjunction with the work done to establish CGU asset impairment as described above. The Committee were satisfied with management's conclusion book impairment in the value of subsidiary assets, and therefore to ascertain the carrying value of the parent company investment.

### 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 in 2018 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. Continued uncertainty in terms of the UK's future trading relationship with the EU following the UK's withdrawal from the EU on 31 January 2020 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 2020. 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, and has continued to monitor any potential impacts since.

The Committee considered that the Group retained sufficient financial liquidity and operational facility headroom to cover any short-term financial stress scenarios resulting from the impacts of 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; 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 LLP 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 LLP 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 four 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 LLP,

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 122. 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 2019 (2018: 0.15:1).

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 47) 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 47.

#### **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 third party operated 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](http://www.pendragonplc.com)

#### **APPROVAL**

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

#### **Brian Small**

Chairman of the Audit Committee  
18 March 2020





# NOMINATION COMMITTEE REPORT

*The Nomination Committee has been chaired by Mike Wright, on an interim basis, since November 2019, and is made up entirely of independent non-executive directors. Their names and qualifications are on pages 44 and 45 and attendance at meetings in the table on page 49 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](http://www.pendragonplc.com).

## THE COMMITTEE'S WORK IN 2019

The Nomination Committee met seven times in 2019. This report describes its work and conclusions.

## REVIEW OF BOARD COMPOSITION AND BALANCE

In February 2019, 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 at this point, a cohort of four, made up of the non-executive Chairman and three independent non-executive directors was sufficient for the Board and its committees to function effectively. The Committee also met for the purposes of recruitment and selection of a replacement chief executive officer and non-executive director. Following recommendations of the Nomination Committee, Mark Herbert was appointed chief executive officer in April 2019.

In June 2019, the Committee met to consider the discontinuation in office of Mark Herbert as Chief Executive Officer; Mark Herbert left the company with effect from 30 June 2019.

In September 2019, the Committee met for the purposes of discussing the appointment of non-executive director Bill Berman to the role of interim executive chairman, and following the Committee's recommendation to the Board, Bill Berman was duly appointed to the role of interim executive chairman with effect from 1 October 2019.

In November 2019, the Committee met for the purposes of discussing progress as to the recruitment and selection of

a replacement chief executive officer and non-executive directors, further to the decision of Richard Laxer to step down as non-executive director and audit committee chairman on 31 December 2019, and the assumption by Bill Berman of the interim executive chairman role in September 2019. The Committee also reviewed the structure of the Board in relation to its size, composition and potential vacancies in the light of recent changes.

In December 2019, the Committee met for the purposes of recruitment and selection of a replacement non-executive director and audit committee chairman. Following the Nomination Committee's recommendation, Brian Small was appointed non-executive director on 10 December 2019, and assumed the role of audit committee chairman on 02 January 2020. In February 2020, the Committee recommended that Bill Berman be appointed chief executive officer.

In March 2020, the company announced that Nikki Flanders would join the Board as additional non-executive directors. The process of recruiting a new non-executive chairman continues, in conjunction with an executive search agency, and the Nomination Committee continues to lead this process. 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 48. 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 recruitment activities to fill Board vacancies in 2019, having considered it appropriate to do so. The company has not adopted a gender balance target for its Board.



# REMUNERATION COMMITTEE REPORT

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*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 pages 44 and 45 and attendance at meetings in the table on page 49.*

## KEY RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

- has delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chairman, executive directors, the company secretary and senior management
- reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting executive director remuneration
- 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 triannual renewal of remuneration policy and any long-term incentive arrangements

The terms of reference of the Remuneration Committee are available at [www.pendragonplc.com](http://www.pendragonplc.com).

## THE COMMITTEE'S WORK IN 2019

The Remuneration Committee met four times in 2019. The Directors' Remuneration Report, beginning at page 60, describes its work and conclusions.

# DIRECTORS REMUNERATION REPORT

## REMUNERATION COMMITTEE CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Director's Remuneration Report for the financial year ending 31 December 2019. This report has been prepared by the Remuneration Committee and approved by the Board.

**This remuneration report is split into two sections:**

- the **new Directors' Remuneration Policy**; which we propose will apply for financial years 2020-2023; and
- the **Annual Report on Remuneration**.

The proposed directors' remuneration policy will be subject to a binding vote at the AGM on 23 April 2020. This new policy, if approved by shareholders, will last for a period of three years from the date of the AGM or until another policy is approved in a general meeting. The Annual Report on Remuneration describes annual remuneration and the amounts paid in respect of 2019 performance, and remains subject to an advisory only shareholder vote at the forthcoming AGM.

Unquestionably, 2019 has been a challenging year for the business, both in terms of company performance and challenges caused by changes to, and the refreshing of, our Board of Directors. Set alongside these challenges, the Remuneration Committee has continued to closely follow the ongoing debate on executive remuneration, fairness and corporate culture. This has clearly been given more impetus by the implementation of the new UK Corporate Governance Code on 01 January 2019, Investment Association focus and expected action on executive pensions, the expectation of protecting against reward for failure and the expanded Remuneration Committee remit in terms of reviewing workforce remuneration and related policies.

Despite the combination of all these challenges, the Remuneration Committee has worked diligently throughout the year in the development of a new remuneration policy for both Executive Directors and our senior management for the next period of our remuneration policy cycle.

**New Directors' Remuneration Policy**

The Remuneration Committee believes that the proposed remuneration policy continues the focus on an approach to pay which we believe is both in our shareholders' best interests but can also be categorised as providing executive remuneration packages which are competitive, flexible and transparent. We continue to maintain the bias in our remuneration policy towards long term incentives, supported through interlinked share ownership and deferral requirements within the annual bonus plan.

Whilst the overall principles of the 2017 remuneration policy remain appropriate, the proposed 2020 remuneration policy provides greater flexibility in taking into account the challenges faced given the current uncertain macroeconomic climate.

**The main areas of change in the proposed Policy are:**

Increase to the maximum opportunity under the annual bonus to 150% of salary with maximum available only for true out-performance of budget.

Moving away from the VCP to an LTIP which overall, the remuneration committee intends to be in line with best practice, with a three-year performance period and two-year holding period, but which retains a discretion for the remuneration committee to make awards with a one-year performance period and overall 3-year vesting period in exceptional circumstances.

*Notwithstanding the above, the Committee is proposing several best practice changes to ensure that the Policy is aligned from a corporate governance perspective:*

*Improved malus & clawback provisions including the addition of reputational risk and corporate failure to the triggers; Introduction of a post-cessation shareholding requirement equal to the in-employment shareholding requirement for 2 years after cessation of employment; and*

*Changes to the pension policy to bring executive director pensions in line with the average employee rate over time by ensuring that new executive directors are appointed with a pension contribution which is not above the level available to the wider workforce. The CFO and CEO are entitled to a pension contribution which is in line with the wider workforce. Furthermore, the COO's pension contribution (currently 26% of salary) will be reduced to be in line with the wider workforce by 1 January 2023.*

### **Annual bonus**

*With regards to the 2019 annual bonus, the Committee notes that the executive directors would have received a payment based on the formulaic outcome of 100% of salary each. However, as a result of the overall performance of the Group and the challenges faced across the business, the executive directors decided to waive their entitlement to the bonus.*

*For the annual bonus under the Policy, the proposal is to increase the opportunity from 100% of salary to 150% of salary and recalibrate targets such that the maximum pay-out is only possible where the Company's budget has been significantly out-performed.*

*The rationale for this increase is that the Committee has discovered during recruitment efforts that the annual bonus opportunity was not sufficiently attractive to be able to recruit the level of executive sought to lead the Company, particularly in a global market for talent.*

*Furthermore, the Company believes that the additional stretch introduced to the targets will ensure that the executive directors are only rewarded the maximum amount for delivering over and above budgeted figures.*

### **Long-term incentives**

*Our current VCP remains underwater and the last time value was realisable under the previous LTIP was in 2017: the Company therefore currently lacks a workable or meaningful long-term incentive plan with the ability to attract, retain or motivate our executive team.*

*In order to address this issue, and ensure we have an effective and workable long-term incentive plan in place, we are proposing to introduce a new form of long-term incentive plan ("LTIP"), which we consider will align reward with performance and delivery of our business strategy.*

*As a core policy, it is the Committee's intention to be in line with best practice in the long-term, and on this basis, we intend to introduce a new form of LTIP with a three-year performance period and two-year holding period as our core LTIP framework. However, given the uncertain climate in the automotive sector and the macro-economic challenges in the UK, exacerbated by internal challenges faced by the company, the Committee intends to retain a discretion to make awards with a one-year performance period and overall three-year vesting period in such exceptional circumstances. It is currently anticipated that the committee will only exercise this discretion for initial awards. The proposal ensures the company will have a flexible long-term incentive structure which can be used as a tool to incentivise, motivate and attract executives.*

# DIRECTORS REMUNERATION REPORT

## **In outline, the proposed LTIP will be:-**

- *Flexible: providing a discretion for a 1-year performance period in exceptional circumstances with the potential to change performance measures and targets for subsequent grants;*
- *Promote Retention: after performance is measured, an additional vesting period of 2 years is proposed before awards may be exercised, therefore there will be a total vesting period of 5 years for the core policy where discretion is not exercised;*
- *Incentivising: by offering the opportunity to be awarded up to 150% of salary for executive directors, with 1-year performance periods for initial grants in exceptional circumstances and annual grants, executives will be more motivated if there is greater certainty of accruing value sooner.*
- *Sustainable: the proposed LTIP will contain a number of features to ensure that the delivered performance is sustainable, including Remuneration Committee discretion to override formulaic outcomes where these do not reflect appropriately overall group performance.*

*For the 2020 award it is proposed that exceptional grants be made to the CEO and the CFO. When the CEO and CFO joined the business, there was no long-term incentive arrangement in place under the current Policy which could have been used to incentivise them. As such, the enhanced award in 2020 is proposed to support the continued recovery of the business. The Committee would like to ensure that the CEO is appropriately incentivised at this crucial time for the Company. The COO will receive an award at the normal level as he had received an award under the VCP in 2017.*

*The proposed award levels are therefore 250% of salary for the CEO and for the CFO. The proposed opportunity for the COO is 150% of salary.*

## **2019 Outturn**

*In August 2019, in recognition of the particular and unique challenges faced by the Executive Directors throughout the year, including in particular the continued and effective implementation of the Company's strategy, the Remuneration Committee exercised its discretion to adjust targets and/or set different measures and weightings for the annual bonus plan which differed from those previously published (underlying (adjusted) profit and year end net debt).*

*In the alternative, in order to ensure that the Executive Directors remained fully incentivised, qualitative criteria were introduced in which performance would be assessed against the ongoing execution, performance and delivery of the Company's stated strategy objectives. The Remuneration Committee would be solely responsible for assessing progress against such strategic qualitative criteria, and determining whether any annual bonus (which remained capped at a maximum of 100% of salary) would be payable at its assessment at year end.*

*Despite the exercise of this discretion, it has not been necessary for the Remuneration Committee to assess performance against the qualitative criteria, as all Executive Directors elected to voluntarily waive any entitlement to 2019 annual bonus which was supported by the Remuneration Committee.*

*At last year's AGM, 91.83% of shareholders voted in favour of the Directors' Remuneration Report. Details of the votes cast are set out on page 78. 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*

## REMUNERATION DISCLOSURE

This report complies with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Companies (Miscellaneous Reporting) Regulations 2018 and The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (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

The remuneration policy set out in this section of the remuneration report will replace the existing policy which was approved by shareholders at the 2017 AGM and will take effect for all payments made to directors from the date of the 2020 AGM. The Remuneration Committee has nevertheless taken the opportunity to conduct a detailed review of the policy, both in light of developments in remuneration policy and market practice, and also, following consultation with our major shareholders, to ensure their feedback is reflected into the design of, and any modifications to, the policy going forward. The remuneration principles and overarching aim of our remuneration policy continues to be framed in such a way as to provide and maintain the link between executive pay and strategy, aiming to:

- ensure remuneration arrangements are clear and transparent, promoting effective engagement with shareholders and our team members;
- ensure remuneration structures avoid complexity, with an easy to understand rationale and operation;
- avoid reputational and other risks arising from excessive rewards, and avoiding or otherwise mitigating behavioural risks that may arise from target-based incentive plans;

- clearly explain the range of possible values of rewards to individual directors including any other limits or discretions;
- provide proportionate awards linked to delivery of strategy and long-term performance and ensuring poor performance is not rewarded;
- ensure incentive schemes drive behaviours consistent with company purpose, values and strategy;
- attract and retain directors of the calibre necessary to run the business effectively with levels of remuneration that are arrived at responsibly and also reflect their individual contribution to the value of the company;
- weight remuneration towards variable pay;
- encourage executives to build significant levels of share ownership, through the retention of vested share awards.

Consistent with market practice, the Remuneration Committee will retain 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 on page 61.

## REMUNERATION POLICY

The new remuneration policy is detailed in this section. This policy will be put to shareholders for approval at the AGM to be held on 23 April 2020. The policy is intended to apply, subject to shareholder approval, for three years from the 2020 AGM. Where a material change to this policy is considered, the company will consult major shareholders prior to submitting to all shareholders for approval.

The remuneration policy will be displayed on the company's website ([www.pendragonplc.com](http://www.pendragonplc.com)), following the 2020 AGM.

The table below summarises the individual elements of remuneration provided to the executive directors.

# DIRECTORS REMUNERATION REPORT

## BASE SALARY

### PURPOSE AND LINK TO STRATEGY

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. During this time, salaries may be increased each year.

Salary increases are usually determined after taking due account of market conditions and typically, any increases awarded will be in line with the increase of that of the wider workforce.

Significant changes in role scope may require further adjustments to bring salaries 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, reflecting the size and sector of the company

Base salaries are paid monthly in arrears.

### PERFORMANCE METRICS

Both individual and company performance is taken into account when determining whether any salary increases are appropriate.

### PROPOSED CHANGES

No changes proposed.

## BENEFITS

### PURPOSE AND LINK TO STRATEGY

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.

Relocation benefits may also be provided in certain circumstances if considered appropriate by the Remuneration Committee.

### PERFORMANCE METRICS

Not applicable.

### PROPOSED CHANGES

None.



# FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

## 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.

### MAXIMUM OPPORTUNITY

The maximum opportunity for newly appointed Executive Directors will be in line with pension contributions prevailing in the wider workforce, and this is the case for the CEO and CFO were they to elect to take up a pension contribution.

The COO currently receives a pension contribution of 26% of salary which is the maximum under the Policy. However, the following reductions are planned over the next four years:-

Current 26% of salary;  
Effective 1 June 2020 – 23% of salary;  
01 January 2021 – 20% of salary;  
01 January 2022 – 15% of salary;  
01 January 2023 – in line with wider workforce which will become 5% of salary;

Further adjustments may be considered in subsequent years to maintain alignment.

### OPERATION

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

### PERFORMANCE METRICS

No performance metrics apply.

### PROPOSED CHANGES

Pension contributions for new executive directors will be in line with wider workforce.

# DIRECTORS REMUNERATION REPORT

## ANNUAL BONUS

### PURPOSE AND LINK TO STRATEGY

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

### MAXIMUM OPPORTUNITY

Maximum available bonus is equivalent to 150% of base salary, which is available only for material outperformance of the company's 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. A minimum of 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.

### PERFORMANCE METRICS

Annual bonus is earned based on performance against stretching company financial performance measures as set and assessed by the Committee.

25% will be payable for threshold performance under each measure with 50% payable for target performance and 100% for maximum performance. The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy and the measures will be dependent on the company's goals over the year under review.

### PROPOSED CHANGES

Enhanced malus and clawback provisions. Increase in maximum opportunity from 100% of salary to 150% of salary in order to aid retention and recruitment of the calibre of executive required.

## LONG TERM INCENTIVE PLAN

### PURPOSE AND LINK TO STRATEGY

Promotes retention and incentivisation over the longer term. Aligns executive directors' interests with the company's share price and its shareholders.

### MAXIMUM OPPORTUNITY

Maximum opportunity will be 150% of base salary. In exceptional circumstances, the Committee may award up to 250% of salary. Prior to making any exceptional award, the Company will consult with its major shareholders.

### OPERATION

The core design of the LTIP will be that awards are subject to performance conditions measured over three years and a service requirement for a further 2 years. The Committee may refine the choice of performance metrics each year in line with developments in the company's strategy. In the event of a significant or material change of approach, the Committee will engage in dialogue with shareholders.

### PERFORMANCE METRICS

Stretching performance conditions will be set by the Committee each year. At least 50% of each award will be based on financial metrics, such as underlying EPS. 25% of the award will vest for threshold performance with 100% of awards being achieved for maximum performance. There is a straight line vesting between performance points.

The Committee may also apply a 2-year post-vesting holding period during which shares may not be sold.

### PROPOSED CHANGES

New LTIP will replace the VCP under the previous remuneration policy.

However, the Committee will retain a discretion to make awards with a one-year performance period and overall three-year vesting period in exceptional circumstances.

# FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

## ALL EMPLOYEE SHARE SCHEME (SHARESAVE)

### PURPOSE AND LINK TO STRATEGY

The Sharesave is an all employee share ownership plan which has been designed to encourage all employees to become shareholders in the company and thereby align their interests with shareholders.

### MAXIMUM OPPORTUNITY

The maximum levels of participation set by legislation from time to time.

### OPERATION

Executive directors are eligible to participate in Sharesave. The executive directors are entitled to participate in any other all employee arrangements implemented by the company.

### PERFORMANCE METRICS

No performance conditions.

### CHANGES

Introduction of the scheme.

## POLICY ON EXECUTIVE DIRECTOR SHARE OWNERSHIP

The company continues to recognise the importance of executives building significant holdings of the company's shares to align the long-term interests of management and shareholders in the success of the company.

The minimum shareholding requirement for the CEO is 200% of salary (100% for all other Executive Directors), to be built up within 5 years of appointment to the board. In circumstances where the company is operating under an LTIP structure with an overall three-year vesting period, this requirement will be reduced to 3 years.

Until such time as the policy is met, Executive Directors will be required to hold any vested deferred bonus shares and LTIP awards that vest (after sale of shares to cover associated personal tax liabilities).

Post-cessation shareholding requirement of 100% of the in-employment requirement for 2 years following cessation of employment. This provision supports sustained share price performance and encourages strong succession processes.

# DIRECTORS REMUNERATION REPORT

## 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 2019
Chairman fee	£150,000	None
Basic fee:	£40,000	None
Supplementary fees:		
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:-

**1. Malus and clawback** - 1. malus and clawback may operate in respect of the annual bonus and long term incentive plan. This approach applies to all Executive Directors and senior management immediately below Board level. Malus will typically be an adjustment to the cash award or number of shares before an award has been made or released. Clawback requires the executive to make a cash repayment to the company or the surrender of shares or other benefits provided by the company. The overall intention is that, in exceptional circumstances, malus will apply before awards are paid or vest. Clawback will apply under the annual bonus scheme, for up to three years from when the cash payment is made, and malus will apply to any deferred shares (awarded at the same time as the cash payment) for three-year period of the deferral. Under the LTIP, clawback will continue to apply for up to two years following the three-year vesting period.

As a minimum, the events in which malus and clawback may apply are as follows:

- Material misstatement of financial statements.
- Gross misconduct/fraud of the participant.
- Where there has been an error in the calculation of performance outcomes, the value of awards, or the number of shares under an award.
- Participant has caused reputational damage to the Company.
- Participant has wholly or in part caused the corporate failure of the Company.

Malus and clawback provisions are kept under review, in the light of prevailing Financial Reporting Council guidance.

- 2. 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.
- 3. Annual bonus** - a target of underlying (adjusted) profit was selected as this measure directly correlates to company's overall business plan. The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy and the measures will be dependent on the company's goals over the year under review. Performance measures are determined by the Remuneration Committee who seek external guidance on the appropriateness of any performance targets set relative to the market.
- 4. Long term incentive plans** - LTIP: under the company's proposed 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. 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.
- 5. Pensions** - The Chief Operating Officer ceased to be an active member of the Pension Plan in 2006. In accordance with Investment Association (IA) guidelines, the company is proposing to effect a phased reduction in the salary supplement in lieu of pension contribution received by the Chief Operating Officer such that, by 01 January 2024, his salary supplement in lieu of pension contribution will be aligned to the employer pension contribution received by the majority of team members.
- 6. Benefits** - benefit levels are set to be competitive relative to companies of a comparable size.
- 7. Annual Bonus and LTIP Policy - Remuneration Committee Discretions** -The Committee will operate the annual bonus plan 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 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 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.

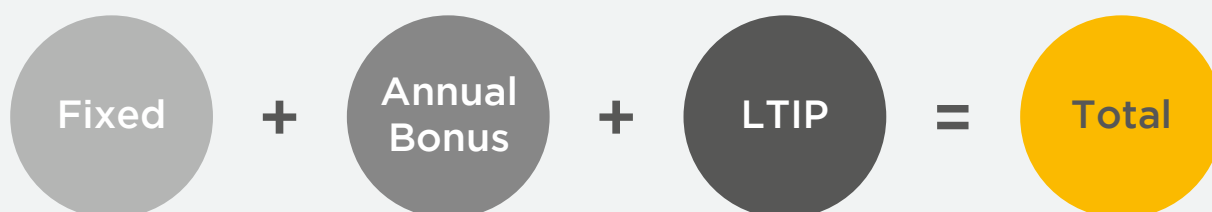
The company retains the authority to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports (e.g. all historic awards that were granted under any LTIPs that remain outstanding, as detailed in the company's latest 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](http://www.pendragonplc.com)

## ILLUSTRATION OF OUR REMUNERATION POLICY FOR 2020

The table 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 for 2020.

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 chart illustrates the remuneration that could be paid to each of the executive directors, based on salaries at the start of the financial year 2020.

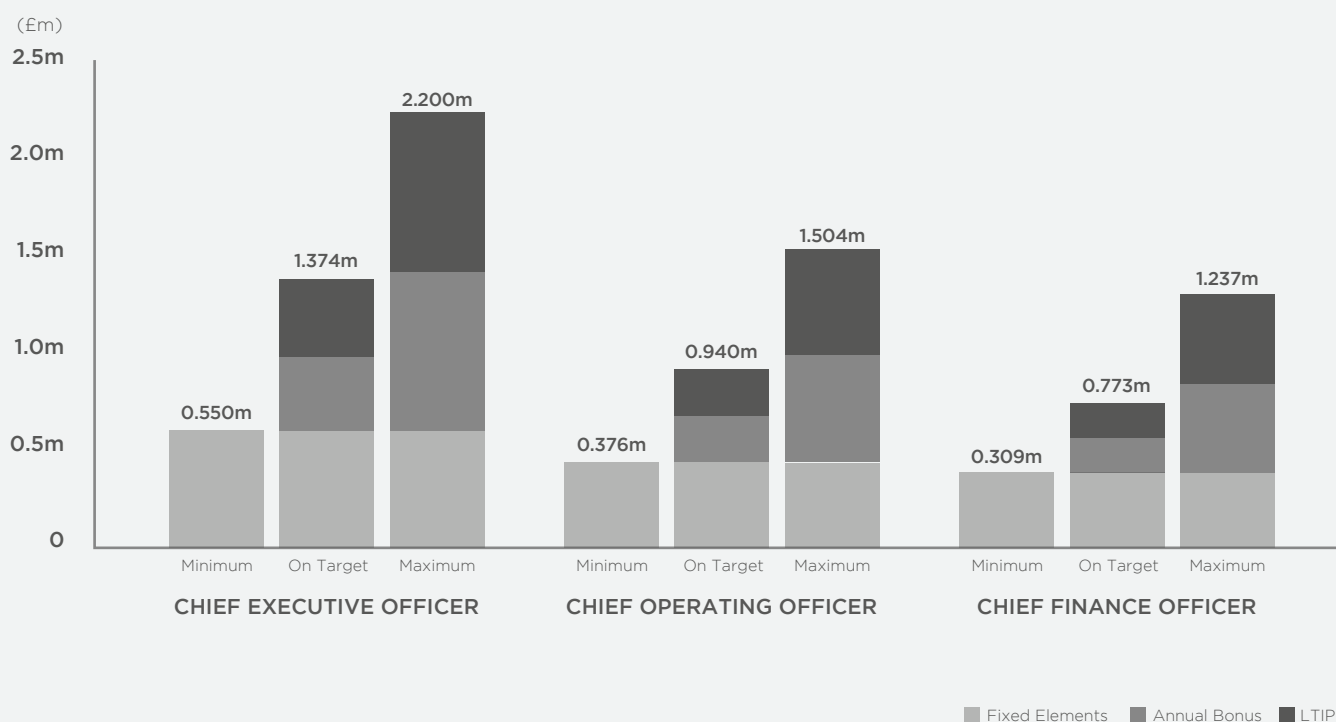


Element	Description	Minimum	On Target	Maximum
Fixed	Fixed (comprises base salary, benefits, pension)	Included	Included	Included
Annual Bonus	Annual bonus	25%	50% of the maximum bonus <sup>1</sup>	100% of the maximum bonus <sup>1</sup>
Long Term Incentive Plan		25%	50% of maximum LTIP <sup>2</sup>	100% of the maximum LTIP <sup>2</sup>

<sup>1</sup>The maximum bonus available for executive directors is equivalent to 150% of base salary.

<sup>2</sup>Awards made under the long term incentive plan (LTIP) will be on an annual basis with a one year measurement period. The maximum LTIP award available for executive directors is equivalent to the award of nil-cost options at 150% of base salary pursuant to the core policy.

<sup>3</sup>Impact of share price growth on equity based incentives - In accordance with The Companies (Miscellaneous Reporting) Regulations 2018, indications of maximum remuneration available do not allow for any share price growth.



# DIRECTORS REMUNERATION REPORT

## POLICY ON NEW APPOINTMENTS AS AN EXECUTIVE DIRECTOR

The table below sets out the principles which would be applied by the company when agreeing the components of a remuneration package for a newly appointed executive director.

New appointments as executive director	
Reward Element	
Base Salary	Base salary in accordance with policy detailed within the remuneration policy table at page 64.
Benefits	Will be provided in accordance with the policy within the remuneration policy table at page 64.
LTIP	Eligible to participate in the LTIP, as described in the remuneration policy table at page 66.
Pension	Pension contributions for new executive directors will not exceed the rate available to the wider workforce.
Annual Bonus	Eligible to participate in the annual bonus plan in operation as described in the remuneration policy table at page 66.
SAYE	Eligible to participate in the SAYE, as described in the remuneration policy table at page 67.
Buy Outs	In order to facilitate the external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeit on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions.

## POLICY ON NEW APPOINTMENTS AS NON-EXECUTIVE DIRECTOR

The company's policy on non-executive director remuneration is detailed in the remuneration policy table. New appointments of non-executive directors will be made consistent with this policy.

## HOW EMPLOYEES' PAY IS TAKEN INTO ACCOUNT IN EXECUTIVE REMUNERATION

Pay and conditions elsewhere in the Group were considered when finalising the current remuneration package for executive directors, and the Remuneration Committee reviewed workforce remuneration and related policies to ensure rewards and incentives were aligned with the culture when developing and setting the policy for executive director remuneration. The Committee continues to be updated throughout the year on salary increases and the levels of annual bonus awards, and proposed changes to remuneration policy and practice for the wider Group, ensuring that changes to remuneration policy below board level remain consistent and transparent with those implemented or proposed for executive directors. In addition, the Committee continues to oversee participation in long term incentives for below Board level team members. As a result, the Committee is aware of how typical employee total remuneration compares to the potential total remuneration of executive directors.

No across the board pay increases have been awarded to the wider workforce in recent years, and this is also the case for executive directors' salaries.

During 2019, the company consulted with team members in order to take into account team member's views on proposed

changes to our below board compensation and reward packages, including consideration of changes to bonus structures, pension arrangements and leave entitlements, as well as general in-work benefits. Having taken into consideration team member views, proposals to change below board compensation structures were reviewed by a working party consisting of the executive directors and Head of Human Resources, and subsequently by the Remuneration Committee in order to ensure that team member views and interests were fully considered prior to any changes being made. In addition to the above, the Company is also proposing the re-introduction of an all employee sharesave scheme, when economic conditions allow, to encourage team member involvement in the Company's performance through share ownership. The Company continues to ensure team members have regular access to updates and information concerning the financial performance of the Company through various communication channels, as described on page 49.

## HOW ARE SHAREHOLDERS' VIEWS TAKEN INTO ACCOUNT WHEN DETERMINING EXECUTIVE COMPENSATION PACKAGES?

The Board considers shareholder feedback received in relation to the AGM each year at a meeting immediately following the AGM and any action required is built into the Remuneration Committee's business for the ensuing period. This, and any additional feedback received from shareholders from time to time, is then considered by the Committee as part of the Company's annual review of remuneration policy.

During late 2019 and early 2020, the Remuneration Committee undertook a review of remuneration policy, taking into account developments in remuneration policy, as well as prevailing



market practice and considering the views of our major shareholders. The Remuneration Committee Chairman continues to make himself available to shareholders to discuss our specific matters arising from our remuneration policy proposals. The outcome of this exercise forms the basis of the remuneration policy detailed in the future policy table above, and which we intend will form the basis of our remuneration policy for the period 2020-2023. The Chairman of the Remuneration Committee aims to maintain regular contact with our major shareholders at key points during the year to ensure we are fully aware of their prevailing thinking on our remuneration policies.

## SERVICE CONTRACTS AND EXIT PAYMENTS

Executive directors are appointed under service contracts of indefinite duration (with a 12 month notice period), whereas non-executive directors each have a fixed term appointment letter renewable upon expiry at the company's discretion. Appointments of new non-executive directors and renewals of existing appointments are on three-year fixed terms. When considering the re-appointment of a non-executive director, the Board reviews their attendance at, and participation in, meetings and their overall performance, and also takes into account the balance of skills and experience of the Board as a whole.

Name	Commencement	Expiry/cessation	Unexpired at date of report (months)
Mike Wright	02.05.18	31.12.21	21
Brian Small	10.12.19	31.12.22	33

As noted at page 46, the company is actively seeking to recruit and appoint a non-executive chairman. The service contract of executive director Martin Casha commenced on 20 December 1999, and was refreshed in December 2019. The service contract of Mark Willis commenced on 08 April 2019, and was also refreshed in December 2019. The service contract of Bill Berman commenced on 01 October 2019 for the purposes of performing the role of interim executive chairman, and was also refreshed in December 2019. On appointment to the role of chief executive officer on 19 February 2020, Bill Berman was issued with a new service contract. Each executive service contract may be terminated by the company giving one year's

notice. The company would expect any future executive director appointments to contain the same terms as to notice periods. Executive director appointment terms do not contain any entitlement to any predetermined compensation or severance payments in the event of cessation in office or employment as a consequence of a takeover. Service contracts and letters of appointment are kept for inspection at the company's registered office. With regard to the circumstances under which the current executive directors might leave service, the possible payments that may be anticipated are described in the table below:-

NATURE OF BENEFIT	REASON FOR LEAVING		
	"Bad" leaver (e.g. resignation)	"Good" leaver (e.g. ill health or retirement)	Departure on Agreed Terms
Salary in lieu of notice period	No salary in lieu of notice paid on resignations unless in the interests of the company to do so.	Up to a maximum of 100% of salary (e.g. redundancy). Normal practice would be for phased payment.	Treatment will depend on the circumstances of the leaver event, subject to the discretion of the Remuneration Committee, and the terms of any termination agreement.
Pension and benefits	Provided for period of notice period served. No benefits provided for periods after actual cessation of service unless in the interests of the company to do so.	Up to one year's worth of pension and benefits (e.g. redundancy). Possible payment of pension and insured benefits triggered by the leaver event (this would be governed by the terms of the benefits provided).	
Bonus	None	Yes (discretion to pay pro-rata based on company's performance)	
Long-term incentive entitlements	Lapse	Discretion to allow up to full vesting, based on company's performance, with normal practice to be for pro rata vesting based on the proportion of the performance period served.	
Other payments	None	Disbursements such as contribution to legal costs	

## FEES FROM EXTERNAL DIRECTORSHIPS

None of the executive directors holds office as a non-executive director of other companies. Accordingly, the company does not have a formal policy on whether or not an executive

director may keep fees gained from holding an external non-executive directorship or similar. This would be decided on a case by case basis.

# ANNUAL REPORT ON REMUNERATION

## THE COMMITTEE'S WORK IN 2019

- determined annual bonus awards in respect of 2018 performance
- set and revised the annual bonus plan terms for 2019
- reviewed performance to target under the Value Creation Plan
- set 2019 executive director salary levels
- noted remuneration trends across the Group
- reviewed remuneration policy and proposed introduction of a new Long Term Incentive Plan

## ADVISERS

During 2019, the Committee received external advice from PwC, who received fees of £118,000 in respect of the same. The Company Secretary also acts as secretary to the Committee and provided additional advice.

## SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS AND THE INTERIM EXECUTIVE CHAIRMAN 2019 (AUDITED INFORMATION)

	Base Salary £000		Taxable benefits <sup>1</sup> £000		Pension <sup>2</sup> £000		Bonus <sup>3</sup> £000		LTIP & VCP <sup>4</sup> £000		Single total figure £000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Current Directors</b>												
William Berman	248	-	-	-	-	-	-	-	-	-	248	-
Martin Casha	292	292	9	8	76	76	-	-	-	-	377	376
Mark Willis	223	-	2	-	-	-	-	-	-	-	225	-
<b>Former Directors</b>												
Trevor Finn	116	464	4	4	30	121	-	-	-	-	150	589
Mark Herbert	168	-	1	-	-	-	-	-	-	-	169	-
Tim Holden	55	221	9	6	6	22	-	-	-	-	70	250

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

2. Salary supplement in lieu of pension contribution, or in the case of former director Tim Holden, company contribution to defined benefit contribution scheme of 10% of basic salary (£6,000 in 2019, £22,083 in 2018). In 2006, Martin Casha and former director Trevor Finn ceased to be active members of the Pendragon defined benefit pension plan. Former director 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, former director Tim Holden elected to receive a payment of 10% of salary rather than continue to receive pension contributions. In accordance with Investment Association (IA) guidelines, the company is proposing to effect a phased reduction in the salary supplement in lieu of pension contribution received by Martin Casha such that, by 01 January 2024, his salary supplement in lieu of pension contribution will be aligned to the employer pension contribution received by the majority of team members.

3. Bonus Award in 2019 equivalent to 0% of base salary. 2018 total equivalent to 0% of base salary.

4. There are no outstanding rewards remaining under the previous company Long Term Incentive Plan. The performance conditions for the LTIP awarded in 2016 have not been achieved, and consequently these awards lapsed in their entirety in 2018. The performance period for the Value Creation Plan ("VCP") awarded in 2017 is 01.01.17 to 31.12.20: no awards vest during this performance period, with entitlement to awards due to be assessed at the measurement date of 31 December 2020, subject to the satisfaction of the performance condition outlined on page 66.

## SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS 2019 (AUDITED INFORMATION)

	Basic Fee £000		Taxable benefits £000		SID/Committee Chair Fee £000		Single total figure £000	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Current Directors</b>								
Mike Wright	40	30	-	-	5	-	45	45
Brian Small <sup>1</sup>	3	-	-	-	-	-	3	-
<b>Former Directors</b>								
Chris Chambers <sup>2</sup>	150	150	1	1	-	-	151	151
Richard Laxer <sup>3</sup>	40	9	-	4	14	-	54	9
Gillian Kent <sup>4</sup>	12	40	-	-	-	-	12	40
William Berman <sup>4</sup>	17	-	-	-	-	-	17	-

1. Brian Small was appointed to the Board on 10.12.19. Accordingly, his fees are for the period 10.12.19 to 31.12.19

2. Chris Chambers stood down from the Board on 01.10.19, although it was agreed that he would continue to receive fees until 31.12.19.

3. Richard Laxer stood down from the Board on 31.12.19.

4. Gillian Kent stood down from the Board on 18.04.19. Accordingly, her fees are for the period 01.01.19 to 18.04.19

5. William Berman was a non-executive director for the period 18.04.19 to 01.10.19. Accordingly, his fees as a non-executive director are for this period.

### PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE (AUDITED INFORMATION)

Termination Payments: Trevor Finn's employment with the company terminated on 31.03.19 and he received the sum of £463,500 as a contractual payment in lieu of 12 months' notice, the sum of £125,000 in respect of 12 month's loss of pension contributions and benefits and the sum of £10,000 as a contribution towards the cost of legal fees incurred in connection with the cessation of his employment. Mr Finn continues to hold an option under the Company's Value Creation Plan ("VCP"). Mr Finn's VCP Award will be retained and vest in accordance with the VCP rules on its normal vesting date on the basis of the performance conditions which have been set for the VCP Award, save that the number of plan shares which vest will be reduced pro rata to reflect the number of whole months from the award date of the VCP Award to the termination date of Mr Finn's employment. Tim Holden's employment with the company terminated on 31.03.19

and he received the sum of £221,000 as a contractual payment in lieu of 12 months' notice, the sum of £80,000 on an ex gratia basis as compensation for the termination of his employment and the sum of £2,500 as a contribution towards the cost of legal fees incurred in connection with the cessation of his employment. Mr Holden's participation in the VCP ceased on the termination date of his employment and he has no further rights or benefits under the VCP. Mark Herbert's employment with the company terminated on 30.06.19 and he received the sum of £463,500, paid in two equal instalments at the half year and year end as a contractual payment in lieu of 12 months' notice, such payment including the sum of £46,350 in respect of 12 month's loss of pension contributions and benefits. In addition, the company paid Mark Herbert the sum of £5,000 as a contribution towards the cost of legal fees incurred in connection with the cessation of his employment. Mr Herbert was not a participant in the VCP and accordingly has no rights or benefits under the same.

# DIRECTORS REMUNERATION REPORT

## IMPLEMENTATION OF THE REMUNERATION POLICY IN THE FINANCIAL YEAR ENDING 31 DECEMBER 2020

The Committee envisages that there will be a number of changes arising from the implementation of the remuneration policy during financial year ending 31 December 2020. The policy in respect of the executive directors will be applied as follows:

Element of Pay	Implementation of Policy
<b>BASE SALARY</b>	Other than potential adjustments to take account of market conditions and changes in role scope to reflect additional responsibilities undertaken, base salary will continue to be set in accordance with the remuneration policy.  Base salaries for 2020:  Chief Executive Officer: £550,000 Chief Finance Officer: £302,500 Chief Operating Officer: £301,182
<b>BENEFITS</b>	No changes are expected to be made to these elements of remuneration within the financial year ending 31 December 2020.
<b>PENSION</b>	The Chief Operating Officer receives a pension contribution of 26% of salary. In accordance with the remuneration policy, it is the intention to ensure that all executive directors receive a pension contribution or salary supplement in lieu thereof in line with the pension contribution received by the wider workforce. It is proposed to effect a reduction in the Chief Operating Officer's salary supplement in lieu of pension contribution to 23% of salary by 01 June 2020, as the first step in a phased reduction over a four year period. Any new executive director will have their pension contribution aligned to that available to the majority of UK-based team members.
<b>ANNUAL BONUS</b>	The bonus opportunity for the executive directors has been increased to a maximum opportunity of 150% of base salary, payable at the maximum level only for significant (50%) outperformance against the corporate plan.  The targets for the 2020 annual bonus will be disclosed retrospectively in the 2021 Director's Remuneration Report as the Committee deems them to be commercially sensitive.  The bonus metric for 2020 will be based on achieving underlying (adjusted) profit against the corporate plan. 25% of after tax bonus earned will be subject to compulsory deferral into the company's shares until such time as the company's share ownership guidelines are met.
<b>LONG TERM INCENTIVE PLAN</b>	For the 2020 LTIP award and first award under the policy, the Remuneration Committee intends to use its discretion to make an award of 250% for the chief executive officer and chief finance officer and operate a shorter performance period of one year. Vesting of awards is determined based on the achievement of stretching EPS targets over a 1 year performance period. 25% of the award will vest for threshold performance with 100% of awards being achieved for maximum performance. There is a straight line vesting between performance points.
<b>ALL EMPLOYEE SHARE SCHEME (SHARESAVE)</b>	In the event that the Company elects to make an award under the All Employee (Sharesave) Scheme, executive directors will be invited to participate.
<b>SHAREHOLDING GUIDELINES</b>	The minimum shareholding requirement for the CEO is 200% of salary (100% for all other Executive Directors), to be built up within 5 years of appointment to the board; 3 years where LTIP operates to a 3 year vesting period  Until such time as the policy is met, Executive Directors will be required to hold any vested deferred bonus shares and LTIP awards that vest (after sale of shares to cover associated personal tax liabilities).
<b>MALUS AND CLAWBACK</b>	Malus and clawback will continue to operate in respect of the annual bonus and long-term incentive plan, in accordance with the parameters detailed in the remuneration policy.

## 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.

Martin Casha ceased to be an active member of the Pension Plan in 2006. The non-executive directors are not eligible to participate in the Pension Plan. New executive directors are invited to participate in the Pension Plan, should they so wish, with any pension contributions being in line with wider workforce.

### PERFORMANCE RELATED PAY FOR 2019: ANNUAL BONUS

There were no annual bonuses earned in 2019. For 2019, the Remuneration Committee exercised its discretion, in accordance with the remuneration policy, to reset the performance conditions for the 2019 annual bonus such that a maximum annual bonus opportunity of 100% of base salary would be payable provided that certain pre-determined strategic performance objectives were achieved. It has not been necessary for the Remuneration Committee to assess performance against the qualitative criteria, as both executive directors elected to voluntarily waive any entitlement to 2019 annual bonus.

### LONG TERM INCENTIVES VESTING IN 2019

There were no outstanding long-term incentive due to vest based on performance to full year 2019.

### VALUE CREATION PLAN (VCP) AWARDS

No VCP awards were made in 2019. 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 01 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 01 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. [Executive director Martin Casha has voluntarily elected to waive his VCP award entitlement]. Former director Tim Holden's participation in the VCP ceased on the termination of his employment. Former director Trevor Finn retained his VCP award which will vest in accordance with the VCP rules on its normal vesting date provided the performance conditions outlined above have been achieved, save that the number of plan shares which vest will be reduced pro rata to reflect the number of whole months from the award date of the VCP Award to the termination date of his employment as a proportion of the original vesting period.

### DIRECTORS' SHAREHOLDINGS (AUDITED)

The shareholdings of all Directors, including the shareholdings of their connected persons as at 31 December 2019, are set out below. There have been no changes in the Directors' interests from 31 December 2019 to the date of this report.

### DIRECTORS' SHAREHOLDINGS (AUDITED)

	Legally owned as at 31.12.2019	Legally owned as at 31.12.2018
William Berman	Nil	n/a
Martin Casha	9,559,780	9,559,780
Mark Willis	Nil	n/a
Brian Small	400,000	n/a
Mike Wright	Nil	Nil

Directors' Shareholdings (Audited Information) Executive director Martin Casha fulfils the requirement of the company share ownership policy applicable to them (i.e. building a stake equivalent to 100% of base salary. The CEO and CFO have a

requirement to build up a shareholding of 200% of salary and 100% of salary respectively within 5 years from appointment as executive directors. There is no company policy on non-executive director share ownership.

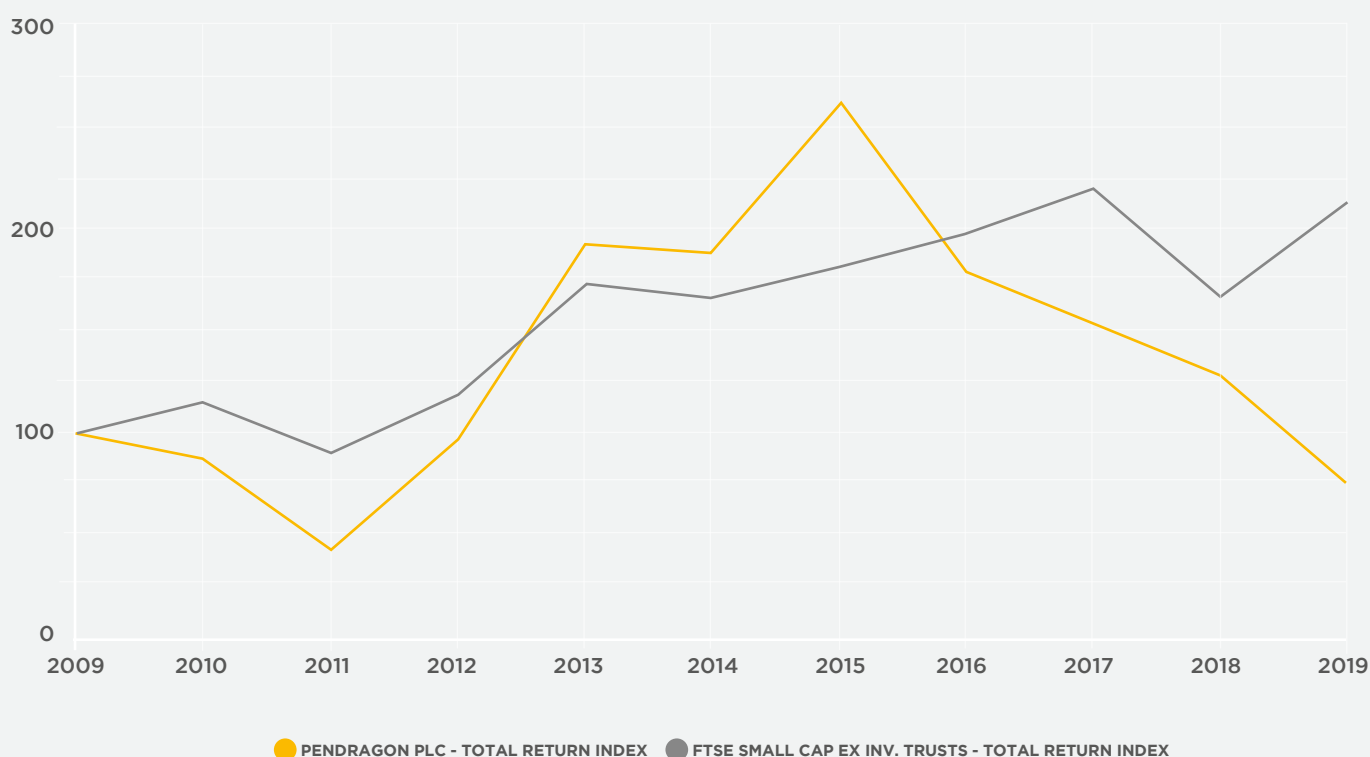
# DIRECTORS REMUNERATION REPORT

## TOTAL SHAREHOLDER RETURN<sup>1</sup>

The graph below shows the total shareholder return (“TSR”)<sup>2</sup> on the company’s shares in comparison to the FTSE Small Cap Index (excluding investment companies).<sup>3</sup> 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 ten years ending 31 December 2019. The notes at the foot of the graph provide more detail of the TSR calculation.

### PENDRAGON PLC TSR 2010 - 2019



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 ten years ended on 31 December 2019 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 2019 detailed above.

## HISTORY OF CHIEF EXECUTIVE REMUNERATION

Chief Executive	2019 <sup>1</sup>	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Remuneration £m (single figure)	464	589	727	1,605	1,775	3,472	2,961	857	946	944
Annual bonus award (% of maximum that could have been paid)	0%	0%	30%	87%	100%	100%	100%	54%	75%	75%
Percentage of LTIP <sup>2</sup> vesting	0%	0%	0%	100%	56%	100%	100%	0%	0%	0%

1. Total remuneration for the chief executive role in 2019 has been calculated based on total remuneration paid to the holder of the role of chief executive officer for the period from 01.01.2019 to 30.06.2019, with the total remuneration payable for full reporting period based on extrapolated data assuming the last holder of the role of chief executive officer had continued in the role at the same level of remuneration to the end of the full reporting period.  
 2. Percentage of shares vesting under the Pendragon Long Term Incentive Plan 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 2019 compared to 2018	0%	7.14%
% change in in benefit 2019 compared to 2018	0%	17.07%
% change in bonus 2019 compared to 2018	0%	-16.26%



# DIRECTORS REMUNERATION REPORT

## CHIEF EXECUTIVE OFFICER PAY RATIO

The table below shows our chief executive officer pay ratio at 25th, median and 75th percentiles of our UK team members. The ratios have been calculated based on the single total figure of remuneration for the chief executive officer and the total pay for the team members based on our gender pay gap data under Option B of The Companies (Miscellaneous Reporting) Regulations 2018. We have used Option B as the Company has already completed comprehensive data collection and analysis for the purposes of gender pay gap reporting, and continues to do so on a monthly basis. The gender pay gap data used was collated on 31 December 2019.

Financial year	Method	25th percentile pay ratio (lower quartile)	Median pay ratio (median)	75th percentile pay ratio (upper quartile)
2019	Option B	29:1	25:1	19:1

1. Total pay for the percentile employees taken from our gender pay gap data includes the following pay elements: base salary, holiday pay, hourly pay, national minimum wage top ups, car allowance, acting up allowance, monthly advances, team member vouchers subject to national insurance, benefit schemes, statutory sick pay, maternity pay and paternity pay. Team members who have not received pay (in terms of salary and adjustments) but has still received other salary payments are excluded from our gender pay gap data.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below illustrates the year-on-year change in total team member pay (being the aggregate of staff costs as set out in note 2.4 to the financial statements and distributions to shareholders (being declared dividends).

Team member pay			Distribution to shareholders		
2019 (£m)	2018 (£m)	%change	2019	2018	%change
£297.6m	£297.2m	-0.13%	£9.7m	£22.5m	-56.89%

## SHAREHOLDERS' VOTE ON REMUNERATION AT THE 2019 AGM

2019 Directors' Remuneration Report	Number	Proportion of votes cast
Votes cast in favour	976,064,550	91.83
Votes cast against	86,865,776	8.17
Total votes cast in favour or against	1,062,930,326	100%
Votes withheld	0	

## 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 2019 was 13 pence and the range during the year was 9 pence to 28.45 pence.

## APPROVAL

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

### Mike Wright

Chairman of the Remuneration Committee  
18 March 2020

# DIRECTORS REPORT

## STRATEGIC REVIEW AND PRESCRIBED REPORTING

Our Strategic Review at pages 4 to 19 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 4 to 19 and the Viability Statement set out on page 42. 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 at 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.

## RISK ASSESMENT

The board has carried out a robust assessment of the Group's emerging and principal risks. Please see pages 34 to 41.

## RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 93 to 181. No interim dividend was paid during the year, and the directors are not proposing to recommend a final dividend for the year ended 31 December 2019.

## 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 4.4 to the financial statements.

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 2019.

## BUSINESS AT THE AGM

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will issue with shareholders 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 AND THEIR INTERESTS IN SHARES

Current directors are listed on pages 44 to 45. 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 60 to 78. 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' ROTATION

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

# DIRECTORS REPORT

Directors' shareholdings	Number at 31.12.19	Number at 31.12.18
William Berman	nil	n/a
Martin Casha	9,559,780	9,559,780
Mark Willis	nil	n/a
Mike Wright	nil	nil
Brian Small	400,000	n/a
Chris Chambers (exited 01.10.19)	2,500,000	2,000,000
Trevor Finn (exited on 31.03.19)	19,127,976	19,127,976
Tim Holden (exited on 31.03.19)	2,131,331	2,131,331
Richard Laxer (exited 31.12.19)	nil	nil
Gillian Kent (exited 18.04.19)	nil	nil
Mark Herbert (exited 30.06.19)	500,000	nil

## 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.

## SHARE CAPITAL

As at 31 December 2019, 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 2019 AGM.

## SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 March 2020 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)	317,943,656	22.76
Odey Asset Mgt (London)	209,713,895	15.01
Anders Hedin Invest AB (Regional (Sweden)	189,188,563	13.54
Schroder Investment Mgt (London)	90,043,993	6.45
Hosking Partners (London)	69,492,838	4.97
Dimensional Fund Advisors	42,912,071	3.07
UBS Group AG	42,450,839	3.04
Legal & General Group	27,317,853	1.96
Blackrock Inc	27,149,392	1.94

## 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. 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 2019, 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 (2018: 6,420,093; 0.46%). 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 did not transfer any shares to satisfy such entitlements (2018: 1,160,935).

#### **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 2019. 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.

By order of the Board



**Richard Maloney**  
Company Secretary  
18 March 2020

#### **WORKFORCE ENGAGEMENT**

Throughout 2019, our team members were kept up to date with matters of concern to them as employees through regular communications and updates on our intranet and the Pendragon PLC website, as well as being provided with information via our employee relations (ER) platforms. Our team members are made aware of financial and economic factors affecting the performance of the company with communication of the company's full year and half year results statements, primarily through our intranet platforms. Team members are also consulted on matters of concern to them via the forum of regular divisional best practice meetings, where leaders have the opportunity to report issues of concern to senior management. Going forward, following the appointment of Bill Berman as Chief Executive Officer, roadshows to foster communication between team members at dealership level are envisaged, in order to ensure directors have fully engaged with as many team members as possible, and have taken account of their interests. In addition, as part of our proposed remuneration policy framework, we are seeking approval of an all employee sharesave scheme at our 2020 AGM.

It is the Board's intention to appoint a non-executive director with designated responsibility for engagement with our workforce going forwards.

#### **ENGAGEMENT WITH SUPPLIERS**

The directors meet and engage regularly with all our key suppliers, frequently taking time to ensure that the interests of our manufacturer and supplier partners are taken into account on a regular basis, and using the information received to inform our principal decision making processes.

#### **POLITICAL DONATIONS**

The company and its group made no political donations (2018: £ 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

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

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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 strategic report 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

**Mark Willis**

Chief Finance Officer

18 March 2020

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC

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## 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 2019 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 2019 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 23 financial years ended 31 December 2019. 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)

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## 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 2018: ↔

Refer to page 55 Audit Committee report, page 37 Risk Overview and Management, page 42 Viability Statement

#### The risk – Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the going concern, valuation of assets, including goodwill, in relation to the following CGUs: Aston Martin, BMW, Citroen, JLR, Mercedes, Mini, Hyundai, Nissan, Renault, Vauxhall and Car Stores (“the specified CGUs”) and recoverability of parent’s investments in subsidiaries and loans to subsidiary undertakings, and valuation of used vehicles inventory in the UK key audit matters 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 its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

**Our response** – 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, valuation of assets, including goodwill, for the specified CGUs and recoverability of parent’s investments in subsidiaries and loans to subsidiary undertakings, and valuation of used vehicles inventory in the UK 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, valuation of assets, including goodwill, for the specified CGUs and recoverability of parent’s investments in subsidiaries and loans to subsidiary undertakings, and valuation of used vehicles inventory in the UK, 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 valuation of assets, including goodwill, for the specified CGUs and recoverability of parent’s investments in subsidiaries and loans to subsidiary undertakings, and valuation of used vehicles inventory in the UK, we found the resulting estimates and related disclosures in relation to the key audit matters and disclosures in relation to going concern 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 2018: ↑

Refer to page 54 Audit Committee report, page 42 Viability Statement, page 99 Section 1 Basis of preparation

#### 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. We consider the risk has increased compared to 2018 due to the requirement for the Group to refinance, the performance of the Group in the year and the challenging economic climate.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, including the impact of Brexit and the Coronavirus, 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:

- The impact of Coronavirus (COVID-19) on consumer spend;
- The impact of Brexit on consumer confidence; and
- The continued downward trend in the market for new and used car sales..

There are also less predictable but realistic second order impacts, such as the impact of Brexit and COVID-19 on the Group's supply chain, which could result in a rapid reduction of available financial resources.

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.

Given the increased risk the Group is facing, complete and detailed disclosure of the risks and the judgement applied for the use of the going concern assumption is a key financial statements disclosure to allow readers to understand fully the key risks and uncertainties.

**Our response** – Our procedures included:

- **Funding assessment:** We agreed current facilities available to the relevant facility agreements and recent lender correspondence. We inspected the existing and new loan agreements in order to determine the covenants attached to the loan and we considered compliance with the financial covenants in the context of the cash flow forecasts;
- **Historical comparisons:** We assessed historical accuracy of directors' forecasting by comparing the actual cash flows for the year ended 31 December 2019 to the forecast cash flows over the same period;
- **Key dependency assessment:** We engaged our restructuring specialist expertise in order to identify the critical assumptions in the cash flow forecasts and challenged the directors by applying additional specific sensitivities to the calculation;
- **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 and the Coronavirus, and the potential impact these risks may have on new and used sales;
- **Benchmarking assumptions:** We compared the assumptions behind the Group's cash flow forecasts for key variables, such as expected used car gross profit per unit, to externally derived data including market forecasts on future new and used car sales as well as macroeconomic data on 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 materialise. We considered the extent to which the intent and ability of the Directors to pursue mitigating actions and implement these in the time frame required, should such be required, were reasonable by assessing whether the actions were entirely within the Directors' control and consistent with Board approved plans;
- **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 Group's ability to continue as a going concern.

**Our results:** We found the going concern disclosure, without any material uncertainty, to be acceptable (2018 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*

### Valuation of assets, including goodwill, in relation to following CGUs: Aston Martin, BMW, Citroen, JLR, Mercedes, Mini, Hyundai, Nissan, Renault, Vauxhall and Car Stores and recoverability of parent's investments in subsidiaries and loans to subsidiary undertakings Risk vs 2018: ↑

(Carrying value of assets in relation to the specified CGUs: £239.9m, Group impairment of £128.3m (2018: £94.6m); Parent company investment in subsidiaries £804.0m (2018: £912.4m), impairment £108.4m (2018: £10.2m); loans to subsidiary undertakings £90.0m (2018: £90.0m). Refer to page 54 Audit Committee report, pages 130 and 187 (accounting policy) and pages 131-135 and 189-190 (financial disclosures)

#### The risk – Forecast-based valuation

The carrying amount of assets, including goodwill, in the group in relation to the following cash-generating units ("CGUs"): Aston Martin, BMW, Citroen, JLR, Mercedes, Mini, Hyundai, Nissan, Renault, Vauxhall and Car Stores ("the specified CGUs") and the carrying amount of the parent company's investments in subsidiaries and loans to subsidiary undertakings are significant and at risk of irrecoverability.

Market conditions have been challenging in the specified CGUs. During the prior year the Group impaired goodwill across a number of CGUs and an impairment was recognised against the parent company investment in subsidiaries, as a result there is limited headroom when testing for impairment and the headroom is sensitive to the assumptions adopted. During the year further Group impairments of £128.3m (2018: £94.6m) in relation to the CGUs and £108.4m (2018: £10.2m) for parent company investment in subsidiaries have been recognised. Therefore we consider the risk has increased compared to 2018 due to this, and the trading performance of the Group in 2019.

The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows, and relatively small changes in these assumptions could give rise to material changes in the assessment of the carrying value of these balances.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the assets in relation to these specified CGUs and the recoverable amount of the cost of parent company's investment in subsidiaries and loans due to subsidiary undertakings 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 for the Group and note 5 for the Company) disclose the sensitivity estimated by the Group.

#### Our response – Our procedures included:

- **Benchmarking assumptions:** We compared the assumptions behind the Group's cash flow forecasts for key variables, such as expected used car gross profit per unit, to externally derived data including market forecasts on future new and used car sales as well as macroeconomic data on projected growth and cost inflation;
- **Historical comparison:** We assessed the historical accuracy of the forecasts used in the impairment models by comparing forecast cash flows on a CGU level to those achieved in 2019, including an assessment of the consistency of key variables including forecast gross profit per vehicle in new and used car;
- **Our sector experience:** We evaluated the underlying assumptions by challenging where forecasted cash flows were significantly higher than current trading levels or did not reflect known or probable changes in the business environment;
- **Our valuation experience:** We challenged, assisted by our own valuation specialists, the key inputs used in the calculation of the discount rate by comparing it against external data sources and comparator group data;
- **Sensitivity analysis:** We performed breakeven analysis on the assumptions noted above for CGUs with headroom and sensitivity analysis to identify the CGUs most sensitive to further impairment;
- **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 assets in relation to these CGUs.

**Our results:** We found the valuation of assets, including goodwill, in relation to the Aston Martin, BMW, Citroen, JLR, Mercedes, Mini, Hyundai, Nissan, Renault, Vauxhall and Car Stores CGUs, and the group's assessment of the recoverable amount of the parent company's investments in subsidiaries and loans to subsidiary undertakings, and the resulting impairment charges to be acceptable (2018 result: acceptable).

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

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

### Carrying amount of used vehicle inventory in the UK (£330.3 million (2018: £563.2 million)) Risk vs 2018: ↔

Refer to page 55 Audit Committee report, page 141 (accounting policy) and page 141 (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 realizable 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 approximates to 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:

- **Historical comparisons:** We challenged the assumptions made in the used vehicle inventory provision by comparison to the Group's historical trading patterns, including performing an analysis of the ageing of the vehicles. We also assessed the Group's methodology for calculating the provision by comparing sales prices achieved during the year to the prior year provision;
- **Benchmarking assumptions:** We compared the Group's expectations for used car prices to the expectations of market data and various commentators;
- **Sensitivity analysis:** We performed sensitivity analysis on input assumptions noted above;
- **Independent reperformance:** We considered alternative methodology for assessing the valuation of used inventory, with reference to the age, fuel type and brand of the vehicles within used vehicle inventory in the UK at the year end.
- **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 assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the UK used vehicle inventory provision.

**Our results:** We found the group's estimate of the carrying value of UK used inventory to be acceptable (2018 result: acceptable).

We continue to perform procedures over the post-retirement benefits obligation (£531.2 million (2018: £486.3 million)). However in the context of the increased risk identified this year for key audit matters outlined above, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

# 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 £4.0 million (2018: £2.3 million) determined with reference to a benchmark of Group revenue of which it represents 0.1% (2018: 5.1% of the prior year benchmark of Group loss before tax normalised to exclude the impairment charge). The benchmark used has changed to total revenue, which we consider to be the most appropriate benchmark as it provides a more stable measure year on year than group profit or loss before tax. As a result this has led to a change in materiality as a percentage of the benchmark. If the same benchmark had been applied in 2018, materiality would have represented 0.1% of 2018 total revenue.

Materiality for the parent company financial statements as a whole was set at £2.2million (2018: £1.6million), determined with reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to a benchmark of the company's net assets, of which it represents 0.6% (2018: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million (2018: £0.1 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected thirteen (2018: twenty four) of the Group's twenty four reporting components (2018: twenty four) to full scope audits for Group purposes. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The components within the scope of our work accounted for 90% (2018: 100%) of the Group's revenue, 90% (2018: 100%) of total profits and losses that made up Group loss before tax and 89% (2018: 100%) of Group total assets.

The Group audit team approved the component materialities, which ranged from £0.4 million to £2.2 million (2018: £0.1 million to £1.6 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 thirteen (2018: twenty four) 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 or 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 42 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)*

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## **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 42 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures on pages 34 to 41 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 Report does not properly disclose a departure from the 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)

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## 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 83, 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](http://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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence 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, pension 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 or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: compliance with the treating customers fairly requirements of the Financial Conduct Authority and compliance with General Data Protection Regulation. 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)*

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## **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  
18 March 2020

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

	Notes	Continuing operations £m	Discontinued operations* £m	2019 IFRS 16 £m	Continuing operations £m	Discontinued operations* £m	2018 IAS 17 £m
<b>Revenue</b>	2.1	4,083.8	422.3	<b>4,506.1</b>	4,148.6	478.4	4,627.0
Cost of sales		(3,667.8)	(365.6)	<b>(4,033.4)</b>	(3,658.2)	(418.3)	(4,076.5)
<b>Gross profit</b>		416.0	56.7	<b>472.7</b>	490.4	60.1	550.5
Operating expenses	2.2	(533.1)	(44.0)	<b>(577.1)</b>	(529.1)	(51.5)	(580.6)
<b>Operating (loss)/profit before other income</b>		(117.1)	12.7	<b>(104.4)</b>	(38.7)	8.6	(30.1)
Other income - gains/(losses) on the sale of businesses and property	2.6	0.3	33.0	<b>33.3</b>	13.0	2.7	15.7
<b>Operating profit/(loss)</b>		(116.8)	45.7	<b>(71.1)</b>	(25.7)	11.3	(14.4)
<b>Analysed as:</b>							
Underlying operating profit		14.0	12.7	<b>26.7</b>	67.6	8.6	76.2
Non-underlying operating (loss)/profit		(130.8)	33.0	<b>(97.8)</b>	(93.3)	2.7	(90.6)
Finance expense	4.3	(42.9)	(3.1)	<b>(46.0)</b>	(27.5)	(2.5)	(30.0)
Finance income	4.3	3.0	-	<b>3.0</b>	-	-	-
<b>Net finance costs</b>		(39.9)	(3.1)	<b>(43.0)</b>	(27.5)	(2.5)	(30.0)
<b>Analysed as:</b>							
Underlying net finance costs		(40.0)	(3.1)	<b>(43.1)</b>	(25.9)	(2.5)	(28.4)
Non-underlying net finance costs		0.1	-	<b>0.1</b>	(1.6)	-	(1.6)
<b>(Loss)/profit before taxation</b>		(156.7)	42.6	<b>(114.1)</b>	(53.2)	8.8	(44.4)
<b>Analysed as:</b>							
Underlying (loss)/profit before taxation		(26.0)	9.6	<b>(16.4)</b>	41.7	6.1	47.8
Non-underlying (loss)/ profit before taxation		(130.7)	33.0	<b>(97.7)</b>	(94.9)	2.7	(92.2)
Income tax expense	2.7	7.8	(11.1)	<b>(3.3)</b>	(3.8)	(2.3)	(6.1)
<b>(Loss)/profit for the year</b>		(148.9)	31.5	<b>(117.4)</b>	(57.0)	6.5	(50.5)
<b>Earnings per share</b>							
Basic earnings per share	2.8	(10.7p)	2.3p	<b>(8.4p)</b>	(4.1p)	0.5p	(3.6p)
Diluted earnings per share	2.8	(10.7p)	2.3p	<b>(8.4p)</b>	(4.1p)	0.5p	(3.6p)
<b>Non GAAP measure:</b>							
Underlying basic earnings per share	2.8	(1.8p)	0.6p	<b>(1.2p)</b>	2.5p	0.3p	2.8p
Underlying diluted earnings per share	2.8	(1.8p)	0.6p	<b>(1.2p)</b>	2.5p	0.3p	2.8p

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the results for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

\* 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 99 to 181 form part of these financial statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 IFRS 16 £m	2018 IAS 17 £m
<b>Loss for the year</b>		<b>(117.4)</b>	(50.5)
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and (losses)	5.1	<b>(1.3)</b>	(0.9)
Income tax relating to defined benefit plan remeasurement (gains) and losses	2.7	<b>0.2</b>	-
		<b>(1.1)</b>	(0.9)
<b>Items that are or may be reclassified to profit and loss:</b>			
Foreign currency translation differences of foreign operations		<b>(0.2)</b>	-
		<b>(0.2)</b>	-
Other comprehensive income for the year, net of tax		<b>(1.3)</b>	(0.9)
<b>Total comprehensive income for the year</b>		<b>(118.7)</b>	(51.4)
Total comprehensive income for the period attributable to equity shareholders of the company arises from:			
Continuing operations		<b>(150.0)</b>	(57.9)
Discontinued operations - see note 3.3		<b>31.3</b>	6.5
		<b>(118.7)</b>	(51.4)

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence the results for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

The notes on pages 99 to 181 form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation differences £m	Retained earnings £m	Total £m
<b>Balance at 1 January 2019</b>	70.0	56.8	5.5	12.6	(0.8)	201.5	<b>345.6</b>
Adjustment on initial application of IFRS 16 (net of tax) (see note 1)	-	-	-	-	-	(48.4)	<b>(48.4)</b>
<b>Adjusted balance at 1 January 2019</b>	70.0	56.8	5.5	12.6	(0.8)	153.1	<b>297.2</b>
<b>Total comprehensive income for 2019</b>							
Loss for the year	-	-	-	-	-	(117.4)	<b>(117.4)</b>
Other comprehensive income for the year, net of tax	-	-	-	-	(0.2)	(1.1)	<b>(1.3)</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	(0.2)	(118.5)	<b>(118.7)</b>
Dividends paid (note 4.5)	-	-	-	-	-	(9.7)	<b>(9.7)</b>
Own shares purchased for cancellation	(0.1)	-	0.1	-	-	(0.5)	<b>(0.5)</b>
Share based payments	-	-	-	-	-	0.6	<b>0.6</b>
<b>Balance at 31 December 2019</b>	69.9	56.8	5.6	12.6	(1.0)	25.0	<b>168.9</b>
<b>Balance at 1 January 2018</b>							
	71.2	56.8	4.3	12.6	(0.8)	281.3	<b>425.4</b>
<b>Total comprehensive income for 2018</b>							
Loss for the year	-	-	-	-	-	(50.5)	<b>(50.5)</b>
Other comprehensive income for the year, net of tax	-	-	-	-	-	(0.9)	<b>(0.9)</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(51.4)	<b>(51.4)</b>
Dividends paid (note 4.5)	-	-	-	-	-	(22.5)	<b>(22.5)</b>
Own shares purchased for cancellation	(1.2)	-	1.2	-	-	(6.7)	<b>(6.7)</b>
Own shares issued by EBT	-	-	-	-	-	0.1	<b>0.1</b>
Share based payments	-	-	-	-	-	0.7	<b>0.7</b>
<b>Balance at 31 December 2018</b>	70.0	56.8	5.5	12.6	(0.8)	201.5	<b>345.6</b>

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the results for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

The notes on pages 99 to 181 form part of these financial statements



# CONSOLIDATED BALANCE SHEET

At 31 December 2019

	Notes	2019 IFRS 16 £m	2018 IAS 17 £m
<b>Non-current assets</b>			
Property, plant and equipment	3.2	628.3	463.9
Goodwill	3.1	162.8	265.9
Other intangible assets	3.1	9.5	8.2
Finance lease receivables		20.6	-
Deferred tax assets	2.7	25.5	9.8
<b>Total non-current assets</b>		<b>846.7</b>	<b>747.8</b>
<b>Current assets</b>			
Inventories	3.4	839.0	959.6
Trade and other receivables	3.6	106.9	114.8
Finance lease receivables		2.4	-
Current tax assets		-	4.3
Cash and cash equivalents	4.2	55.7	51.4
Assets classified as held for sale	3.3	150.1	137.6
<b>Total current assets</b>		<b>1,154.1</b>	<b>1,267.7</b>
<b>Total assets</b>		<b>2,000.8</b>	<b>2,015.5</b>
<b>Current liabilities</b>			
Lease liabilities		(23.9)	-
Trade and other payables	3.7	(1,084.6)	(1,175.4)
Deferred income	3.9	(50.9)	(49.7)
Current tax payable		(2.8)	-
Provisions	3.8	-	(0.7)
Liabilities directly associated with the assets held for sale	3.3	(90.5)	(88.6)
<b>Total current liabilities</b>		<b>(1,252.7)</b>	<b>(1,314.4)</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	4.2	(175.4)	(177.5)
Lease liabilities		(237.8)	(1.5)
Trade and other payables	3.7	(60.4)	(54.4)
Deferred income	3.9	(46.6)	(52.2)
Retirement benefit obligations	5.1	(59.0)	(68.3)
Provisions	3.8	-	(1.6)
<b>Total non-current liabilities</b>		<b>(579.2)</b>	<b>(355.5)</b>
<b>Total liabilities</b>		<b>(1,831.9)</b>	<b>(1,669.9)</b>
<b>Net assets</b>		<b>168.9</b>	<b>345.6</b>
<b>Capital and reserves</b>			
Called up share capital	4.4	69.9	70.0
Share premium account	4.4	56.8	56.8
Capital redemption reserve	4.4	5.6	5.5
Other reserves	4.4	12.6	12.6
Translation reserve	4.4	(1.0)	(0.8)
Retained earnings		25.0	201.5
<b>Total equity attributable to equity shareholders of the Company</b>		<b>168.9</b>	<b>345.6</b>

Approved by the Board of Directors on 18 March 2020 and signed on its behalf by:

**W Berman**  
Chief Executive

**M S Willis**  
Chief Finance Officer

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence the balance sheet as at 31 December 2019 is not directly comparable with that of the prior period which was prepared using the accounting standard IAS 17 Leases. The notes on pages 99 to 181 form part of these financial statements  
Registered Company Number: 02304195

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2019

	Notes	2019 IFRS 16 £m	2018 IAS 17 £m
<b>Cash flows from operating activities</b>			
Loss for the year		(117.4)	(50.5)
Adjustment for taxation		3.3	6.1
Adjustment for net financing expense		43.0	30.0
		(71.1)	(14.4)
Depreciation and amortisation		44.7	27.4
Share based payments		0.6	0.7
Pension past service costs		(4.8)	10.5
(Profit)/loss on sale of businesses and property		(33.3)	(15.7)
Impairment of goodwill		102.4	88.8
Impairment of assets held for sale		1.9	1.2
Impairment of property, plant and equipment		25.9	5.8
Contribution into defined benefit pension scheme		(7.6)	(7.5)
Changes in inventories	3.4	186.7	(23.6)
Changes in trade and other receivables		1.7	(7.6)
Changes in trade and other payables		(127.4)	61.6
Changes in provisions		-	(7.2)
Movement in contract hire vehicle balances	3.5	(55.6)	(31.9)
Cash generated from operations		64.1	88.1
Taxation paid		(3.3)	(10.9)
Interest paid		(26.8)	(24.8)
<b>Net cash from operating activities</b>		<b>34.0</b>	<b>52.4</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of businesses	6.2	67.4	10.9
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	(115.0)	(133.2)
Proceeds from sale of property, plant, equipment and intangible assets	3.1, 3.2	70.6	96.0
<b>Net cash from/(used) in investing activities</b>		<b>23.0</b>	<b>(26.3)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(9.7)	(22.5)
Repurchase of own shares		(0.5)	(6.7)
Disposal of shares by EBT		-	0.1
Payment of lease liabilities		(43.2)	-
Receipt of lease receivables		3.3	-
Repayment of loans		(5.0)	(10.0)
Proceeds from issue of loans		5.4	7.1
<b>Net cash outflow from financing activities</b>		<b>(49.7)</b>	<b>(32.0)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7.3</b>	<b>(5.9)</b>
Cash and cash equivalents at 1 January		51.4	53.3
Effects of exchange rate changes on cash held		(3.0)	4.0
<b>Cash and cash equivalents at 31 December</b>	4.2	<b>55.7</b>	<b>51.4</b>

The notes on pages 99 to 181 form part of these financial statements

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2019 £m	2018 £m
Net increase/(decrease) in cash and cash equivalents	7.3	(5.9)
Repayment of loans	5.0	10.0
Proceeds from issue of loans (net of directly attributable transaction costs)	(5.4)	(7.1)
Non-cash movements	(0.5)	(0.5)
Decrease/(increase) in net debt in the year	6.4	(3.5)
Opening net debt	(126.1)	(124.1)
Adjustment for finance lease liabilities (see note below)	-	1.5
<b>Closing net debt</b>	<b>(119.7)</b>	<b>(126.1)</b>

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the cash flows for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

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. On adoption of IFRS 16 on 1 January 2019 the Group has decided to re-define its net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 31 December 2018 being adjusted by £1.5m, the finance lease liability at that date from £127.6m to £126.1m.

The notes on pages 99 to 181 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 2019 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 2019 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 183 to 193.

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 financial statements are prepared on a going concern basis notwithstanding that the Group has reported an operating loss of £104.4m for the year to 31 December 2019 (2018: loss of £30.1m). Further, the directors consider that the current economic outlook presents significant challenges in terms of sales volume and pricing and both Brexit and the Coronavirus outbreak presents uncertainties to future trading conditions. Whilst the directors have instituted measures to preserve cash and secure additional finance, there is uncertainty over future trading results and cash flows.

The Group meets its day-to-day working capital requirements from a revolving credit facility of £175m and senior note of £60m (see note 4.2) together with manufacturer stocking facilities and cash balances. The revolving credit facility is due for renewal in March 2022 and includes covenants, a breach of which would result in the amounts drawn becoming repayable on demand.

The directors have prepared base cash flow forecasts for the 21 month period to 31 December 2021 which assume the disposal of US dealerships which have been previously announced. The directors have also prepared sensitised forecasts which consider the impacts of certain severe but plausible downside scenarios and which remove the disposal of US dealerships and also include the impact of a reasonably possible downside contraction in sales volumes and margins. They have also considered the mitigations which are available to them and wholly within their control through which they could offset those downside scenarios should they arise, principally the deferral of uncommitted capital expenditure. The sensitised cases include the impact of a combined, severe but plausible Coronavirus and Brexit scenario and these forecasts include mitigations, principally the deferral of capex.

Those forecasts indicate that the group can continue to operate for at least the next 12 months from the date of approval of these financial statements with the existing facilities. The base and sensitised forecasts indicate that the group will remain in compliance with the relevant covenants, though headroom is limited in the period ended 31 December 2021 in the case of the sensitised forecasts.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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
<b>Deferred tax assets:</b>			
No recognition of certain deferred tax assets as the Group believes their recovery to be too uncertain.	No recognition of potential assets of £8.3m relating to unutilised tax losses of £13.8m and unrecognised net capital losses of £35.2m.	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-£8.3m.

# 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
CGU asset impairment	To determine any possible impairment of our goodwill, intangible assets, property, plant and equipment we undertake an exercise to estimate the recoverable amount for each Cash Generating Unit (CGU). We have key assumptions on the growth, discount rates and multiples applied to the financial year 2020 budget as well as the fair value of individual assets.	✓	✓	3.1
Inventory fair value (UK used inventory of £285.0m)	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



# NOTES TO THE FINANCIAL STATEMENTS

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## 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.

#### 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

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## 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.

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 2019 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Group:

- IFRS 16 'Leases'
- IFRIC 23 'Uncertainty over Income Tax treatments'
- Amendments to IFRS 9 'Financial Instruments'
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'
- Annual Improvements to IFRSs - 2015-2017 Cycle
- Amendments to IAS 19 'Employee Benefits'

The impact of IFRS 16 on the Group's results for the year is set out below. IFRIC 23 and the other amendments have not had a material impact on the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

### IFRS 16 Leases

The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on balance model for leases. As a result, the Group as a lessee has recognised a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group also acts as a Lessor, and whilst Lessor accounting remains similar to that under the Group's previous accounting policies, where the substantial risks and rewards of ownership of the asset has been passed to its Lessee then the underlying asset of the Group becomes that of a finance lease receivable.

Under the previous accounting policy the Group previously classified leases as either an operating lease or a finance lease depending upon whether it was deemed that substantially all of the risks and rewards of ownership had transferred. Under IFRS 16 the Group recognises a right of use asset for all leases with the exception of those deemed to be of low value or short term in nature, in which case lease payments are expensed on a straight line basis over the lease term. In its transition to IFRS 16 the Group has applied a modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information for 2018 has not been restated. The revised accounting policy is:

Significant accounting policies - Leases.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Depreciation is recognised on a straight line basis over the period of the lease the right of use asset is expected to be utilised.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or when this is not readily attainable the Group's incremental borrowing rate. Generally the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by payments made. It is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in amounts payable following contractual rent reviews and changes in the assessment of whether an extension/termination option is reasonably certain to be exercised.

The Group has applied judgement in determining the lease term for some lease contracts which include renewal and termination options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term and the subsequent recognition of the lease liability and right of use asset.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Where the Group acts as a Lessor of an operating lease, receipts of lease payments are recognised in the income statement on a straight line basis over the period of the lease. Where the Group acts as a Lessor of a finance lease the Group will, rather than recognise a right of use asset, recognise a finance lease receivable, this being the present value of future lease receipts discounted at the interest rate implicit in the lease or if this is not specified the Group's incremental borrowing rate. The finance lease receivable will be increased by the interest received and reduced by payments made by the lessee.

Transition

The Group has a significant leasehold property portfolio which, in the most part, where previously accounted for as operating

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

### IFRS 16 Leases *continued*

leases under IAS 17. The leases have a variety of lease terms and some include scheduled rent reviews, break options or provide for rent increases based upon future UK price indices.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right of use assets as measured at either:

their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate as at 1 January 2019. The Group has applied this methodology to the majority of its property leases where sufficient historical information has been available to facilitate this.

An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to a small number of property leases where it was not possible to ascertain sufficient historical data to enable a retrospective calculation. This method has also been applied to the Group's small number of non property leases, comprising of motor vehicles and items of plant and equipment.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

Applied the exemption not to recognise right of use assets and liabilities with less than 12 months of the lease term remaining at 1 January 2019.

Excluded initial direct costs from measuring the right of use asset at date of initial application.

Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Used the option to grandfather the assessment of which transactions are leases by applying IFRS 16 only to contracts that were previously identified as a leases under IAS 17.

Used previous assessments of whether leases are onerous instead of performing an impairment review.

The Group previously classified two properties as finance leases. These leases have been reassessed under IFRS 16 and reclassified as right of use assets.

As a Lessor the Group has sub-let a number of surplus properties with some of these matching the term of the under lease. In these instances the Group has deemed that it has none of the risks and rewards of ownership of the properties and has recognised a finance lease receivable based on expected lease receipts from the date of application, discounted at the same interest rate as applied to the head lease. There are no residual values applicable to these leases.

The Group, during the period between 2005 and 2006 entered into sale and leaseback arrangements on some of its properties. At the time it was deemed that the consideration received for these properties and the subsequent rents attached to the leases were in excess of their equivalent fair values at the time. An adjustment was made at the time of these transactions to reduce the profit on disposal of these properties and defer this over the remaining lease terms to offset the excess rentals payable in the future. This credit was held as deferred income in the financial statements. On transition to IFRS 16 the residual deferred income credit relating to these properties at 1 January 2019 has been allocated to the right of use asset.

Provision had previously recognised a provision for vacant properties which related to sub-let properties where the rental income was insufficient to cover the lease costs paid. Where these relate to leases in which the Group retain the risks and rewards of ownership of the property the provision previously recognised has been credited to the right of use asset. Where these relate to leases in which the Group do not retain the risks and rewards of ownership of the property the provision previously recognised has been credited to reserves on transition (see note 3.8).

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### IFRS 16 Leases *continued*

#### Impacts of transition

The impacts of the transition to IFRS 16 is summarised below;

	1 January 2019 £m
Property, plant and equipment	193.1
Assets classified as held for sale	39.4
Lease liabilities	(279.7)
Lease liabilities classified as held for sale	(39.4)
Finance lease receivables	24.7
Trade and other receivables	(9.2)
Trade and other payables	0.3
Deferred income	11.4
Provisions	2.3
Deferred tax	8.7
Retained earnings	48.4

When measuring lease liabilities for leases that were classified as operating leases, the Group has discounted lease payments using either its incremental borrowing rate for shorter term leases or higher rates based upon market rates for borrowing against equivalent assets with similar risk profiles in specific markets for medium to longer term leases as at 1 January 2019. The weighted average rate applied was 4.20%.

	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	479.7
Discounted using incremental borrowing rate at 1 January 2019	325.5
Finance lease liabilities recognised at 31 December 2018	1.5
Recognition exemption for leases with less than 12 months of lease term at transition *	(14.1)
Recognition exemption for low value leases	-
Lease liabilities recognised beyond break terms reasonably certain to be utilised **	7.7
<b>Lease liabilities recognised at 1 January 2019 including those classified as held for sale</b>	<b>320.6</b>

\* Included within the £14.1m recognition exemption for leases with less than 12 months of lease term at transition, are £11.9m of lease commitments in the US business which is a discontinued operation held for sale. These US leases were deemed to be short leases on transition as the Group was reasonably certain that obligations under those leases would be discharged in 2019. These were assigned as part of the sales of US businesses which were completed in 2019.

\*\* The operating lease commitment disclosed at 31 December 2018 was in respect of minimum lease payments under each lease which was based on terminating leases with break clauses at the earliest opportunity. The Group is reasonably certain that the majority of these break options will not be exercised with the lease being utilised up to the lease expiry date, therefore the IFRS 16 liability recognised is greater than that of the corresponding IAS 17 disclosure.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

### Impact for the period

As a result of initially applying IFRS 16, in relation to those leases which were originally classified as operating leases, the Group has recognised an interest and depreciation cost instead of an operating lease expense and as a Lessor on leases where the Group no longer has the risks and rewards of ownership, recognises an interest receipt instead of a rental income. During the year ended 31 December 2019 the Group recognised £19.2m of depreciation charges, a non-underlying impairment charge of £23.3m, an interest expense of £14.4m and made payments of £43.2m in respect of its lease liabilities. As a Lessor, the Group has an interest receipt of £1.1m having received payments of £3.3m in respect of the finance lease receivable.

### Other standards

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

IFRS 17 Insurance Contracts.

Definition of Material – Amendments to IAS 1 and IAS 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.

**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

	2019 IFRS 16 £m	2018 IAS 17 £m
Underlying operating profit	26.7	76.2
Settlement of historic VAT issues (see note 2.6)	1.6	-
Gains/(losses) on the sale of businesses and property (see note 2.6)	33.3	15.7
Past service costs (see note 2.6)	4.8	(10.5)
Impairment of goodwill (see note 2.6)	(102.4)	(88.8)
Impairment of assets held for sale (see note 2.6)	(1.9)	(1.2)
Impairment of property, plant and equipment (see note 2.6)	(2.6)	(5.8)
Impairment of right of use assets (see note 2.6)	(23.3)	-
Car Store closure costs (see note 2.6)	(1.8)	-
Termination and severance payments (see note 2.6)	(5.5)	-
Non-underlying operating profit/(loss) items	(97.8)	(90.6)
<b>Operating loss</b>	<b>(71.1)</b>	<b>(14.4)</b>

### (Loss)/profit before tax reconciliation

	2019 IFRS 16 £m	2018 IAS 17 £m
Underlying profit before tax	(16.4)	47.8
Non-underlying operating profit items (see reconciliation above)	(97.8)	(90.6)
Non-underlying finance costs (see note 2.6)	0.1	(1.6)
Non-underlying operating (loss)/profit and finance costs items	(97.7)	(92.2)
<b>(Loss)/profit before tax</b>	<b>(114.1)</b>	<b>(44.4)</b>

### (Loss)/profit after tax reconciliation

	2019 IFRS 16 £m	2018 IAS 17 £m
Underlying profit after tax	(16.4)	38.7
Non-underlying operating (loss)/profit and finance costs items (see reconciliation above)	(97.7)	(92.2)
Non-underlying tax (see note 2.6)	(3.3)	3.0
Non-underlying operating (loss)/profit, finance costs and tax items	(101.0)	(89.2)
<b>(Loss)/profit after tax</b>	<b>(117.4)</b>	<b>(50.5)</b>

**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.



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

**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** - the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. We have adjusted the underlying operating profit used in the calculation of EBITDA to present it on a pre IFRS 16 basis by treating the rentals paid as an operating expense, adjusting out right of use depreciation and various other adjustments that would have been made under IAS 17. This is to ensure consistency in the 12m period against our target measure of net debt : underlying EBITDA of between 1.0 and 1.5 which is based on a pre IFRS 16 basis.

### Underlying operating profit on a pre IFRS 16 basis - reconciliation

	2019 £m	2018 £m
Underlying operating profit (see reconciliation above)	26.7	76.2
Adjustments to 2019 to restate as if under IAS 17:		
Rentals paid expense	(39.5)	-
Rentals paid expense classified as non-underlying	1.6	-
Reversal of IFRS 16 depreciation	19.2	-
Lease receivable receipts taken to income	3.3	-
<b>Underlying operating profit on IAS 17 basis</b>	<b>11.3</b>	76.2

### Net debt : Underlying EBITDA - reconciliation

	2019 £m	2018 £m
Underlying operating profit on IAS 17 basis	11.3	76.2
Depreciation and amortisation	86.8	65.3
Reversal of IFRS 16 depreciation	(19.2)	-
Depreciation and amortisation - IAS 17 basis	67.6	65.3
<b>Underlying EBITDA on IAS 17 basis</b>	<b>78.9</b>	141.5
Net debt	119.7	126.1
<b>Net debt : Underlying EBITDA ratio</b>	<b>1.5</b>	0.9

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

### Like for Like reconciliations

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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Revenues by Department - Franchised UK Motor

	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 like for like revenue £m	2018 Group revenue £m	2018 Disposals revenue £m	2018 Other non like for like revenue £m	2018 like for like revenue £m
Aftersales revenue	326.2	(6.2)	(1.6)	318.4	333.2	(19.8)	-	313.4
Used vehicle revenue	1,702.5	(33.1)	(5.2)	1,664.2	1,796.1	(131.5)	-	1,664.6
New vehicle revenue	1,702.1	(36.2)	-	1,665.9	1,644.6	(106.9)	-	1,537.7
Total Revenue	3,730.8	(75.5)	(6.8)	3,648.5	3,773.9	(258.2)	-	3,515.7

### Revenues by Department - Car Store

	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 like for like revenue £m	2018 Group revenue £m	2018 Disposals revenue £m	2018 Other non like for like revenue £m	2018 like for like revenue £m
Aftersales revenue	2.5	(2.0)	-	0.5	4.2	(3.5)	-	0.7
Used vehicle revenue	267.8	(129.9)	(8.1)	129.8	296.3	(174.4)	-	121.9
Total Revenue	270.3	(131.9)	(8.1)	130.3	300.5	(177.9)	-	122.6

### Revenues by Department - Franchised US Motor

	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 like for like revenue £m	2018 Group revenue £m	2018 Disposals revenue £m	2018 Other non like for like revenue £m	2018 like for like revenue £m
Aftersales revenue	40.7	(15.6)	-	25.1	43.2	(18.6)	-	24.6
Used vehicle revenue	75.7	(40.7)	-	35.0	97.9	(53.3)	-	44.6
New vehicle revenue	305.9	(131.5)	-	174.4	337.3	(174.7)	-	162.6
Total Revenue	422.3	(187.8)	-	234.5	478.4	(246.6)	-	231.8

### Gross profit by Department - Franchised UK Motor

	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 like for like gross profit £m	2018 Group gross profit £m	2018 Disposals gross profit £m	2018 Other non like for like gross profit £m	2018 like for like gross profit £m
Aftersales gross profit	161.5	(1.5)	(0.7)	159.3	179.8	(9.1)	-	170.7
Used vehicle gross profit	105.2	2.5	(0.5)	107.2	141.3	(3.9)	-	137.4
New vehicle gross profit	104.9	(2.4)	-	102.5	111.0	(7.3)	-	103.7
Total Gross profit	371.6	(1.4)	(1.2)	369.0	432.1	(20.3)	-	411.8

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Gross profit by Department - Car Store

	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 like for like gross profit £m	2018 Group gross profit £m	2018 Disposals gross profit £m	2018 Other non like for like gross profit £m	2018 like for like gross profit £m
Aftersales gross profit	(1.8)	2.8	-	1.0	1.7	1.5	-	3.2
Used vehicle gross profit	12.7	(5.5)	(0.5)	6.7	22.9	(11.7)	-	11.2
Total Gross profit	10.9	(2.7)	(0.5)	7.7	24.6	(10.2)	-	14.4

### Gross profit by Department - US Motor

	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 like for like gross profit £m	2018 Group gross profit £m	2018 Disposals gross profit £m	2018 Other non like for like gross profit £m	2018 like for like gross profit £m
Aftersales gross profit	21.1	(8.6)	-	12.5	22.7	(10.4)	-	12.3
Used gross profit	5.7	(2.8)	-	2.9	5.4	(2.4)	-	3.0
New vehicle gross profit	29.9	(14.4)	-	15.5	32.0	(16.4)	-	15.6
Total Revenue	56.7	(25.8)	-	30.9	60.1	(29.2)	-	30.9

### Underlying operating profit/(loss)

	2019 Group underlying operating profit/(loss) £m	2019 Disposals underlying operating profit/(loss) £m	2019 Other non like for like underlying operating profit/(loss) £m	2019 like for like underlying operating profit/(loss) £m	2018 Group underlying operating profit/(loss) £m	2018 Disposals underlying operating profit/(loss) £m	2018 Other non like for like underlying operating profit/(loss) £m	2018 like for like underlying operating profit/(loss) £m
Franchised UK Motor	13.0	7.3	0.5	20.8	53.0	8.1	-	61.1
Car Store	(25.2)	15.1	0.5	(9.6)	(11.9)	8.3	-	(3.6)
Software	13.4	-	-	13.4	11.7	-	-	11.7
Leasing	12.8	-	-	12.8	14.8	-	-	14.8
US Motor	12.7	(6.3)	-	6.4	8.6	(5.3)	-	3.3
Total underlying operating profit	26.7	16.1	1.0	43.8	76.2	11.1	-	87.3

### Operating (loss)/profit

	2019 Group operating profit/(loss) £m	2019 Disposals operating profit/(loss) £m	2019 Other non like for like operating profit/(loss) £m	2019 like for like operating profit/(loss) £m	2018 Group operating profit/(loss) £m	2018 Disposals operating profit/(loss) £m	2018 Other non like for like operating profit/(loss) £m	2018 like for like operating profit/(loss) £m
Franchised UK Motor	(96.4)	7.3	0.5	(88.6)	(24.5)	8.1	-	(16.4)
Car Store	(46.6)	15.1	0.5	(31.0)	(27.7)	8.3	-	(19.4)
Software	13.4	-	-	13.4	11.7	-	-	11.7
Leasing	12.8	-	-	12.8	14.8	-	-	14.8
US Motor	45.7	(6.3)	-	39.4	11.3	(5.3)	-	6.0
Total operating profit	(71.1)	16.1	1.0	(54.0)	(14.4)	11.1	-	(3.3)

# NOTES TO THE FINANCIAL STATEMENTS

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## 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

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 Franchised 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 the one time service has been completed. 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). There are no such warranties offered for sale in the US Motor segment.

# 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 Group for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the transfer of control is 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 IFRS 16 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing Group 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 IFRS 16 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.

	Franchised — UK Motor —		— Car Store —		— Software —		— Leasing —		discontinued — US Motor —		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>Primary geographical markets</b>												
Europe	3,730.8	3,773.9	270.3	300.5	17.6	16.3	64.4	57.3	-	-	<b>4,083.1</b>	4,148.0
North America	-	-	-	-	-	-	-	-	422.3	478.4	<b>422.3</b>	478.4
Africa	-	-	-	-	0.5	0.6	-	-	-	-	<b>0.5</b>	0.6
Asia	-	-	-	-	0.2	-	-	-	-	-	<b>0.2</b>	-
Revenue from external customers	3,730.8	3,773.9	270.3	300.5	18.3	16.9	64.4	57.3	422.3	478.4	<b>4,506.1</b>	4,627.0
<b>Major products/service lines</b>												
Aftersales revenue	326.2	333.2	2.5	4.2	-	-	-	-	40.7	43.2	<b>369.4</b>	380.6
Used vehicle revenue	1,702.5	1,796.1	267.8	296.3	-	-	-	-	75.7	97.9	<b>2,046.0</b>	2,190.3
New vehicle revenue	1,702.1	1,644.6	-	-	-	-	-	-	305.9	337.3	<b>2,008.0</b>	1,981.9
Software revenue	-	-	-	-	18.3	16.9	-	-	-	-	<b>18.3</b>	16.9
Leasing revenue	-	-	-	-	-	-	64.4	57.3	-	-	<b>64.4</b>	57.3
Revenue from external customers	3,730.8	3,773.9	270.3	300.5	18.3	16.9	64.4	57.3	422.3	478.4	<b>4,506.1</b>	4,627.0
<b>Timing of revenue recognition</b>												
At point in time	3,722.8	3,767.2	269.3	299.7	1.7	1.7	20.4	16.5	422.3	478.4	<b>4,436.5</b>	4,563.5
Over time	8.0	6.7	1.0	0.8	16.6	15.2	44.0	40.8	-	-	<b>69.6</b>	63.5
Revenue from external customers	3,730.8	3,773.9	270.3	300.5	18.3	16.9	64.4	57.3	422.3	478.4	<b>4,506.1</b>	4,627.0

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.1 Revenue *continued*

#### Contract balances

##### Contract Assets

The Group recognises the following contract assets

	2019 £m	2018 £m
Aftersales work in progress yet to be completed	1.5	2.1

##### Contract liabilities

The Group recognises the following contract liabilities

	2019 £m	2018 £m
Deposits received from customers	18.7	11.4
Unearned proportion of warranty policies sold	19.4	18.8

Movements in the deferred income balance in respect of the warranty policies is presented in note 3.9 which shows the value of policies sold during the year and the income recognised during the year.

### 2.2 Net operating expenses

	2019 IFRS 16 £m	2018 IAS 17 £m
Net operating expenses:		
Distribution costs	(256.2)	(252.7)
Administrative expenses	(322.2)	(332.1)
Impairment loss on trade receivables	(0.6)	(0.5)
Rents received	1.9	4.7
	(577.1)	(580.6)

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments

The Group has five 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 following summary describes the operations in each of the Group's reportable segments:

**Franchised UK Motor** This segment comprises the Group's motor vehicle retail, parts wholesale and fleet operations from its franchised dealer network, 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.

**Car Store** This segment comprises the Group's used vehicle retail operation branded Car Store, encompassing the sale of used motor cars, together with associated aftersales service activities.

**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 Group has revised its reporting segments. In January 2019 the Group re-organised its management and reporting structure. The significant change was that the Car Store operation was segregated from the management of the Franchised UK Motor operation (previously known as UK Motor) and this is reflected in the internal reporting structure as presented to the Chief Operating Decision Maker. In these financial statements therefore the Car Store segment is now reported separately. The results of the Franchised UK Motor segment and Car Store segment for the comparative period have been dis-aggregated and is restated as follows for the period ended 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

#### Year ended 31 December 2018

	UK Motor £m	_segments as restated_ Franchised	
		UK Motor £m	Car Store £m
Total gross segment turnover	4,074.4	3,773.9	300.5
Inter-segment turnover	-	-	-
<b>Revenue from external customers</b>	<b>4,074.4</b>	<b>3,773.9</b>	<b>300.5</b>
Operating profit before non-underlying items	41.1	53.0	(11.9)
Other income and non-underlying items	(93.3)	(77.5)	(15.8)
Operating profit/(loss)	(52.2)	(24.5)	(27.7)
Finance expense	-	-	-
<b>Segmental (loss)/profit before tax</b>	<b>(52.2)</b>	<b>(24.5)</b>	<b>(27.7)</b>
Other items included in the income statement are as follows:			
Depreciation and impairment	(22.3)	(16.9)	(5.4)
Impairment of goodwill	(88.8)	(78.8)	(10.0)
Impairment of property, plant and equipment	(5.8)	-	(5.8)
Amortisation	(0.5)	(0.5)	-
Share based payments	(0.7)	(0.7)	-
Impairment of assets held for sale	(1.2)	(1.2)	-
Pension past service costs	(10.5)	(10.5)	-
Other income - gains on the sale of businesses and property	13.0	13.0	-

The tables of financial performance presented in the Operational and Financial Review on pages 20 to 41 are based upon these segmental reports.

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 2019 - IFRS 16

	Franchised UK Motor £m	Car Store £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	Total £m
Total gross segment revenue	3,730.8	270.3	30.9	87.7	-	4,119.7	422.3	<b>4,542.0</b>
Inter-segment revenue	-	-	(12.6)	(23.3)	-	(35.9)	-	<b>(35.9)</b>
<b>Revenue from external customers</b>	<b>3,730.8</b>	<b>270.3</b>	<b>18.3</b>	<b>64.4</b>	<b>-</b>	<b>4,083.8</b>	<b>422.3</b>	<b>4,506.1</b>
Operating profit before non-underlying items	13.0	(25.2)	13.4	12.8	-	14.0	12.7	<b>26.7</b>
Non-underlying items	(109.4)	(21.4)	-	-	-	(130.8)	33.0	<b>(97.8)</b>
Operating profit/(loss)	(96.4)	(46.6)	13.4	12.8	-	(116.8)	45.7	<b>(71.1)</b>
Finance expense	-	-	-	(3.1)	(39.8)	(42.9)	(3.1)	<b>(46.0)</b>
Finance income	-	-	-	-	3.0	3.0	-	<b>3.0</b>
<b>Segmental (loss)/profit before tax</b>	<b>(96.4)</b>	<b>(46.6)</b>	<b>13.4</b>	<b>9.7</b>	<b>(36.8)</b>	<b>(156.7)</b>	<b>42.6</b>	<b>(114.1)</b>

Other items included in the income statement are as follows:

Depreciation and impairment	(40.0)	(0.5)	(0.6)	(42.2)	-	(83.3)	-	<b>(83.3)</b>
Impairment of goodwill	(102.4)	-	-	-	-	(102.4)	-	<b>(102.4)</b>
Impairment of property, plant and equipment	(6.3)	(19.6)	-	-	-	(25.9)	-	<b>(25.9)</b>
Amortisation	(0.7)	-	(2.8)	-	-	(3.5)	-	<b>(3.5)</b>
Share based payments	(0.6)	-	-	-	-	(0.6)	-	<b>(0.6)</b>
Impairment of assets held for sale	(1.9)	-	-	-	-	(1.9)	-	<b>(1.9)</b>
Settlement of historic VAT issues	1.6	-	-	-	-	1.6	1.0	<b>2.6</b>
Termination and severance costs	(5.5)	-	-	-	-	(5.5)	-	<b>(5.5)</b>
Car Store closure costs	-	(1.8)	-	-	-	(1.8)	-	<b>(1.8)</b>
Share based payments	4.8	-	-	-	-	4.8	-	<b>4.8</b>
Other income - losses on the sale of businesses and property	0.3	-	-	-	-	0.3	33.0	<b>33.3</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

Year ended 31 December 2018 - IAS 17

	Franchised UK Motor £m	Car Store £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	Total £m
Total gross segment revenue	3,773.9	300.5	28.3	81.2	-	4,183.9	478.4	<b>4,662.3</b>
Inter-segment revenue	-	-	(11.4)	(23.9)	-	(35.3)	-	<b>(35.3)</b>
<b>Revenue from external customers</b>	<b>3,773.9</b>	<b>300.5</b>	<b>16.9</b>	<b>57.3</b>	<b>-</b>	<b>4,148.6</b>	<b>478.4</b>	<b>4,627.0</b>
Operating profit before non-underlying items	53.0	(11.9)	11.7	14.8	-	67.6	8.6	<b>76.2</b>
Non-underlying items	(77.5)	(15.8)	-	-	-	(93.3)	2.7	<b>(90.6)</b>
Operating profit/(loss)	(24.5)	(27.7)	11.7	14.8	-	(25.7)	11.3	<b>(14.4)</b>
Finance expense	-	-	-	(2.8)	(24.7)	(27.5)	(2.5)	<b>(30.0)</b>
Finance income	-	-	0.8	-	(0.8)	-	-	<b>-</b>
<b>Segmental (loss)/profit before tax</b>	<b>(24.5)</b>	<b>(27.7)</b>	<b>12.5</b>	<b>12.0</b>	<b>(25.5)</b>	<b>(53.2)</b>	<b>8.8</b>	<b>(44.4)</b>

Other items included in the income statement are as follows:

Depreciation and impairment	(16.9)	(5.4)	(0.3)	(39.3)	-	(61.9)	(0.3)	<b>(62.2)</b>
Impairment of goodwill	(78.8)	(10.0)	-	-	-	(88.8)	-	<b>(88.8)</b>
Impairment of property, plant and equipment	-	(5.8)	-	-	-	(5.8)	-	<b>(5.8)</b>
Amortisation	(0.5)	-	(2.5)	(0.1)	-	(3.1)	-	<b>(3.1)</b>
Share based payments	(0.7)	-	-	-	-	(0.7)	-	<b>(0.7)</b>
Impairment of assets held for sale	(1.2)	-	-	-	-	(1.2)	-	<b>(1.2)</b>
Pension past service costs	(10.5)	-	-	-	-	(10.5)	-	<b>(10.5)</b>
Other income - losses on the sale of businesses and property	13.0	-	-	-	-	13.0	2.7	<b>15.7</b>

#### 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:

	2019 Number	2018 Number
Sales	3,156	3,260
Aftersales	4,304	4,446
Administration	2,104	2,174
	<b>9,564</b>	9,880

Costs incurred in respect of these employees were:

	2019 £m	2018 £m
Wages and salaries	271.6	272.4
Social security costs	25.4	24.1
Contributions to defined contribution plans (see note 5.1)	11.6	7.9
Cost recognised for defined benefit plans (see note 5.1)	(3.0)	12.1
Share based payments (see note 4.6)	0.6	0.7
	<b>306.2</b>	317.2

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 60 to 78.

### 2.5 Audit fees

Auditor's remuneration:	2019 £000	2018 £000
Fees payable to the company's Auditor for the audit of the company's annual accounts:	350.0	267.0
Fees payable to the company's Auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	210.0	174.8
Audit-related assurance services	80.0	45.0
Tax compliance services	71.0	95.0
Other assurance services	10.0	10.0
	<b>721.0</b>	591.8



# 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.

	2019 IFRS 16 £m	2018 IAS 17 £m
Within operating expenses:		
Settlement of historic VAT issues	1.6	-
Impairment of goodwill	(102.4)	(88.8)
Impairment of assets held for sale	(1.9)	(1.2)
Impairment of property, plant and equipment	(2.6)	(5.8)
Impairment of right of use assets	(23.3)	-
Termination and severance costs	(5.5)	-
Car Store closure costs	(1.8)	-
Past service costs in respect of pension obligations	4.8	(10.5)
	<b>(131.1)</b>	<b>(106.3)</b>
Within other income - gains on the sale of businesses, property and investments:		
Gains on the sale of businesses	32.1	3.3
Gains/(losses) on the sale of property	1.2	12.4
	<b>33.3</b>	<b>15.7</b>
Within finance expense:		
Interest on settlement of historic VAT issues	1.9	-
Net interest on pension scheme obligations	(1.8)	(1.6)
	<b>0.1</b>	<b>(1.6)</b>
<b>Total non-underlying items before tax</b>	<b>(97.7)</b>	<b>(92.2)</b>
Non-underlying items in tax	(3.3)	3.0
<b>Total non-underlying items after tax</b>	<b>(101.0)</b>	<b>(89.2)</b>

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 £102.4m made during the year (2018: £88.8m) (see note 3.1).

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

### 2.6 Non-underlying items *continued*

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 £1.9m during the year (2018: £1.2m) and property, plant and equipment of £25.9m (2018: £5.8m) which comprised impairment of owned assets of £2.6m and right of use assets of £23.3m. 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 (2018: £nil).

A Pension Increase Exchange exercise was carried out during the year and the impact of this has been to recognise a credit of £4.8m in the past service cost line. The past service costs for the previous year in respect of pension obligations is an estimate of the cost of GMP equalisation exercise undertaken in 2018.

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 £1.8m has been recognised during the year (2018: £1.6m).

Other income consists of the profit or loss on disposal of businesses and property. This comprises a £32.1m (2018: £3.3m) profit on disposals of motor vehicle dealerships during the year (of which £33.0m was in respect of discontinued operations (2018: £2.7m)) and a £1.2m profit on sale of properties (2018: 12.4m). 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.

The Group announced during the year the closure of 22 Car Stores and one preparation centre following a full market and operating model assessment of the Car Store business. The resultant costs of closure of these sites of £1.8m have been recognised as a non-underlying item.

During the year some of the Group's senior executive team were offered compensation on terminating their employment contracts which amounted to £5.5m (2018: £nil).

We acquired CD Bramall PLC in 2004, with the Group having made a claim in 2003 for VAT overpaid in respect of bonuses received by the Group's leasing companies from OEMs during the period 1988-1995 (Fleming claims). These claims were refused by HMRC over the years for a number of reasons which gradually fell away through litigation with other parties. We were then left with a fundamental objection of principle by HMRC and so we litigated in 2017 and were successful (decision released August 2018). As the legal decision was one of principle only, we were then left to agree quantum with HMRC. This was concluded during the first half of 2019, resulting in a VAT repayment of just over £1.9m (cash received in June 2019) with interest to follow shortly of another £1.9m. Associated costs are expected to be £0.3m which will result in a net gain of £3.5m.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

### 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 *continued*

	2019 IFRS 16 £m	2018 IAS 17 £m
UK corporation tax:		
Current tax on (loss)/profit for the year	(3.6)	5.9
Adjustments in respect of prior periods	-	(2.5)
	<b>(3.6)</b>	3.4
Overseas taxation:		
Current tax on profit for the year	13.4	1.1
Adjustments in respect of prior periods	0.2	0.1
	<b>13.6</b>	1.2
Total current tax	<b>10.0</b>	4.6
Deferred tax expense:		
Origination and reversal of temporary differences	(6.7)	1.5
Total deferred tax	<b>(6.7)</b>	1.5
<b>Total income tax expense in the income statement</b>	<b>3.3</b>	6.1

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% (2018: 19.00%)

The differences are explained below:

	2019 IFRS 16 £m	2018 IAS 17 £m
Loss before taxation	(114.1)	(44.4)
Tax on loss at UK rate of 19.00% (2018: 19.00%)	(21.7)	(8.4)
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	0.3	0.1
Permanent differences arising in respect of fixed assets	1.6	0.9
Tax rate differential on overseas income	1.1	0.7
Non-underlying items (see below)	22.0	14.0
Impact of UK corporation tax rate change	0.6	(0.1)
Adjustments to tax charge in respect of previous periods	(0.6)	(1.1)
Total income tax expense in the income statement	<b>3.3</b>	6.1

#### Taxation - Other comprehensive income

	2019 £m	2018 £m
Relating to defined benefit plan remeasurement (gains) and losses	0.2	-
	<b>0.2</b>	-

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.7 Taxation *continued*

#### Tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £3.0m.

The USA deferred tax liability as at 31 December 2019 has been calculated based on the expected long term federal 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 charge in relation to non-underlying items referred to in note 2.6 is £3.3m (2018: credit of £3.0m). Despite the non-underlying items constituting an overall loss, a tax charge arises due to majority of the loss not being eligible for tax relief (goodwill impairment) and the gains arising on disposal of businesses arises in the US, which is taxed at higher rates.

#### Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £13.8m (2018: £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 £35.2m (2018: £38.0m).

#### 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:

	2019 IFRS 16 £m	2018 IAS 17 £m
Deferred tax assets	25.9	12.6
Deferred tax liabilities	(0.4)	(2.8)
	25.5	9.8

# 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 2018 £m	(Charged) 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)	<b>(5.0)</b>
Retirement benefit obligations	10.7	1.0	-	-	<b>11.7</b>
Other short term temporary differences	2.5	(0.7)	-	-	<b>1.8</b>
Losses	1.3	-	-	-	<b>1.3</b>
Tax assets/(liabilities)	11.4	(1.5)	-	(0.1)	<b>9.8</b>

	At 1 January 2019 £m	Recognised on initial application of IFRS 16 £m	(Charged) /credited to consolidated income statement £m	(Charged) to other comprehensive income £m	Exchange differences £m	At 31 December 2019 £m
Property, plant and equipment	(5.0)	8.7	1.7	-	0.1	<b>5.5</b>
Retirement benefit obligations	11.7	-	(1.8)	0.2	-	<b>10.1</b>
Other short term temporary differences	1.8	-	-	-	-	<b>1.8</b>
Losses	1.3	-	6.8	-	-	<b>8.1</b>
Tax assets/(liabilities)	9.8	8.7	6.7	0.2	0.1	<b>25.5</b>

A deferred tax asset of £8.1m is recognised in the financial statements in respect of losses arising in the UK. £6.8m of this deferred tax asset was generated during 2019 due to the exceptional nature of activity that occurred during 2019. The losses have been recognised as the Group made taxable profits in the UK in 2018 and immediately preceding periods, the Group returned to profit in the second half of 2019 and is forecasting profits to continue in the UK in 2020 and beyond.

Losses carry forward indefinitely though are restricted in their use to 50% of taxable profits above £5m. A sensitivity analysis was conducted to determine the forecast recovery of the whole deferred tax assets of £25.4m. Under this analysis the deferred tax assets are expected to be recovered by the end of 2026. If taxable profit increased by 25% the period of recovery would shorten to the end of 2025. If taxable profits decrease by 25% compared to the forecast the period of recovery would extend to 2028. If taxable profit decreased by 50% the period of recovery would extend to 2031.

# 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 Group 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

	2019 IFRS 16 Earnings per share pence	2019 IFRS 16 Earnings Total £m	2018 IAS 17 Earnings per share pence	2018 IAS 17 Earnings Total £m
Basic earnings per share from continuing operations	(10.7)	(148.9)	(4.1)	(57.0)
Basic earnings per share from discontinued operations	2.3	31.5	0.5	6.5
Basic earnings per share	(8.4)	(117.4)	(3.6)	(50.5)
Adjusting items:				
Non-underlying items attributable to the parent from continuing operations	9.4	130.7	6.8	94.9
Non-underlying items attributable to the parent from discontinued operations	(2.4)	(33.0)	(0.2)	(2.7)
Non-underlying items attributable to the parent (see note 2.6)	7.0	97.7	6.6	92.2
Tax effect of non-underlying items from continuing operations	(0.4)	(5.5)	(0.3)	(3.7)
Tax effect of non-underlying items from discontinued operations	0.6	9.3	0.1	0.7
Tax effect of non-underlying items	0.2	3.3	(0.2)	(3.0)
Underlying earnings per share from continuing operations (Non-GAAP measure)	(1.8)	(24.2)	2.5	34.2
Underlying earnings per share from discontinued operations (Non-GAAP measure)	0.6	7.8	0.3	4.5
Underlying earnings per share (Non-GAAP measure)	(1.2)	(16.4)	2.8	38.7
Diluted earnings per share from continuing operations	(10.7)	(148.9)	(4.1)	(57.0)
Diluted earnings per share from discontinued operations	2.3	31.5	0.5	6.5
Diluted earnings per share	(8.4)	(117.4)	(3.6)	(50.5)
Diluted earnings per share - underlying from continuing operations (Non-GAAP measure)	(1.8)	(24.2)	2.5	34.2
Diluted earnings per share - underlying from discontinued operations (Non-GAAP measure)	0.6	7.8	0.3	4.5
Diluted earnings per share - underlying (Non-GAAP measure)	(1.2)	(16.4)	2.8	38.7

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

	2019 Number	2018 Number
Weighted average number of ordinary shares in issue	1,390.6	1,405.7
Weighted average number of dilutive shares under option	2.6	1.4
Weighted average number of shares in issue taking account of applicable outstanding share options	1,393.2	1,407.1
Non-dilutive shares under option	8.7	10.8

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



# NOTES TO THE FINANCIAL STATEMENTS

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## 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
<b>Cost</b>				
At 1 January 2018	431.5	18.4	12.9	<b>462.8</b>
Additions	-	3.5	0.5	<b>4.0</b>
Disposals	(0.4)	-	(0.4)	<b>(0.8)</b>
Exchange adjustments	0.3	-	-	<b>0.3</b>
Classified as non-current assets held for sale (note 3.3)	(23.9)	-	(0.3)	<b>(24.2)</b>
At 31 December 2018	407.5	21.9	12.7	<b>442.1</b>
At 1 January 2019	407.5	21.9	12.7	<b>442.1</b>
Additions	-	4.1	0.7	<b>4.8</b>
Disposals	(0.7)	(9.9)	(9.0)	<b>(19.6)</b>
Exchange adjustments	-	-	-	-
Classified as non-current assets held for sale (note 3.3)	-	-	-	-
At 31 December 2019	406.8	16.1	4.4	<b>427.3</b>
<b>Amortisation</b>				
At 1 January 2018	70.3	12.3	11.5	<b>94.1</b>
Amortised during the year	-	2.5	0.6	<b>3.1</b>
Impairment	88.8	-	-	<b>88.8</b>
Disposals	-	-	(0.2)	<b>(0.2)</b>
Classified as non-current assets held for sale (note 3.3)	(17.5)	-	(0.3)	<b>(17.8)</b>
At 31 December 2018	141.6	14.8	11.6	<b>168.0</b>
At 1 January 2019	141.6	14.8	11.6	<b>168.0</b>
Amortised during the year	-	2.8	0.7	<b>3.5</b>
Impairment	102.4	-	-	<b>102.4</b>
Disposals	-	(9.9)	(9.0)	<b>(18.9)</b>
Classified as non-current assets held for sale (note 3.3)	-	-	-	-
At 31 December 2019	244.0	7.7	3.3	<b>255.0</b>
<b>Carrying amounts</b>				
At 1 January 2018	361.2	6.1	1.4	<b>368.7</b>
At 31 December 2018	265.9	7.1	1.1	<b>274.1</b>
At 31 December 2019	162.8	8.4	1.1	<b>172.3</b>

# 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:	2019 £m	2018 £m
Amortisation of internally generated intangible assets	2.8	2.5
Amortisation of other intangible assets	0.7	0.6
Impairment of goodwill	102.4	88.8
Research and development costs	0.6	0.5

Goodwill is allocated across multiple cash-generating units which are motor 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 less costs to sell (where value is determined by applying a trading multiple to the estimated future cash flow or by assessing the depreciated replacement cost of the individual assets) (this is the cost to replace or construct a substitute asset) and value in use (where 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 for 2020. The 2020 forecast was derived from the corporate plan, approved by the Board and compiled on a bottom up basis. New car volume growth was based on the latest SMMT forecasts. Used car and aftersales revenue and gross profit growth has been based on latest run-rates for the CGUs. The 2021 to 2024 forecast represents a projection from the 2020 bottom up forecast.

Fair value less costs of disposal has been calculated using transaction and trading multiples. The multiples are based on median EV / LTM EBITDA for relevant transactions post 2010 across the 3 main sectors of Pendragon: retail, leasing and software.

It is anticipated that the units will grow revenues in the future. For the purpose of the impairment testing, a long-term growth rate of 1.6% (2018: 2.0%) has been assumed beyond 2024. The growth rate of 1.6% that has been used in the impairment calculations is based on long-term inflation.

The pre-tax 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 discount rates used are specific to each CGU and vary between 8.0% and 12.0% (2018: discount rates varied between 9.7% and 21.1%). The reduction in discount rates reflect the cash flow forecasts being risk adjusted to a greater degree this year.

It is recognised that the net asset value of the Group 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. 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 £102.4m arises on certain CGUs, as described below.

# 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:

2018	At 1 January 2018		Business disposals		Exchange adjustments		Classified as on-current held for sale		At 31 December 2018		PPE (note 3.2) Impairment		RoU asset (note 3.2) Impairment		Recoverable amount of CGU		Recoverable amount approach		Discount rate/ Trading Multiple		Headroom	
	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em
Ford	69.7	-	-	-	-	-	69.7	-	-	69.7	-	-	-	-	172.9	FVLCTS	7.25	618				
Vauxhall	77.8	-	(13.4)	-	-	-	64.4	-	-	64.4	-	-	-	-	89.5	VIU	18.4%	-				
BMW	32.1	-	(24.2)	-	-	-	7.9	-	-	7.9	-	-	-	-	46.9	FVLCTS	Equal to book value	-				
Mercedes-Benz	47.8	-	(20.0)	-	-	-	27.8	-	-	27.8	-	-	-	-	31.8	DRC	18.4%	-				
Jaguar Land Rover	18.0	-	(0.8)	-	-	-	17.2	-	-	17.2	-	-	-	-	44.1	VIU	18.4%	-				
MINI	7.3	-	-	-	-	-	7.3	-	-	7.3	-	-	-	-	11.9	VIU	18.4%	1.5				
Citroen	13.5	-	(2.0)	-	-	-	11.5	-	-	11.5	-	-	-	-	24.8	VIU	13.4%	1.5				
Nissan	9.7	-	-	-	-	-	9.7	-	-	9.7	-	-	-	-	16.1	VIU	13.4%	3.9				
Car Store	10.0	-	(10.0)	-	-	-	-	-	-	-	(5.8)	-	-	-	33.2	DRC	Equal to book value	-				
Renault	25.1	-	(12.9)	-	-	-	12.2	-	-	12.2	-	-	-	-	17.7	FVLCTS	7.25	-				
Others	50.2	(0.4)	(5.5)	0.3	(6.4)	-	38.2	-	-	38.2	-	-	-	-	380.7			-				
<b>Total</b>	<b>361.2</b>	<b>(0.4)</b>	<b>(88.8)</b>	<b>0.3</b>	<b>(6.4)</b>	<b>(5.8)</b>	<b>265.9</b>	<b>(6.4)</b>	<b>(5.8)</b>	<b>265.9</b>	<b>(5.8)</b>	<b>-</b>	<b>-</b>	<b>802.9</b>								
2019	At 1 January 2019		Business disposals		Exchange adjustments		Classified as on-current held for sale		At 31 December 2019		PPE (note 3.2) Impairment		RoU asset (note 3.2) Impairment		Recoverable amount of CGU		Recoverable amount approach		Discount rate/ Trading Multiple		Headroom	
	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em	Em
Ford	69.7	-	-	-	-	-	69.7	-	-	69.7	-	-	-	-	191.2	VIU	8.0%	30.8				
Vauxhall	64.4	-	(29.2)	-	-	-	35.2	-	-	35.2	-	-	(1.3)	-	91.2	VIU	8.0%	-				
BMW	7.9	-	(7.9)	-	-	-	-	-	-	-	-	-	(0.2)	-	45.4	DRC	Equal to book value	-				
Mercedes-Benz	27.8	-	(27.8)	-	-	-	-	-	-	-	(0.3)	-	(0.6)	-	5.9	DRC	Equal to book value	-				
Jaguar Land Rover	17.2	(0.7)	(16.5)	-	-	-	-	-	-	-	(0.3)	-	(1.3)	-	56.0	VIU	8.0%	-				
MINI	7.3	-	(7.3)	-	-	-	-	-	-	-	-	-	-	1.4	DRC	Equal to book value	-	-				
Citroen	11.5	-	(1.9)	-	-	-	9.6	-	-	9.6	-	-	-	24.3	VIU	8.0%	-	-				
Nissan	9.7	-	(9.7)	-	-	-	-	-	-	-	(0.7)	-	-	4.9	VIU	8.0%	-	-				
Car Store	-	-	-	-	-	-	-	-	-	-	(0.8)	-	(18.7)	-	25.0	DRC	Equal to book value	-				
Renault	12.2	-	(0.3)	-	-	-	11.9	-	-	11.9	-	-	-	22.6	VIU	8.0%	-	-				
Others	38.0	-	(1.8)	-	-	-	36.4	-	-	36.4	(0.5)	(1.2)	-	493.2			-	-				
<b>Total</b>	<b>265.7</b>	<b>(0.7)</b>	<b>(102.4)</b>	<b>-</b>	<b>-</b>	<b>(2.6)</b>	<b>162.8</b>	<b>(2.6)</b>	<b>(2.6)</b>	<b>162.8</b>	<b>(2.6)</b>	<b>(23.3)</b>	<b>961.1</b>									

VIU - Value in use, FVLCTS - Fair value less costs to sell, DRC - Depreciated replacement cost.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

Goodwill by segment	2019 £m	2018 £m
UK Motor	140.5	243.6
Pinewood	0.3	0.3
Leasing	22.0	22.0
	162.8	265.9

#### 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 long-term 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.

Sensitivities have not been provided for FVLCTS and DRC as reasonably possible changes in assumptions would not lead to a significant change in any impairment required.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

Sensitivity by CGU

	Carrying Value £m	Current Headroom £m	Headroom Increase		Further Impairment	
			Long-Term Growth Rate 1.0% Increase	Discount Rate 1.0% Decrease	Long-Term Rate 1.0% Decrease	Discount Rate 1.0% Increase
Ford	69.7	30.8	24.7	31.8	(18.2)	(23.5)
Vauxhall	35.2	-	9.7	13.3	(7.0)	(9.8)
Jaguar Land Rover	-	-	7.0	9.5	(5.2)	(6.9)
Citroen	9.6	-	2.6	3.5	(1.9)	(2.6)
Nissan	-	-	0.6	0.7	(0.4)	(0.6)
Renault	11.9	-	3.0	3.8	(2.2)	(2.8)
Others	36.4	382.8				
<b>Total</b>	<b>162.8</b>	<b>413.6</b>				

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

Ford is the CGU with the largest amount of headroom (£30.8m) noted above. For an impairment to occur in the Ford CGU, there would have to be either: a reduction in the profit growth rate of 0.3%, or an increase in the discount rate to 9.4%.

# 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 with 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 charge in respect of property, plant and equipment is recognised within administrative expenses within the income statement.

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	Total £m
<b>Cost</b>					
At 1 January 2018	319.4	86.0	52.0	213.2	<b>670.6</b>
Additions	21.7	15.0	92.5	65.5	<b>194.7</b>
Exchange adjustments	2.1	0.5	-	-	<b>2.6</b>
Business disposals	(4.3)	(0.8)	-	-	<b>(5.1)</b>
Other disposals	(1.6)	(4.7)	(96.0)	-	<b>(102.3)</b>
Contract hire vehicles transferred to inventory	-	-	-	(48.6)	<b>(48.6)</b>
Classified as non-current assets held for sale (note 3.3)	(43.0)	(8.8)	(1.8)	-	<b>(53.6)</b>
At 31 December 2018	294.3	87.2	46.7	230.1	<b>658.3</b>

# 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
<b>Cost</b>					
At 1 January 2019	294.3	87.2	46.7	230.1	<b>658.3</b>
Recognition of right-of-use asset on initial application of IFRS 16	394.1	-	0.5	-	<b>394.6</b>
Adjusted balance at 1 January 2019	688.4	87.2	47.2	230.1	<b>1,052.9</b>
Additions	37.8	10.9	62.8	107.9	<b>219.4</b>
Exchange adjustments	-	-	-	-	<b>-</b>
Business disposals	(6.1)	(1.1)	-	-	<b>(7.2)</b>
Other disposals	(12.8)	(10.7)	(72.4)	-	<b>(95.9)</b>
Contract hire vehicles transferred to inventory	-	-	-	(92.7)	<b>(92.7)</b>
Classified as non-current assets held for sale (note 3.3)	(22.7)	-	-	-	<b>(22.7)</b>
Reinstated from non-current assets held for sale	10.9	-	-	-	<b>10.9</b>
At 31 December 2019	695.5	86.3	37.6	245.3	<b>1,064.7</b>
<b>Depreciation</b>					
At 1 January 2018	58.2	55.9	17.1	59.5	<b>190.7</b>
Exchange adjustments	0.6	0.4	-	-	<b>1.0</b>
Charge for the year	6.5	8.9	8.9	37.9	<b>62.2</b>
Impairment	1.8	4.0	-	-	<b>5.8</b>
Business disposals	(0.2)	(0.6)	-	-	<b>(0.8)</b>
Other disposals	(1.3)	(4.3)	(19.8)	-	<b>(25.4)</b>
Contract hire vehicles transferred to inventory	-	-	-	(20.8)	<b>(20.8)</b>
Classified as non-current assets held for sale (note 3.3)	(11.8)	(6.3)	(0.2)	-	<b>(18.3)</b>
At 31 December 2018	53.8	58.0	6.0	76.6	<b>194.4</b>
At 1 January 2019	53.8	58.0	6.0	76.6	<b>194.4</b>
Recognition of right-of-use asset on initial application of IFRS 16	201.5	-	-	-	<b>201.5</b>
Adjusted balance at 1 January 2019	255.3	58.0	6.0	76.6	<b>395.9</b>
Exchange adjustments	-	-	-	-	<b>-</b>
Charge for the year	25.6	8.5	7.1	42.1	<b>83.3</b>
Impairment	25.5	0.4	-	-	<b>25.9</b>
Business disposals	(1.1)	(0.5)	-	-	<b>(1.6)</b>
Other disposals	(8.0)	(9.7)	(7.7)	-	<b>(25.4)</b>
Contract hire vehicles transferred to inventory	-	-	-	(43.4)	<b>(43.4)</b>
Classified as non-current assets held for sale (note 3.3)	(4.3)	-	-	-	<b>(4.3)</b>
Reinstated from non-current assets held for sale	6.0	-	-	-	<b>6.0</b>
At 31 December 2019	299.0	56.7	5.4	75.3	<b>436.4</b>



# 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
<b>Carrying amounts</b>					
At 1 January 2018	261.2	30.1	34.9	153.7	<b>479.9</b>
At 31 December 2018	240.5	29.2	40.7	153.5	<b>463.9</b>
At 31 December 2019	396.5	29.6	32.2	170.0	<b>628.3</b>

Property, plant and equipment includes right-of-use assets of £158.7m (see Note 4.7).

During the year three properties were re-classified as property, plant and equipment following decisions to withdraw them from sale. All three properties have been re-instated at the lower of their recoverable amount, or the carrying amount had the asset never been moved to assets held for sale. In all three instances the properties were re-instated at their recoverable value having been previously impaired down to those values.

	2019 £m	2018 £m
Building projects currently under construction for which no depreciation has been charged during the year	<b>19.6</b>	11.7
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment	<b>8.4</b>	5.7
Cumulative interest charges capitalised as construction costs and included in land and buildings	<b>4.4</b>	3.6

The following items have been charged to the income statement as operating expenses during the year:

	2019 £m	2018 £m
Depreciation of property, plant and equipment - leased	<b>19.2</b>	-
Depreciation of contract hire vehicles - leased	<b>42.1</b>	37.9
Depreciation of property, plant and equipment - owned	<b>22.0</b>	24.3

# 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 intended to dispose of the US motor business and had 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 and the sale of Jaguar Land Rover Mission Viejo and Newport Beach completed in the second half of 2019 for proceeds of £59.3m. The Group expects that a buyer can be found to conclude a sale of the remainder of the business during the first half of 2020. As such the results of the US Business are shown as a discontinued operation within these consolidated financial statements and its assets and liabilities reclassified as held for sale as a disposal group. No impairment loss has been recognised in the income statement for the year ended 31 December 2019 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

From 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.

	2019 £m	2018 £m
Goodwill	6.2	6.5
Other intangible assets	0.1	0.1
Property plant and equipment	61.7	32.0
Inventories	50.2	68.9
Trade and other receivables	19.2	25.1
Assets held for sale	137.3	132.6
Trade and other payables	(90.5)	(88.6)
Liabilities held for sale	(90.5)	(88.6)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.3 Assets held for sale and discontinued operations *continued*

	2019 £m	2018 £m
Exchange differences on translation of discontinued operation	(0.2)	-
Other comprehensive income from discontinued operation	(0.2)	-
	<b>2019 £m</b>	<b>2018 £m</b>
Net cash (used in)/from operating activities	(41.1)	7.9
Net cash from investing activities	79.2	1.1
Net cash used in financing activities	(24.4)	-
Net cash increase generated by discontinued operation	13.7	9.0
	<b>2019 pence</b>	<b>2018 pence</b>
Basic earnings per share from discontinued operation	2.3	0.5
Underlying basic earnings per share from discontinued operation	0.6	0.3
Diluted earnings per share from discontinued operation	2.3	0.5

### Balance sheet

The Group has classified the non current assets of the US motor business as held for sale as at 31 December 2019. 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:

	2019 IFRS 16 £m	2018 IAS 17 £m
Goodwill	6.2	6.5
Other intangible assets	0.1	0.1
Property, plant and equipment	74.5	37.0
Inventories	50.2	68.9
Trade and other receivables	19.2	25.1
	<b>150.1</b>	<b>137.6</b>

### Income statement

The following items have been credited/(charged) to the income statement during the year:	Income statement category	2019 £m	2018 £m
Profit on sale of assets classified as held for sale	Other income - gains/(losses) on the sale of businesses and property	32.9	0.3
Impairment of assets held for sale	Net operating expenses	(1.9)	(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 (2018: £0.5m).

# 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

	2019 £m	2018 £m
New and used vehicles	730.5	858.1
Consignment vehicles	79.5	71.8
Vehicle parts and other inventories	29.0	29.7
	<b>839.0</b>	959.6

	2019 £m	2018 £m
Inventories recognised as an expense during the year	3,977.8	4,021.2
Carrying value of inventories subject to retention of title clauses	726.4	931.8
Write-down of inventories to net realisable value	7.2	7.6

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 £500 per unit worse for used vehicles that are expected to make a loss per unit, the net realisable value of inventory would reduce by £2.4m in the year.

#### Cash flow statement information

	2019 £m	2018 £m
Movement in inventory	120.6	43.9
Inventory changes in business combinations and disposals	(2.9)	(2.0)
Impact of exchange differences	0.5	(0.7)
Non cash movement in consignment vehicles	7.7	(23.7)
Classified as held for sale	(50.2)	(68.9)
Transfer value of contract hire vehicles from fixed assets to inventory	49.3	27.8
Cash flow decrease due to movements in inventory	<b>186.7</b>	(23.6)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.5 Movement in contract hire vehicle balance

	2019 £m	2018 £m
Depreciation	42.1	37.9
Changes in trade and other payables and deferred income	13.3	(1.5)
Purchases of contract hire vehicles	(107.9)	(65.5)
Unwinding of discounts in contract hire residual values	(3.1)	(2.8)
	(55.6)	(31.9)

### 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 is based on an 'expected credit loss' (ECL) model. The impairment model applies to financial assets measured at amortised cost.

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

	2019 IFRS 16 £m	2018 IAS 17 £m
Trade receivables	42.4	46.3
Allowance for doubtful debts	(0.4)	(0.4)
	<b>42.0</b>	45.9
Other receivables	60.0	52.5
Prepayments	4.9	16.4
	<b>106.9</b>	114.8

All amounts are due within one year with the exception of finance lease receivables.

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 2019 was £50.9m (2018: £60.1m). This includes trade receivables that have been classified as held for sale of £8.9m (2018: £14.2m).

The average credit period taken on sales of goods is 29 days (2018: 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. The calculation is based on an average of previous default experiences which is assessed against the risk of the current total in light of current economic expectations. An expense has been recognised in respect of impairment losses during the year of £0.6m (2018: £0.6m).

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

	Trade receivables 2019 £m	Other receivables 2019 £m	Trade receivables 2018 £m	Other receivables 2018 £m
Not past due	28.6	51.3	31.9	41.7
Past due 0-30 days	9.7	4.9	10.3	4.6
Past due 31-120 days	3.4	3.8	3.3	6.2
Past due 120+ days	0.7	-	0.8	-
	<b>42.4</b>	<b>60.0</b>	46.3	52.5
Provision for impairment	(0.4)	-	(0.4)	-
	<b>42.0</b>	<b>60.0</b>	45.9	52.5

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

	2019 £m	2018 £m
Balance at 1 January	0.4	0.4
Utilisation	(0.6)	(0.5)
Impairment loss recognised	0.6	0.5
Balance at 31 December	<b>0.4</b>	0.4

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

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.6 Trade and other receivables *continued*

#### Finance lease receivables

Where the group acts as a lessor of properties of which it is a lessee and the term of the head lease and sub lease are coterminous, rather than recognise a right of use asset the Group recognises a finance lease receivable which is measured at the net present value of future cash receipts discounted at the Groups incremental borrowing rate. The finance income element of rentals received under these leases is credited so as to give a constant rate of finance income on the remainder of the obligation. Finance income is credited in the income statement. The finance lease receivable is reduced by rentals received and increased by the interest income recognised.

	2019 IFRS 16 £m	2018 IAS 17 £m
Non-current	20.6	-
Current	2.4	-
	23.0	-

Finance lease rentals are invoiced quarterly on standard rent quarter days, no credit terms are extended beyond these dates. Expected credit losses in respect of finance lease receivables are deemed immaterial.

# 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

	2019 £m	2018 £m
Trade payables	843.1	940.5
Contract hire buyback commitments	88.1	81.2
Consignment vehicle liabilities	79.5	71.8
Payments received on account	18.7	11.4
Other taxation and social security	25.8	17.7
Accruals	89.8	107.2
	<b>1,145.0</b>	1,229.8
Non-current	60.4	54.4
Current	1,084.6	1,175.4
	<b>1,145.0</b>	1,229.8

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

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## 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

Prior to the adoption of IFRS 16 on 1 January 2019 a provision for vacant properties was recognised when the expected benefits to be derived by the Group from a lease contract were lower than the unavoidable cost of meeting its obligation under the contract. The provision was 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.

On adoption of IFRS 16 the Group has, as an alternative to performing an impairment review, applied the practical expedient to determine if a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application. On the date of initial application the value of right of use assets has been reduced by £0.7m in respect of leases previously classified as operating leases by applying the value of the vacant property provision held against them.

At 31 December 2018 the Group had a vacant property provision of £2.3m. £0.7m related to leases now classified as right of use assets and on transition to IFRS 16 this has been allocated against the carrying value of those assets. The remaining £1.6m of the vacant property provision related to properties that were fully sub-let to term. As such, the Group will not share the risks and rewards of ownership in these leases over the lease term and therefore no right of use asset has been recognised so the £1.6m has been credited to reserves on transition.

The movements in provisions for the year are as follows:

	<b>Vacant property provision £m</b>
At 31 December 2018	<b>2.3</b>
Provisions allocated to right of use assets on adoption of IFRS 16	<b>(0.7)</b>
Provisions derecognised on adoption of IFRS 16	<b>(1.6)</b>
At 31 December 2019	-

# 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. This comprised of a credit recognised in respect of the contractual rentals being higher than the fair values of such rentals at the time of the sale and leaseback, and of the resultant credit from recognising rentals with fixed annual increases on a straight line basis. On transition to IFRS 16 on 1 January 2019, the fair value component of the deferred income of £11.4m has been credited against the carrying value of right of use assets.

#### 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 Group for contract hire purposes where the Group undertakes to repurchase the vehicle at a predetermined date are accounted for in accordance with IFRS 16 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 Group 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 2018	11.4	18.8	71.7	<b>101.9</b>
Allocated to right of use assets on adoption of IFRS 16	(11.4)	-	-	<b>(11.4)</b>
Created in the year	-	11.0	49.0	<b>60.0</b>
Recognised as income during the year	-	(10.4)	(42.6)	<b>(53.0)</b>
At 31 December 2019	-	19.4	78.1	<b>97.5</b>
Non-current	-	5.4	41.2	<b>46.6</b>
Current	-	14.0	36.9	<b>50.9</b>
	-	19.4	78.1	<b>97.5</b>
Recognition of opening balance as at 31 December 2018				
Reclassified on adoption of IFRS 16	11.4	-	-	<b>11.4</b>
Recognised during the year	-	13.9	36.3	<b>50.2</b>
Carried forward at 31 December 2019	-	4.9	35.4	<b>40.3</b>
	11.4	18.8	71.7	<b>101.9</b>

The deferred income balance at 31 December for warranty policies and contract hire is the aggregate transaction price allocated to performance obligations that are unsatisfied or partly satisfied at the reporting date. No information is provided about remaining performance obligations at 31 December 2019 or 31 December 2018 that have an original expected duration of one year or less as allowed by IFRS 15.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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		

### 4.1 Accounting policies

IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. Subsequent to initial recognition financial assets and financial liabilities are classified and measured as described below.

#### Financial assets

IFRS 9 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 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.

A financial asset is measured at amortised cost if both of the following conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are therefore classified and measured in these financial statements at amortised cost.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.1 Accounting policies *continued*

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

#### Measurement of ECLs

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). ECLs are discounted at the effective interest rate of the financial asset.

#### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

#### Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

#### Impairment of financial assets

IFRS 9 adopts an expected credit loss approach (ECL). The IFRS 9 approach does not require a credit event (an actual loss or a debt past a number of days due) 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.

#### Financial assets

	IFRS 9 classification	£m
Trade and other receivables	Amortised cost	102.0
Finance lease receivables	Amortised cost	23.0
Cash and cash equivalents	Amortised cost	55.7

**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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.1 Accounting policies *continued*

#### 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

#### 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

<b>Net Debt</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	<b>55.7</b>	51.4
Non-current interest bearing loans and borrowings	<b>(175.4)</b>	(177.5)
	<b>(119.7)</b>	(126.1)

The Group has on adoption of IFRS 16 Leases excluded Finance Lease liabilities from its measure of Net Debt. Full details of lease liabilities are presented in note 4.7.

#### 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.

	<b>Carrying value and fair value 2019</b>	<b>Carrying value and fair value 2018</b>
	<b>£m</b>	<b>£m</b>
Bank balances and cash equivalents	<b>55.7</b>	51.4

#### Borrowings

As at 31 December 2019, the Group had a £240m credit facility and a £60m senior note, expiring as set out below:

	<b>Expiry Date</b>	<b>£m</b>
Revolving credit facility	March 2021	<b>240.0</b>
Senior note	March 2023	<b>60.0</b>
		<b>300.0</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

During 2016 the Group 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 2019, £2.0m had been amortised and £0.1m remains to be amortised in future periods.

	Current margin	Commitment (non-utilisation) fee
Revolving credit facility	1.85%	0.65%
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 2019, the margin was 1.85%, consequent on the Group having achieved a ratio of between 1.5 and 2.0 for the twelve month period ended 30 June 2019. 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.

#### Amendment and extension of the revolving credit facility

With effect from 11 March 2020 the maturity of the revolving credit facility has been extended to 31 March 2022 and the facility has been reduced to £175m. The margin has been increased by 0.50% for each level of the net debt to underlying EBITDA ratchet.

#### Summary of borrowings

	Carrying value IFRS 16 2019 £m	Fair value IFRS 16 2019 £m	Carrying value IAS 17 2018 £m	Fair value IAS 17 2018 £m
<b>Non-current:</b>				
Bank borrowings	115.2	115.2	117.3	117.3
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	237.8	237.8	1.5	1.5
Total non-current	413.2	413.2	179.0	179.0
Finance leases	23.9	23.9		
Total current	23.9	23.9	-	-
Total borrowings	437.1	437.1	179.0	179.0

# 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 2019	177.5	1.5	70.0	74.1	201.5	<b>524.6</b>
Adjustment on initial application of IFRS 16 (net of tax) (see note 1)	-	279.7	-	-	(48.4)	<b>231.3</b>
<b>Adjusted balance at 1 January 2019</b>	<b>177.5</b>	<b>281.2</b>	<b>70.0</b>	<b>74.1</b>	<b>153.1</b>	<b>755.9</b>
<b>Cash flows from financing activities</b>						
Dividends paid to shareholders	-	-	-	-	(9.7)	<b>(9.7)</b>
Repurchase of own shares	-	-	(0.1)	0.1	(0.5)	<b>(0.5)</b>
Payment of lease liabilities (excluding those classified as held for sale)	-	(38.2)	-	-	-	<b>(38.2)</b>
Repayment of loans	(5.0)	-	-	-	-	<b>(5.0)</b>
Proceeds from issue of loans	5.4	-	-	-	-	<b>5.4</b>
	0.4	(38.2)	(0.1)	0.1	(10.2)	<b>(48.0)</b>
Other changes						
The effect of changes in foreign exchange rates	(3.0)	-	-	-	-	<b>(3.0)</b>
New finance leases undertaken	-	8.4	-	-	-	<b>8.4</b>
Disposal of finance leases	-	(4.2)	-	-	-	<b>(4.2)</b>
Liability-related : Lease expenses	-	14.5	-	-	-	<b>14.5</b>
Liability-related : Amortisation of fees and expenses	0.5	-	-	-	-	<b>0.5</b>
Equity-related ; Total other changes	-	-	-	(0.2)	(120.2)	<b>(120.4)</b>
At 31 December 2019	175.4	261.7	69.9	74.0	22.7	<b>372.4</b>

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.

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 2019 and repricing periods, is set out in the table below.

# 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	55.7	Amortised cost	Floating GBP	0.70% - 2.11%	6 months or less
<b>Borrowings</b>						
Non - current:						
Bank borrowings	Other financial liabilities	39.8	Amortised cost	Floating GBP	1.88% - 2.12%	6 months or less
Bank borrowings	Other financial liabilities	75.4	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	237.8	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a
Total non-current		413.2				
Finance leases	Other financial liabilities	23.9	Amortised cost	Fixed GBP	1.91%	n/a
Total current		23.9				
Total borrowings		437.1				

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

	2019 IFRS 16 £m	2018 IAS 17 £m
Pound sterling	361.7	106.1
US dollar	75.4	72.9
	437.1	179.0

### 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 if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

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, excluding finance lease liabilities:

	<b>2019</b> <b>IFRS 16</b> <b>£m</b>	2018 IAS 17 £m
Between 1 and 2 years	<b>115.2</b>	-
Between 2 and 5 years	<b>60.2</b>	179.0
Over 5 years	-	-
	<b>175.4</b>	179.0

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	115.2	119.0	1.5	1.5	116.0	-	-
Senior note	60.0	71.2	1.7	1.7	3.5	64.3	-
Loan notes	0.2	0.4	-	-	-	0.4	-
	175.4	190.6	3.2	3.2	119.5	64.7	-
Finance leases	261.7	371.6	18.2	18.1	35.7	102.9	196.7
	437.1	752.8	24.6	24.5	274.7	232.3	196.7

The Group has the following undrawn borrowing facilities:

	<b>2019</b> <b>£m</b>	2018 £m
Expiring in 1-2 years	<b>124.8</b>	-
Expiring in more than two years	-	122.7

# 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.

	<b>Profit/(loss)</b> <b>2019</b> <b>£m</b>	Profit/(loss) 2018 £m
100 basis points increase	<b>(4.7)</b>	(7.6)
Tax effect	<b>0.9</b>	1.4
Effect on net assets	<b>(3.8)</b>	(6.2)
100 basis points decrease	<b>4.7</b>	7.6
Tax effect	<b>(0.9)</b>	(1.4)
Effect on net assets	<b>3.8</b>	6.2

#### 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 100.0m (2018: USD 93.0m) 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.

	2019 \$m	2018 \$m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	100.0	93.0
	<b>£m</b>	£m
Foreign exchange gains/(losses) on translation of borrowings to sterling at balance sheet date	3.0	(4.0)
Foreign exchange (losses)/gains on translation of net investments to sterling at balance sheet date	(3.2)	4.0
Net exchange gain/(loss) recognised within translation reserve in equity	(0.2)	-

#### 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:

	2019 £m	2018 £m
Manufacturer finance arm	474.7	524.2
Third party stock finance	280.7	407.6
Bank	83.6	96.7
Total inventories	839.0	1,028.5

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 2019 amounted to £47m (2018: £22m).

# 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 2019 comprises:

	<b>2019</b> <b>IFRS 16</b> <b>£m</b>	2018 IAS 17 £m
Net debt	<b>119.7</b>	126.1
Finance lease liabilities	<b>237.8</b>	1.5
Stock finance	<b>726.4</b>	931.8
Pension deficit	<b>59.0</b>	68.3
	<b>1,142.9</b>	1,127.7

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 2019 the net debt : underlying EBITDA ratio achieved was 1.1 : 1 on an IFRS 16 basis and 1.5 : 1 on an IAS 17 basis (see alternative performance measures in section 1), calculated as follows:

	<b>2019</b> <b>IFRS 16</b> <b>£m</b>	2019 IAS 17 £m	2018 IAS 17 £m
Underlying operating profit	<b>26.7</b>	11.3	76.2
Depreciation	<b>83.3</b>	64.1	62.2
Amortisation	<b>3.5</b>	3.5	3.1
Underlying EBITDA	<b>113.5</b>	78.9	141.5
Net debt (being net debt as set out above)	<b>119.7</b>	119.7	126.1
Net debt : underlying EBITDA ratio	<b>1.1</b>	1.5	0.9

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2019 and 2018 are set out below:

	<b>2019</b> <b>IFRS 16</b>	2018 IAS 17
Underlying profit before tax (£m)	<b>(16.4)</b>	47.8
Underlying earnings per share (p)	<b>(1.2)</b>	2.8
Net debt : underlying EBITDA	<b>1.1</b>	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 would be reduced over a three year period. To date this process is now complete with 6 Jaguar Land Rover franchise sites either disposed of or closed in FY19. US Motor Group - the business would be sold to realise its value of approximately £100m before tax. In total to date, total disposal proceeds of £78.8m have been received (including £16.5m received in February 2020); two businesses remain to be sold. UK Used car business - this would be the focus for growth and will remain a core part of the strategy to be developed by the Group's new management.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

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 within this level. The Group believes that it will continue to generate strong cash flows and shall be developing a strategy during 2020 to assess the capital needs of the business and the leverage position.

The Group has previously engaged in share buyback programmes though none are currently operating. 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 Group'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.

# 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

Recognised in profit and loss	2019 IFRS 16 £m	2018 IAS 17 £m
Interest payable on bank borrowings, Senior note and loan notes	8.2	8.4
Vehicle stocking plan interest	19.3	18.1
Interest payable on finance leases	14.4	0.1
Net interest on pension scheme obligations (non-underlying - see note 2.6)	1.8	1.6
Less: interest capitalised	(0.8)	(1.0)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	42.9	27.2
Unwinding of discounts in contract hire residual values	3.1	2.8
Total finance expense	46.0	30.0

Interest of £0.8m has been capitalised during the year on assets under construction at an average rate of 5.75%

#### Finance income

Recognised in profit and loss	2019 IFRS 16 £m	2018 IAS 17 £m
Interest receivable on finance leases	1.1	-
Interest on settlement of historic VAT issues	1.9	-
Total finance income	3.0	-

# 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 2018	1,399,149,025	70.0
Shares cancelled during the year	(2,204,621)	(0.1)
Allotted, called up and fully paid shares of 5p each at 31 December 2019	1,396,944,404	69.9

There were no issues of ordinary shares during the year.

2,204,621 ordinary shares having a nominal value of £0.1m were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders in the Annual General Meeting on 25 April 2019. The aggregate consideration paid, including directly attributable costs, was £0.5m. Since the commencement of the current share buyback programme in 2016, as at 31 December 2019, 63,376,251 shares have been bought back and cancelled representing 4.3% of the issued ordinary shares, at a total cost to date of £18.7m. The share buyback programme has been suspended and the Group anticipate that no further transactions will be made during 2020.

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 Group. All shares rank equally with regard to the Group's residual assets.

#### Capital redemption reserve

The capital redemption reserve has arisen following the purchase by the Group 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. £0.1m (2018: £1.2m) was transferred into the capital redemption reserve during the year in respect of shares purchased by the Group and subsequently cancelled.

#### Other reserves

Other reserves comprise the amount of demerger reserve arising on the demerger of the Group 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 Group, 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 Group's own shares at 31 December 2019 was £0.8m (2018: £1.4m), being 6.4m (2018: 6.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2018: £0.33). During the year the trust acquired no shares (2018: nil) and disposed of no shares (2018: 1.3m, for a consideration of £0.1m) shares in respect of LTIP and executive share option awards. The amounts deducted from retained earnings for shares held by the EBT at 31 December 2019 was £18.1m (2018: £18.1m). 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 60 to 78.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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.

	2019 £m	2018 £m
Ordinary shares		
Final dividend in respect of 2018 of 0.7p per share (2017: 0.8p per share)	9.7	11.3
Interim dividend in respect of 2019 of nil per share (2018: 0.8p per share)	-	11.2
	<b>9.7</b>	<b>22.5</b>

The Board is not recommending the payment of a final dividend for 2019 (2018: 0.7p equating to £9.7m).



# 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 2019	Number of options millions 2019	Weighted average exercise price 2018	Number of options millions 2018
Outstanding at beginning of period	23.6p	5.5	29.89p	12.9
Exercised during the period	-	-	11.17p	(1.3)
Lapsed during the period	31.8p	(0.3)	39.45p	(6.1)
Outstanding at the end of the period	23.1 p	5.2	23.63p	5.5
Exercisable at the end of the period	23.1 p	5.2	23.63p	5.5

The options outstanding at 31 December 2019 have an exercise price in the range of 8.82p to 31.82p and a weighted contractual life of 3.4 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 2018 Number	Exercised Number	Lapsed Number	At 31 December 2019 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	758,318	-	-	758,318
31 March 2015 to 30 March 2022	30 March 2012	13.50p	1,100,000	-	-	1,100,000
19 September 2017 to 19 September 2024	18 September 2014	31.82p	3,229,500	-	(350,000)	2,879,500
			5,523,795	-	(350,000)	5,173,795

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 Group'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.

There were no exercises of share options during the year. The weighted average share price at the date of exercise for share options exercised in the previous year was 25.5p.

All options are settled by physical delivery of shares.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation *continued*

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 2019 is 6.4p (2018: 6.4p).

The Group recognised a total net expense of £0.6m (2018: £0.7) as an employee benefit cost in respect of all equity-settled share based payment transactions included within administration costs.

### 4.7 Leases

#### Accounting policies

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

#### Leases as a Lessee - Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Cost comprises the initial amount of the lease liability adjusted for any initial direct costs incurred less any lease incentives received. Depreciation is recognised on a straight line basis over the period of the lease the right of use asset is expected to be utilised.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or when this is not readily attainable, the Group's incremental borrowing rate. Lease payments include fixed rental payments and amounts expected to be payable under a residual value guarantee. Generally the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by payments made. It is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in amounts payable following contractual rent reviews and changes in the assessment of whether an extension/termination option is reasonably certain to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the Balance Sheet.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases

#### Leases as a Lessee - Policy applicable before 1 January 2019

In the comparative period, leases were 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.

Leases were 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 were 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 were recognised in the income statement as an integral part of the total lease expense over the term of the lease.

#### Balance Sheet

The Group leases a large number of properties for use as motor vehicle dealerships, parts distribution warehouses, storage compounds and offices. Lease terms vary and at 31 December 2019 property leases had an average of around 13 years to expiry. These leases comprise those with provision for periodic rent reviews, fixed scheduled increases and those with periodic increases based on the RPI. The Group does not have any property leases that contain extension clauses. A number of property leases have break clauses allowing the Group to terminate the agreement earlier than the lease expiry date. The Group has applied judgement in that unless it is reasonably certain that such a break option will be exercised, the calculation of the lease liability and right of use asset is made up to the expiry date of the lease. Had the Group recognised a shorter lease term then right of use assets and Lease liabilities would both be lower than currently reported and the interest expense for the current year on lease liabilities would be reduced with the possibility depreciation charges could increase.

In addition to property leases the Group have leases for various items of plant and equipment and motor vehicles.

Right of use assets are presented as part of property, plant and equipment as presented in note 3.2.

#### Right of Use Assets

	Land & buildings £m	Plant & Equipment £m	Motor vehicles £m	Total £m
<b>2019 - IFRS 16</b>				
<b>Balance at 1 January 2019</b>	196.2	-	0.5	<b>196.7</b>
Additions to right of use assets	7.6	-	0.4	<b>8.0</b>
Depreciation charge	(18.8)	-	(0.4)	<b>(19.2)</b>
Impairment	(23.3)	-	-	<b>(23.3)</b>
Other disposals of right of use assets	(3.0)	-	-	<b>(3.0)</b>
<b>Balance at 31 December 2019</b>	158.7	-	0.5	<b>159.2</b>

Disposals of right of use assets have occurred on assignment of leases, derecognition on entering into sub leases and early terminations.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

#### Assets acquired under Finance Leases

Included in the amounts for property, plant and equipment in note 3.2 are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

2018 - IAS 17	Land & buildings £m	Plant & Equipment £m	Motor vehicles £m	Total £m
<b>Balance at 31 December 2018</b>	0.1	-	-	<b>0.1</b>

#### Lease liabilities

2019 - IFRS 16	Land & buildings £m	Plant & Equipment £m	Motor vehicles £m	Total £m
<b>Balance at 1 January 2019</b>	(280.7)	-	(0.5)	<b>(281.2)</b>
Additions to right of use assets	(8.0)	-	(0.4)	<b>(8.4)</b>
Interest expense related to lease liabilities	(14.4)	-	-	<b>(14.4)</b>
Disposals of lease liabilities	4.2	-	-	<b>4.2</b>
Repayment of lease liabilities (including interest element)	37.8	-	0.4	<b>38.2</b>
Other movements	(0.1)	-	-	<b>(0.1)</b>
<b>Balance at 31 December 2019</b>	<b>(261.2)</b>	<b>-</b>	<b>(0.5)</b>	<b>(261.7)</b>
Non-current	(237.8)	-	-	<b>(237.8)</b>
Current	(23.4)	-	(0.5)	<b>(23.9)</b>
	(261.2)	-	(0.5)	<b>(261.7)</b>

The calculation of the lease liability and the right of use asset relies upon the estimation of a suitable interest rate. The Group has applied rates to represent the different types of leases it has by applying its incremental borrowing rate for shorter term leases and a higher rates based upon market rates for borrowing against equivalent assets with similar risk profiles in specific markets for medium to longer term leases.

Had the interest rate applied to the shorter term leases been 0.5% higher and that to the medium/longer term leases been 1.0% higher the lease liability at 31 December 2019 would have been £11.5m lower, the right of use asset would be £12.3m lower, the interest charge would have been £1.4m higher and the depreciation charge on leased assets would have been £0.9m lower.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

#### Amounts recognised in profit or loss

	2019 £m
<b>2019 - Leases under IFRS 16</b>	
Impairment of right of use assets (non-underlying)	19.2
Impairment of right of use assets (non-underlying)	23.3
Interest on lease liabilities	14.4
Expenses relating to low value leases	-
Expenses relating to short term leases	3.6
<b>2018 - Operating leases under IAS 17</b>	
Lease expenses - hire of plant and machinery	2.1
Lease expenses - property rentals	43.8
	45.9

#### The Group as lessee - obligations under IAS 17

At 31 December 2018, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows: A reconciliation of these obligations to the Finance Lease liability on transition to IFRS 16 is presented in note 1.

	2018 £m
Within one year	46.0
In the second to fifth years inclusive	169.2
After five years	264.5
	479.7

#### The Group as lessor

##### Leases as a Lessor - Accounting policy applicable from 1 January 2019

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

#### Leases as a Lessor - Accounting policy applicable before 1 January 2019

Where the Group acts as a Lessor, receipts of lease payments are recognised in the income statement on a straight line basis over the period of the lease.

#### Balance Sheet

##### Lease receivables

2019 - IFRS 16	Land & Buildings £m
<b>Balance at 1 January 2019</b>	<b>24.7</b>
Additions to lease receivables	0.5
Interest income related to lease receivables	1.1
Disposals of lease liabilities	-
Payment of lease receivables (including interest element)	<b>(3.3)</b>
<b>Balance at 31 December 2019</b>	<b>23.0</b>
Non-current	20.6
Current	2.4
	<b>23.0</b>

The following table sets out a maturity analysis of lease payments receivable, showing the undiscounted lease payments to be received after the reporting date:

	2019 IFRS 16 £m
Less than one year	3.6
Between one and two years	3.7
Between two and three years	3.6
Between three and four years	3.6
Between four and five years	3.4
More than five years	15.0
Total undiscounted lease receivable	<b>32.9</b>
Unearned finance income	<b>(9.9)</b>
	<b>23.0</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

At the 31 December 2019 balance sheet date, the Group had contracted with tenants for the following future minimum lease payments on leases classified as operating leases.

	2019 IFRS 16 £m
Within one year	1.1
In the second to fifth years inclusive	23.1
After five years	22.7
	<b>46.9</b>

The Group has no properties that are treated as investment properties.

### 2018 - IAS 17

At the 31 December 2018 balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2018 IAS 17 £m
Within one year	4.6
In the second to fifth years inclusive	15.9
After five years	18.5
	<b>39.0</b>

### Amounts recognised in profit or loss

	2019 IFRS 16 £m
<b>2019 - Leases under IFRS 16</b>	
Operating lease rentals received	1.9
Interest received on finance lease receivables	1.1
	<b>3.0</b>

### 2018 - Leases under IAS 17

Property rental income earned during the prior year was £4.7m. No contingent rents were recognised in income in the prior year. These properties are not treated as investment properties.

In addition, the Group is a lessor in respect of vehicle sales with committed repurchase terms (see notes 3.7 and 3.9). There are no future minimum lease payments outstanding.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 Group 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 (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 2019 to the Legal & General arrangement were £2.8m (2018: £2.7m). 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 2019 were £8.7m (2018: £5.1m). The combined contributions to the Group's Personal Pension arrangement (including the US Motor business) and the Peoples Pension scheme therefore totalled £11.6m 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.

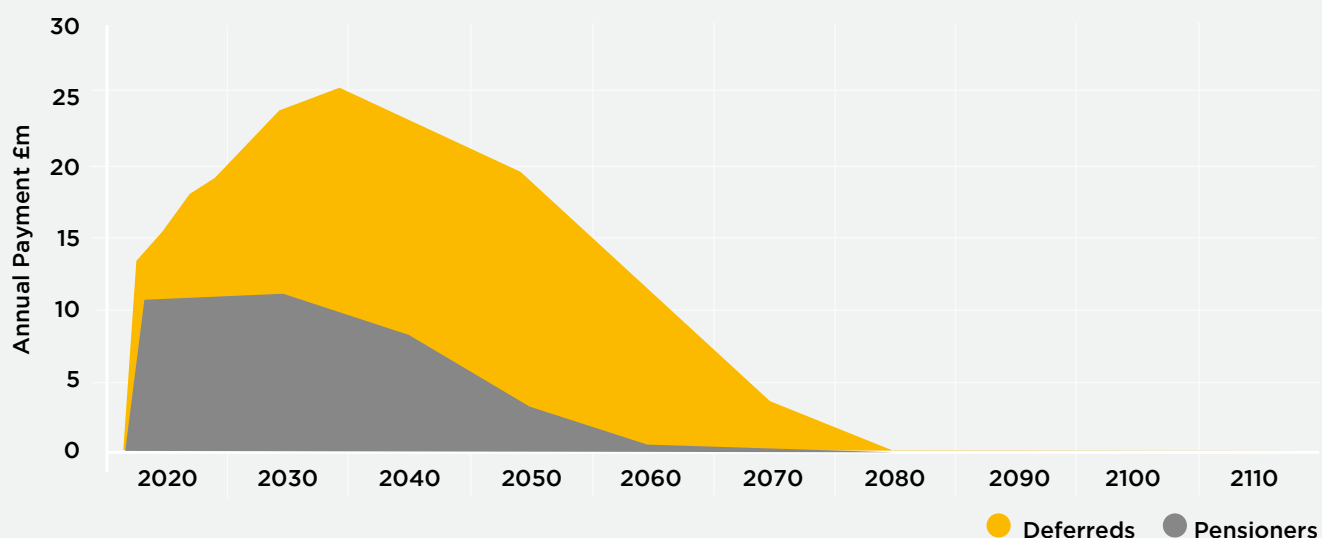
Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2019 there was an outstanding balance of £0.9m (2018: £0.8m) payable to the pension schemes.

#### Funding

The Pendragon Group Pension Scheme is fully funded by the Group's subsidiaries. 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 2019; 'Pensioners' are those in receipt of pension at 31 December 2019.

The actual total cash liabilities shown above are estimated at £731m. The value of these liabilities discounted to present value at 31 December 2019 are £531.2m.

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 Group, 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 prudent 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 2018 giving the following comparison:

As at 31 December 2018	IAS 19 (Accounts) £m	Actuarial valuation £m
Assets	418.0	418.1
Liabilities	(486.3)	(535.2)
Pension deficit	(68.3)	(117.1)
Discount rate used	3.90%	2.47%
Inflation	2.1%-3.9%	2.65%-3.45%

The triennial valuation of the pension scheme reflecting the position as at 31 December 2018 was agreed by the Trustees on 17 March 2020. The Group has agreed with the trustees that it will aim to eliminate the deficit over a period of 7 years and 7 months from 31 March 2020 by the payment of deficit recovery contributions of £12.5m 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 2021.

#### 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 properties with a book value of £345.5m (with a most recent market valuation of £47m), 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 £3.0m to the Pendragon Group Pension Scheme through the Partnership (2018: £2.9m) 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 include an element of caution and are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS assumptions have been updated at 31 December 2019 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:

	2019	2018	2017
Inflation - RPI	<b>2.85%</b>	3.25%	3.25%
Inflation - CPI	<b>2.05%</b>	2.25%	2.25%
Discount rate	<b>2.05%</b>	2.85%	2.55%
Mortality table assumption *	<b>VitaCurves CMI 2018 M (1.25%) / VitaCurves CMI 2018 F (1.25%)</b>	S2PMA CMI 2017 M (1%) / S2PFA CMI 2017 F (1%)	S2PMA CMI 2016 M (1%) / S2PFA CMI 2016 F (1%)

*The mortality table assumption implies the following expected future lifetime from age 65:	2019 Years	2018 Years	2017 Years
Males aged 45	<b>22.6</b>	22.8	23.0
Females aged 45	<b>24.7</b>	24.9	25.0
Males aged 65	<b>21.2</b>	21.8	21.9
Females aged 65	<b>23.1</b>	23.7	23.7

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.

The Group has updated its approach to setting RPI and CPI inflation assumptions in light of the RPI reform proposals published on the 4th September 2019 by the UK Chancellor and UK Statistics Authority. The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been increased from 0.2% at 31 December 2018 to 0.4% at 31 December 2019, reflecting an allowance for additional market distortions caused by the RPI reform proposals. For CPI, the Group reduced the assumed difference between the RPI and CPI by 1% to an average of 0.8% per annum. The estimated impact of the change in the methodology is approximately a £5.0m decrease in the defined benefit obligation as at 31 December 2019.

In January 2019, the House of Lords Economic Affairs Committee published a report that strongly criticised the calculation of the RPI index and called for the RPI calculation methodology to be improved. In response, correspondence between the UK Statistics Authority and the UK Government, published on 4 September 2019, proposed changes to the calculation of RPI to match CPI including Housing (CPIH) at some time between 2025 and 2030. Whilst there is still to be a consultation on how this could be implemented, we believe the most likely outcome is that this will go ahead. We expect that there will be varying views on how to allow for the proposed reforms and so a range of approaches may be considered reasonable. The extent to which these reforms require an adjustment to the derivation of the RPI inflation rate depends upon the extent to which market-implied RPI remains a good indicator of the expected future level of RPI. Our assumption is that the market implied inflation curve (which is derived from market prices for nominal inflation linked gilts) does not fully reflect

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

the proposed changes, and that the curve is no longer a reliable guide to RPI expectations after 2030. A 0.2% p.a. reduction has been made to the RPI inflation assumption to reflect the likelihood that RPI expectations will be lower in the longer term. RPI is expected to match CPIH (which includes housing costs) sometime between 2025 and 2030. While the RPI assumption is reduced, it remains above the CPI inflation assumption. The proposal in Government correspondence is not expected to impact on CPI inflation expectations, so the outlook for CPI inflation is unchanged. It is therefore necessary to make a consistent reduction of 0.2% to the wedge (or 'gap') between the RPI and CPI assumptions, i.e. to reflect the change made to the RPI inflation assumption.

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 £8.5m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease of £5.1m
Mortality	Increase in life expectancy of 1 year	Increase by £17.0m

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 2019 is 16 years (2018: 17 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 (2018: 90% 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. In pursuance of this strategy, in 2019 the trustees divested from riskier UK only equities and Diversified Growth Funds and reinvested in less risky overseas equities and multi-asset credit funds (including corporate bonds, and classified in total as corporate bonds in the table below). Further diversification is planned away from Diversified Growth Funds and into illiquid assets (investments into a pooled fund which invests in mainly land and buildings with rental yields).

# 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

	2019 £m	2018 £m	2017 £m
UK equities	-	129.1	193.0
Overseas equities	106.3	1.9	0.2
Unit trust	-	13.2	17.8
Corporate bonds	87.6	-	-
Government bonds	-	-	-
Liability driven investments	115.4	58.9	65.6
Diversified growth fund	119.9	163.1	163.1
Cash	43.0	51.8	19.3
Fair value of scheme assets	472.2	418.0	459.0
Present value of funded defined benefit obligations	(531.2)	(486.3)	(521.8)
Net liability on the balance sheet	(59.0)	(68.3)	(62.8)

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. 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 Group 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 2019 and at 31 December 2018.

#### Movements in the net liability for defined benefit obligations recognised in the balance sheet

	2019 £m	2018 £m
Net liability for defined benefit obligations at 1 January	(68.3)	(62.8)
Contributions received	7.6	7.5
Income/(expense) recognised in the income statement	3.0	(12.1)
Actuarial gains and losses recognised in the statement of other comprehensive income	(1.3)	(0.9)
Net liability for defined benefit obligations at 31 December	(59.0)	(68.3)

The defined benefit obligation can be allocated to the plan's participants as follows:

	2019 %	2018 %
Deferred plan participants	58	58
Retirees	42	42

	2019 £m	2018 £m
Actual return on assets	66.0	(27.3)
Expected contributions in following year	12.5	7.3

<b>Total in the income statement</b>	<b>2019 £m</b>	<b>2018 £m</b>
Net interest on obligation	1.8	1.6
Past service cost	(4.8)	10.5
	(3.0)	12.1

The expense is recognised in the following line items in the income statement:

	2019 £m	2018 £m
Operating expenses	(4.8)	10.5
Finance costs	1.8	1.6

The expected discount rate as at 31 December 2019 was 2.05%. This compares to the discount rate of 2.85% used in the calculation of the interest income for the period ending 31 December 2018.

Based on the reported deficit of £59.0m at 31 December 2019 and the discount rate assumption of 2.05% the charge in 2020 is expected to be £1.2m.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

#### Past service costs

##### 2019: Pension Increase Exchange (PIE)

The Group has implemented a PIE for pensioner members whereby future inflationary increases in pension payments were exchanged for an increased fixed pension. 31% of eligible members took up the offer and the new pensions went into payment on 27 September 2019. The gain arising has been recorded as a negative past service cost in the income statement. The rule change made to facilitate the offer was implemented in November 2018 but the amount has all been recognised in the current year.

##### Past service costs - GMP equalisation

On 26 October 2018, a landmark pensions case was handed down by the High Court, which has confirmed that pension schemes are required to equalise Guaranteed Minimum Pensions ("GMP"). The cost of equalising GMPs was estimated to be £10.5 million and this was recognised as a past service cost via the income statement in 2018. There are no changes in the expected GMP and no further charge is required in 2019.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

#### Actuarial gains and losses recognised directly in the statement of other comprehensive income

	2019 £m	2018 £m
Cumulative amount at 1 January	(51.6)	(50.7)
Recognised during the period	(1.3)	(0.9)
Cumulative amount at 31 December	(52.9)	(51.6)

#### Defined benefit income recognised in statement of other comprehensive income

	2019 £m	2018 £m
Return on plan assets excluding interest income	54.3	(38.8)
Experience (loss)/gain on scheme liabilities	(5.1)	(5.2)
Changes in assumptions underlying the present value of scheme obligations	(50.5)	43.1
	(1.3)	(0.9)

#### Changes in the present value of the defined benefit obligation

	2019 £m	2018 £m
Opening present value of defined benefit obligation	486.3	521.8
Interest cost	13.5	13.2
Past service cost	(4.8)	10.5
Remeasurements:		
Experience adjustments	5.1	5.2
Actuarial gains due to changes in demographic assumptions	0.2	(17.6)
Actuarial (gains)/losses due to changes in financial assumptions	50.3	(25.5)
Benefits paid	(19.4)	(21.3)
Closing present value of defined benefit obligation	531.2	486.3

#### Movement in fair value of scheme assets during the period

	2019 £m	2018 £m
Opening fair value of assets	418.0	459.0
Interest income	11.7	11.6
Return on plan assets, excluding interest income	54.3	(38.8)
Contributions by employer	7.6	7.5
Benefits paid	(19.4)	(21.3)
End of period	472.2	418.0



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

<b>History of experience adjustments</b>	<b>2019 £m</b>	2018 £m	2017 £m	2016 £m	2015 £m
Present value of defined benefit obligation	<b>531.2</b>	486.3	521.8	544.6	440.3
Fair value of scheme assets	<b>472.2</b>	418.0	459.0	441.4	396.9
Deficit in schemes	<b>59.0</b>	68.3	62.8	103.2	43.4
Experience adjustments on scheme liabilities:					
Amount	<b>55.6</b>	(37.9)	(7.4)	111.2	(22.9)
Percentage of scheme liabilities (%)	<b>10.5%</b>	(0.1)	(1.4%)	20.4%	(5.2%)
Experience adjustments on scheme assets:					
Amount	<b>54.3</b>	(38.8)	28.4	49.9	(0.5)
Percentage of scheme liabilities (%)	<b>10.2%</b>	(0.1)%	5.4%	9.2%	(0.1%)

# NOTES TO THE FINANCIAL STATEMENTS

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## 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    |                                |

### 6.1 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 current or prior year.

### 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 six UK dealerships representing Jaguar and Land Rover and four US dealerships representing Jaguar and Land Rover.

Net assets at the date of disposal:

	US Businesses £m	Other disposables £m	Net book value £m
Goodwill	-	0.7	0.7
Property, plant and equipment	-	5.6	5.6
Assets held for sale	26.3	-	26.3
Inventories	-	2.9	2.9
Trade and other receivables	-	0.1	0.1
Trade and other payables	-	(0.3)	(0.3)
	26.3	9.0	35.3
Profit on sale of businesses	33.0	(0.9)	32.1
Proceeds on sale satisfied by cash and cash equivalents	59.3	8.1	67.4

No cash was disposed as part of any business disposal during the year.

During the previous year the Group disposed of four UK dealerships representing Jaguar and Land Rover and an Aston Martin franchise in the US for proceeds of £10.9m and realising a profit of £3.3m on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 6 - OTHER NOTES

### 6.3 Related party transactions

#### Subsidiaries

The Group's ultimate parent Group is Pendragon PLC. A listing of subsidiaries is shown within the financial statements of the company on page 190.

#### 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 60 to 78.

Directors of the Group and their immediate relatives control 2.31% of the ordinary shares of the Group.

During the year key management personnel compensation was as follows:

	2019 £m	2018 £m
Short term employee benefits	1.4	1.3
Post-employment benefits	0.1	0.2
Termination payments	1.4	-
Share based payments	0.6	0.3
	<b>3.5</b>	1.8

# COMPANY BALANCE SHEET

At 31 December 2019

	Notes	2019 £m	2018 £m
<b>Fixed assets</b>			
Investments	5	804.0	912.4
Loans to subsidiary undertakings		90.0	90.0
		<b>894.0</b>	1,002.4
<b>Current assets</b>			
Debtors (amounts due after more than one year:£10.5m)	6	38.0	40.9
		<b>38.0</b>	40.9
<b>Creditors:</b> amounts falling due within one year	7	<b>(371.6)</b>	(431.1)
<b>Net current liabilities</b>		<b>(333.6)</b>	(390.2)
Total assets less current liabilities		<b>560.4</b>	612.2
<b>Creditors:</b> amounts falling due after more than one year	8	<b>(175.2)</b>	(177.3)
Retirement benefit obligations		<b>(59.0)</b>	(68.3)
<b>Net assets</b>		<b>326.2</b>	366.6
<b>Capital and reserves</b>			
Called up share capital	11	69.9	70.0
Share premium account		56.8	56.8
Capital redemption reserve	11	5.6	5.5
Other reserves	11	13.9	13.9
Profit and loss account		180.0	220.4
<b>Equity shareholders' funds</b>		<b>326.2</b>	366.6

Approved by the Board of Directors on 18 March 2020 and signed on its behalf by:

**W Berman**  
Chief Executive  
Registered Company Number: 2304195

**M S Willis**  
Chief Finance Officer

The Company adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. However the Company has had no lease arrangements during the year so the periods presented are directly comparable.

The notes on pages 185 to 193 form part of these financial statements.

# COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 £m	2018 £m
<b>Profit for the year</b>		<b>(31.4)</b>	16.6
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and (losses)		<b>0.4</b>	0.8
Income tax relating to defined benefit plan remeasurement (gains) and losses		<b>0.2</b>	0.2
<b>Other comprehensive income for the year, net of tax</b>		<b>0.6</b>	1.0
<b>Total comprehensive income for the year</b>		<b>(30.8)</b>	17.6

The notes on pages 185 to 193 form part of these financial statements

# COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m
<b>Balance at 1 January 2019</b>	70.0	56.8	5.5	13.9	220.4	<b>366.6</b>
Total comprehensive income for 2019						
Profit for the year	-	-	-	-	(31.4)	<b>(31.4)</b>
Other comprehensive income for the year, net of tax	-	-	-	-	0.6	<b>0.6</b>
Total comprehensive income for the year	-	-	-	-	(30.8)	<b>(30.8)</b>
Transactions with owners, recorded directly in equity						
Own shares purchased for cancellation	(0.1)	-	0.1	-	(0.5)	<b>(0.5)</b>
Own shares issued by EBT	-	-	-	-	-	-
Share based payments	-	-	-	-	0.6	<b>0.6</b>
Dividends paid (see note 4)	-	-	-	-	(9.7)	<b>(9.7)</b>
Total contributions by and distributions to owners	(0.1)	-	0.1	-	(9.6)	<b>(9.6)</b>
Balance at 31 December 2019	69.9	56.8	5.6	13.9	180.0	<b>326.2</b>
<b>Balance at 1 January 2018</b>						
	71.2	56.8	4.3	13.9	231.2	<b>377.4</b>
Total comprehensive income for 2018						
Profit for the year	-	-	-	-	16.6	<b>16.6</b>
Other comprehensive income for the year, net of tax	-	-	-	-	1.0	<b>1.0</b>
Total comprehensive income for the year	-	-	-	-	17.6	<b>17.6</b>
Transactions with owners, recorded directly in equity						
Own shares purchased for cancellation	(1.2)	-	1.2	-	(6.7)	<b>(6.7)</b>
Own shares issued by EBT	-	-	-	-	0.1	<b>0.1</b>
Share based payments	-	-	-	-	0.7	<b>0.7</b>
Dividends paid (see note 4)	-	-	-	-	(22.5)	<b>(22.5)</b>
Total contributions by and distributions to owners	(1.2)	-	1.2	-	(28.4)	<b>(28.4)</b>
Balance at 31 December 2018	70.0	56.8	5.5	13.9	220.4	<b>366.6</b>

The Company adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. However the Company has had no lease arrangements during the year so the periods presented are directly comparable.

The notes on pages 185 to 193 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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## 1 Accounting Policies

**(a) Basic of preparation** Pendragon PLC is a company incorporated and domiciled in England, 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.

These financial statements have been prepared on a going concern basis as explained in note 1 of the Group financial statements. Principal risks and uncertainties are outlined in the Group financial statements on pages 34 to 41.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a 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;
- Certain disclosures required by IAS 36 Impairments of Assets in respect of the impairment of assets.

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 and 3.1 Group

**(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) Impairment excluding deferred tax assets Financial assets (including trade and other debtors)** A financial asset not carried at fair value through profit or loss is measured for impairment losses in accordance with IFRS 9 using an expected credit loss (ECL) model. The impairment model applies to financial assets measured at amortised cost. The calculation of ECLs are a probability-weighted estimate of credit losses. For trade receivables, the Company applies the simplified approach set out in IFRS 9 to measure expected credit losses using a lifetime expected credit loss allowance. The Company considered a trade or other receivables, including intercompany receivables, to be in default when the borrower is unlikely to pay its credit obligations to the Company in full after all reasonable actions have been taken to recover the debt.

### Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit').

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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## 1 Accounting Policies *continued*

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

### 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 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. Further details of impairment testing policies are presented in note 3.1 of the Group Financial Statements.

**(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.

**(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.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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## 1 Accounting Policies *continued*

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.

**(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 loss after taxation attributable to the Company dealt with in its own accounts for the year ended 31 December 2019 is £31.4m (2018: profit £16.6m).

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 £180.0m (2018: £220.4m) which is stated after deducting the ESOT reserve of £18.2m (2018: £18.2m). 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.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 3 Directors

Total emoluments of directors (including pension contributions) amounted to £3.5m (2018: £1.8m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 60 to 78.

The directors are the only employees of the Company.

## 4 Dividends

	2019 £m	2018 £m
Ordinary shares		
Final dividend in respect of 2018 of 0.7p per share (2017: 0.8p per share)	9.7	11.3
Interim dividend in respect of 2019 of nil per share (2018: 0.8p per share)	-	11.2
	<b>9.7</b>	<b>22.5</b>

The Board is not recommending the payment of a final dividend for 2019 (2018: 0.7p equating to £9.7m).

## 5 Investments

	Shares in subsidiary undertakings £m
At 31 December 2018	<b>912.4</b>
Impairment	<b>(108.4)</b>
At 31 December 2019	<b>804.0</b>

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 £108.4m (2018: £10.2m).

The calculation is sensitive to the assumptions used in valuing the expected future cashflows of subsidiaries. Full details of impairment testing are presented in note 3.1 of the Group Financial Statements.

Shares in subsidiary undertakings are stated at cost. Pendragon PLC owns directly or indirectly 100 percent of the issued ordinary share capital of the following subsidiaries.

# 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 Company Limited	Manchester Garages Holdings Limited
Bramall Quicks Dealerships Limited	Bletchley Motor Contracts Limited	Manchester Garages Limited
Car Store Limited	Bletchley Motor Group Limited	Merlin (Chatsworth) Limited
CD Bramall Dealerships Limited	Bletchley Motor Rentals Limited	Miles (Chesham) Limited
Chatfields Limited	Bletchley Motors Car Sales Limited	Motors Direct Limited
Derwent Vehicles Limited	Bletchley Properties Limited	Motown Limited
Evans Halshaw Limited	Boxmoor Motors Limited	Munn & Chapman Limited
National Fleet Solutions Limited	Bramall Contracts Limited	Munn Holdings Limited
Pendragon Vehicle Management Limited	Bridgeway Limited	Neville (EMV) Limited
Pendragon Finance & Insurance Services Limited *	Brightdart Limited	Newport (Gwent) Motor Company Limited
Pendragon Management Services Limited	Buist Manor Limited	Oggelsby's Limited
Pendragon Motor Group Limited	C P Evinson Limited	P J Evans (Holdings) Limited
Pendragon Premier Limited	C.G.S.B Holdings Limited	Paramount Cars Limited
Pendragon Property Holdings Limited	Calmoon Limited	Parkhouse Garage (Newcastle) Limited
Pendragon Sabre Limited	CD Bramall Motor Group Limited	Pendragon Company Car Finance Limited
Pinewood Technologies PLC *	CD Bramall Pensions Limited	Pendragon Demonstrator Finance Limited
Reg Vardy (MML) Limited	CD Bramall Pension Trustee Limited	Pendragon Demonstrator Finance November Limited
Reg Vardy (VMC) Limited **	CD Bramall York Limited	Pendragon Demonstrator Sales Limited
Reg Vardy Limited *	Central Motor Company (Leicester) Limited	Petrogate Properties Limited
Stratstone Limited	Charles Sidney Holdings Limited	Pinewood Computers Limited
Stripestar Limited	Charles Sidney Limited	Plumtree Motor Company Limited
Victoria (Bavaria) Limited	Comet Vehicle Contracts Limited	Portmann Limited
Chatfields - Martin Walter Limited	Davenport Vernon Finance Limited	Premier Carriage Limited
Pendragon Group Services Limited *	Davenport Vernon Milton Keynes Limited	Quicks (1997) Motor Holdings Limited
Pendragon Overseas Limited *	Davies Holdings Limited	Quicks Finance Limited
Pendragon Stock Limited	Dunham & Haines Limited	Reades of Telford Limited
Pendragon Stock Finance Limited	Evans Halshaw (Cardiff) Limited	Regency Automotive Limited
Vardy Contract Motoring Limited	Evans Halshaw (Chesham) Limited	Reg Vardy (AMC) Limited
Vardy Marketing Limited	Evans Halshaw (Dormants) Limited *	Reg Vardy (Property Management) Limited
Pendragon Limited Partner Limited *	Evans Halshaw (Halifax) Limited	Reg Vardy (RTL) Limited
Bramall Quicks Limited	Evans Halshaw (Midlands) Limited	Rudds Limited
Car Store.com Limited	Evans Halshaw Group Pension Trustees Limited	Sanderson Murray & Elder Limited
CD Bramall Limited *	Evans Halshaw Motor Holdings Limited	Skipper of Aintree Limited
Executive Motor Group Limited	Evans Halshaw Vehicle Management Services Limited	Skipper of Cheltenham Limited
Stratstone Motor Holdings Limited *	Evinson Tractors Limited	Skipper of Darlington Limited
Petrogate Limited	Excalibur Motor Finance Limited	Skipper of Torbay Limited
Reg Vardy (Property Management) Limited	Executive Motor Group Limited	Skipper of Wakefield Limited
Reg Vardy (TMC) Limited	Executive Motors (Stevenage) Limited	Strattons (Service) Limited
Reg Vardy (TMH) Limited	Folletts Limited	Strattons (Wilmslow) Limited
Evans Halshaw.com Limited	G.E. Harper Limited	Suresell Limited
Pendragon Automotive Services Limited *	Giltbase Limited	The Car and Van Store Limited
Stratstone.com Limited	Godfrey Davis (Trust) Limited	The McGill Group Limited
Vardy (Continental) Limited	Godfrey Davis Motor Group Limited	The Skipper Group Limited
Pendragon Group Pension Trustees Limited *	Hemel Hempstead Motors Limited	Tins Limited *
Allens (Plymouth) Limited	Kingston Reconditioning Services Limited	Trust Motors Limited
AMG Limited	Leveling Limited	Trust Properties Limited
Andre Baldet Limited	Lewcan Limited	Vertcell Limited
Arena Auto Limited	Longton Garages Limited	Wayahead Fuel Services Limited
Automend Limited	Manchester Garages (Cars) Limited	
Berkhamsted Motor Company 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

	2019 £m	2018 £m
Amounts due within one year:		
Prepayments	27.5	28.7
	<b>27.5</b>	28.7
Amounts due after more than one year:		
Deferred tax (see note 9)	10.5	12.2
	<b>10.5</b>	12.2
	<b>38.0</b>	40.9

Expected credit losses in respect of trade and other intercompany receivables are deemed immaterial.

## 7 Creditors: amounts falling due within one year

	2019 £m	2018 £m
Amounts due to subsidiary undertakings	359.0	418.9
Bank loans and overdrafts	12.6	12.2
	<b>371.6</b>	431.1

## 8 Creditors: amounts falling due after more than one year

	2019 £m	2018 £m
Bank loans (repayable between one and two years)	115.2	-
Bank loans (repayable between two and five years)	-	117.3
5.75% Senior notes 2023	60.0	60.0
	<b>175.2</b>	177.3

Full details of the Company's borrowings including security and maturity are given in note 4.2 to the consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 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:

	<b>2019</b>	2018
	<b>£m</b>	£m
Deferred tax assets	<b>10.5</b>	12.2

The movement in the deferred tax assets for the year is as follows:

	Retirement benefit obligations	Other provisions £m	<b>Total £m</b>
At 1 January 2018	10.8	0.5	<b>11.3</b>
Credited to income statement	0.7	-	<b>0.7</b>
Credited to equity	0.2	-	<b>0.2</b>
At 31 December 2018	11.7	0.5	<b>12.2</b>
At 1 January 2019	11.7	0.5	<b>12.2</b>
Charged to income statement	(1.8)	(0.1)	<b>(1.9)</b>
Credited to equity	0.2	-	<b>0.2</b>
At 31 December 2019	10.1	0.4	<b>10.5</b>

Deferred tax asset is shown within debtors (see note 6)

## 10 Share based payments

Details of share schemes in place for the Group of which the Company participates as at 31 December 2019 are fully disclosed above in note 4.6 of this report.

## 11 Called up share capital

	Number	<b>£m</b>
Allotted, called up and fully paid shares of 5p each at 31 December 2018	1,399,149,025	<b>70.0</b>
Shares cancelled during the year	(2,204,621)	<b>(0.1)</b>
Allotted, called up and fully paid shares of 5p each at 31 December 2019	1,396,944,404	<b>69.9</b>

There were no issues of ordinary shares during the year.

2,204,621 ordinary shares having a nominal value of £0.1m were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders in the Annual General Meeting on 25 April 2019. The aggregate consideration paid, including directly attributable costs, was £0.5m. Since the commencement of the current share buyback programme in 2016, as at 31 December 2019, 63,376,251 shares have been bought back and cancelled representing 4.3% of the issued ordinary shares, at a total cost to date of £18.7m. The share buyback programme has been suspended and the Group anticipate that no further transactions will be made during 2020.

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 2019 are fully disclosed above in note 4.6 of this report.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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The market value of the investment in the Group's own shares at 31 December 2019 was £0.8m (2018: £1.4m), being 6.4m (2018: 6.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2018: £0.33). During the year the trust acquired no shares (2018: nil) and disposed of no shares (2018: 1.3m, for a consideration of £0.1m ) shares in respect of LTIP and executive share option awards. The amounts deducted from retained earnings for shares held by the EBT at 31 December 2019 was £18.1m (2018: £18.1m). 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 60 to 78.

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.

## Capital redemption reserve

The capital redemption reserve has arisen following the purchase by the Group 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. £0.1m (2018: £1.2m) was transferred into the capital redemption reserve during the year in respect of shares purchased by the Group and subsequently cancelled.

## Other reserves

Other reserves comprise the amount of demerger reserve arising on the demerger of the Group from Williams Holdings PLC in 1989.

## 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 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

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## Financial Calendar 2020

18 March	date of this Report
18 March	preliminary announcement of 2019 results
21 May	May Annual General Meeting

## 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](http://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](http://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](http://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](http://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  
Beckenham  
Kent  
BR3 4TU

[shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk)  
Tel: 0871 664 0300

# 5 YEAR GROUP REVIEW

	2019 IFRS 16 £m	2018 IAS 17 £m	2017 IAS 17 £m	2016 IAS 17 £m	2015 IAS 17 £m
Revenue	4,506.1	4,627.0	4,739.1	4,537.0	4,453.9
Gross profit	472.7	550.5	552.9	559.6	548.9
Operating (loss)/profit before other income	(104.4)	(30.1)	91.5	100.1	96.4
(Loss)/profit before taxation	(114.1)	(44.4)	65.3	73.0	79.0
Basic earnings per share	(8.4)p	(3.6p)	3.7p	3.8p	5.0p
Net assets	168.9	345.6	425.4	372.8	395.1
Net borrowings (note 1)	119.7	126.1	124.1	79.6	108.8

## Other financial information

Underlying profit before tax	(16.4)	47.8	60.4	75.4	70.1
Underlying earnings per share (note 4)	-1.2p	2.8p	3.3p	3.9p	3.7p
Net debt : underlying EBITDA (note 6)	1.1	0.9	0.9	0.6	0.5
Gross margin	10.5%	11.9%	0.1	12.3%	12.3%
Total operating margin (note 2)	-2.3%	(0.7%)	0.0	2.2%	2.3%
After tax return on equity (note 3)	-45.6%	(13.1%)	0.1	14.5%	19.8%
Dividends per share (note 5)	-	1.50p	1.6	1.5p	1.3p
Dividend cover (times) (note 8)	-	2.0	2.4	2.7	3.9
Interest cover (times) (note 9)	(1.7)	(0.5)	3.5	3.7	2.9
Gearing (note 9)	70.9%	36.9%	0.3	24.6%	20.1%

## Business summary

Number of franchise points	166	186	194	196	200
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note 1 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments, excluding lease liabilities.

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 Dividend cover is underlying profit after tax divided by the total of the interim dividend paid and final dividend proposed for the year.

note 8 Interest cover is operating profit divided by net finance expense.

note 9 Gearing is calculated as net borrowings as a percentage of net assets.



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