



**PENDRAGON**

2020 ANNUAL REPORT

## IN THIS REPORT

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Pendragon delivered a strong second half result both operationally and financially, with the Group's performance in the period more than offsetting the losses incurred in the first half driven by the disruption of the COVID-19 pandemic. As a result, the Group reported a full year underlying profit before tax of £8.2m (FY19: underlying loss before tax of £16.4m).

The Group responded well to the changing trading dynamic over the year, supported by an incredible response from its people through a period of unprecedented disruption and change. During the first half, the Group focussed on protecting both its people and the financial health of the business. In the second half, and following on from work started before the pandemic, the Group took rapid and decisive action to realise material efficiency gains resulting in a significantly lower cost base. The Group also accelerated the development of its underlying digital capabilities improving the ability to trade across both physical and digital channels.

The Group has made great strides with the new strategy to

***‘transform automotive retail through digital innovation and operational excellence’***

The strategy includes financial targets intended to restore the Group to sustainable profit growth and deliver attractive returns for stakeholders, targeting underlying profit before tax of £85-90m by FY25. The strategy comprises three pillars:

1. Unlock value in the franchised UK motor division
2. Grow and diversify Pinewood
3. Disrupt standalone used cars





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# CHIEF EXECUTIVE OFFICER STATEMENT

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Bill Berman, Chief Executive Officer

***“ It has been a difficult year for many people and I’d like to thank all of our team who have worked exceptionally hard throughout the COVID-19 pandemic. Their resilience and dedication meant we were able to deliver a solid performance in what has been a particularly challenging period for the car retail industry.***

***We took early and decisive action to ensure the safety of our associates and our customers and protect the Group’s financial position. We also accelerated the development of our digital capabilities and introduced both click and collect and home delivery options for our customers. These actions, coupled with the positive progress made against our new strategy, provide us with a strong platform for the future and the results for this period show there is good momentum in the business, despite the external pressures.***

***We are confident the improvements made to our business model over the past year leave us well positioned to navigate this period and accelerate our strategy during the course of the year and beyond. ”***

## **JANUARY AND FEBRUARY TRADING UPDATE**

Whilst performance has undoubtedly been impacted by the ongoing third national lockdown, the improvements made to the Group’s digital proposition have enabled it to trade with a high level of resilience, with over 20,000 vehicles delivered to customers in the first two months of the year.

Group like-for-like new car volumes are 24.3% lower year on year to the end of February, vs the SMMT reported market reduction of 38.1%, and used car volumes are down 32.8%. Aftersales has been more resilient, with gross profit down 13.1% vs last year. Overall, we are pleased with this performance against the challenging conditions of trading in lockdown.

Sales declines have been more than offset by improved gross margins combined with the benefit of a lower cost base, resulting in an underlying loss before tax of £4.8m, an improvement of £3.4m against the same period in FY20 (FY20: Loss of £8.2m).

2020 was a year unlike any other, and given the circumstances, I am incredibly pleased with the way our teams have responded, and proud of the operational and financial results we delivered. Our performance was quite clearly defined by the changing external environment and varying restrictions in place across the two halves of our financial year. In the first half, our focus was on managing disruption from the first national lockdown and adjusting to the changing market dynamics, while the second half saw adaptations to our ways of working as well as a recovery.

### MANAGING THE COVID-19 PANDEMIC

The Group's primary focus was the health and wellbeing of its customers and associates, safety measures were put in place to safeguard both of these groups.

Our ability to operate was impacted by changing regulations during the year, with full national lockdowns applying between 23 March and 1 June, and again during November. The first lockdown resulted in restrictions that severely limited trading activity from the end of March through to the end of April, followed by a gradual, cautious reopening of service centres in May.

The business worked hard to safely reopen locations at the beginning of June and then showed agility in responding to various geographic tier restrictions across the UK during the remainder of the year. During the periods where restrictions on trading were in place, the Group accelerated the development of its digital capabilities and introduced online payment functionality, click and collect and home delivery options. This left the business in a better position going into the second national lockdown in November, with the Group also carrying out aftersales services more comprehensively than in the first lockdown.

At the start of the pandemic, rapid and decisive action was taken to protect cash. The Group was grateful to be able

to utilise Government support measures via the Coronavirus Job Retention Scheme (CJRS), through rates holidays and through the VAT deferral. In total, the Group received c.£42m of furlough support in FY20 and c.£10m in rates relief during FY20. In addition to this, the Group took additional measures to minimise cash outflow, such as reduced capital expenditure, agreements with OEMs and stocking loan providers to temporarily extend vehicle payment terms, voluntary management pay reductions and the temporary movement to monthly rental payments.

We saw the benefits of our diverse offer in this early phase of the pandemic as both Pinewood and PVM continued trading throughout, providing support to their respective customer bases. Whilst these divisions were able to continue to trade, there were inevitable impacts on performance as a result of the disruption. Pinewood in particular was able to support its customer base through discounts offered during the first lockdown.

As restrictions were lifted, the Group developed and implemented a comprehensive reopening plan, with a gradual, phased return to work for associates based on a data-led approach of matching resource to an increasing consumer demand whilst still utilising CJRS where required.

Despite all the available actions taken, COVID-19 had a material impact on the Group's reported underlying profit before tax, with management estimating the financial impact on H1 FY20 to be approximately £44m. As a result of this disruption, the Group reported an H1 underlying loss before tax of £31.0m. After non-underlying items the Group reported a H1 loss before tax of £52.0m.



# CHIEF EXECUTIVE OFFICER STATEMENT

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## STRONG RECOVERY IN PERFORMANCE IN H2

Work to review the Group's operating cost base had started prior to COVID-19, but was accelerated by the pandemic. During the lockdown periods we saw strong efficiency gains from a smaller workforce, and, as a result of this and our prior work, we were able to implement changes to our structure to maximise these gains, reducing headcount to deliver annual equivalent savings of £35m.

In addition to reviewing our operating model, we also successfully concluded a review of our store estate, which led to a conclusion that a further 15 stores did not form part of our future estate plan. The closure of these stores was completed during the second half. Prior to the pandemic, these stores collectively lost c.£2m per annum.

Good early progress was made with Group strategic initiatives, such as the review of the store estate and operating structure. I am also particularly pleased with the developments we have made to our digital capabilities, which have provided us with the ability to offer comprehensive click and collect and home delivery propositions, which supported the performance of the business during localised tiering restrictions and during the November national lockdown. We further bolstered our online offer, by enabling digital finance and insurance sales as we move to develop an end-to-end online proposition for those who choose to shop this way. We have also made a number of efficiency improvements to the vehicle acquisitions process, which, as they scale, will lead to improved conversion and better margins.

This investment in digital capabilities ensured the financial impact of the November national lockdown was significantly mitigated, with the Group recording a materially lower loss than seen in the first lockdown period. The Group recorded an underlying loss of £2.0m in November, which was substantially lower than the losses in the initial lockdown periods, where such mitigation was not available and trading levels were minimal.

More importantly, the Group reported H2 underlying profit before tax of £39.2m, more than offsetting H1 losses and resulting in a full year underlying profit before tax of £8.2m.

After non-underlying items the Group reported a full year loss before tax of £(29.6)m.

## GROUP STRATEGY

During FY20 we also completed a review of the Group's strategy, and launched our plan to "transform automotive retail through digital innovation and operational excellence". This strategy sets out our ambition to return the Group to sustainable levels of profit growth, targeting underlying profit before tax of £85-90m by FY25 and positions us to meet evolving customer needs.

I believe we are uniquely positioned, given our strong portfolio of assets and variety of divisions, to deliver on our three strategic priorities for growth and transformation. These include taking advantage of a significant opportunity to unlock the value in the UK motor division, accelerating Pinewood's geographic expansion and diversification into new products and disrupting standalone used car sales in the UK.

Despite the challenges of the pandemic, we have made good initial progress against this strategy and have delivered a number of key changes during FY20. We have also been able to develop our plans in more detail and I remain confident in the potential of this plan as we continue to implement it during FY21.

Overall, I am very pleased with the progress the Group has made during what has undoubtedly been a challenging year. Our teams have risen to each and every challenge put in front of them, enabling us to demonstrate the underlying strength in the organisation during the second half in particular. As well as dealing with the shifting landscape we have had to operate in, we have set out a comprehensive plan and started to deliver against it.

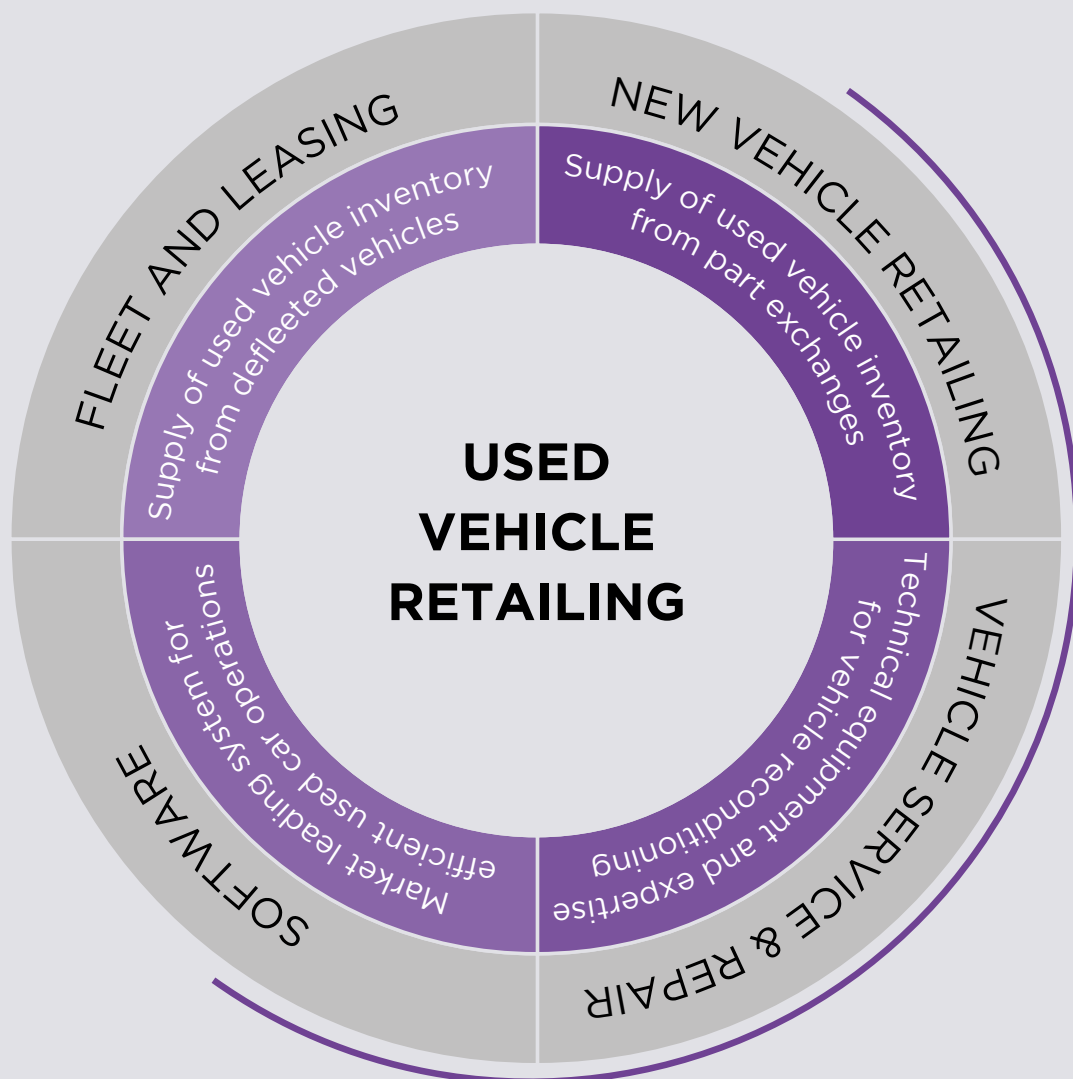
## OUTLOOK

We are confident in the opportunity that our strategy provides, and will continue to make progress against our objectives, building a strong and profitable business. At this point, we remain cautious about the shorter-term economic outlook as Government support is gradually withdrawn, and the Board notes the potential for short-term constraints in new vehicle supply, but I am confident our business model has adapted to be resilient in the current conditions, and that we are well positioned to capitalise on the potential for any pent-up demand that may exist as our stores fully reopen in April.

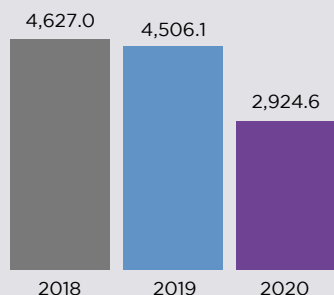
# BUSINESS SEGMENTS

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

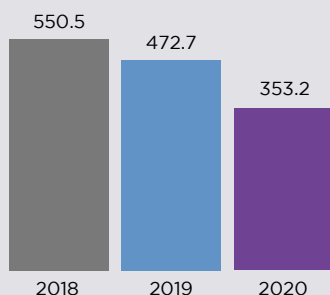
<p><b>FRANCHISED UK MOTOR</b> Sale and servicing of vehicles in the UK</p>	<p><b>SOFTWARE</b> Licencing of Software as a Service to global automotive business users</p>	<p><b>CAR STORE</b> Own brand proposition for the sale of used vehicles in the UK</p>	<p><b>LEASING</b> Fleet and contract hire provider. Source of used vehicle supply</p>	<p><b>US MOTOR</b> (Discontinued) Sale and servicing of vehicles in the US</p>
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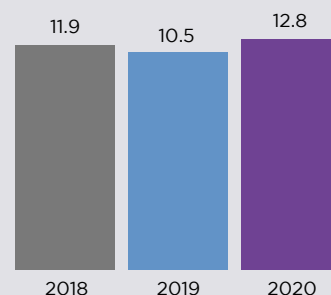
# FINANCIAL SUMMARY



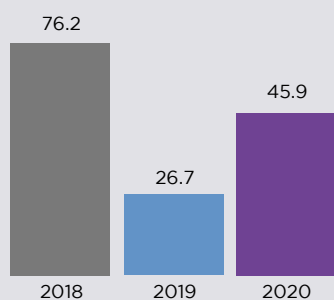
**£2,924.6M**  
REVENUE



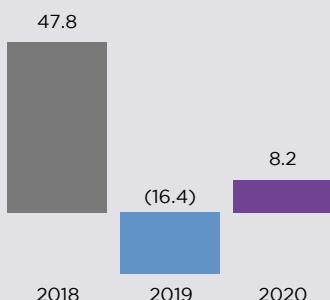
**£353.2M**  
GROSS PROFIT



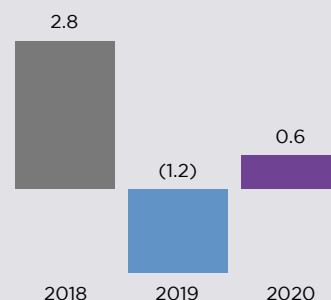
**12.8%**  
GROSS MARGIN



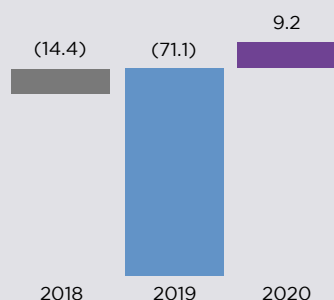
**£45.9M**  
UNDERLYING OPERATING PROFIT



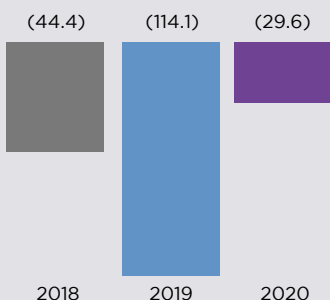
**£8.2M**  
UNDERLYING PROFIT BEFORE TAX



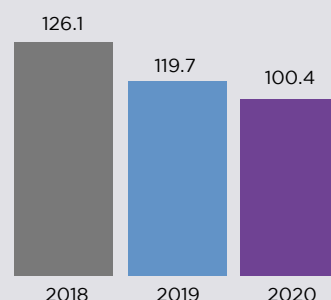
**0.6P**  
UNDERLYING EPS



**£9.2M**  
OPERATING (LOSS)/PROFIT



**£(29.6)M**  
(LOSS)/PROFIT BEFORE TAX



**£100.4M**  
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

- Underlying losses before tax of £31.0m in H1 offset by underlying profit before tax of £39.2m in H2, resulting in FY underlying profit before tax of £8.2m.
- Group Revenue is down 35.1% to £2,924.6m (FY19: £4,506.1m).
- After non-underlying items the Group reported loss before tax of £29.6m (FY19: £114.1m).
- New strategy launched and strong early progress made, including enhanced digital capabilities and developments to vehicle acquisition processes.
- Organisation structure review completed, delivering annual equivalent benefit of c.£35m.
- Estate review completed and 15 stores closed, delivering an annual equivalent benefit of c.£2m.
- Digital capabilities accelerated rapidly. Fully transactional platforms enabled, offering both click and collect and home delivery propositions for customers.

## PERFORMANCE INDICATORS

### KEY FINANCIAL MEASURES

KPI	Definition	2020 Performance	Change
Underlying EPS	Underlying profit after tax divided by weighted average number of shares	0.6p	up 146.2%
Underlying PBT	Underlying profit before tax excludes items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business	£8.2m	up 150%
Underlying Operating Margin	Underlying operating profit divided by revenue	1.6%	up 1%
Leverage ratio	Net debt : underlying EBITDA is the ratio of our net debt to underlying EBITDA	0.8	up 27%

### KEY STRATEGIC MEASURES

KPI	Definition	2020 Performance	Change
Aftersales Revenue	All aftersales revenues (like-for-like) <sup>1</sup>	£235.8m	down 26.2%
Used Revenue	All used vehicle revenues (like-for-like) <sup>1</sup>	£1,220.9m	down 26.9%

<sup>1</sup>see section 1 of the notes to the financial statements for like-for-like reconciliations

# s172 STATEMENT

## 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 confirm that during the year under review, it has acted fairly between members of the Company to promote the long term success of the Company for the benefit of all shareholders, whilst having regard to the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2020, further detail of which is set out below and which are incorporated into the Strategic Report.

HOW WE ENGAGE	WHY WE ENGAGE	WHAT MATTERS TO THIS GROUP	WHAT DID WE DO AS A RESULT
<b>CUSTOMERS</b>			
<p>We continue to engage with our customers in a variety of ways, including:</p> <p>Measuring customer KPIs from OEM surveys reported to management</p> <p>Management and directors continue to visit dealerships, regularly listening to customer feedback</p> <p>Online review of our services through platforms such as Trust Pilot regularly monitored by our marketing teams</p> <p>Undertaking mystery shopping exercises periodically carried out to provide insight into the customer perspective and journey</p>	<p>Our purpose is to deliver a high quality, personalised service to all our customers across all of our business divisions: Franchised UK Motor, Car Store, Software and Leasing</p>	<ul style="list-style-type: none"> <li>• Product range, price and quality</li> <li>• Convenience and accessibility</li> <li>• Ease of transacting</li> <li>• Customer service</li> <li>• Responsible use of personal data</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritisation of customer safety following reopening of operations through the COVID-19 pandemic</li> <li>• Improving and developing the online customer journey for ease of transacting</li> </ul>
<b>ASSOCIATES</b>			
<p>We listen carefully to the views of our associates across all our businesses. In 2021, we will be appointing a chief people officer who will further innovate and develop our engagement processes</p> <p>We continue to operate an independent whistleblowing helpline, enabling associates to raise any issues or matters of concern in confidence</p>	<p>We wish to continue to be a responsible employer, both in terms of continuing to ensure the health, safety and wellbeing of our associates and also ensuring we maintain a responsible approach to the pay and benefits our associates receive</p>	<ul style="list-style-type: none"> <li>• Fair employment</li> <li>• Fair pay and benefits</li> <li>• Tackling our gender pay gap</li> <li>• Diversity and inclusion</li> <li>• Training, development and career opportunities</li> <li>• Health and safety</li> <li>• Responsible use of personal data</li> </ul>	<ul style="list-style-type: none"> <li>• Ensured that associate safety and wellbeing was at the forefront of all decisions taken during the COVID-19 pandemic, as reported in our Corporate Governance Report at page 54 of this Annual Report</li> <li>• We put in place stringent measures to protect employee safety</li> <li>• Continued to enhance the range of benefits available</li> </ul>

**HOW WE ENGAGE**

**WHY WE ENGAGE**

**WHAT MATTERS TO THIS GROUP**

**WHAT DID WE DO AS A RESULT**

**SUPPLIERS**

Regular meetings and updates with all key suppliers with executive management, in particular our OEM partners

Supplier payment terms reported and published

Although we do not manufacture the vehicles we sell, we need to maintain relationships with all our OEM partners to ensure we can continue to provide products to our customers

All our suppliers must be able to demonstrate that they take appropriate action to prevent involvement in modern slavery, corruption, bribery and breaches of competition law

- Fair trading and payment terms
- Anti-Bribery
- Anti-Modern Slavery
- Operational improvement

- We continued to work closely with all our suppliers to deliver operational improvement and effective trading through the COVID-19 pandemic
- We surveyed all key suppliers for adherence to anti-slavery standards

**COMMUNITY**

Regular involvement in charity appeals both nationally and locally

As a predominantly retail operator, with a tangible nationwide presence in many communities, our retail businesses generate community involvement through local engagement, contributing to local areas in a variety of ways

- Charitable donations and support
- Employment opportunities
- Volunteering
- Fair tax policy

- We supported the NHS through COVID-19 by servicing key worker vehicles at discounted rates
- We continued other charitable activities where possible, as reported at page 56 of the Corporate Governance Report

# s172 STATEMENT

HOW WE ENGAGE	WHY WE ENGAGE	WHAT MATTERS TO THIS GROUP	WHAT DID WE DO AS A RESULT
<b>ENVIRONMENT</b>			
Regular re-assessment of the Group's environmental policy	We acknowledge the responsibility we have to protect the environment and to minimise the environmental impact of our activities	<ul style="list-style-type: none"> <li>• Minimising atmospheric emissions, commercial and industrial waste</li> <li>• Minimising vehicle movements causing nuisance or noise</li> <li>• Minimising industrial noise and energy wastage</li> <li>• Complying with statutory requirements relating to environmental matters</li> <li>• Ensuring environmental priorities are accounted for appropriately in planning and decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Operate an obsolete asset disposal policy</li> <li>• Minimise and where possible, eliminating pollution</li> <li>• We continue to reduce incidences of energy wastage wherever possible, as reported in our Corporate Social Responsibility Report at page 58 of this Annual Report</li> <li>• We continue to work with various of our OEM partners to effect the roll out of PHEV charging points across our dealership network and EV charging points</li> </ul>
<b>SHAREHOLDERS AND POTENTIAL SHAREHOLDERS</b>			
<p>Annual Report and Accounts Corporate website</p> <p>AGM</p> <p>Results announcements and presentation</p> <p>Shareholder and analyst meeting with management, followed by feedback from brokers and financial PR consultants</p> <p>Engagement via the directors and company secretary</p>	We work to ensure our shareholders and their representatives have a good understanding of our strategy and business model	<ul style="list-style-type: none"> <li>• Long term value creation</li> <li>• Fair and equal treatment</li> <li>• Growth opportunity</li> <li>• Financial stability</li> <li>• Transparency</li> <li>• To share in the success of our business</li> <li>• Dividends</li> </ul>	<ul style="list-style-type: none"> <li>• Committed to reducing pension entitlement of executive directors to the workforce average</li> <li>• The chief executive officer and chief finance officer report back to the Board after the investor roadshows</li> <li>• The Group's brokers and financial advisors provide detailed feedback after full and half year announcements and investor roadshows to inform the Board about investor views</li> <li>• The interim chairman and senior independent director are available to shareholders and respond on matters relating to their responsibilities where requested</li> <li>• We consulted with all major shareholders in relation to our revised remuneration policy</li> <li>• Due to the loss in the year and the Government support received, no 2020 dividend is proposed. We will be engaging with shareholders in the future about when to resume dividends</li> </ul>

# BUSINESS PROFILES

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- 14 Franchised UK Motor
- 16 Software - Pinewood
- 18 Leasing - Pendragon Vehicle Management
- 19 Car Store
- 19 US Motor



# BUSINESS PROFILES

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## FRANCHISED UK MOTOR

Sale and servicing of vehicles in the UK.

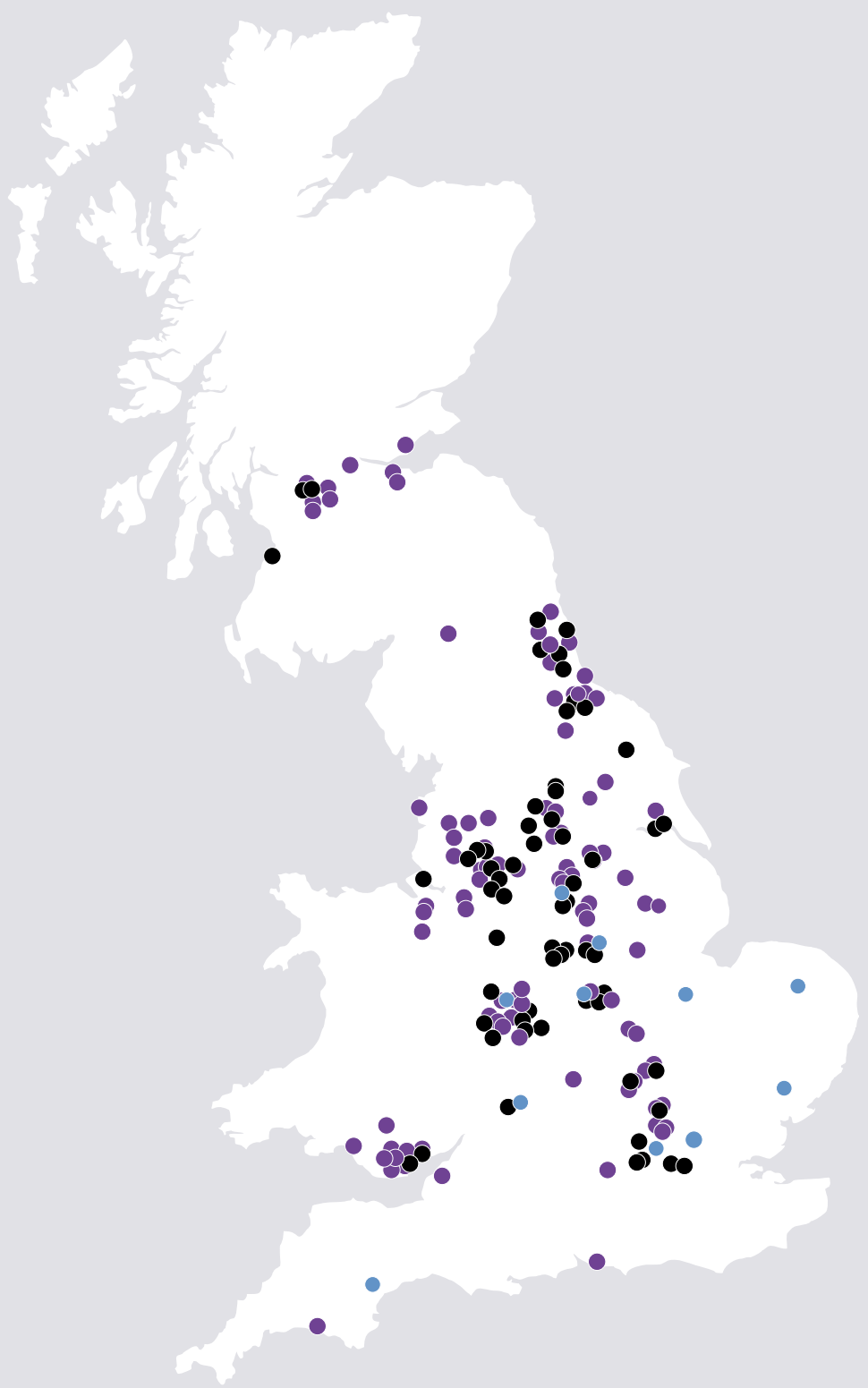
### Operating Highlights

- Underlying operating profit up 42.3% to £18.5m (FY19: £13.0m).
- H1 reported underlying operating loss of £18.1m (H1 FY19: loss of £7.7m) driven by the impact of the COVID-19 pandemic, strong recovery delivered H2 underlying operating profit of £36.6m (H2 FY19: £20.7m).
- Revenue and margins recovered against H1 across used, aftersales and new in H2 FY20.
- Revenue is down 30.5% to £2,591.8m (FY19: £3,730.8m).
- Reported operating losses after non-underlying items was £10.6m (FY19: operating losses of £96.4m).
- Used car gross margins rose from 7.1% in H1 to 9.7% in H2, aftersales margins rose from 46.4% in H1 to 51.2% in H2 and new margins rose from 5.9% in H1 to 6.9% in H2.
- FY Used vehicle gross profit per unit increased by £422 to £1,200 (FY19: £778).
- LFL cost reduction of 20.9%, underpinned by Government support programmes, and the review of the store estate and organisational structures.
- Total new car registrations down 29.4% in FY20, Pendragon new units sold down 29.5% on a like-for-like basis (down 32.9% total reported).



***“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”***





**Evans Halshaw 98**

- Ford 36
- Vauxhall 21
- Citroën 12
- Renault 6
- Dacia 6
- Peugeot 4
- DAF 4
- Nissan 4
- Kia 3
- Hyundai 2

**Stratstone 44**

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

**Other Retail Points 11**

- Car Stores 9
- EH Used Car Centres 2



**153** UK RETAIL POINTS



**148K VEHICLES SOLD**



**25M**  
WEBSITE VISITS

# BUSINESS PROFILES

## SOFTWARE - PINEWOOD

Licencing of Software as a Service to global automotive business users.

### Operating Highlights

- Operating profit down 9.7% to £12.1m (FY19: £13.4m).
- Profitability impacted during FY20 by a combination of discounts to support customers, and lower training and implementation revenue as a result of the pandemic.
- Pinewood continued to invest in product development to support its future geographic and product expansion.
- Developments made to software, enabling new-functionality to be introduced, initially within Pendragon.
- Revenue is down 4.7% to £22.3m (FY19: £23.4m).

### Dealer Management System Features

Every part of the business in one place.

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

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

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



Personalised video to customers



Online payments



Integrated website solution for online buying



Integrated website solution for service booking

***“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.”***

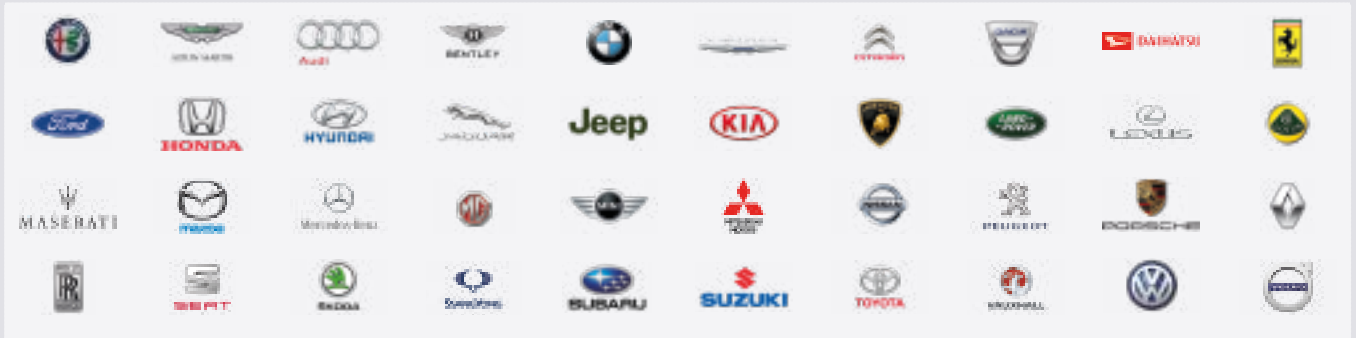
Gold  
Microsoft Partner





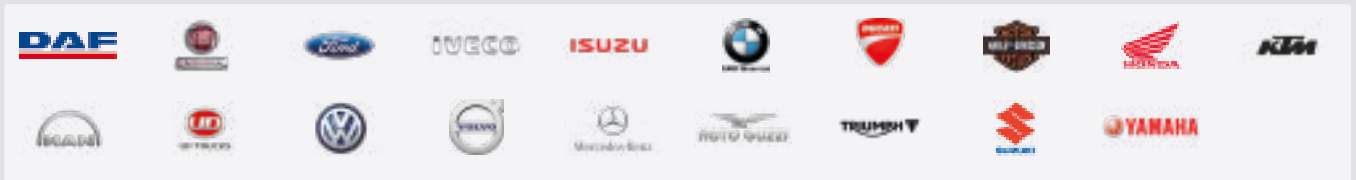
**Integration with over 50 manufacturers**

**Cars:**



**Commercial Vehicles:**

**Motorbikes:**



**Pinewood 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.



**Sales+** Efficiently manage the vehicle sales process and provide a great customer experience - the ultimate showroom app for sales professionals.



**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 funding and services provider. Source of used vehicle supply.

### Operating Highlights

- Operating profit up 3.9% to £13.3m (FY19: £12.8m).
- Strong H2 with operating profit of £8.6m (H2 FY19: £6.5m) due to strong market conditions and pent-up release of de-fleeted vehicle disposals.
- Revenue is down 1.6% to £86.3m (FY19: £87.7m).

### Fleet Management



Telematics



Risk Management



Fuel Cards



Outsourced Administration



Maintenance and Repair



Accident Management

### Pendragon Vehicle Management

At Pendragon Vehicle Management our Business to Business (B2B) brand focuses on comprehensive solutions for fleet customers. Utilising market leading 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 managing uptime to driving cost control, making the switch to electric vehicles or offering a variety of rental solutions, Pendragon Vehicle Management can provide comprehensive and tailored fleet solutions for any business.

### Rental Solutions

- Fast response service with over 30,000 vehicles ready to access.
- Real Time Rental Management system.
- Daily and Flexible (three months and beyond) rental options available.
- Car, van, electric and specialist vehicle hire, delivered within four hours.

### Personal vehicle solutions and Employee schemes

Pendragon Vehicle Management has also evolved to offer bespoke Business to Employee (B2E) solutions including personal contract hire and Salary Sacrifice Car Schemes.

### Salary Sacrifice

- Associates offered a brand-new car with no credit check and no upfront fee.
- Convenient monthly payment deducted from associates' salaries before tax.
- Choosing low emission vehicles offers savings on BIK tax and National Insurances payments.

### Fleet Funding



Contract Hire For Cars



Electric Vehicle Contract Hire



Sale and Leaseback



Contract Hire For Vans



Salary Sacrifice



Contract Purchase

*“Pendragon Vehicle Management provide fleet funding solutions and services to help customers manage their fleets, improving efficiency, reducing costs and saving time.”*



**BVRLA**  
MEMBER

**VAN EXCELLENCE**   
LOGISTICS UK MEMBER

## CAR STORE

Own brand proposition for the sale of used vehicles in the UK.

### Operating Highlights

- Underlying operating loss of £1.2m compared to an underlying loss of £25.2m in FY19.
- Revenue is down 67.3% to £88.5m (FY19: £270.3m).
- Further progress with performance during the second half resulted in an underlying operating profit of £0.5m in H2 FY20 (H2 FY19: underlying loss of £6.1m).
- Profitable second half leaves Car Store well-positioned for future growth ambition.
- Improvement in both gross margins and operating expenses following the estate restructuring exercise in H2 FY19. Gross margin of 8.2% in FY20, up from 4.0% in FY19.
- Gross profit per unit at £865 (FY19: £391).
- Reported operating losses after non-underlying items was £1.3m (FY19: operating losses of £46.6m).



## US MOTOR

Sale and servicing of vehicles in the US.

### Operating Highlights

- Los Angeles disposal was completed on 29 January 2021 for consideration of £16.3m.
- Total current proceeds from all of the US Motor sites disposals since 2018 of £95.1m.
- Entered agreement to sell the one remaining US Motor site, Santa Monica for £11.8m (subject to completion adjustments), which was announced on 15 December 2020 and is expected to complete H1 2021.



### 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.



Jaguar 2



Land Rover 2

# LIFE AT PENDRAGON

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Our associates are the heart of our business and are what makes us great. We believe that Pendragon attracts, retains and develops the best and brightest associates through market leading recruitment, training and development programmes.

We pride ourselves on seeing the potential of our associates before they even join the business and then once they have, providing the support, encouragement and skills needed to build a long and rewarding career.



Despite the challenges posed by the pandemic, we remain focussed on making our business and our sector appeal to future generations and to support this, our Group talent strategy focusses on:

- Enhancing and empowering career experiences, through understanding and identifying our skills shortages
- Developing our leadership capability through identifying and developing our talented associates
- Enriching our early careers offerings by maximising apprenticeship programmes for all associates
- Optimising our structure by developing career pathways for all



We review our recruitment strategies to ensure we are attracting and identifying a diverse range of talent to join and develop within our business. Over the past twelve months our resourcing team have been recognised as finalists in the FIRM awards, for a recruitment effectiveness award, acknowledging our desire to continually improve our recruitment experience for our candidates and internal stakeholders.

Associate recognition is a vital part of our culture so celebrating associates' success, both individually and as part of a team, is a daily part of life at Pendragon. Daily peer-to-peer recognition is actively encouraged and helps everyone feel valued.

We continue to provide comprehensive training as our dedicated Learning and Development team has worked closely with senior Leaders in support of strategic initiatives worked to rapidly increase the range of online and virtual courses which include but are not limited to our new Finance & Insurance products, the Online Finance journey available through our Learning Management System "Pendragon Learn".

Significant focus was also given to ensuring our customers receive the best possible experience with in-depth call handling training provided to all customer-facing associates in our motor retail businesses.

Training takes the form of interactive e-learning courses, live facilitated webinars and on-demand webcasts, all designed to provide our teams with engaging and informative content to help develop their skills and knowledge and support their career progression.



With dealerships and offices across the UK, we're in a unique position to understand and positively impact the local communities in which we live and work, while offering the support and backing of a large national business. Our associates are urged to be active members of the community and to support both local and national initiatives.

Over the past year, despite the disruption caused by the global pandemic, Pendragon associates have supported activities participated in community activities giving time, money and knowledge to organisations, people and causes both locally and nationally.

# INDUSTRY INSIGHT

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

	2020	2019	Change %
UK Retail Registrations	747.5	1,018.3	-26.6%
UK Fleet Registrations	883.6	1,292.8	-31.7%
<b>UK New Registrations</b>	<b>1,631.1</b>	<b>2,311.1</b>	<b>-29.4%</b>
Group Represented* UK Retail Registrations	445.0	634.0	-29.8%
Group Represented* UK Fleet Registrations	514.1	797.8	-35.6%
<b>Group Represented* UK New Registrations</b>	<b>959.1</b>	<b>1,431.8</b>	<b>-33.0%</b>

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

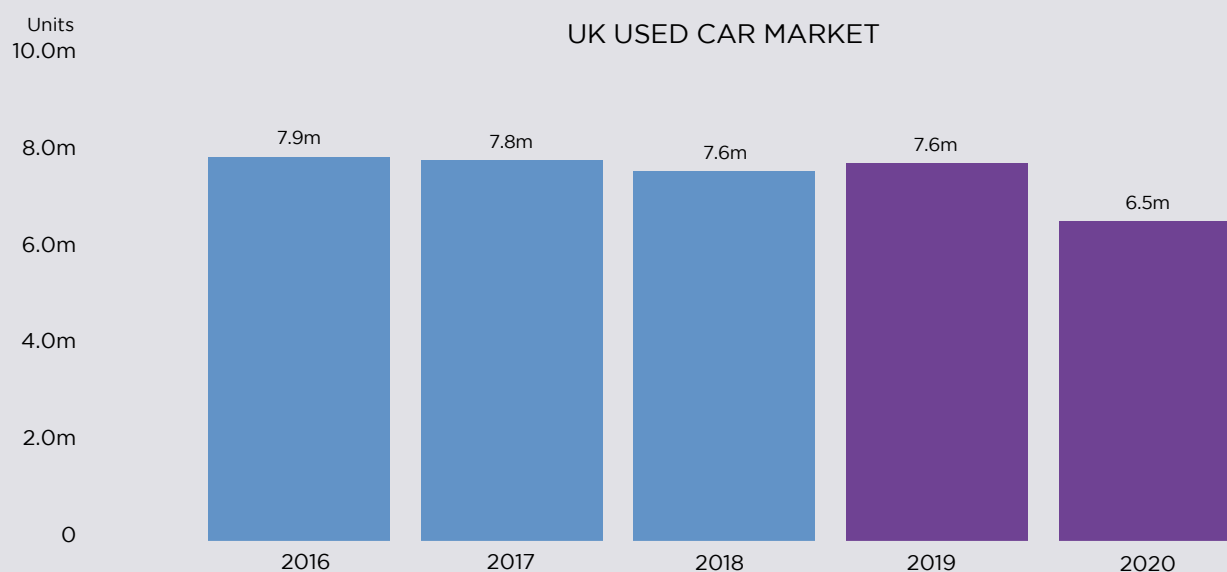
\*Group Represented is defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

### USED CAR MARKET

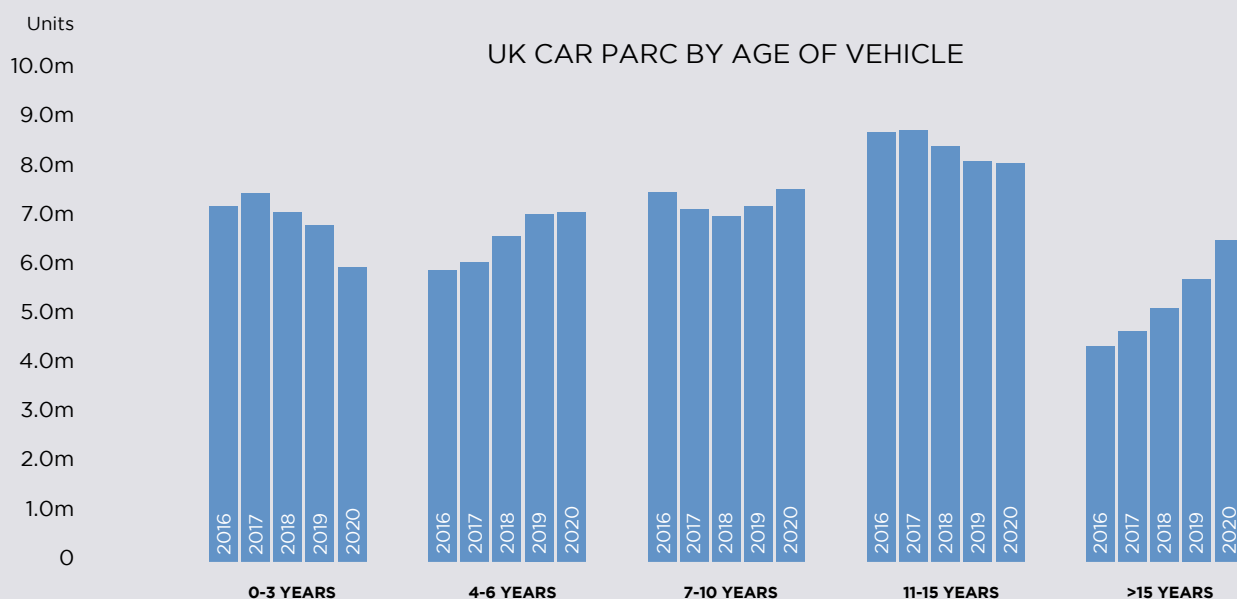
We believe the UK is the most attractive used car market globally, with a ratio of over three used cars sold for every one new. The used car market in FY20 in the UK was 6.5m units, a fall of 14.9% against 2019. Based on the desired age and mileage profile for our target market, we believe there is an addressable market for Pendragon of around three million cars per annum, which is larger than the total new car market. The used market is more stable than the new 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 marginally to 35.1m vehicles at FY20, a rise of 0.2% on the prior year. The car parc can also be segmented into markets representing different age groups. At the end of FY20, around 17% of the car parc was represented by less than three-year-old cars, around 20% by four to six-year-old cars and 63% 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



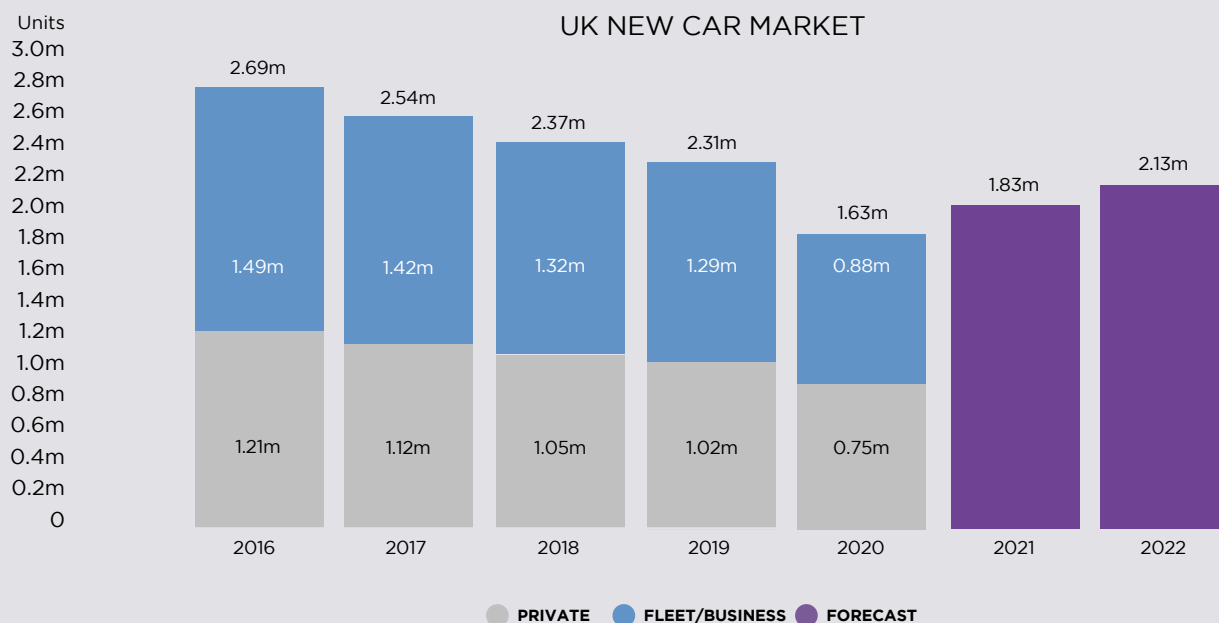
Source: GMAP

#### NEW CAR MARKET

The UK new car market was 1.6m in FY20 which is a reduction of 29.4% 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 46% 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 54% of the market in the year.

The new retail market was down by 26.6% in FY20, and the new fleet market fell by 31.7% in the year. All new car market figures are from the Society of Motor Manufacturers and Traders (SMMT).



Source: SMMT

# OPERATIONAL AND FINANCIAL REVIEW

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# BUSINESS REVIEW

## SEGMENTAL PERFORMANCE

Units sold	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)	LFL Change (%)
<b>USED UNITS</b>								
Franchised UK Motor	38,992	43,953	82,945	76,105	59,102	135,207	-38.7%	-33.6%
Car Store	4,321	4,066	8,387	17,474	10,392	27,866	-69.9%	-40.4%
US Motor	275	258	533	1,452	1,046	2,498	-78.7%	23.3%
<b>Total</b>	<b>43,588</b>	<b>48,277</b>	<b>91,865</b>	<b>95,031</b>	<b>70,540</b>	<b>165,571</b>	<b>-44.5%</b>	<b>-34.1%</b>
<b>NEW UNITS</b>								
Franchised UK Motor	21,659	32,981	54,640	43,085	38,338	81,423	-32.9%	-29.5%
US Motor	945	1,219	2,164	3,413	2,662	6,075	-64.4%	-22.5%
<b>Total</b>	<b>22,604</b>	<b>34,200</b>	<b>56,804</b>	<b>46,498</b>	<b>41,000</b>	<b>87,498</b>	<b>-35.1%</b>	<b>-29.2%</b>

## STRATEGY AND BUSINESS REVIEW

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

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

(£m)

	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)	LFL Change (%)
<b>REVENUE</b>								
Franchised UK Motor	1,067.1	1,524.7	2,591.8	1,999.2	1,731.6	3,730.8	-30.5%	-26.4%
Software	10.8	11.5	22.3	11.3	12.1	23.4	-4.7%	-4.7%
Car Store	43.1	45.4	88.5	170.8	99.5	270.3	-67.3%	-35.1%
Leasing	37.3	49.0	86.3	56.3	31.4	87.7	-1.6%	-1.6%
US Motor	68.5	89.4	157.9	233.9	188.4	422.3	-62.6%	-15.1%
Inter-segment revenue	(8.5)	(13.7)	(22.2)	(15.9)	(12.5)	(28.4)	-21.8%	-21.8%
<b>Revenue</b>	<b>1,218.3</b>	<b>1,706.3</b>	<b>2,924.6</b>	<b>2,455.6</b>	<b>2,050.5</b>	<b>4,506.1</b>	<b>-35.1%</b>	<b>-25.5%</b>
<b>GROSS PROFIT</b>								
Franchised UK Motor	108.9	180.9	289.8	182.2	189.4	371.6	-22.0%	-18.3%
Software	9.9	10.6	20.5	10.4	11.1	21.5	-4.7%	-4.7%
Car Store	2.9	4.4	7.3	5.3	5.6	10.9	-33.5%	-9.2%
Leasing	6.7	10.9	17.6	8.4	8.7	17.1	2.9%	2.9%
US Motor	9.0	14.3	23.3	31.4	25.3	56.7	-58.9%	-5.8%
Inter-segment gross profit	(2.1)	(3.2)	(5.3)	(2.5)	(2.6)	(5.1)	-3.9%	-3.9%
<b>Gross Profit</b>	<b>135.3</b>	<b>217.9</b>	<b>353.2</b>	<b>235.2</b>	<b>237.5</b>	<b>472.7</b>	<b>-25.3%</b>	<b>-16.0%</b>
<b>UNDERLYING OPERATING PROFIT</b>								
Franchised UK Motor	(18.1)	36.6	18.5	(7.7)	20.7	13.0	42.3%	13.2%
Software	5.9	6.2	12.1	6.5	6.9	13.4	-9.7%	-9.7%
Car Store	(1.7)	0.5	(1.2)	(19.1)	(6.1)	(25.2)	95.2%	84.8%
Leasing	4.7	8.6	13.3	6.3	6.5	12.8	3.9%	3.9%
US Motor	(1.6)	4.8	3.2	3.3	9.4	12.7	-74.8%	-62.1%
<b>Underlying Operating (Loss)/Profit</b>	<b>(10.8)</b>	<b>56.7</b>	<b>45.9</b>	<b>(10.7)</b>	<b>37.4</b>	<b>26.7</b>	<b>71.9%</b>	<b>3.4%</b>
Gross Margin %	11.1%	12.8%	12.1%	9.6%	11.6%	10.5%	1.6%	1.3%
Underlying Operating Margin %	(0.9%)	3.3%	1.6%	(0.4%)	1.8%	0.6%	1.0%	0.5%
<b>Operating (Loss)/Profit</b>	<b>(31.2)</b>	<b>40.4</b>	<b>9.2</b>	<b>(114.1)</b>	<b>43.0</b>	<b>(71.1)</b>	<b>112.9%</b>	

# BUSINESS REVIEW

FRANCHISED UK MOTOR (£m)							
	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)
<b>REVENUE</b>							
Used	509.2	648.3	1,157.5	959.4	743.0	1,702.4	-32.0%
Aftersales	97.7	128.6	226.3	168.0	158.2	326.2	-30.6%
New	460.2	747.8	1,208.0	871.8	830.4	1,702.2	-29.0%
<b>Revenue</b>	<b>1,067.1</b>	<b>1,524.7</b>	<b>2,591.8</b>	<b>1,999.2</b>	<b>1,731.6</b>	<b>3,730.8</b>	<b>-30.5%</b>
<b>GROSS PROFIT</b>							
Used	36.4	63.1	99.5	47.0	58.2	105.2	-5.4%
Aftersales	45.3	65.9	111.2	83.7	77.8	161.5	-31.1%
New	27.2	51.9	79.1	51.5	53.4	104.9	-24.6%
<b>Gross Profit</b>	<b>108.9</b>	<b>180.9</b>	<b>289.8</b>	<b>182.2</b>	<b>189.4</b>	<b>371.6</b>	<b>-22.0%</b>
Gross margin rate	10.2%	11.9%	11.2%	9.1%	10.9%	10.0%	1.2%
Underlying Operating Expenses	(127.0)	(144.3)	(271.3)	(189.9)	(168.7)	(358.6)	-24.3%
<b>Underlying Operating (Loss)/Profit</b>	<b>(18.1)</b>	<b>36.6</b>	<b>18.5</b>	<b>(7.7)</b>	<b>20.7</b>	<b>13.0</b>	<b>42.3%</b>
<b>Underlying Operating margin rate</b>	<b>(1.7)%</b>	<b>2.4%</b>	<b>0.7%</b>	<b>(0.4)%</b>	<b>1.2%</b>	<b>0.3%</b>	<b>0.4%</b>
Stocking Interest <sup>1</sup>	(7.4)	(5.3)	(12.7)	(8.5)	(7.3)	(15.8)	-19.6%
<b>Profit after Stocking Interest</b>	<b>(25.5)</b>	<b>31.3</b>	<b>5.8</b>	<b>(16.2)</b>	<b>13.4</b>	<b>(2.8)</b>	<b>107.1%</b>
<b>Operating (Loss)/Profit</b>	<b>(32.0)</b>	<b>21.4</b>	<b>(10.6)</b>	<b>(92.0)</b>	<b>(4.4)</b>	<b>(96.4)</b>	<b>89%</b>
Total Revenue Change	-46.6%	-11.9%	-30.5%				
Like-for-like Revenue Change	-43.7%	-6.9%	-26.4%				
Used Units Sold	38,992	43,953	82,945	76,105	59,102	135,207	-38.7%
New Units Sold	21,659	32,981	54,640	43,085	38,338	81,423	-32.9%
Used GPU (£) <sup>2</sup>	934	1,437	1,200	618	985	778	54.2%
New GPU (£) <sup>2</sup>	1,256	1,574	1,448	1,195	1,393	1,288	12.4%
Number of Locations	160	144	144	170	165	165	-12.7%
Average Used Selling Price (£) <sup>3</sup>	12,528	13,613	13,126	11,761	11,785	11,771	11.5%
Average New Selling Price (£) <sup>3</sup>	21,400	22,689	22,185	20,185	21,982	21,041	5.4%

<sup>1</sup> Stocking interest. Whilst stocking interest is an interest expense and not part of operating profit, it is a cost directly related to the trading performance of both new and used cars. It is included as an alternative performance measure in the table above for information.

<sup>2</sup> GPU = Gross Profit per Unit. It is calculated as total New/Used GP divided by total New/Used retail units sold.

<sup>3</sup> Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles. The new selling price excludes vehicles sold by our fleet business (National Fleet Solutions).

## FRANCHISED UK MOTOR

### Operating Review

The Franchised UK Motor business operated from 142 franchise points and two used cars only retail points. The points represent a range of volume and premium products offering both sales and service functions.

### H1 FY20

H1 FY20 performance reflected the unprecedented impact of the COVID-19 pandemic and the full national lockdown from 23 March to the end of May.

During the enforced lockdown the Group accelerated the development of its online capabilities, which were further advanced throughout the year, including the introduction of click and collect and home delivery, enabling the Group

to continue trading during subsequent closures. New safe-working protocols were developed to allow our associates and customers to work and shop in COVID-19 secure facilities. The Group was able to access the various Government measures such as furlough and rates relief, as well as support from OEM partners and stocking loan providers.

The impact of COVID-19 accelerated a review of the Group's future operating model which had already commenced before the pandemic struck. As a result of the review, and supported by efficiency gains evidenced during reopening, the Group took the decision to introduce a leaner operating model with reduced headcounts. The process was successfully completed during the second half of FY20, with the total number of roles reduced by approximately 1,400, delivering annual benefits of c.£35m when compared to the cost base before the pandemic.

These cost reductions resulted in a more efficient operating structure, enabling higher operating margins across new, used and aftersales divisions.

In line with our strategy, a review of the store estate was also accelerated (and store closures subsequently completed during H2), which resulted in the closures of 15 locations and a reduction of approximately 400 further roles. These closed stores made a combined cumulative loss of c.£2m in FY19, prior to the pandemic. These decisions, whilst difficult to make, put the Group in a stronger position going forward. In addition to these closures, the Group had already closed five Vauxhall sites and one Ford site during the first half as a result of manufacturer estate review.

The UK new car market, as reported by the Society of Motor Manufacturers and Traders (SMMT) volumes were down 48.5% in H1, with sales severely impacted due to the lockdown. The Group's UK new car volumes were broadly in line with the market and were down 47.9% on a like-for-like basis in the first half of the year (down 49.7% on a total reported basis).

The used market volumes were down 28.7% in the first half with like-for-like Franchised UK motor used car volumes down 47.6%. The Group was down more than the market from a volume perspective principally as a result of increased volumes in H1 FY19 driven by the large-scale stock clearance activity completed.

Aftersales revenue also declined in the period, down by 41.8%, partially mitigated by the small number of service centres that were kept open initially during April, ahead of a wider reopening through May.

## H2 FY20

Performance rebounded strongly during the second half, underpinned by the reduced cost base, higher efficiency levels, a strong market for used car residual values, focussed inventory management and a good performance in new car sales. The Group reopened cautiously through the early part of the second half, building demand across vehicle sales and aftersales, and continued to be impacted by tiering and lockdown restrictions, in particular during the national lockdown in November.

The improvements made to the Group's digital offering, including fully transactional websites, together with improved operating procedures in stores meant the Group was able to better mitigate the impact of the November lockdown and tiering restrictions. In particular in November, the Franchised UK motor division was able to achieve around 70% of vehicle sales and over 90% of aftersales gross profit compared to the same month in FY19. This was a significant improvement compared to the initial lockdowns in H1, and combined with the lower cost base, provides improved confidence in the Group's resilience to trade through any further lockdown conditions.

New car volumes, which were down 6.3% on a like-for-like basis during H2, performed in line with the UK new car market, as reported by the SMMT which was down 6.2% in H2, however Pendragon outperformed the market in the brands which it represents, with the market in these brands being down 10.3%. This robust performance against the market, was also supported by improved new gross margin, at 6.9% during H2 (H2 FY19: 6.4%), supported by guaranteed margin targets from a number of the OEMs.



# BUSINESS REVIEW

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Market used car volumes were down 0.5% in the second half with Franchised UK motor used units down 19.3%. The Group was down more than the market from a volume perspective principally as a result of store closures combined with a focus on the quality of inventory and a cautious approach to reopening following the first national lockdown. The improved focus on used car management, both in terms of inventory turn and resulting from tactical improvements to the Group sourcing, supported by strong market-led residual values resulted in a used gross margin of 9.7% in H2 (FY19 H2: 7.8%). The used gross profit per unit, the key measure of vehicle margins, improved by £452 per unit in H2, to £1,437.

Aftersales capacity was accelerated gradually as the business reopened and as demand built during the second half, but continued to be partially restricted by reduced travel as a result of 'stay at home' messages and restricted capacity in some sites whilst employing safe working practices. As a result, aftersales revenue was down 13.2% on a like-for-like basis in H2. Due to the productivity improvements made aftersales gross margin was 51.2% in H2, compared to 49.2% in H2 FY19.

## Strategic review

In September, the Group launched its revised strategy to improve performance and unlock significant value in the franchised UK Motor division through actions to:

1. Accelerate digital innovation
2. Drive operational excellence and embed consistent best practice
3. Operate from a lean and efficient cost base

These initiatives have been designed to drive improvements in used car margins, aftersales profitability and operating cost efficiency.

## Accelerate digital innovation

The pandemic has driven a shift in UK consumption habits with consumers adopting new digital, and low-touch activities. We responded rapidly by strengthening each of our digital, click and collect and home delivery capabilities during lockdown so we could continue to trade. Whilst we fundamentally believe that there will always be a major role for bricks and mortar in vehicle purchasing, we expect these shifts in consumption habits to be permanent and that better digital and fulfilment experiences will be necessary to augment physical retailing.

In addition to the changes we made to enable online transactions early in the pandemic we made further progress in the second half of FY20 to build digital capability which allows customers to purchase used vehicles with finance online, complementing the capability that had been built in

H1 to purchase with cleared funds. To date, this capability has been added to the Car Store business and across Evans Halshaw. In addition to finance products, we are developing the capability to purchase general insurance products via digital channels.

During FY21 we will start work to develop an enhanced used vehicle acquisition and management platform. By utilising the Pinewood DMS system, we will build capability to utilise data to improve the processes for vehicle acquisition, removing manual processes, improving the efficiency and thereby enhancing the margin we achieve from used vehicle inventory. We will also develop automated inventory management capability to reduce, through better use of data, the average number of days vehicles are held in stock, also improving margin. Finally, we will develop dynamic used pricing capability by harnessing both internal and external data to optimise the pricing of used vehicle inventory in a timelier manner. Each of these improvements will ultimately drive higher margins.

## Drive operational excellence and best practice

There is further opportunity for us to improve performance through better operational practice, driving efficiencies. We are developing focussed internal reporting to improve insight into performance into areas such as vehicle preparation efficiency and sales force effectiveness. These improvements will also reduce costs, and improve profit margins.

In H2, we completed a competitive review of our used car warranty products, which has resulted in a number of changes. We have introduced a new three-year product to complement existing one and two-year offers. We also completed a review of pricing of these products, identifying opportunities to increase certain products, when benchmarked against the market. Over time, we will further develop the offer to provide customer centric solutions more tailored to the make, model and age of the vehicle. We also made tactical improvements to the way used car stock is acquired, driving improvements to the level of associate utilisation of tools resulting in an improved customer journey and conversion rates.

During FY21, we will start to implement opportunities and initiatives to drive substantial improvements to aftersales gross margin. These will include improvements to the store process, for example conversion rates of customer vehicle health checks, in order to improve technician productivity. In addition, we will introduce changes to improve cross-business consistency in the application of labour charge-out rates and use new system capabilities to both improve penetration rates on service plans and dealer guarantees, together with the introduction of new ancillary products.



### ***Operate from a lean and efficient cost base***

In FY20 we successfully made significant changes to our store and regional operating teams in order to right-size the model and to embed the efficiency gains we have delivered during the COVID-19 pandemic, which will deliver c.£35m of annual benefit. During FY21 we will continue to explore further cost base efficiencies across the property portfolio and through the replacement of manual process with systemic solutions and through reviewing existing key contracts and services.

### **Financial Review**

Revenue decreased by 30.5% in FY20 (26.4% down on a like-for-like basis). In the first half of FY20 revenue fell by 46.6% (43.7% on a like-for-like basis), and by 11.9% (6.9% on a like-for-like basis) in the second half for the reasons outlined above.

Gross profit fell by 22.0% in FY20 (18.3% down on a like-for-like basis) to £289.8m. In the first half of FY20 there was a gross profit reduction of 40.2% (38.3% on a like-for-like basis), and of 4.5% (an increase of 0.8% on a like-for-like basis) in the second half. The improvements in gross margin rates across all of new, used and aftersales in the second half of the year

resulted in a like-for-like increase in gross margin despite the revenue decline.

Underlying operating expenses have decreased by 24.3% (20.9% decrease on a like-for-like basis) to £271.3m. Due to the severe impact of the pandemic, the majority of Government support, such as the Coronavirus Job Retention Scheme and the business rates holiday, was required to support the Franchised UK motor division. This combined with cost actions taken during the first half, store closures and the restructuring activity in the second half resulted in an £85m cost reduction compared to FY19.

In total, the division delivered an £18.5m underlying operating profit in FY20 (FY19: £13.0m), with the previously reported first half underlying operating losses of £18.1m (H1 FY19: £7.7m) offset by the significantly improved performance of the second half underlying operating profit of £36.6m (H2 FY19: £20.7m).

Reported operating losses after non-underlying items were £10.6m (FY19: operating losses of £96.4m).

# BUSINESS REVIEW

## SOFTWARE (£m)

	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)
<b>REVENUE</b>							
Revenue	10.8	11.5	22.3	11.5	11.9	23.4	-4.7%
Gross Profit	9.9	10.6	20.5	10.4	11.1	21.5	-4.7%
Gross margin rate	91.7%	92.2%	91.9%	90.4%	93.3%	91.9%	-
Operating Expenses	(4.0)	(4.4)	(8.4)	(3.9)	(4.2)	(8.1)	-3.7%
<b>Operating Profit</b>	<b>5.9</b>	<b>6.2</b>	<b>12.1</b>	<b>6.5</b>	<b>6.9</b>	<b>13.4</b>	<b>-9.7%</b>
<b>Underlying Operating margin rate</b>	<b>54.6%</b>	<b>53.9%</b>	<b>54.3%</b>	<b>56.5%</b>	<b>58.0%</b>	<b>57.3%</b>	<b>-3.0%</b>
Total Revenue Change	-6.1%	-3.4%	-4.7%				

A more detailed breakdown of the Pinewood financials for FY20 can be seen below:

	Contribution from Pendragon	Contribution from external customers	Pinewood PLC standalone result	Share of Pendragon Group overheads	Pinewood segment as reported in Pendragon Group accounts
<b>REVENUE</b>					
Revenue	5.3	17.0	22.3	-	22.3
Gross Profit	4.8	15.7	20.5	-	20.5
Operating Expenses	(1.6)	(6.5)	(8.1)	(0.3)	(8.4)
<b>Operating Profit</b>	<b>3.2</b>	<b>9.2</b>	<b>12.4</b>	<b>(0.3)</b>	<b>12.1</b>

## SOFTWARE

### Operating Review

Pinewood, a software business, provides Software as a Service (“SaaS”) in the UK and in a number of countries worldwide.

The UK Dealer Management Systems (DMS) market for Franchised Motor Dealers is estimated to be worth over £100m. Three DMS providers dominate the UK market. The global DMS market is highly fragmented, with over 50 different DMS providers within Europe alone.

Pinewood’s unique approach to the DMS market is characterised by:

- a single product capable of global deployment, which simplifies future developments to the system and reduces operating expenses;
- a feature-rich cloud-based solution, with no need for costly third-party add-ons;
- focus on strong manufacturer partnerships and supporting dealer profitability; and
- commitment to using the latest technology to reshape motor retail.

Pinewood was an early adopter of the SaaS business model and has focussed on developing SaaS revenue streams from high levels of customer retention. Today around 90% of

Pinewood’s revenues are on SaaS basis. Whilst Pendragon remains an important customer to Pinewood, as Pinewood has grown, Pendragon’s proportion of the Pinewood total customer base has been diluted to c.21%, with intra-group charging maintained at a competitive market rate.

During FY20, overall net user numbers (excluding Pendragon) were flat, with 20% increase in international markets offsetting a 2% reduction in mature markets in challenging, COVID-19 related, market conditions. Pinewood was delighted to support its user base by offering a discount during the height of the pandemic.

In addition, Pinewood introduced a number of new capabilities during the year to enhance capabilities during the pandemic, including an eLearning platform for all users to support training whilst many people have been working remotely. It also introduced an online integrated payment platform for both Sales and Aftersales invoices, enabling secure online customer payment. Finally, it developed integration of remote signature capability of job cards and order documentation, ensuring compliance whilst maintaining a touchless, remote experience for customers.

Pinewood delivered a strong performance during the challenging trading conditions presented by the COVID-19

pandemic. The Company has been able to ensure full continuity of its services and has further developed the DMS to assist its customers in the new retail environment. Despite the travel limitations arising from the pandemic, Pinewood was able to grow user numbers in its new international markets by 20% compared to FY19. In the UK market (excluding Pendragon), user churn remained in line with historic levels. However, as a result of the pandemic, new users were added at a slower rate than planned resulting in a small net reduction in overall UK user numbers.

### Strategic Review

As part of its Group strategy presentation, Pendragon announced its plan to 'grow and diversify Pinewood'. This included the key objectives of:

- Growing the international user base by 80% and the total user base by 10%; and,
- Further product extension enabling turn-key digital automotive retail solutions.

In FY21 Pinewood will be focused on both elements of the 'grow and diversify' strategy.

- Grow: further growth of the international business is planned for FY21. This will include expansion of the direct sales model in Scandinavia, as well as anticipated system launches in new markets.

- Diversify: development of the core DMS product will continue in FY21. New products designed to support digital automotive retail are being developed to initially benefit Pendragon and, in the longer term, the external customer base.

### Financial Review

Total revenues fell by 4.7% compared to FY19, as due to COVID-19, discounts offered to customers during the initial national lockdown. Gross profit also declined by 4.7% to £20.5m as a result of the COVID-19 discounts offered.

Underlying operating expenses increased by £0.3m, or 3.7%, compared to FY19. The increase was driven by higher amortisation of the DMS software asset, as well as an increased development expense, reflecting the continued investment in the DMS product. These increases were partially offset by cost savings including support from the CJRS, as well as reduced travel and office expenditure.

As a result of these movements, operating profit was £12.1m, a reduction of 9.7%.



# BUSINESS REVIEW

CAR STORE (£m)							
	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)
<b>REVENUE</b>							
Revenue	43.1	45.4	88.5	170.8	99.5	270.3	-67.3%
Gross Profit	2.9	4.4	7.3	5.3	5.6	10.9	-33.5%
Gross margin rate	6.7%	9.6%	8.2%	3.1%	5.6%	4.0%	4.2%
Underlying Operating Expenses	(4.6)	(3.9)	(8.5)	(24.4)	(11.7)	(36.1)	76.6%
<b>Underlying Operating (Loss)/Profit</b>	<b>(1.7)</b>	<b>0.5</b>	<b>(1.2)</b>	<b>(19.1)</b>	<b>(6.1)</b>	<b>(25.2)</b>	<b>95.2%</b>
<b>Underlying Operating margin rate</b>	<b>(3.9)%</b>	<b>1.1%</b>	<b>(1.4)%</b>	<b>(11.2)%</b>	<b>(6.1)%</b>	<b>(9.3)%</b>	<b>7.9%</b>
Stocking Interest	(0.2)	(0.2)	(0.4)	(0.7)	(0.5)	(1.2)	-66.7%
<b>Profit after Stocking Interest</b>	<b>(1.9)</b>	<b>0.3</b>	<b>(1.6)</b>	<b>(19.8)</b>	<b>(6.6)</b>	<b>(26.4)</b>	<b>-93.9%</b>
<b>Operating (Loss)/Profit</b>	<b>(1.7)</b>	<b>0.4</b>	<b>(1.3)</b>	<b>(38.2)</b>	<b>(8.4)</b>	<b>(46.6)</b>	<b>97.2%</b>
Total Revenue Change	74.8%	-54.4%	-67.3%				
Like-for-like Revenue Change	-41.0%	-28.4%	-35.1%				
Units Sold	4,321	4,066	8,387	17,474	10,392	27,866	-69.9%
Used GPU (£) <sup>1</sup>	671	1,071	865	303	539	391	121.1%
Number of Locations	11	9	9	34	12	12	-25.0%
Average Selling Price (£) <sup>2</sup>	8,677	9,913	9,278	8,258	8,329	8,292	11.9%

<sup>1</sup>GPU = Gross Profit per Unit. It is calculated as total Used GP divided by total Used retail units sold.

<sup>2</sup>Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles.

## CAR STORE

### Operating Review

Despite the impact of the pandemic on the sales performance of the business, in particular during the first half of FY20, Car Store has continued to make significant progress with its underlying performance through both improved stock management and a reduced operating cost base. Notwithstanding the further impact of tiering and national lockdown, Car Store recorded an operating profit in the second half.

### H1 FY20

During the first half of FY20 Car Store incurred underlying operating losses of £(1.7)m compared to underlying operating losses of £(19.1)m in H1 FY19, an improvement of £17.4m. £10.0m of this improvement was driven by the closure of the unviable stores completed during the second half of FY19, with the remaining £7.4m reduction in losses arising from improved performance in the like-for-like estate.

### H2 FY20

Performance was encouraging during the second half, whilst revenue and units sold were both down, driven by both the full year impact of the store closure programme during the second half of FY19, and from lower levels of inventory held in the revised store estate, the gross margin rate improved to 9.6% (H2 FY19: 5.6%). Combined with the reduced cost base from the smaller estate and more efficient operating model, this resulted in a second half underlying operating profit of £0.5m.

Further 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, 15 have been either sold, had the lease surrendered or been sublet as at the end of February 2021. The remaining sites will continue to be actively marketed, with several of the remaining sites currently under offer.

### Strategic Review - Disrupt standalone used cars

We believe the UK is the most attractive used vehicle market globally, with a ratio of over three used vehicles sold for every one new. The overall market for used cars is around eight million cars sold per annum. Based on the desired age and mileage profile for our target market, we believe there is an addressable market for Pendragon of around three million cars per annum, which is larger than the total new car market.

We also believe that Pendragon is significantly advantaged today against its peers, with an ability to leverage the complementary attributes of the wider Group to provide a steady source of suitable stock, an ability to source parts for preparation at scale advantaged pricing, a high level of brand-referrals within the Group and cross-Group technical ability. In addition, the data capabilities we plan to build will allow us to leverage further scale advantages into a digitally-led, standalone used car proposition and drive higher margins.



To capitalise on this opportunity, we will deliver:

1. Rebranding of the standalone used car proposition
2. Differentiated value proposition
3. A scaled physical estate

#### ***Rebrand the standalone used car proposition***

Work is currently in progress to develop an appropriate brand identity to reflect a digitally-led product offer, supported by physical outlets. This will replace the existing Car Store brand.

#### ***Differentiate the value proposition***

In addition, we will determine the revised customer proposition and operating model to underpin the repositioned branding in order to differentiate the proposition from the franchised used car model and to appeal to a broader customer base, becoming an online-led retailer with supporting physical infrastructure. The used car proposition will benefit from clear operational separation of the division from the franchised model and will not be encumbered by the same OEM facility requirements. It will, however, continue to benefit from the Group synergies and future digital product development.

#### ***Scale the physical estate***

Over the next five years we are targeting the development of eight physical locations at an approximate capital cost of £7.5m per location. We believe that a combination of a digital proposition and these physical stores will allow us to gain a meaningful share of the target market. During FY21 we expect to commence work on the first of our new standalone proposition stores.

We have appointed a new managing director to lead our own brand proposition, Mark Akbar. Mark previously held the role of Vice President of Sales and F&I Operations with AutoNation, the major US automotive retailer. Mark brings a strong pedigree of used car retailing, including supporting the launch of the AutoNation used car model, as well as experience in bringing new digital products to the market.

#### **Financial Review**

Revenue decreased by 67.3% in FY20 (35.1% down on a like-for-like basis). In the first half of FY20 revenue fell by 74.8% (41.0% on a like-for-like basis), and by 54.4% (28.4% on a like-for-like basis) in the second half.

Gross profit fell by 33.5% in FY20 (9.2% down on a like-for-like basis) to £7.3m. The improvements in gross margin rate to 8.2% (FY19: 4.0%) partially offset the impact of reduced sales.

Underlying operating expenses have decreased by 76.6% (43.2% decrease on a like-for-like basis) to £8.5m, driven by a combination of store closures and Government support during the year through both the Coronavirus Job Retention Scheme, and the business rates holiday.

In total, the division delivered a £1.2m underlying operating loss in FY20 (FY19 underlying operating loss of: £25.2m). Reported operating losses after non-underlying items were £1.3m (FY19: £46.6m).



# BUSINESS REVIEW

## LEASING

### Operating Review

Pendragon Vehicle Management (PVM), a vehicle leasing business, offers a complete range of fleet leasing and contract hire solutions. Its customers represent all business sectors with varied fleet sizes. The fleet of vehicles is financed through third party asset funders which results in a high return on capital. PVM's fleet size reduced during FY20 following a decision not to renew vehicle contracts in the body-shop sector, which has been heavily impacted by the COVID-19 pandemic. The reduction in revenue experienced during H1 as previously reported as being a result of lower disposals during the first lockdown, was more than mitigated in H2 as the business benefitted from increased extension income and the strong

used vehicle values being achieved when disposing of de-fleeted vehicles.

PVM's fleet is experiencing a rapid change in the powertrains being requested by customers in the car sector as the corporate sector seek to improve their green footprint whilst providing their associates with reduced levels of company car benefit in kind taxation.

### Financial Review

Revenue decreased by 1.6%, however gross profit increased by 2.9% and with underlying operating expenses remaining broadly flat. Operating profit increased by 3.9% to £13.3m (FY19: £12.8m).

### LEASING (£m)

	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)
<b>REVENUE</b>							
Revenue	37.3	49.0	86.3	56.3	31.4	87.7	-1.6%
Gross Profit	6.7	10.9	17.6	8.4	8.7	17.1	2.9%
Gross margin rate	18.0%	22.2%	20.4%	14.9%	27.7%	19.5%	0.9%
Operating Expenses	(2.0)	(2.3)	(4.3)	(2.1)	(2.2)	(4.3)	-
Operating Profit	4.7	8.6	13.3	6.3	6.5	12.8	3.9%
<b>Operating margin rate</b>	<b>12.6%</b>	<b>17.6%</b>	<b>15.4%</b>	<b>11.2%</b>	<b>20.7%</b>	<b>14.6%</b>	<b>0.8%</b>
Revenue Change	-33.7%	56.1%	-1.6%				



## US MOTOR

### Operating Review

Operations in the US were also impacted by the pandemic, resulting in the operating losses in H1. The two remaining stores performed strongly in H2 as the economy reopened and dealerships were fully functional ahead of the key US trading period, resulting in a full year operating profit of £3.2m.

The disposal of the US Motor Group is nearing completion with total proceeds now expected to be c.£107m before tax, subject to the completion of the last remaining disposal in Santa Monica. Following the successful completion of the JLR site in Los Angeles on 29 January 2021 for £16.3m, total proceeds received before tax to date are £95.1m, with Santa Monica expected to realise a further £11.8m, as previously announced.

### Financial Review

Revenue is down by 62.6% in the year (15.1% like-for-like decrease) with new down by 61.2% (-18.9% like-for-like), aftersales down by 57.5% (-21.7% like-for-like) and used revenue down by 70.9% (+26.7% like-for-like).

Gross profit decreased by 58.9% (-5.8% like-for-like), with aftersales gross profit down 56.9% (-16.8% like-for-like), used gross profit down 70.2% (up 54.5% like-for-like) and new gross profit down 58.2% (-1.6% like-for-like).

Underlying operating expenses decreased by 54.3% (down 36.0% like-for-like).

Underlying operating profit was down by £9.5m at £3.2m (FY19: £12.7m), principally driven by the ongoing disposals.

After non-underlying items, the division delivered a £4.1m operating loss in FY20 (FY19 profit of: £45.7m).

### US MOTOR (£m)

	H1 2020	H2 2020	FY20	H1 2019	H2 2019	FY19	Change (%)
<b>REVENUE</b>							
Used	10.2	11.8	22.0	43.1	32.6	75.7	-70.9%
Aftersales	7.9	9.4	17.3	22.5	18.2	40.7	-57.5%
New	50.4	68.2	118.6	168.3	137.6	305.9	-61.2%
<b>Revenue</b>	<b>68.5</b>	<b>89.4</b>	<b>157.9</b>	<b>233.9</b>	<b>188.4</b>	<b>422.3</b>	<b>-62.6%</b>
<b>GROSS PROFIT</b>							
Used	0.5	1.2	1.7	3.5	2.2	5.7	-70.2%
Aftersales	3.9	5.2	9.1	11.7	9.4	21.1	-56.9%
New	4.6	7.9	12.5	16.2	13.7	29.9	-58.2%
<b>Gross Profit</b>	<b>9.0</b>	<b>14.3</b>	<b>23.3</b>	<b>31.4</b>	<b>25.3</b>	<b>56.7</b>	<b>-58.9%</b>
Gross margin rate	13.1%	16.0%	14.8%	13.4%	13.4%	13.4%	1.4%
Underlying Operating Expenses	(10.6)	(9.5)	(20.1)	(28.1)	(15.9)	(44.0)	54.3%
<b>Underlying Operating (Loss)/Profit</b>	<b>(1.6)</b>	<b>4.8</b>	<b>3.2</b>	<b>3.3</b>	<b>9.4</b>	<b>12.7</b>	<b>-74.8%</b>
<b>Underlying Operating margin rate</b>	<b>-2.3%</b>	<b>5.4%</b>	<b>2.0%</b>	<b>1.4%</b>	<b>5.0%</b>	<b>3.0%</b>	<b>-1.0%</b>
<b>Operating (Loss)/Profit</b>	<b>(8.8)</b>	<b>5.5</b>	<b>(3.3)</b>	<b>3.3</b>	<b>42.4</b>	<b>45.7</b>	<b>-107.2%</b>
Total Revenue Change	-70.7%	-52.5%	-62.6%				
Like-for-like Revenue Change	-32.1%	3.6%	-15.1%				
Used Units Sold	275	258	533	1,452	1,046	2,498	-78.7%
New Units Sold	945	1,219	2,164	3,413	2,662	6,075	-64.4%
Used GPU (£) <sup>1</sup>	1,818	4,651	3,189	2,410	2,103	2,282	39.8%
New GPU (£) <sup>1</sup>	4,868	6,481	5,776	4,747	5,147	4,992	17.4%
Number of Locations <sup>2</sup>	4	4	4	9	5	5	-20%
Average Used Selling Price (£) <sup>3</sup>	32,660	34,686	33,746	32,101	32,076	32,089	5.2%
Average New Selling Price (£) <sup>3</sup>	56,118	55,966	56,029	51,739	55,864	53,622	4.4%

<sup>1</sup> GPU = Gross Profit per Unit. It is calculated as total New/Used GP divided by total New/Used retail units sold.

<sup>2</sup> Represents 4 franchise points across the remaining two dealerships.

<sup>3</sup> Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles.

# 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 £37.8m of pre-tax non-underlying items against a charge of £97.7m in FY19. The current year charge includes non-cash impairments, principally of goodwill and non-current assets amounting to £16.5m. There is a £12.5m impairment of goodwill, a £3.2m impairment of property assets primarily relating to the previously announced store closures and a £0.8m impairment of assets held for sale. These have been necessary following assessments of the carrying value of those assets which have been compared to the higher of their value in use or fair value.

Pension costs of £5.4m includes an expense of £3.3m following the legal precedent which has extended the scope of the Guaranteed Minimum Pensions equalisation first recognised in

2018 to include previous transfer values paid from the scheme since 1990, an interest charge on pension scheme obligations of £1.2m for FY20 and a charge of £1.0m in relation to the levy into the pension protection fund.

The Group recorded losses on the sale of properties, plant and equipment and businesses in the period of £6.8m. This included losses of £6.5m on the disposal of the Puente Hills Chevrolet location, a net £1.1m profit on the sale of surplus property during the year and a loss of £1.4m in respect of losses on the disposal of plant and equipment as a result of the closure of businesses during the year.

There were termination and severance costs of £6.3m in FY20, arising from the combination of the 21 store closures completed during the year and the right-sizing exercise which resulted in a reduction of c.1,400 roles. In addition to these termination and severance costs the Group incurred further costs resulting from their closure of £2.8m.

£m	H1 2020	H2 2020	FY 2020	FY 2019
Settlement of historic VAT issues	-	-	-	3.5
Impairment of goodwill, property, plant and equipment and assets held for sale	(12.5)	(4.0)	(16.5)	(130.2)
Termination and severance costs	(1.2)	(5.1)	(6.3)	(5.5)
(Losses)/gains on the sale of businesses and property, plant and equipment	(5.9)	(0.9)	(6.8)	33.3
Business closure costs	(0.8)	(2.0)	(2.8)	(1.8)
Pension (costs)/income	(0.6)	(4.8)	(5.4)	3.0
<b>Total non-underlying items before tax</b>	<b>(21.0)</b>	<b>(16.8)</b>	<b>(37.8)</b>	<b>(97.7)</b>
Non-underlying items in tax	3.4	0.7	4.1	(3.3)
<b>Total non-underlying items after tax</b>	<b>(17.6)</b>	<b>(16.1)</b>	<b>(33.7)</b>	<b>(101.0)</b>

## CAPITAL ALLOCATION

Net debt\* has reduced by £19.3m from £119.7m at 31 December 2019 to £100.4m at 31 December 2020. The net debt to underlying EBITDA ratio\* was 0.8x for the rolling 12 months to FY20.

The Group expects gross proceeds from the disposal of the entire US business of around c.£107m before tax. In total to date, disposal proceeds of £95.1m have been received, which includes the Los Angeles disposal completed in January 2021. Agreement has been reached to dispose of the last remaining US location in Santa Monica, with completion expected in FY21.

The Group also completed a sale and leaseback of its newly constructed Porsche Stockport dealership during FY20, realising proceeds of £10.5m. Disposals of a further five freeholds, comprising three ex-Car Store locations and two ex-Vauxhall locations, were completed in FY20, with total

proceeds received of £9.6m. The Group continues to focus on its vacant property estate following the recently completed closures.

\* This is an Alternative Performance Measure (APM), see page 107 for more detail.



## 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 2020 and 31 December 2019 as follows:

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

	2020	2019
<b>Underlying Operating Profit</b>	<b>45.9</b>	<b>26.7</b>
Depreciation and Amortisation	43.7	44.7
Share Based Payments	1.2	0.6
Non-underlying Items	(10.1)	(5.7)
Contribution into defined benefit pension scheme	(12.5)	(7.6)
Working Capital and Contract Hire Vehicle Movements <sup>1</sup>	(0.7)	5.4
<b>Cash Generated from Operations</b>	<b>67.5</b>	<b>64.1</b>
Capital Expenditure and Fixed Asset Vehicles Net Movement	(18.7)	(49.4)
Business and Property Disposals	36.7	72.4
<b>Net Capital Income<sup>2</sup></b>	<b>18.0</b>	<b>23.0</b>
Tax Paid	(4.4)	(3.3)
Interest Paid excluding lease interest <sup>3</sup>	(20.5)	(26.8)
Dividends	-	(9.7)
Share Buybacks	-	(0.5)
Lease Payments & Receipts <sup>4</sup>	(39.8)	(39.9)
Other	(1.5)	(0.5)
<b>Decrease in Net Debt</b>	<b>19.3</b>	<b>6.4</b>
Opening Net Debt	119.7	126.1
<b>Closing Net Debt</b>	<b>100.4</b>	<b>119.7</b>

<sup>1</sup> being the change in trade and other receivables, change in trade and other payables and movement in contract hire vehicle balances.

<sup>2</sup> being the proceeds from sale of businesses, purchase of property, plant, equipment and intangible assets and proceeds from sale of property, plant, equipment and intangible assets.

<sup>3</sup> being bank and stocking interest paid.

<sup>4</sup> being receipts of lease receivables and payment of lease liabilities including lease interest paid and received.

### RECONCILIATION TO CONSOLIDATED CASH FLOW STATEMENT

	2020	2019
<b>Net Cash Flow From Operating Activities</b>	<b>29.6</b>	<b>20.7<sup>1</sup></b>
Net capital income	18.0	23.0
Receipt of lease receivables	1.9	2.2 <sup>1</sup>
<b>Net cash from investing activities</b>	<b>19.9</b>	<b>25.2<sup>1</sup></b>
<b>Financing cash flows as included above</b>		
Dividend	-	(9.7)
Share buybacks	-	(0.5)
Payment of lease liabilities	(28.7)	(28.8) <sup>1</sup>
<b>Financing cash flows not included above relating to loans</b>		
Repayment of loans	(40.0)	(5.0)
Proceeds from issue of loans (net of directly attributable transaction costs)	18.2	5.4
<b>Net cash outflow from financing activities</b>	<b>(50.5)</b>	<b>(38.6)<sup>1</sup></b>

<sup>1</sup> Restated – see section 1.

# FINANCIAL REVIEW

The cash generated from operations was an inflow of £67.5m in FY20 compared to an inflow of £64.1m in FY19 with an increase in underlying operating profit of £19.2m resulting from the strong second half trading performance, partially offset by an increase of £4.4m in cash non-underlying items, to £10.1m, which principally relate to the estate and operating model right-sizing exercises, combined with an increase in pension deficit contribution payments.

The increase in operating profit included an estimated negative first half impact on operating profit from COVID-19 of approximately £44.1m.

The working capital and contract hire movements cash outflow of £0.7m was principally driven by a deferred VAT payment timing benefit under the Government support scheme, of approximately £30m, largely offset by an underlying outflow related to the reduction in new car inventory. The deferred VAT timing benefit is expected to unwind over a 11-month period from March 2021.

The net capital expenditure inflow of £18.0m (FY19: £23.0m) was principally due to the £36.7m cash received from business and property disposals, which more than offset the outgoing capital expenditure of £18.7m in the period. Disposal proceeds comprised of £16.6m from the disposal of Puente Hills Chevrolet in the US, £10.5m from the sale and leaseback of the newly built Porsche Stockport and £9.6m from the disposal of vacant property. The level of capital expenditure was reduced during the year in order to provide mitigation against ongoing uncertainty caused by the pandemic.

No dividends were paid during FY20.

Lease payments & receipts were flat year on year, with the timing benefit from the temporary move to monthly rent payments during the first half unwound by the end of the year, with normal rental patterns resumed as trading improved. The impact of annual rent increases and the addition of rent payments following the sale and leaseback of Porsche Stockport were largely offset by reductions attributable to a total of 15 leases that were successfully re-assigned, sublet or expired during the year, and which will result in an annual equivalent rent reduction of c.£1.3m.

With effect from 1 April 2021 in respect of light commercial vehicles, and with effect from 1 July 2021 in respect of passenger vehicles, the way in which the Group acquires vehicles from Ford will change. From these two respective dates, the Group shall become the importer of Ford vehicles into the UK, rather than acquiring the vehicles from Ford UK. This will lead to changes in both the amounts ultimately payable to Ford for vehicles (the liabilities due to Ford shall be lower because no VAT will be charged) and the removal of VAT recovery in respect of the acquisition of vehicles. The resulting change in cashflows is estimated in the range of +£4m to -£23m, dependant on the month, although the impact on the Group's peak borrowing is not expected to be significant. As at 31 December 2021, the impact is expected to increase net debt by approximately £12m.

## BALANCE SHEET SUMMARY

The following table summarises the balance sheet of the Group at 31 December 2020 and 31 December 2019.

## BALANCE SHEET

	2020	2019
Property	222.8	237.8
Plant & Equipment	204.0	231.3
Goodwill	150.3	162.8
Intangibles	10.2	9.5
Right of Use Assets	146.0	159.2
Inventories	608.8	839.0
Receivables <sup>1</sup>	113.2	129.9
Net Assets Held for Resale <sup>2</sup>	31.7	59.6
Payables <sup>3</sup>	(1,222.2)	(1,504.2)
Retirement Benefit Obligations	(75.5)	(59.0)
Net Tax Balances <sup>4</sup>	37.8	22.7
Net Debt <sup>5</sup>	(100.4)	(119.7)
<b>Shareholders' Funds</b>	<b>126.7</b>	<b>168.9</b>

<sup>1</sup> being trade and other receivables and finance lease receivables <sup>2</sup> being assets classified as held for sale and liabilities directly associated with assets held for sale

<sup>3</sup> being trade and other payables, deferred income and lease liabilities <sup>4</sup> being deferred tax assets, current tax assets and current tax payable <sup>5</sup> being cash and cash equivalents and interest bearing loans and borrowings

Net assets have reduced from £168.9m at 31 December 2019 to £126.7m at 31 December 2020.

At 31 December 2020, the Group had £222.8m (£368.8m including IFRS16 right of use assets) of land and property assets (FY19: £237.8m (£397.0m including IFRS16 right of use assets)). The reduction in property principally reflects the previously announced sale and leaseback of the Group's new Porsche facility in Stockport, combined with the disposal of excess property as outlined and partially offset by capital investments. A reduction in the right of use assets of £13.2m results from a combination of the ongoing depreciation in association with IFRS 16, combined with the impact of the reduction in leasehold properties from the 15 exited properties, partially offset by the addition of Porsche Stockport as an IFRS 16 property.

The movement in plant and equipment largely reflects the ongoing depreciation with a lower than planned level of capital expenditure in the period, combined with the impact of disposals as a result of store closures.

The reduction in goodwill and intangibles is principally a result of a goodwill impairment charge of £12.5m for the year which was all recorded in H1.

Stock has reduced by £230.2m to £608.8m (FY19: £839.0m) driven by a combination of a reduction in the levels of both new car stock and used car stock, as well as smaller reductions in the levels of parts stock. Reductions in used car stock (c.£70m reduction vs FY19) arose from the impact of both store closures and a continued focus on inventory management. New car stock was lower (c.£150m reduction vs FY19) as a result of closures, combined with a short-term impact from reduced OEM production during the pandemic, resulting in higher sales levels from existing store stock. We currently expect new car stock levels to rebuild through FY21.

As described with the Group's interim results announcement, the Group benefitted from a timing benefit from the cash inflow of receivables of approximately £45m as at 30 June 2020, which largely reversed during the second half of FY20. Despite this reversal, receivables declined by £16.7m to £113.2m (FY19: £129.9m), principally as a result of the previously discussed lower second half new vehicle sales year-on-year.

The reduction in payables of £280.6m principally relates to the lower vehicle creditors as a result of the reduction in vehicle inventory. This combined with a lower lease liability associated with the reduced right of use assets as described above is partially offset by an increased VAT creditor as described in the analysis of working capital above.

The net tax balance has increased from £22.7m to £37.8m primarily as a result of the increased pension obligations, additional tax losses generated in the year, and the restatement of UK deferred tax from 17% to 19% following the budget announcement of 11 March 2020.

The net liability for defined benefit pension scheme obligations has increased from £59.0m at FY19 to £75.5m at FY20. The increase of £16.5m comprises of contributions of £12.5m, a net expense recognised in the income statement of £4.4m (comprising a past service cost expense of £3.3m and an interest expense of £1.1m) and a net actuarial loss of £24.6m.

The net actuarial loss has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The Group contributed £12.5m to the Pension Scheme in the period in line with the Group's commitment as agreed in the triennial actuarial valuation of the company's pension scheme as at 31 December 2018.

#### DIVIDEND

The Group is not proposing a final dividend for 2020.

#### REVOLVING CREDIT FACILITY (RCF)

In March 2021 the maturity date of the Group's RCF was extended by 11 months to 1 March 2023, with the facility size maintained at £175m. The Group has agreed to initially increase the margin to 4.85% for this extended facility. The £175m RCF and the £60m Private Placement are both due to mature in March 2023.



# RISK OVERVIEW AND MANAGEMENT

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## POTENTIAL IMPACT OF COVID-19

As a result of the rapid onset of the COVID-19 pandemic in Q1 2020, and the imposition of national lockdowns, the Group took rapid action to (1) ensure the health, safety and wellbeing of our customers and associates as a priority and (2) ensure that our businesses could continue to operate to the fullest extent possible, within the law and with all appropriate COVID-19 mitigations in place. The specific health and safety measures we introduced are detailed in our Corporate Social Responsibility Report at page 58.

We continue to model the impact of COVID-19 on our business, with the associated risks to our business arising as a result of the pandemic now considered to be a principal risk in its own right.

## 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, fully taking into account the new strategy. The table on pages 42 to 48 is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. The specific 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 in 2020 by the Risk Control Group. A small number of risks and mitigation disclosures have been undated as a result, including those relating to COVID-19 and the UK's trade agreement following the UK's exit from the EU. There were no new risks identified as a result of the new strategy. 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 54.





## 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.

In 2020, due to the pandemic, a number of the workforce was on furlough and therefore certain controls were not undertaken regularly during the year, whilst other controls were subject to enhanced levels of operation. The Group has assessed the impact and has concluded that it was not likely to have a material effect on the Group's internal controls over financial reporting. Controls are designed to ensure that the Group's financial reporting presents a true and fair reflection of the Group's financial position. The Board has concluded that, as at 31 December 2020, that there are certain internal control deficiencies which it intends to remediate during 2021.

### Operational and Other Risks

Operational management is charged by the Board with responsibility for identifying and evaluating risks faced by 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 55.



# RISK OVERVIEW AND MANAGEMENT

Residual Risk Trend: ↔ Unchanged    ↑ Increasing    ↓ Decreasing

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
1	<b>COVID-19 PANDEMIC</b>		
↑	<p><b>New risk:</b> Failure to adapt our operations to new or longer-term disruptive effects arising from the global pandemic. Factors could include disruption to our customers, our OEM partners, our suppliers, and our workforce, which could adversely affect our financial condition and results of operations</p> <p>Failure to mitigate the additional business costs which could arise as a result of Government action to address the national cost of the pandemic and the further spending required to address factors such as long-term unemployment</p>	<p>We experience issues with short-term staff shortages if the virus is allowed to spread amongst our workforce, or if large teams are required to isolate</p> <p>We experience difficulties in providing ongoing supplies and services, leading to customer dissatisfaction, causing us to miss our profit targets</p> <p>We suffer delays or constraints in delivering our business plan, which could cause us to fall behind our competitors or fail to meet our customers' future needs</p>	<ul style="list-style-type: none"> <li>• We rapidly reviewed our working environment and introduced robust provision for safe-working under socially distanced conditions, with enhanced hygiene protocols and rapid response to localised issues. Safety remains our number one priority and is monitored by a centrally coordinated team</li> <li>• We have significantly developed our systems and processes during 2020 to enable our customers' needs to be met through a range of sales channels to suit their needs and to ensure ongoing compliance to all regulations. These developments include enhancements to the online journey, home delivery, click and collect, and payment processes, as well as providing customers the benefit of direct interaction with our associates from their own home by integrating video calls into our sales process</li> <li>• We are continuing to develop our sales channels, in particular our online journey</li> <li>• We continue to work closely with our OEM partners and other key suppliers to ensure any potential disruption or material future change to operations is factored into our planning</li> <li>• Executive directors and COVID-19 strategy/action team of cross-functional leaders meet regularly to anticipate and plan for any potential changes</li> <li>• Our business plan has been fully refreshed in 2020 and has taken into account the latest economic predictions</li> </ul>

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>2</b>	<b>STRATEGY</b>		
↔	<p>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>Delay to strategic delivery and investment financial constraints as a result of COVID-19</p> <p>Failure to invest in the right physical and digital assets to meet all future customer needs</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. Our strategic priorities were fully refreshed during 2020 and full details are included at page 25 of this report</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. We have appointed a director of strategy &amp; transformation and other dedicated resources to support the delivery of our strategic initiatives and provide robust governance, including financial tracking</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>

<b>3</b>	<b>MANUFACTURER RELATIONSHIPS</b>		
↔	<p>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 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>Failure to positively adapt to OEM consolidation such as the creation of multi brand operations and network rationalisation</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 franchises</li> <li>• Our ongoing innovation and investment in customer choice as to how they wish to purchase a vehicle makes us an attractive partner to OEMs</li> </ul>

# RISK OVERVIEW AND MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>4</b>	<b>COMPETITION</b>		
↔	Failure to meet competitive challenges to our business model or sector	<p>Customers migrate to alternative providers</p> <p>Intermediary companies establish a barrier between us and our customers</p> <p>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> <p>The market could become more fragmented as online, click and collect and home delivery models become more attractive ways of purchasing to customers</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 ongoing innovation and investment in our online platforms, customer offer and 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>
<b>5</b>	<b>RULES OF ORIGIN AND OTHER OUTCOMES ARISING FROM THE UK'S TRADE DEAL WITH THE EUROPEAN UNION</b>		
↓	Failure of our business or our partners to meet the EU Trade Deal rules of origin on vehicle parts by 2024 could result in an increase in costs due to tariffs or disruption to our supply chain due to a need for alternative sources of supply	<p>Parts supply may become restricted or reduced, affecting our ability to meet customers' needs</p> <p>Vehicle model variants may be reduced by manufacturers, affecting customer choice and satisfaction</p>	<ul style="list-style-type: none"> <li>• Our close contact with our vehicle manufacturers ensures we are able to identify potential supply issues and collaborate to limit any impact on our customers and our business performance</li> <li>• Our vehicle manufacturers are strategically focused on making any necessary adjustments to their supply chain in order to mitigate the risk of costs increasing or supply being disrupted</li> </ul>

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>6</b>	<b>ENVIRONMENTAL</b>		
↔	<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>OEMs restricting distribution of certain vehicle models in the UK in response to emission targets</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 vehicles</p> <p>Reductions in sales volumes or margins due to loss of certain product lines and future aftersales opportunities</p> <p>Investment cost to adapt to a broad range of BEV products by 2030 and PHEV and MHEV by 2035 is not adequately considered</p>	<ul style="list-style-type: none"> <li>• We represent vehicle brands which are responding effectively to the greener technology agenda and latest Government timescales</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 actions</li> </ul>
<b>7</b>	<b>REGULATORY AND COMPLIANCE</b>		
↔	<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 and 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 appropriate 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 and Insurance Services Regulatory Board with a supporting governance framework and 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>

# RISK OVERVIEW AND MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>8 TECHNOLOGY AND INFORMATION SYSTEMS</b>			
↔	<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 disaster recovery measures, including within our dealer management systems</li> <li>• We have appointed a chief information officer who has reviewed our cyber security measures through an independent third party. An Information Security Improvement Plan has been developed and an external advisor engaged to provide oversight and direction to remediation activities</li> <li>• The Information Security Steering Committee has been established to oversee change and operational activities relating to information security</li> <li>• We have established a Pendragon Group IT function to set strategy for technology including cloud-based systems and processes. Disaster recovery capability and systems availability is in place for all core systems</li> <li>• Our Pinewood business monitors cyber security threats and has systems and processes in place to deal with incidents relating to the services they provide. This is demonstrated through their continued ISO27001 certification</li> <li>• We have cyber liability insurance in place, that includes Cyber Incident Response Centre, providing access to expertise to assist during a crisis</li> </ul>
<b>9 DATA SECURITY AND DATA PRIVACY</b>			
↔	<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, associate training and the use of third party systems</li> <li>• Our Pinewood 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 has reviewed our cyber security measures through an independent third party. An Information Security Improvement Plan has been developed and an external advisor engaged to provide oversight and direction to remediation activities</li> <li>• The Information Security Steering Committee has been established to oversee change and operational activities relating to information security</li> </ul>

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>10</b>	<b>RELIANCE ON ESTIMATES</b>		
↔	<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>
<b>11</b>	<b>PEOPLE</b>		
↔	<p>Failure to attract, motivate, develop and retain the required capability and promote an appropriate culture</p> <p>Failure to attract the right talent required to deliver strategy or change 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>12</b>	<b>MICRO-ECONOMIC, POLITICAL AND ENVIRONMENTAL</b>		
↔	<p>European economic instability and/or UK or Global economic and business conditions deteriorate</p> <p>UK Governmental spending constraints</p> <p>Longer term unemployment as UK Government support for COVID-19 pandemic unwinds</p>	<p>Fewer purchasers of vehicles</p> <p>Spend on luxury purchases reduces due to higher unemployment and job insecurity</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 and work closely with our OEM partners, accessing support through initiatives such as extended stocking finance</li> <li>• We have right-sized our cost base, completed a dealership network review and closed loss-making operations, and we continue to pursue opportunities to ensure our business processes are highly efficient</li> <li>• We invest in and vigorously pursue customer retention initiatives to secure longer term loyalty</li> </ul>

# RISK OVERVIEW AND MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>13</b>	<b>FINANCE &amp; TREASURY</b>		
↔	<p>Lack of availability of debt funding</p> <p>Increasing Pension liabilities arising from our defined benefit scheme</p>	<p>As set out in more detail in note 4.2 the Group has a Revolving Credit Facility of £175m and a private placement of £60m, both of which mature in March 2023. Without the requisite facilities the Group would be unable to meet debt obligations</p> <p>Changes in discount rates, inflation, asset values, Pension trustees' investment strategies or mortality assumptions could lead to a materially higher deficit than our current recovery plan is designed to fund, and a direct impact on valuation, implied credit rating and potential additional funding requirements at subsequent triennial reviews</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>• The Defined Benefit Scheme was closed to new entrants in 2000 and for future service accrual in 2006</li> <li>• Regular review by our pension trustees of investment strategy and liability reduction and risk mitigation, taking professional advice, including triennial valuations</li> <li>• Deficit funding recovery plan in place</li> </ul>
<b>14</b>	<b>HEALTH, SAFETY &amp; ENVIRONMENTAL</b>		
↔	<p>Failure to provide safe working and retail environments</p> <p>Failure to keep up to date with and put in place adequate procedures to comply to all Government COVID-19 laws, regulations and guidance, at both country level and local/regional level</p> <p>Failure to control the environmental hazards present within our operations</p> <p>Failure to keep up to date with Waste Packaging and Waste Recycling Regulations</p>	<p>This could lead to illness and injury, fatalities, lost working time, civil claims and clean-up costs</p> <p>Our reputation could be adversely affected and regulatory action could result in prohibition, fines and criminal penalties and closure of businesses</p> <p>This could lead to sanctions from the Environmental Agency in respect of harmful substance emissions/escape into the atmosphere, which may adversely affect the efficiency of our Body Centres and SMART repair throughput and excessive charging as "End User Packaging" levy</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</li> <li>• We allocate clear responsibilities for delivery of safe places to work and shop</li> <li>• In consultation with the business and where appropriate, external specialists 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>• We operate independent routes for the reporting of any concerns (whistle blowing) and have a standard procedure for investigation and escalation of matters of concern</li> <li>• In response to COVID-19 we have put in place additional measures to assist our associates in limiting the risk of spread of infection, including home working where this is possible and all Government mandated protocols where it is not possible. 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> <li>• Our health and safety response to COVID-19 is more particularly detailed at page 58 of this report</li> </ul>



# VIABILITY STATEMENT

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## 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 2023.

The Group normally expects to have in place facilities of three-years and therefore this remains the appropriate time-frame to assess viability. At this time, the Group's facility runs until 1 March 2023, 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 a severe but plausible downside scenario which involves flexing several of the main assumptions underlying the forecast, including the removal of the disposal of the final US dealership, assumes two further one-month national lockdowns without Government support measures in the next 12 months, and includes the impact of a reasonable downside contraction in sales volumes and margins which is below that experienced in 2020. 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 impact from the ongoing COVID-19 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 40 to 48. 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 associate resource.

Approved by order of the Board



**Mark Willis**

Chief Finance Officer

24 March 2021

The Board has also considered and will continue to monitor the threat and implications of COVID-19 and the potential for future national lockdowns and disruption to trading. 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 on a triannual basis during the year 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 availability of debt funding, in particular, the successful refinancing of both the revolving credit facility and private placement, when they expire in 2023. 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 facility.

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 the currently unknown effect of the COVID-19 pandemic. 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 2020, 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 and the results of the severe but plausible downside scenario for the three year viability period. 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 2023.

# DIRECTORS' REPORT

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# BOARD OF DIRECTORS

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## **BILL BERMAN**

Chief Executive Officer  
& Interim Chairman

Bill joined Pendragon on 18 April 2019 as a non-executive director, assumed the role of interim executive chairman on 01 October 2019 and became chief executive officer on 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 has extensive executive experience in automotive retail, enabling him to provide effective 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 retail sector, where most recently he held the position of Chief Finance Officer at JD Sports Fashion Plc between 2004 and 2018. Brian is also a Non-Executive Director and Chairman of the Audit Committee at online retailer, Boohoo.com, and a Non-Executive Director 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 02 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.

## **NIKKI FLANDERS**

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

Nikki joined Pendragon on 01 April 2020. She has an extensive executive career across a range of sectors, including retail, utilities and digital, within both regulated and non-regulated environments. Previous roles have included that of Chief Operating Officer of Opus Energy, a wholly owned subsidiary of Drax Group Plc, plus senior non-statutory executive roles at Telefonica, M&S, WH Smith, Centrica and O2. Nikki currently holds an executive position at SSE plc as the Managing Director for the Customer Division. Nikki actively champions inclusion and diversity within the workplace. Her extensive executive experience over a 30 year career enables Nikki to contribute strategic perspectives to the Board.

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

\* Committee chairman

\*\* Acting Committee chairman

(SID) Senior Independent Director

(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)

**DIETMAR EXLER**

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

Dietmar joined Pendragon on 20 April 2020, following an extensive executive career including experience in the automotive sector, banking and sports management. Dietmar currently serves as Chief Operating Officer of AMB Sports & Entertainment. Prior to that, he held the position of President and Chief Executive Officer of Mercedes-Benz USA and Head of Region, NAFTA Mercedes-Benz. His previous automotive sector specific executive experience, in particular in relation to automotive financing, enables Dietmar to contribute the industry perspective, and is of significant value to the Board. Dietmar was appointed SID on 24 February 2021.

**MARTIN CASHA**

Chief Operating Officer

Having spent his entire career with Pendragon businesses, from apprentice mechanic to group general manager, Martin became operations director in September 1995 and chief operating officer in November 2001. 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 as chief finance officer, 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 0DR  
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

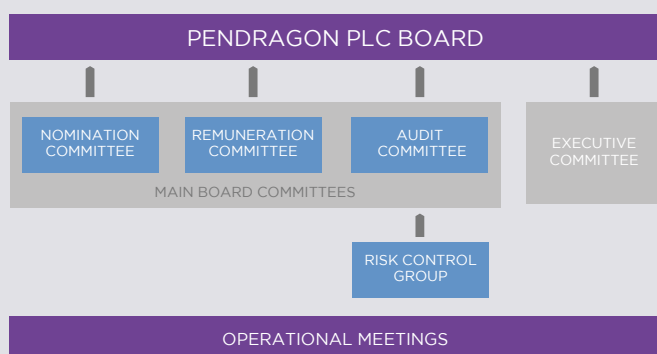
# CORPORATE GOVERNANCE REPORT

The UK Corporate Governance Code (Code) applies to the Company and is available on the FRC website at <https://www.frc.org.uk>. Other than where expressly stated, throughout the financial year ended 31 December 2020, the Company complied in full with the applicable provisions of the Code. The corporate governance statement as required by Disclosure and Transparency Rule 7.2.1 is set out below.

## OUR BOARD

The Board sets our Company's strategy and ensures we have in place the financial and human resources we need to meet our objectives. We take collective responsibility for Pendragon's long term success. The executive directors, led by the chief executive, are responsible for running the Company and our Group 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 which is continued to be performed by the chief executive officer on an interim basis, holds himself available to engage with shareholders, and the senior independent director, 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 24 March 2021, the Board is made up of three executive directors and four non-executive directors. The Board has recently recommenced the process of actively seeking to recruit a non-executive chairman, progress on which had been delayed due to the onset of the COVID-19 pandemic and its continuation throughout 2020 and our requirement to focus on the operational needs and management response of the business. The Board nevertheless continues to recognise the need for an appropriate level 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 July 2020. 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.

On 19 February 2020, Bill Berman was appointed chief executive officer of the Company, and has also continued to perform the role of chairman on an interim basis while the process for the recruitment of a permanent non-executive chairman was temporarily suspended during the ongoing COVID-19 pandemic. In this respect, the Company recognises that for the entirety of 2020 and beyond, we have not complied with provision 9 of the Code, in that in performing the role of interim chairman, Bill Berman is effectively exercising both the role of chairman and chief executive. However, the Company considers that, given exceptional circumstances, latterly driven by the ongoing COVID-19 pandemic, the continuation of Bill Berman in the interim chairman role remains fully justified. 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 has since recommenced the process to find, assess and recruit a candidate with the requisite capabilities, attributes, skills and experience to hold the non-executive chairman role. Longwater Partners, an independent external search consultancy have again been instructed to assist with this process. Other than concluding the appointment of a non-executive chairman, the Board considers that an appropriate combination of executive and non-executive directors is otherwise in place in accordance with the Code.

In March 2020, Nikki Flanders joined the Board as an additional non-executive director, and in April 2020, Dietmar Exler joined the Board as an additional non-executive director. Dietmar Exler was appointed to the role of senior independent director on 24 February 2021.

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 Annual General Meeting of the Company. Details of the directors offering themselves for election in 2021, together with directors' brief biographical details appear on page 52, and gender balance details are on page 57.

#### **OTHER NON-COMPLIANCE WITH THE CODE**

The chief operating officer currently receives a salary supplement in lieu of a pension contribution which does not currently align with the pension contribution available to the wider workforce, and is therefore not compliant with provision 38 of the Code. However, as outlined in the Director's Remuneration Report at page 68, it is our intention to ensure the chief operating officer's salary supplement in lieu of pension contribution is reduced over the next three years such that by 2023 it will be aligned to the pension contribution available to the wider workforce, and compliance with provision 38 of the Code will be achieved.

#### **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 2020 appear below and in the Directors' Remuneration Report on pages 68 to 82.

#### **THE BOARD'S REVIEW OF RISKS AND CONTROLS IN 2020**

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 2020. We concluded that, with the exception of certain control deficiencies reported by KPMG LLP and those included within the Risk Overview and Management section, all appropriate controls are in place and functioning effectively. The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to its business and the proper assessment and mitigation of those risks. Based on the Audit Committee's and the RCG's work, the Board has performed a high level risk assessment, to ensure that (i) the principal risks and uncertainties facing the Group's business have been identified and assessed, taking into account any adaptations made to the Group's business strategies, and (ii) that appropriate mitigation is in place.

Our Company policies on managing financial risk and application of hedging are set out in note 4.2 to the financial statements. The principal risks and uncertainties we have identified are on page 40 and our viability statement is on page 49.

#### **WORK OF THE RISK CONTROL GROUP**

The accountability framework described on page 41 is designed to ensure comprehensive management of risk across the Group's businesses. A revised, overarching Risk Management Policy was introduced in October 2019, setting out the principles and approaches by which we implement effective enterprise risk management. The RCG, made up of the chief operating officer, chief finance officer, group 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 2020.

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 RCG ensures any internal control deficiencies identified are swiftly remediated.

# CORPORATE GOVERNANCE REPORT

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## NON-EXECUTIVE DIRECTORS AND INDEPENDENCE

The onset of the COVID-19 pandemic in the first quarter of 2020, and its continuation throughout the entirety of the year has presented a number of unique challenges for the Board, in particular with the need to rapidly switch to remote working without effecting the efficacy or the ability of the Board to function. Bill Berman has continued in the role of interim chairman, as well as chief executive officer since his appointment to the latter of these roles on 19 February 2020. Throughout 2020, Bill 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, 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 where they 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 intensified and enhanced vigilance, and will continue to do so until such time as an independent non-executive chairman is appointed. These procedures were deemed effective. Although throughout 2020 the Board's primary focus was on the effective operational management of the Company throughout the continuation of the pandemic, it nevertheless 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 and in accordance with provision 9 of the Code. 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 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 chairman and respective Committee chairmen are performing their roles effectively;
- all non-executive directors are independent in character and judgement;
- 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 April 2020, recruitment of two additional non-executive directors and the chief executive officer was ongoing. Following the appointment of Bill Berman to the role of chief executive officer on 19 February 2020, and the subsequent appointments of Nikki Flanders and Dietmar Exler as non-executive directors on 13 March 2020 and 20 April 2020 respectively, the Board consisted of seven directors, consisting of three executive directors and four non-executive directors, including Bill Berman in the role of interim executive chairman. The Board considers Bill Berman to be an executive director for the purposes of this disclosure, and he will continue to perform the role of chairman on an interim basis whilst the process of recruiting a permanent non-executive chairman recommences.

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 2020, the Board received briefings from Company executives to familiarise directors with strategic developments and key aspects of the Group's business.

## BOARD EVALUATION

The Board and its committees conducted formal evaluations of their effectiveness in 2020, facilitated by the company secretary, 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 2021 Board programme. More details on the Board's approach to individual and Board evaluation are on the company's website.

## RE-ELECTION OF DIRECTORS

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

## INFORMATION AND SUPPORT

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



## BOARD ATTENDANCE

Current Directors	Board	Audit	Nomination	Remuneration
William Berman <sup>(B)</sup>	13/13	N/A	N/A	N/A
Martin Casha	12/13	N/A	N/A	N/A
Dietmar Exler <sup>1 (I)</sup>	08/08	4/4	N/A	3/3
Nikki Flanders <sup>2 (I)</sup>	09/09	4/4	N/A	3/3
Brian Small <sup>(I) (A)</sup>	13/13	5/5	1/1	4/4
Mark Willis	13/13	N/A	N/A	N/A
Mike Wright <sup>(I) (R) (N) 3</sup>	13/13	5/5	1/1	4/4

(B) Interim chairman of the Board  
(I) Considered by the Board to be independent  
(A) Committee chairman  
(N) Committee chairman  
(R) Committee chairman

1 Appointed as a non-executive director on 20 April 2020  
2 Appointed as non-executive director on 13 March 2020  
3 Acting Nomination Committee chairman since 08 November 2019  
Shows the number of meetings attended out of the total a director was eligible to attend

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. In particular, since the onset of the COVID-19 pandemic, we have been early adopters of home working practices and interactive video meeting technologies where practicable to ensure the uninterrupted continuation of our businesses. Internal website messaging and electronic newsletters, together with social media content, are deployed to keep our associates up-to-date with the Company's strategy and performance. At all levels, communications aim particularly to recognise the achievements of individual associates and celebrate outstanding personal and business performance, through peer recognition. Each year we review our incentive and recognition programmes aligned to the Group's business objectives.

## DIVERSITY AND EQUALITY OF OPPORTUNITY

We are an equal opportunity employer, committed to ensuring that our workplaces are free from unfair discrimination, within the framework of the law. We aim to ensure that our associates 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)

We continue to make appointments at Board and immediately below Board level in accordance with a formal, rigorous and transparent procedure. Appointments are based on merit and objective criteria, and within this context, we aim to promote diversity of gender, social and ethnic backgrounds, alongside cognitive and personal strengths in accordance with Principle J of the Code. In order to further this objective, we have recently appointed Ruebik, an external recruitment agency committed to reaching and providing access to diverse talent pools to assist with these processes. Ruebik have recently led the process to recruit a chief people officer at below Board level, and we look forward to continuing to partner with them to further diversify our talent pool for future appointments.

## GENDER BALANCE

We describe our approach to Board composition diversity in the Nomination Committee's report on page 66.

## 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.

## Number of Group Employees by category

	as at 31 December 2020			as at 31 December 2019		
	Female	Male	Total	Female	Male	Total
Director	1	6	7	0	5	5
Senior Manager	2	8	10	0	5	5
All Employees	1,393	4,143	5,536	2,084	5,841	7,925

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## HEALTH AND SAFETY

We take seriously our responsibility to our associates, customers and the public. We aim to ensure that all associates 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 associates 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 associates 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 online health and safety systems, operations manuals and regular communications on topical issues. Our health and safety management system provides our UK leadership and associates with detailed access to information, guidance and control measures.

## COVID-19 AND HEALTH AND SAFETY

The Group has taken, and continues to take, a number of actions to ensure that all businesses and areas remain as fully prepared as possible for the continued impact of the COVID-19 pandemic. The overarching principles guiding our approach have been (1) ensuring the health, safety and wellbeing of our associates and customers as a priority; (2) ensuring that our businesses can continue to operate to the fullest extent possible, within the law, and with all appropriate COVID-19 mitigating impacts in place.

In February 2020, the company secretary activated the Group's Crisis Management Team (CMT), constituting the chief executive officer, chief finance officer, chief operating officer and other members of senior operational leadership to plan our response and actions to the pandemic. At the height of the pandemic in March 2020, the CMT met on a daily basis, and continues to meet as frequently as deemed necessary to ensure the principles outlined above are met.

In addition, the company secretary regularly reviews updates and changes to the relevant COVID regulations, both in England and the devolved regions to ensure that we continue to operate our businesses within the law, within HM Government and devolved administration guidelines and in accordance with COVID-safe systems of work. The company secretary updates and advises the CMT, the executive directors and operational leadership as to the prevailing legal position(s) so we can act accordingly.

Specialists in our Group health and safety team have risk assessed every dealership and workplace in accordance with

HM Government approved COVID-safe working practices; dealerships and other working environments have submitted evidence of COVID-19 safe working practices (including but not limited to distancing floor markings and signage, the presence of hand sanitisation stations, distancing of desking environments, distancing in customer waiting areas, sanitisation of touch points in vehicles, cleaning regimens) before receiving a COVID-safe certification from the Group health and safety team. COVID safe working audits are now being re-performed by the Group health and safety team and logged on our MySafeCenta health and safety system to ensure practices are maintained. We have appointed social distancing marshalls at each location to advise, re-enforce and ensure social distancing and COVID-safe working practices continue to be followed. COVID-19 safe working training modules have been developed and rolled out in conjunction with the Pendragon Learning Academy and our health and safety team collect incident data, allowing a daily COVID-19 Incident Summary to be collated for the Group on a dealership by dealership basis, ensuring leadership can react and plan accordingly. Numerous COVID-19 Safe Schemes of Work were rapidly deployed by the Group health and safety team from as early as May 2020 in response to the pandemic.

## ACCIDENTS AT WORK

Historically, we have assessed our health and safety record against relevant published benchmarks. In 2019, 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 marked decrease in RIDDOR<sup>1</sup> reported accidents in 2020, falling to 18 per 10,000 employees (2019: 34 per 10,000 employees). This reduction could primarily be due to disruption caused by COVID-19 to our businesses throughout 2020, driven by a reduced workforce, volume and throughput. We continue to target specific hazards and risks for improved results through additional monitoring and promotion of safe working processes. 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 2020, as a result primarily of the COVID-19 pandemic, our usual monthly fundraising events supported a range of national charities have been curtailed, other than continuing support for the BBC's Children in Need appeal. However, during April, we donated 20% of chief executive Bill Berman's salary to the NHS to support first responders and frontline workers at the height of the pandemic and during the first national lockdown. We aim to return to more widespread community involvement through local engagement, and by

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

contributing to local areas as soon as it is considered safe to do so, for example by our associates and businesses to 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 associates and their families have connections.

### RESPONSIBLE SOURCING

All our Group's sites are situated within the UK or US and at each of them we operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present any risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way, free from the exploitation of labour. We have adopted an Anti-Slavery and Human Trafficking Policy, available to view on our website, together with our Anti-Slavery and Human Trafficking Statement for the year ended 31 December 2020.

### CLIMATE CHANGE SUMMARY AND POLICY

Pendragon PLC acknowledges the responsibility it has to protect the environment and to minimise the environmental impacts of its activities. In partnership with its associates, manufacturers, customers and suppliers the Company aims to operate to high standards of environmental protection appropriate to its business activities.

Although the retail sector is not generally regarded as a high environmental impact sector, motor retailing and its associated aftersales 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. We 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 full statement of Environment Policy is available at [www.pendragonplc.com/-/media/pendragonplc/pdfs/investors/corporate-responsibility/environment-policy.www.pendragonplc.com](http://www.pendragonplc.com/-/media/pendragonplc/pdfs/investors/corporate-responsibility/environment-policy.www.pendragonplc.com)

The Company will act in a reasonable manner in taking the steps necessary to control the impact of its activities on the environment. The principal environmental impacts identified are:

- atmospheric emissions

- commercial and industrial waste
- vehicle movements causing nuisance or noise
- industrial noise and energy wastage

The Company supports the principle that in the area of environmental protection, prevention is better than cure.

The Company adopts the principles of best practicable means and duty of care to establish the standards for all its activities. Adherence to those standards is mandatory.

1. The Company's policy is to comply with, or exceed the statutory requirements (whether local, national or supra-national) applicable to it relating to environmental matters.
2. The Company seeks to develop, enhance, and monitor its operational standards, ensuring that environmental priorities are accounted for appropriately in planning and decision making.
3. Prior to implementation, the Company will make an assessment of the environmental impact of any significant new developments and cooperate with the relevant authorities during the planning and development stages.
4. The Company will seek to:
  - Ensure that all associates are aware of this statement of Environment Policy and provide suitable and sufficient information and instruction to help improve their environmental awareness
  - Delegate specific responsibilities to leaders and associates where appropriate and carry out regular reviews of performance
  - Operate an Obsolete Asset Disposal Policy to minimise impact of disposal of assets
  - Minimise and where possible, eliminate all forms of pollution
  - Avoid waste and encourage the appropriate conservation, re-use and recycling of resources
  - Properly manage hazardous waste from generation through to licensed disposal
  - Work in partnership with contractors, suppliers and other to comply with all regulatory requirements in environmental-related practices
  - Protect the health and wellbeing of all associates, visitors and neighbours
  - Safeguard the quality of the environment in the vicinity of its sites
  - Respond promptly and responsibly to instances of non-compliance and improve performance year on year
  - Monitor, audit and review our energy use and performance, reducing incidences of energy wastage wherever possible. In this connection, the Company participates in the Carbon Reduction Commitment energy efficiency scheme operated by the Environment Agency

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## 2020 PROGRESS REDUCING CARBON AND WASTE

This section includes our mandatory reporting of greenhouse gas emissions for the period 01 January 2020 to 31 December 2020, pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155).

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 2020 conversion factors. In some cases, we have extrapolated total emissions

by utilising available data from part of the reporting period and extending it to apply to the full reporting period. We report our emissions data using an operational control approach to define our organisational boundary. We have reported all material emission sources for which we deem ourselves to be responsible, including both our UK businesses and estimated usage for our US businesses. We also include emissions from driving activity, comprising data verified internally, including estimates of distances travelled during test drives, transportation of vehicles and parts between sites, and business travel (excluding commuting by means which are not owned/controlled by us).

### Global Greenhouse Gas Emissions Data

Source	Tonnes of CO <sub>2</sub> per £m	
	01.01.20 - 31.12.20	01.01.19 - 31.12.19
CO <sub>2</sub> emitted from facilities	6,128	9,630
CO <sub>2</sub> emitted from driving activities	4,402	7,934
<b>Intensity ratio (tonnes of CO<sub>2</sub> per £m of revenue)</b>	<b>3.6</b>	<b>3.9</b>

Also disclosed is the annual quantity of energy consumed. We have reported all material energy sources for which we deem ourselves to be responsible, including both our UK businesses and estimated usage for our US businesses.

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.

This year saw a decrease in the Group's carbon footprint. An improvement of 7.7% on 2019. Whilst this has been impacted by COVID-19, the Group continues its efforts decarbonisation across the year.

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. Solar panel and solar energy systems are installed at any new build developments. Our Group target is to, where practical, have implemented all possible conservation methods at all existing and new sites.

The continuation of the COVID-19 pandemic has enabled us to develop our paperless operating systems, and we are now trialling the concept of the 'paperless dealership' such to further limit our paper consumption and waste. If our trials are successful, we will seek to introduce our paperless operating system across the wider Group.

Additional we have been installing electric car charging stations at our dealerships to further enhance and grow the electric car network. With the target of having charging stations at every dealership.

### Energy Usage

	2020		
	UK	Non-UK	Total
kWh	25,864,153	658,959	26,523,112

Note: we are scope 1 only

# 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 page 52 and attendance at meetings in the table on pages 57.*

## 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 2020

The Audit Committee met five times in 2020 and this report describes its work and conclusions.

## FINANCIAL STATEMENTS REVIEW

The Committee received the auditor's memorandum on the Company's 2019 financial statements and the auditor's memorandum on the unaudited 2020 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 page 42 sets out the key audit risks and judgements applied, for the 2020 year end 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

The ongoing COVID-19 pandemic introduced the potential for a level of material uncertainty to the going concern position, requiring the Committee to carefully consider the Group's ability to continue as a going concern which included reviewing cash flow forecasts for the eight months to 31 August 2020 and the forward looking forecast to 31 March 2022 considering both pre and post lockdown trading, comparing assumptions for revenue and margin to externally sourced data, assessed assumptions for working capital and challenged management to prepare assumptions for a severe, but plausible downside.

## 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 within the existing facilities. The base and sensitised forecasts which include a COVID-19 sensitivity indicate that the Group will remain in compliance with the relevant covenants for the period ending 31 December 2022 in the case of the sensitised forecasts and considering mitigations available to the Group such as deferral of capital expenditure. The Committee concluded that it remained appropriate to prepare the financial statements on a going concern basis. Further details can be found within the viability statement at page 49 and within the going concern statement on page 103.

### CGU ASSET VALUATION

The estimates in relation to asset impairment of the carrying value of goodwill, intangible assets, property, plant and equipment and right use of assets largely related to the achievability of 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 FY21 budget, growth rate and discount rate as well as the EBITDA 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 Committee has reviewed the forecasts presented by management that indicated the capability of the Group to generate future taxable profits to recover the deferred tax asset of £36.4m.

### 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.

The Committee reviewed management's report on the valuation assessment of the parent company investments.

To assess the valuation of parent company investments 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 that the carrying value of the parent company investment is supported and therefore no further impairment is needed.

### 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 discussed with the auditors, together with all audit findings, the factors relevant to the 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 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 the 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.

### RULES OF ORIGIN AND OTHER OUTCOMES ARISING FROM THE UK'S TRADE DEAL WITH THE EUROPEAN UNION

Although the UK has now secured a trade deal with the European Union, some future risk remains in the event of the failure of the Group or its partners to meet EU Trade Deal rules of origin on vehicle parts by 2024.

Failure of our business or our partners to meet the EU Trade Deal rules of origin on vehicle parts by 2024 could result in an increase in costs due to tariffs or disruption to our supply chain due to a need for alternative sources of supply. Other factors such as changes in regulation and the availability and cost base of appropriate employee resource could impact on the Company's operations.

The Committee received a report from the Risk Control Group, which had carried out an initial assessment of potential risk associated with the UK's trade deal with the European Union in January 2021, 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 the UK's Trade Deal with the EU, and further considered that the risk associated with rules of origin on vehicle parts would not impact the Group for at least three years.

# 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 five years.

## POLICY ON AUDIT TENDERING

KPMG LLP 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 LLP as the company's auditor. The Board accepted the Committee's recommendation and concluded that:-

- there are no matters warranting a competitive tender exercise in relation to the provision of audit services, but this position would change if there were to arise at any time any concerns as to the continuing independence or performance of the current audit firm (no such concerns have arisen as at the date of this report);
- none of the directors' independence in considering this matter is impaired in any way and none has a potential or actual conflict of interest in relation to KPMG, whether in regard to its appointment, fees, the evaluation of its performance, any decision as to competitive tender for audit services, or any other matter.

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

## REVIEW OF NON-AUDIT SERVICES

The Committee reviewed the Company's policy on its use of its audit firm for non-audit work. Its main principles are that the auditor is excluded from providing certain non-audit services the performance of which is considered incompatible with its audit duties, but is eligible to tender for other non-audit work on a competitive basis and can properly be awarded such work if its fees and service represent value for money. The policy can be viewed on the company's website. The Committee considered reports on the extent and nature of non-audit work available, the allocation during the year of that work to accountancy and audit firms, including KPMG LLP, and the associated fees. Details of audit and non-audit work performed by KPMG LLP and the related fees appear annually in the notes to the company's financial statements. A full statement of the fees paid to KPMG LLP for work performed during the year is set out in note 2.5 to the financial statements on page 120. 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 0.25:1 in 2020 (2019: 0.22:1).

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. The internal audit work done reflects an effective, well-functioning team.



### 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 40 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 55.

### 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)

### FINANCIAL REPORTING COUNCIL

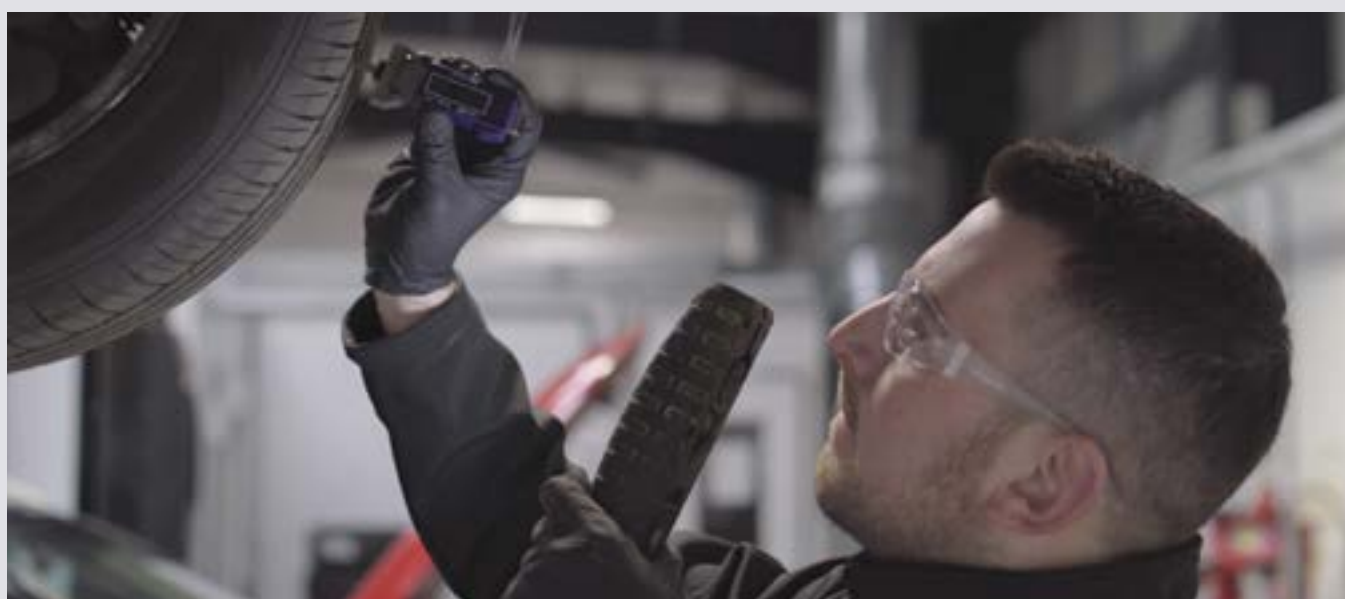
During 2020, the Group received a letter from the Conduct Committee of the Financial Reporting Council (FRC) relating to a Corporate Reporting Review of the Group's 2019 Annual Report. The scope of this review is limited based on the annual report and accounts and does not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The FRC requested further information and clarification of the disclosures regarding the process for assessing the recoverable amount and any impairment of assets and the sensitivity to changes in key assumptions; clarification of the sensitivity of the net realisable value of inventories to changes in key assumptions and the reconciliation of inventory movements to the related cash flows; further information about arrangements, including key contractual terms, for manufacturer and third party financing of inventory; further information regarding the composition of other receivables; as well as other more minor items. As a result of the review, we have further enhanced the information we disclose in relation to these items within the 2020 Annual Report to provide further clarity to the users of the accounts.

### APPROVAL

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

#### **Brian Small**

Chairman of the Audit Committee  
24 March 2021



# NOMINATION COMMITTEE REPORT

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***The Nomination Committee has been chaired by Mike Wright, on an interim basis, since October 2019, and is made up entirely of independent non-executive directors. Their names and qualifications are on page 52 and attendance at meetings in the table on page 57 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 2020

The Nomination Committee met once in 2020. This report describes its work and conclusions.

## REVIEW OF BOARD COMPOSITION AND BALANCE

In January 2020, the Committee met for the purpose of further discussing and finalising its recommendation to the Board of Directors as to the appointment of Bill Berman to the role of chief executive officer. The Committee further reviewed the structure of the Board, in relation to its size, composition and potential vacancies and concluded that additional non-executive directors should be sought to join the Board, provided that in doing so, a situation would not be created which resulted in one party or group dominating any decision-making processes.

In March 2020, the Company announced that Nikki Flanders would join the Board as an additional non-executive director, and in April 2020, the Company further announced that Dietmar Exler would join the Board as an additional non-executive director. The appointments of Nikki Flanders and Dietmar Exler increased the complement of non-executive directors on the Board to four.

Throughout early 2020, and before the onset of the COVID-19 pandemic in March 2020, the Committee remained mindful of the need to appoint an independent non-executive chairman, in accordance with the Principles F, G and provision 9 of the UK Corporate Governance Code. Whilst the onset of the COVID-19 pandemic delayed the Committee's activity in this regard for the majority of 2020, both the Company and Committee

remain committed to the principle of the segregation of duties of the chief executive officer and non-executive chairman. As such, in February 2021, and with this principle primarily in mind, the Committee met to reconsider the size, structure and composition of the Board and, in particular, recommence the process of recruiting a new non-executive chairman, in conjunction with an executive search agency. In addition, the Committee recommended that Dietmar Exler be appointed to the role of senior independent director (SID) with effect from 24 February 2021.

## EVALUATION

The annual evaluations of the Board and its members were conducted by the Board and are described on page 56. 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 2020, having considered it appropriate to do so. The Company has not adopted a gender balance target for its Board, although continues to make appointments at Board and immediately below Board level in accordance with a formal, rigorous and transparent procedure. Appointments are based on merit and objective criteria, and within this context, we aim to promote diversity of gender, social and ethnic backgrounds, alongside cognitive and personal strengths in accordance with Principle J of the Code. In order to further this objective, we continue to partner with external recruitment agencies and have recently appointed Ruebik, an external recruitment agency committed to reaching and providing access to diverse talent pools to assist with these processes. Ruebik have recently led the process to recruit a chief people officer at below Board level, and we look forward to continue to partner with them to further diversify our talent pool for future appointments.

# 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 page 52 and attendance at meetings in the table on page 57.*

## 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 the immediately below board level of 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 2020

The Remuneration Committee met four times in 2020. The Directors' Remuneration Report, beginning at page 68, describes its work and conclusions.

# DIRECTORS' REMUNERATION REPORT

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## REMUNERATION COMMITTEE CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder

As chairman of Pendragon's Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2020. In this introductory statement, I describe the context of Pendragon's remuneration arrangements, and the key matters considered by the Committee during the year. I also provide an update on how the Committee is responding to the ongoing COVID-19 pandemic.

### Adoption of the new Remuneration Policy in 2020

I am pleased to report that all aspects of the Remuneration Policy approved at the May 2020 AGM have been deployed in full. It is a clear and transparent policy with the objectives of:

- attracting, retaining and motivating our executive and senior leadership team to successfully implement the Board's strategy as well as delivering a significant improvement in financial performance;
- take account of the expectations of our major shareholders;
- take into account the disruptive challenges faced by both the automotive sector, as well as the external economic factors over the next few years, including the potential impacts of climate change and Brexit.

The policy now includes several best practice elements to ensure it is fully aligned from a corporate governance perspective, in particular:

- Improved malus and 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;
- Changes to the pension policy that bring current executive director pensions in line with the average employee rate over time and ensures that new executive directors are appointed with a pension contribution which is not above the level available to the wider workforce;
- A single remuneration framework for both executive directors and the senior management team.

### Coronavirus Pandemic (COVID-19)

Since March 2020, Pendragon has responded decisively to the impacts of the COVID-19 pandemic. After an encouraging first two months of trading, the UK Government issued its first national lockdown order in March 2020 and all Pendragon's retail locations were closed and would remain so until 01 June 2020. During this period of unprecedented business disruption, the Group took action to ensure the safety and wellbeing of its associates, protect its cash position and accelerate the development of its digital sales capabilities. This included an immediate decision for all directors and senior management to voluntarily agree to a temporary reduction in their basic salaries by 20% for April and May 2020. The chief executive officer donated his voluntarily pay reduction to an NHS charity.

As the business reopened, the Group refocused on its pre pandemic priority of improved financial performance and announced a significant update to its corporate strategy in September 2020, both of which further strengthened Pendragon's position. During the second half of the year, the Group delivered a strong performance despite the continued market interruption caused by the pandemic.

The Remuneration Committee was, and is extremely conscious of the impact the pandemic has had on our employees, customers, suppliers and other stakeholders. This will, of course, continue to be a key consideration for any decisions the Committee makes during 2021 and it will continue to closely monitor the ongoing impact of the pandemic on the business and its implications for the Remuneration Policy.

### Implementation of the Approved Policy in 2020

In order to meet our objective of attracting, retaining and motivating our executive team, and secondly as a result of challenges posed by the ongoing coronavirus pandemic, in 2020 the Committee took a number of exceptional steps:

- **Annual Salary Review.** No increases would be applied in 2020. Furthermore, all directors and senior management voluntarily agreed to a temporary reduction in their basic salaries by 20% for April and May 2020. The chief executive officer donated his voluntarily pay reduction to an NHS charity;
- **Annual Bonus.** Given that the Company ceased issuing financial guidance to the market at the onset of the pandemic, it was considered appropriate to halve the maximum bonus potential from 150% to 75% of base salary for the executive directors. Annual bonus targets were based on performance in the second half of the year only, with any proposed payment being in deferred shares;
- In late June and early July 2020, the Committee approved a bonus structure for 2020 to be applicable to the executive and immediately below Board senior management for the period 01 July 2020 to 31 December 2020. It was considered appropriate that the underlying profit/loss outcome for the period 01 July 2020 to 31 December 2020, derived from the H2 2020 Corporate Plan, be the sole performance metric to be applied, to ensure the focus was on a significant improvement throughout H2 in the Group's short term financial performance and stability;

- *Long Term Incentive Plan (LTIP). Given the extreme levels of market volatility brought about by the COVID-19 pandemic, the continued uncertain climate in the automobile sector and the macroeconomic challenges in the UK, the Committee determined to defer its decision making on an LTIP award from May 2020 until a later date. Once more clarity emerged towards the end of Q3, the Committee determined to set a performance period which runs to the end of 2021 (but still with an overall 3-year vesting period). It remains the intention of the Committee to return to LTIPs with a 3-year performance period and 2-year holding period for future awards.*

#### **2020 Annual Bonus Outturn**

*In H1 2020 the Group incurred underlying losses of £31.0m, despite being able to utilise Government CJRS support, rates relief and VAT deferral to minimise the impact of the pandemic, for which the Group is extremely grateful. This helped to mitigate against potentially serious adverse short term consequences for the business.*

*In its review of 2020 performance the Committee took into consideration that the Company not only exceeded its H2 2020 Corporate Plan, delivering an underlying profit of £39.2m for H2, but it also outperformed the market on a number of financial and market volume metrics. It therefore concluded it was appropriate to award bonuses at the lower revised 2020 level to the executive directors and senior management at the lower revised maximum level. The bonus would also be deferred into shares to be held for a 1-year period as opposed to cash.*

#### **2020 LTIP Award**

*From March to October 2020 the Committee continually monitored the share price to ensure that there were no potential LTIP windfall gains as a result of the pandemic.*

*In October 2020, the Committee concluded that awards be granted in the form of nil cost share options pursuant to the Company's LTIP with the following considerations and conditions:*

- *The share price at the time of the grants was higher than the share price immediately before the pandemic impacted the price and therefore no adjustment was required;*
- *Vesting of the Awards under the LTIP is subject to the satisfaction of certain performance conditions, 50% of which is based on achieving a defined earnings per share target over a 14-month performance period, commencing on the grant date and measured at year end 2021, with the remaining 50% based on the achievement of certain qualitative strategic performance metrics aligned to the Company's strategic milestones to be delivered in 2021;*
- *If the performance conditions are not satisfied, none of the LTIP award shares will vest;*
- *The target EPS for 2021 used was the analyst's consensus EPS of 1.58p, available at the time of publication of the Company's Group Strategy Presentation;*
- *The non-financial strategic milestones are those as set out in the Company's Group Strategy Investor Presentation published on 2 September 2020 (available at [www.pendragonplc.com](http://www.pendragonplc.com)) and reflect those strategic milestones the Company considers able to achieve in 2021. Delivery against the 2021 strategic milestone performance conditions will be assessed by the Remuneration Committee at year end; the specific metrics of the strategic milestone targets are considered to be commercially sensitive and are therefore not published in this report. More detail on the metrics and achievement against them will be disclosed, once the level of vesting has been determined;*
- *As previously communicated, the chief executive officer and chief finance officer received one off enhanced awards in 2020 as upon joining the Company in 2019 there was not a relevant structure in place at their respective joining dates so they did not have the opportunity to take part in a long-term incentive arrangement. It is intended that subsequent awards under this policy for both individuals will be made at the normal maximum level.*

#### **Pay Across Pendragon**

*The Remuneration Committee continues to consider wider associate reward when determining pay arrangements for the executive directors, and this will remain a fundamental part of our approach to pay, ensuring alignment of both our annual bonus and LTIP arrangements across the Group where appropriate.*

#### **AGM**

*At last year's AGM, 58.70% of shareholders voted in favour of the Directors' Remuneration Policy, and 78.84% voted in favour of the Directors' annual Remuneration Report. We wish to thank all our shareholders who supported the changes that we believed were necessary to our Remuneration Policy to ensure that our executive and leadership team continue to be motivated in the difficult and challenging times for the automotive sector. We are also convinced that this policy was a key driver in determining the success of the Company's response to the COVID-19 pandemic in 2020.*

*We hope that the disclosure provided in this report provides clear insight into the Committee's decisions and we look forward to receiving your continued support at the AGM.*

*Yours sincerely*

**Mike Wright**

*Chairman of the Remuneration Committee*

# DIRECTORS' REMUNERATION REPORT

## 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 summarised in this section of the remuneration report was approved by shareholders at the AGM held on 21 May 2020. The policy detailed applies for 3-years, and is effective for all payments made to directors from the date of 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 full remuneration policy is displayed on the company's website ([www.pendragonplc.com](http://www.pendragonplc.com)), and is also available to view in the 2019 Annual Report.

## REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

### 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 3-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.

## 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.

## 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 the CFO were they to elect to take a pension contribution.

The COO currently receives a pension contribution of 20% of salary which is the maximum under the policy. However, following previous reductions on 1 June 2020 and 1 January 2021, the following further reductions are planned over the next 3-years:

Current 20% of salary  
1 January 2022 - 15% of salary;  
1 January 2023 - in line with wider workforce which will become 5% of salary

Further adjustments may be considered in subsequent years to maintain alignment with the wider workforce.

### 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.

# 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. Malus and clawback provisions continue to satisfy latest Financial Reporting Council guidance and are reviewed in line with any changes or enhancements to the same.

## 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 very exceptional circumstances, the Committee may award up to 250% of salary. The Committee currently has no plans to make such an exceptional award. Prior to making any exceptional award, the Company will consult with its major shareholders.

### OPERATION

The core design of the LTIP is that awards are subject to performance conditions measured over three years and a service requirement for a further two 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 retains the option to apply a 2-year post-vesting holding period during which shares may not be sold.

The Committee also retains a discretion to make awards with a 1-year performance period and overall 3-year vesting period in very exceptional circumstances.



## ALL EMPLOYEE SHARE SCHEME (SHARESAVE)

### PURPOSE AND LINK TO STRATEGY

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.

## 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 five years of appointment to the Board. In circumstances where the Company is operating under an LTIP structure with an overall three year vesting requirement, this requirement will be reduced to three 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 two 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. Non-executive director fees were reviewed and realigned to market in late 2019/early 2020.

Fee Type	Fee Level	Change in 2020
Chairman fee	£150,000	None
Basic fee:	£50,000	£10,000
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 – 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 the 3-year period of the deferral. Under the LTIP, clawback will continue to apply for up to two years following the 3-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 current long term incentive plan, performance shares are awarded up to a maximum of 150% of salary if significantly challenging performance targets are attained. The Remuneration Committee has currently selected two performance metrics for the LTIP, each with an equal weighting (i) EPS: 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; and (ii) qualitative strategic performance metrics aligned to the Company's strategic milestones. The vesting schedule outlines the vesting percentages in relation to both the EPS performance targets, which were set after taking into account internal scenario analysis, current market expectations and the current trading environment, and delivery against the strategic milestones as detailed in the Group's published strategic plan.
5. Pensions – The chief operating officer ceased to be an active member of the Pension Plan in 2006. In accordance with the Code, the Company is seeking to align his pension with that of the wider workforce and 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 1 January 2023, his salary supplement in lieu of pension contribution will be aligned to the employer pension contribution available to the majority of employees.
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 with the ability to override the formulaic outcome in light of overall business proposals
- 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 2021

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

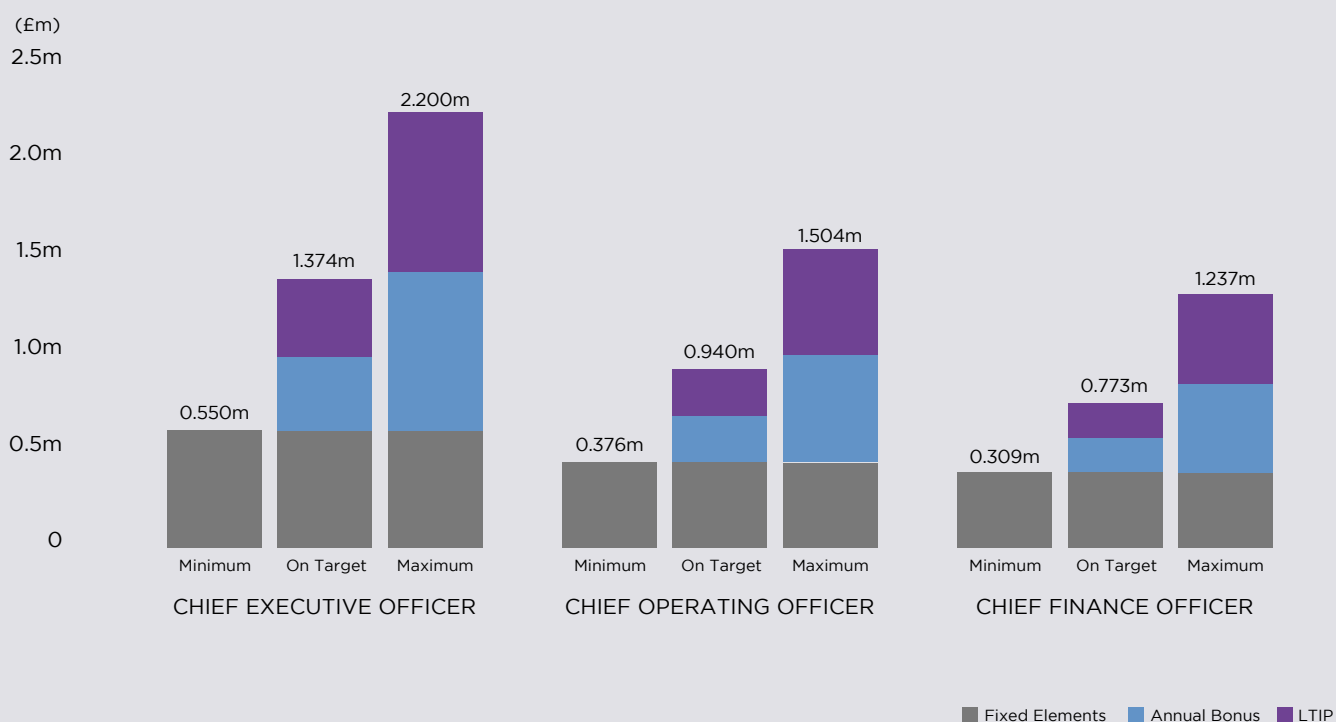


Element	Description	Minimum	On Target	Maximum
Fixed	Fixed (comprises base salary, benefits, pension)	Included	Included	Included
Annual Bonus	Annual bonus	16.66%	50% of the maximum bonus <sup>1</sup>	100% of the maximum bonus <sup>1</sup>
Long Term Incentive Plan		16.66%	50% of maximum LTIP <sup>2</sup>	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.

<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

## OTHER AREAS OF REMUNERATION POLICY

We list below the areas of policy the Company has adopted in the shareholder approved Remuneration Policy (available to view on the company's website, [www.pendragonplc.com](http://www.pendragonplc.com)).

New appointments as executive director including each component of remuneration	All these policy areas were approved by shareholders at the 2020 AGM.
New appointments as non-executive director	
Non-executive remuneration	
How employee pay is taken into account in executive remuneration	
Directors' service contracts and exit payments	
Treatment of fees earned from external directorships	

## NON-EXECUTIVE DIRECTORS' APPOINTMENTS

Name	Commencement	Expiry/cessation	Unexpired at date of report (months)
Mike Wright	02.05.18	31.12.21	9
Brian Small	10.12.19	31.12.22	21
Nikki Flanders	13.03.20	31.12.23	33
Dietmar Exler	20.04.20	31.12.23	33

## THE COMMITTEE'S WORK IN 2020

- determined annual bonus awards in respect of 2020 performance
- set and revised the annual bonus plan terms for 2020
- determined performance targets and granted LTIP awards in October 2020
- set 2020 executive director salary levels
- noted remuneration trends across the Group
- reviewed Remuneration Policy and obtained shareholder approval for new 3-year Remuneration Policy

## ADVISERS

During 2020, the Committee received external advice from PwC, who received fees of £108,060 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 2020 (AUDITED INFORMATION)

	Base Salary £000		Taxable benefits <sup>1</sup> £000		Pension <sup>2</sup> £000		Bonus <sup>3</sup> £000		Single total <sup>4</sup> figure £000		Total Fixed Remuneration	Total Variable Remuneration
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2020
<b>Current Directors</b>												
William Berman	510	248	-	-	-	-	413	-	923	248	510	413
Martin Casha	287	292	9	9	72	76	227	-	595	377	368	227
Mark Willis	292	223	10	2	-	-	225	-	527	225	302	225

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. In 2006, Martin Casha ceased to be an active member of the Pendragon defined benefit pension plan. Martin Casha elected to take early retirement benefits from 01.07.16 and is therefore also a pensioner member. In accordance with Investment Association (IA) guidelines, a phased reduction in the salary supplement in lieu of pension contribution received by Martin Casha has commenced, such that, by 1 January 2023, his salary supplement in lieu of pension contribution will be aligned to the employer pension contribution received by the majority of employees.

3. Bonus Award in 2020 equivalent to 75% of base salary; the award was deferred into Pendragon PLC ordinary shares of 5p each, with a deferral period of 1 year: the figure in the table is the cash equivalent level. No bonus payments have been made in cash to directors for 2020. 2019 total equivalent to 0% of base salary.

4. The performance period for the Value Creation Plan ("VCP") awarded in 2017 was 01.01.17 to 31.12.20: the VCP failed to achieve its performance conditions and the awards lapsed in their entirety at the measurement date of 31 December 2020. There were no awards due to vest under the LTIP in 2020.

5. For comparative information, William Berman joined Pendragon on 18 April 2019. Mark Willis joined Pendragon on 8 April 2019.

## SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS 2020 (AUDITED INFORMATION)

	Basic Fee £000		Taxable benefits £000		SID/Committee Chair Fee £000		Single total figure £000	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Current Directors</b>								
Dietmar Exler <sup>1</sup>	35	-	-	-	-	-	35	-
Nikki Flanders <sup>2</sup>	36	-	-	-	-	-	36	-
Brian Small	52	3	-	-	10	-	62	3
Mike Wright	47	40	-	-	10	5	57	45

1. Dietmar Exler was appointed to the Board on 20.04.20. Accordingly, his fees are for the period 20.04.20 to 31.12.20  
2. Nikki Flanders was appointed to the Board on 13.03.20. Accordingly, her fees are for the period 13.03.20 to 31.12.20

### 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 the wider workforce.

### PERFORMANCE RELATED PAY FOR 2020: ANNUAL BONUS

As a result of the onset and continuation of the COVID-19 pandemic in 2020, the Committee did not consider it appropriate to either set or award an annual bonus applicable for the entirety of the year within the first quarter of 2020, as would customarily be the practice. However, as the UK moved out of the first national lockdown, the Committee reconvened in late June and early July 2020, and considered it appropriate

to award an annual bonus applicable to the executive directors and immediately below Board senior management for H2 2020 only. The revised H2 2020 bonus performance metric was set as underlying profit for H2, determined in accordance with the Company's revised H2 2020 Corporate Plan which was considered to be both reflective of the continued uncertain trading background, but also based on a realistic assessment of the company's trading prospects for H2 at the time of the award. The Committee also introduced a discretion to defer any H2 annual bonus payment made into shares; this discretion was exercised and the bonus awarded as outlined below was paid entirely in shares with a minimum deferral period of 1 year.

Details of percentages of salary payable at threshold, target and maximum are set out in the table below, together with the actual outturn for H2 2020. For H2 2020, as the Committee determined that as underlying profit achieved was ahead of the revised H2 2020 Corporate Plan, bonus would be payable at the maximum level.

Target aligned to Revised 2020 H2 Business Plan	Percentage of basic salary payable	Underlying Profit Outcome based on revised H2 2020 Business Plan	Actual Outturn H2 2020 Underlying Profit	% of Maximum Bonus Awarded	Payout: % of basic salary payable
Threshold (equal to 20% below Target)	12.5%	£4,000,000			
Target (achieving revised H2 2020 Business Plan)	50%	£5,000,000			
Maximum (equal to 50% above Target)	75%	£7,500,000	✓	100%	75%

Annual Bonus for H2 2020 paid in deferred shares, as opposed to cash

# DIRECTORS' REMUNERATION REPORT

## PERFORMANCE RELATED PAY FOR 2021: ANNUAL BONUS

The annual bonus for the 2021 financial year will operate in accordance with the core remuneration policy detailed in the Remuneration Policy section of this report and having maximum bonus opportunity, deferral and clawback provisions identical to those set out therein. The performance

metric selected for the 2021 annual bonus is underlying profit outcome based on the FY 2021 Corporate Plan. The target itself, as it relates to the 2021 financial year, is considered to be commercially sensitive, and as such, we do not publish details of this in advance.

Target aligned to 2021 FY Corporate Plan	% of basic salary payable	Underlying Profit Outcome based on FY 2021 Corporate Plan	% Maximum Bonus Awarded
Threshold (equal to 20% below Target)	25%	Year end Corporate Plan Target Profit/Loss (£Xm/-£Xm) less 20%	16.66%
Target (achieving revised H2 2020 Business Plan)	100%	Year end Corporate Plan Target Profit/Loss (£Xm/-£Xm)	16.66%
Maximum (equal to 50% above Target)	150%	Year end Corporate Plan Target Profit/Loss (£Xm/-£Xm) plus 25%	100%

## LONG TERM INCENTIVES VESTING IN 2020

There were no long term incentive awards vesting in 2020.

## VALUE CREATION PLAN (VCP) AWARDS

The Committee assessed the performance conditions applicable to the legacy VCP Award, pursuant to which certain executive directors and senior management were granted nil cost options over ordinary shares of the Company on 26 May 2017. The VCP award gave the executive directors and senior management 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") was the sum of the average share price for the three months ending on the Measurement Date plus the cumulative dividends paid per share over the Performance Period. The starting share price was set at £0.3016 ("Initial Price"), being the three month average share price prior to 1 January 2017. The hurdle price was set at £0.442, being the Initial Price plus 10% compounded annual growth over the Performance Period ("Hurdle"). The total participation pool for the VCP was 10% of the total value created above the Hurdle ("Pool"). On the basis that the Hurdle was not exceeded at the Measurement Date, the Remuneration Committee determined that the performance conditions applicable to the VCP had not been achieved and as such, all outstanding and legacy VCP Awards lapsed in their entirety for all participants.

## LONG TERM INCENTIVE PLAN AWARDS ("LTIP") AWARDED IN 2020

In October 2020, the Committee granted awards in the form of nil cost share options pursuant to the Company's LTIP to the executive directors. Vesting of the Awards under the LTIP is subject to the satisfaction of certain performance conditions, 50% of which is based on achieving a defined earnings per share target over a 14-month performance period, commencing on the grant date and measured at year end 2021, with the remaining 50% based on the achievement of certain qualitative strategic performance metrics aligned to the Company's strategic milestones to be delivered in 2021. If the performance conditions are not satisfied, none of the LTIP award shares will vest. The target EPS for 2021 used was the analyst's consensus EPS of 1.58p, available at the time of publication of the Company's Group Strategy Presentation. The non-financial strategic milestones are those as set out in the Company's Group Strategy Investor Presentation published on 02 September 2020 (available at [www.pendragonplc.com](http://www.pendragonplc.com)) and reflect those strategic milestones the Company considers able to achieve in 2021. Delivery against the 2021 strategic milestone performance conditions will be assessed by the Remuneration Committee at year end; the specific metrics of the strategic milestone targets are considered to be commercially sensitive and are therefore not published in this report. A summary of the awards granted and the metrics applicable to the 2021 LTIP award are detailed in the tables below; further detail on the metrics and achievement against them will be disclosed, once the level of vesting has been determined in the 2022 Annual Report.

Director	Number of performance awards granted on 28 October 2020
William Berman	9,762,851
Mark Willis	5,369,568
Martin Casha	3,190,239

Performance Condition (weighting)	Target	Percentage vesting of maximum potential			
EPS Year End 2021* (50%)	Threshold: Target EPS - 20% Target: Target EPS Maximum: Target EPS + 25%	Participant:	Bill Berman, Mark Willis	Martin Casha	Straight line vesting between these points
		Threshold:	10%	16.66%	
		Target:	40%	66.66%	
		Maximum:	100%	100%	
Strategic metrics (50%)	(i) Unlock value in franchised UK Motor: Embed product extension; Rollout operational efficiency; Trial and rollout new propositions. (ii) Grow and diversify Pinewood: Deliver existing order pipeline; Geographic expansion; Deliver product extension. (iii) Disrupt standalone used cars: Rollout rebrand; Embed product extension; Define and launch revised value proposition; Launch one new site				

\*Target EPS for 2021 used was the analyst's consensus EPS of 1.58p, available at the time of publication of the Company's Group Strategy Presentation.

#### BASE SALARY FOR 2021

Base salaries for the executive directors will remain unchanged from the 2020 salary levels, other than the incremental increase for Martin Casha to reflect the reduction of that element of his remuneration which is salary in lieu of pension contribution.

#### DIRECTORS' SHAREHOLDINGS (AUDITED)

The shareholdings of all directors, including the shareholdings of their connected persons as at 31 December 2020, are set out below. There have been no changes in the Directors' interests from 31 December 2020 to the date of this report.

#### DIRECTORS' SHAREHOLDINGS (AUDITED)

	Legally owned as at 31.12.2020	Legally owned as at 31.12.2019
William Berman	Nil	Nil
Martin Casha	9,559,780	9,559,780
Dietmar Exler	210,000	N/A
Nikki Flanders	Nil	N/A
Mark Willis	Nil	Nil
Brian Small	400,000	400,000
Mike Wright	250,000	Nil

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 five years from appointment as executive directors. There is no Company policy on non-executive director share ownership.

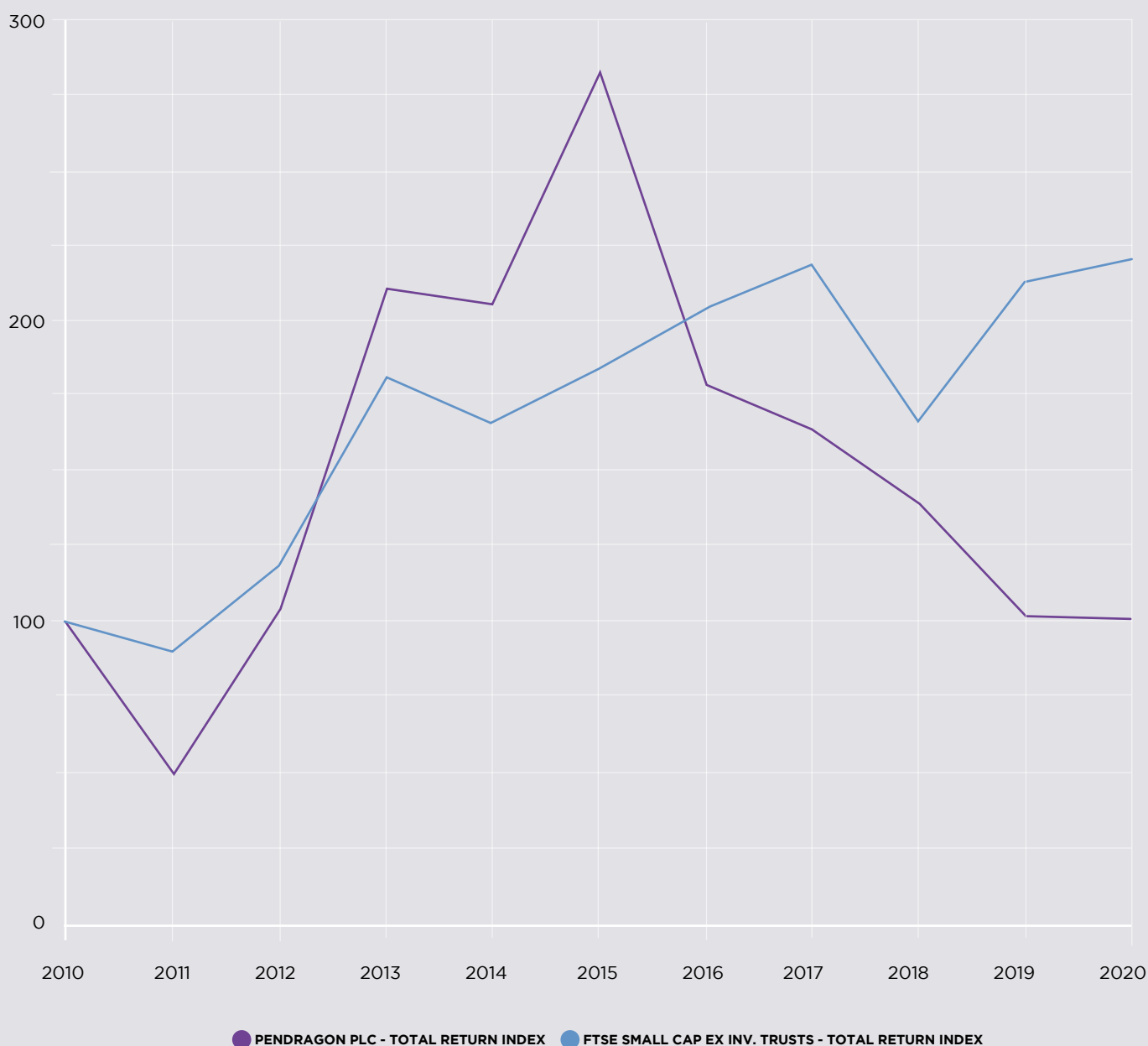
# DIRECTORS' REMUNERATION REPORT

## 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 2020. The notes at the foot of the graph provide more detail of the TSR calculation.

## PENDRAGON PLC TSR 2010 - 2020



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 2020 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 10-year period ending 31 December 2020 detailed above.



## HISTORY OF CHIEF EXECUTIVE REMUNERATION

Chief Executive	2020	2019 <sup>1</sup>	2018	2017	2016	2015	2014	2013	2012	2011
Total Remuneration £m (single figure)	<b>510</b>	464	589	727	1,605	1,775	3,472	2,961	857	946
Annual bonus award (% of maximum that could have been paid)	<b>100%</b> <sup>2</sup>	0%	0%	30%	87%	100%	100%	100%	54%	75%
Percentage of LTIP vesting <sup>3</sup>	<b>0%</b>	0%	0%	0%	100%	56%	100%	100%	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 prior to that period had continued in the role at the same level of remuneration to the end of the full reporting period.

2. The annual bonus awarded in 2020 was for the period 1 July 2020 to 31 December 2020 with a reduced maximum level of quantum available.

3. 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 2020 compared to 2019	10% <sup>1</sup>	8.05%
% change in benefit 2020 compared to 2019	0%	0%
% change in bonus 2020 compared to 2019	100%	0%

1. NB - the 2019 chief executive remuneration comparator is based on the total remuneration paid to the holder of the role of chief executive officer for the period 01.01.2019 to 30.06.2019 with data extrapolated for the full period thereafter. For the second half of 2019, the Company did not have a chief executive officer in post so like for like comparisons to the 2019 data should be considered in this context.



# 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 employees. The ratios have been calculated based on the single total figure of remuneration for the chief executive officer and the total pay for the employees 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 2020.

Financial year	Method	25th percentile pay ratio (lower quartile)	Median pay ratio (median)	75th percentile pay ratio (upper quartile)
2020	Option B	30:1	26:1	20:1

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. Associates 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		
2020 (£m)	2019 (£m)	% change	2020	2019	% change
£227.0m	£297.6m	-23.7%	£0m	£9.7m	-100%

## SHAREHOLDERS' VOTE ON REMUNERATION AT THE 2020 AGM

2019 Directors' Remuneration Report	Number	Proportion of votes cast
Votes cast in favour	889,274,828	78.48%
Votes cast against	243,783,685	21.52%
Total votes cast in favour or against	1,133,058,513	100%
Votes withheld	103,462	

Directors' Remuneration Policy (2020-2023)	Number	Proportion of votes cast
Votes cast in favour	665,116,001	58.70%
Votes cast against	467,942,512	41.30%
Total votes cast in favour or against	1,133,058,513	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 2020 was 13.10 pence and the range during the year was 5.20 pence to 15.96 pence.

## APPROVAL

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



**Mike Wright**

Chairman of the Remuneration Committee  
24 March 2021

# DIRECTORS' REPORT

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## STRATEGIC REVIEW AND PRESCRIBED REPORTING

Our Strategic Review at pages 24 to 35 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 page 24 and the Viability Statement set out on page 49. Additional information on which the directors are required by law to report is set out below and in the following:

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

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

## RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 97 to 195. 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 2020.

## 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 2020.

## BUSINESS AT THE AGM

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will issue to our 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 to 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 page 52. 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 68 to 82. Directors who served during 2020 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, other than nil paid options pursuant to the LTIP as described on page 78 in the director's remuneration report. Executive directors will aim to fulfil the requirements of the Company's share ownership policy applicable to them within five years of appointment. 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 31.12.20	Number at 31.12.19
William Berman	nil	nil
Martin Casha	9,559,780	9,559,780
Dietmar Exler	210,000	n/a
Nikki Flanders	nil	n/a
Mark Willis	nil	nil
Mike Wright	250,000	nil
Brian Small	400,000	n/a

## 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 2020, 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 2020 AGM.

## SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 26 February 2021 the directors had been advised of the following interests in the shares of the Company:

## 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

Shareholder	Number of shares	Percentage of voting rights of the issued share capital
Teleios Capital	254,363,110	18.21
Odey Asset Management	209,801,651	15.02
Anders Hedin Invest AB	189,188,563	13.54
Schroders	149,233,584	10.68
Hosking Partners	84,331,110	6.04
Farringdon Capital Management	54,611,219	3.91
Dimensional Fund Advisors	43,285,611	3.10
Blackrock Inc	29,274,404	2.10
Huntington Partners	27,859,210	1.99
Legal & General Group	26,810,099	1.92

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.

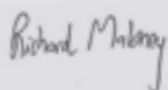
To be effective, electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting.

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 2020, 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 (2019: 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 (2019:0).

By order of the Board



**Richard Maloney**  
Company Secretary  
24 March 2021

#### **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 2020. The Company and members of its Group are party to agreements relating to banking, properties, employee share plans and motor vehicle franchises which alter or terminate if the Company or Group Company concerned undergoes a change of control. None is considered significant in terms of its likely impact on the business of the Group as a whole.

#### **POLITICAL DONATIONS**

The Company and its Group made no political donations (2019: £ 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

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework. In addition the Group financial statements are required under the UK Disclosure and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("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.

Approved by order of the Board



**Mark Willis**

Chief Finance Officer

24 March 2021

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.

# 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 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Statement of Other Comprehensive Income, Company Statements 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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU")
- 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 to the extent applicable.

### 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 24 financial years ended 31 December 2020. 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 judgement, 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 (changed from 2019), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.



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

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

### Going Concern Risk vs 2019: ↔

Refer to pages 103 and 104 of the Notes to the financial statements

#### The risk – Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. We consider the risk to be consistent to 2019 as there is a requirement for the Group to refinance again and there continues to be a 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 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; 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 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 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 2020 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:** The directors performed an initial sensitivity analysis of 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. We compared the directors' assumptions to public information on possible macroeconomic trends. As a result of this comparison we requested the directors to apply more severe, but plausible, downside assumptions for some sensitivities. In particular, we assessed the Group's downside forecasts based on the risk resulting from the Coronavirus, and the potential impact the risk 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 and new car volumes, 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 mitigating 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 actions 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 the Group's ability to continue as a going concern.

**Our results:** We found the going concern disclosure, without any material uncertainty, to be acceptable (2019 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*

### **Recoverability of assets, including goodwill, in relation to following CGUs: Citroën, Trucks, Ford, Renault, Vauxhall, Car Stores and Hyundai and recoverability of parent's investments in and loans to subsidiaries Risk vs 2019: ↓**

(Carrying value of assets in relation to the specified CGUs: £309.6m, Group impairment of £12.5m (2019: £128.3m); Parent company investment in subsidiaries £802.4m (2019: £802.4m), impairment £Nil (2019: £110.0m); loans to subsidiary undertakings £90.0m (2019: £90.0m). Refer to page 62 Audit Committee Report, pages 128 and 187 (accounting policy) and pages 128-133 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"): Citroen, Trucks, Ford, Renault, Vauxhall, Car Stores and Hyundai ("the specified CGUs") and the carrying amount of the parent company's investments in subsidiaries 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 £12.5m (2019: £128.3m) in relation to the CGUs and £Nil (2019: £110.0m) for parent company investment in subsidiaries have been recognised. Therefore, we consider the risk has reduced compared to 2019 due to the impairment recognised previously, and the trading performance of the Group in 2020.

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 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 comparisons:** 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 2020, 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 carrying value of assets, including goodwill, in relation to the Citroen, Trucks, Ford, Renault, Vauxhall, Car Stores and Hyundai CGUs, and the related impairment charge, to be acceptable (2019 result: acceptable). We found the Group's conclusion that there is no impairment of the parent company's investments in and loans to subsidiaries to be acceptable (2019 result: acceptable).

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

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

### Carrying amount of used vehicle inventory in the UK (£215.4 million (2019: £330.3 million)) Risk vs 2019: ↔

Refer to page 63 Audit Committee report, page 139 (accounting policy) and page 139 (financial disclosures).

#### The risk – subjective valuation

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

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

The effect of these matters is that, as part of our risk assessment, we determined that the carrying amount of used vehicles in the UK has a high degree of estimation uncertainty, with a potential range of reasonable outcomes which 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 (2019 result: acceptable).

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and impairment tests, however, we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

# 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 (2019: £4.0 million) determined with reference to a benchmark of Group revenue, normalised by averaging over the last four years due to impact of COVID-19, of which it represents 0.1% (2019: 0.1% of Group total revenue). We consider this to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit or loss before tax.

Materiality for the parent company financial statements as a whole was set at £1.4 million (2019: £2.2 million), 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 0.4% (2019: 0.6%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

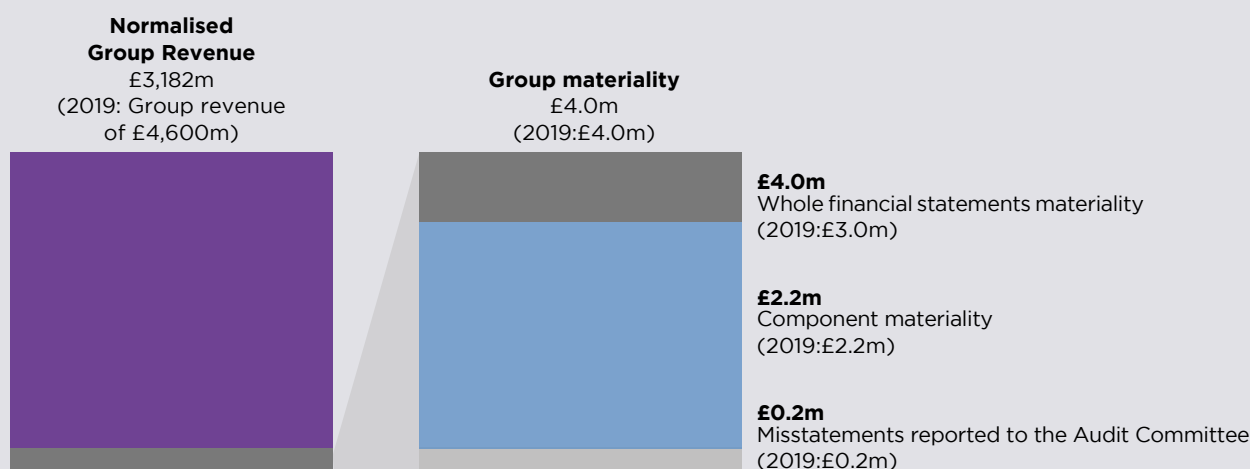
Performance materiality for the Group and parent company was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £2.6 million (2019: £2.6 million) and £1.0 million (2019: £1.4 million), respectively.

We applied this percentage in our determination of performance materiality based on the level of identified misstatements and our understanding of the control environment during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million (2019: £0.2 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected thirteen (2019: thirteen) of the Group's twenty four reporting components (2019: 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 88% (2019: 90%) of the Group's revenue, 90% (2019: 90%) of total profits and losses that made up Group loss before tax and 92% (2019: 89%) of Group total assets.

The Group audit team approved the component materialities, which ranged from £0.6 million to £2.2 million (2019: £0.4 million to £2.2 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 (2019: thirteen) components, including the audit of the parent company.



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

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## 4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing 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 the going concern period; and
- the related statement under the Listing Rules set out on page 49 is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

## 5. Fraud and breaches of laws and regulations – ability to detect

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, audit committee and risk control group minutes;
- considering remuneration incentive schemes and performance targets for management/directors/sales staff;
- using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that new and used car sales are recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as used vehicle inventory provision and impairment.

We also identified a fraud risk related to inappropriate valuation of used vehicle inventory in response to achieve financial targets required in debt covenants and remuneration schemes.

Further detail in respect of the valuation of used vehicle inventory and impairment is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unexpected accounts;
- assessing significant accounting estimates for bias.

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

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## **5. Fraud and breaches of laws and regulations - ability to detect** *continued*

We discussed with the Audit Committee other matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

### ***Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and 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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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, taxation legislation, and pension 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 noncompliance 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 license to operate. We identified the following areas as those most likely to have such an effect: health and safety, antibribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

### ***Context of the ability of the audit to detect fraud or breaches of law or regulation***

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## **6. 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.

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

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## 6. We have nothing to report on the other information in the Annual Report *continued*

### 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 49 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 emerging and principal risks disclosures on pages 42 to 48 describing these risks and how emerging risks are identified, 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.

We are also required to review the viability statement, set out on page 49 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 judgements 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 perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Report disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Report has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

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

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## 7. 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.

## 8. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 87, 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 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 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).

## 9. 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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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  
24 March 2021



# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2020

	Notes	Continuing operations £m	Discontinued operations* £m	2020 £m	Continuing operations £m	Discontinued operations* £m	2019 £m
<b>Revenue</b>	2.1	2,766.7	157.9	<b>2,924.6</b>	4,083.8	422.3	4,506.1
Cost of sales		(2,436.8)	(134.6)	<b>(2,571.4)</b>	(3,667.8)	(365.6)	(4,033.4)
<b>Gross profit</b>		329.9	23.3	<b>353.2</b>	416.0	56.7	472.7
Operating expenses	2.2	(317.1)	(20.1)	<b>(337.2)</b>	(533.1)	(44.0)	(577.1)
<b>Operating profit/(loss) before other income</b>		12.8	3.2	<b>16.0</b>	(117.1)	12.7	(104.4)
Other income - (losses)/gains on the sale of businesses and property, plant and equipment	2.6	(0.3)	(6.5)	<b>(6.8)</b>	0.3	33.0	33.3
<b>Operating profit/(loss)</b>		12.5	(3.3)	<b>9.2</b>	(116.8)	45.7	(71.1)
<b>Analysed as:</b>							
Underlying operating profit		42.7	3.2	<b>45.9</b>	14.0	12.7	26.7
Non-underlying operating (loss)/ profit		(30.2)	(6.5)	<b>(36.7)</b>	(130.8)	33.0	(97.8)
Finance expense	4.3	(39.0)	(0.8)	<b>(39.8)</b>	(42.9)	(3.1)	(46.0)
Finance income	4.3	1.0	-	<b>1.0</b>	3.0	-	3.0
<b>Net finance costs</b>		(38.0)	(0.8)	<b>(38.8)</b>	(39.9)	(3.1)	(43.0)
<b>Analysed as:</b>							
Underlying net finance costs		(36.9)	(0.8)	<b>(37.7)</b>	(40.0)	(3.1)	(43.1)
Non-underlying net finance costs		(1.1)	-	<b>(1.1)</b>	0.1	-	0.1
<b>(Loss)/profit before taxation</b>		(25.5)	(4.1)	<b>(29.6)</b>	(156.7)	42.6	(114.1)
<b>Analysed as:</b>							
Underlying profit/(loss) before taxation		5.8	2.4	<b>8.2</b>	(26.0)	9.6	(16.4)
Non-underlying (loss)/profit before taxation		(31.3)	(6.5)	<b>(37.8)</b>	(130.7)	33.0	(97.7)
Income tax credit/(expense)	2.7	3.9	1.0	<b>4.9</b>	7.8	(11.1)	(3.3)
<b>(Loss)/profit for the year</b>		(21.6)	(3.1)	<b>(24.7)</b>	(148.9)	31.5	(117.4)
<b>Analysed as:</b>							
Underlying profit/(loss) after taxation		6.0	3.0	<b>9.0</b>	(23.8)	7.4	(16.4)
Non-underlying (loss)/profit after taxation		(27.6)	(6.1)	<b>(33.7)</b>	(125.1)	24.1	(101.0)
<b>Earnings per share</b>							
Basic earnings per share	2.8	(1.6p)	(0.2p)	<b>(1.8p)</b>	(10.7p)	2.3p	(8.4p)
Diluted earnings per share	2.8	(1.6p)	(0.2p)	<b>(1.8p)</b>	(10.7p)	2.3p	(8.4p)
<b>Non GAAP measure:</b>							
Underlying basic earnings per share	2.8	(0.3p)	0.9p	<b>0.6p</b>	(1.8p)	(0.6p)	(1.2p)
Underlying diluted earnings per share	2.8	(0.3p)	0.9p	<b>0.6p</b>	(1.8p)	(0.6p)	(1.2p)

\* 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 103 to 181 form part of these financial statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 £m	2019 £m
<b>Loss for the year</b>		<b>(24.7)</b>	(117.4)
<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>(24.6)</b>	(1.3)
Income tax relating to defined benefit plan remeasurement (gains) and losses	2.7	<b>5.7</b>	0.2
		<b>(18.9)</b>	(1.1)
<b>Items that are or may be reclassified to profit and loss:</b>			
Foreign currency translation differences of foreign operations		-	(0.2)
		-	(0.2)
Other comprehensive income for the year, net of tax		<b>(18.9)</b>	(1.3)
<b>Total comprehensive income for the year</b>		<b>(43.6)</b>	(118.7)
Total comprehensive income for the period attributable to equity shareholders of the company arises from:			
Continuing operations		<b>(40.5)</b>	(150.0)
Discontinued operations - see note 3.3		<b>(3.1)</b>	31.3
		<b>(43.6)</b>	(118.7)

The notes on pages 103 to 181 form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation differences £m	Retained earnings £m	<b>Total £m</b>
<b>Balance at 1 January 2020</b>	69.9	56.8	5.6	12.6	(1.0)	25.0	<b>168.9</b>
<b>Total comprehensive income for 2020</b>							
Loss for the year	-	-	-	-	-	(24.7)	<b>(24.7)</b>
Other comprehensive income for the year, net of tax	-	-	-	-	-	(18.9)	<b>(18.9)</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(43.6)	<b>(43.6)</b>
Share based payments	-	-	-	-	-	1.2	<b>1.2</b>
Income tax relating to share based payments	-	-	-	-	-	0.2	<b>0.2</b>
<b>Balance at 31 December 2020</b>	69.9	56.8	5.6	12.6	(1.0)	(17.2)	<b>126.7</b>
<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)	-	-	-	-	-	(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>

The notes on pages 103 to 181 form part of these financial statements

# CONSOLIDATED BALANCE SHEET

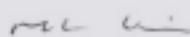
At 31 December 2020

	Notes	2020 £m	2019 £m
<b>Non-current assets</b>			
Property, plant and equipment	3.2	572.8	628.3
Goodwill	3.1	150.3	162.8
Other intangible assets	3.1	10.2	9.5
Finance lease receivables		16.6	20.6
Deferred tax assets	2.7	36.4	25.5
<b>Total non-current assets</b>		<b>786.3</b>	846.7
<b>Current assets</b>			
Inventories	3.4	608.8	839.0
Trade and other receivables (includes £0.2m due in over 1 year)	3.6	94.6	106.9
Finance lease receivables		2.0	2.4
Current tax assets		1.4	-
Cash and cash equivalents	4.2	56.0	55.7
Assets classified as held for sale	3.3	99.0	150.1
<b>Total current assets</b>		<b>861.8</b>	1,154.1
<b>Total assets</b>		<b>1,648.1</b>	2,000.8
<b>Current liabilities</b>			
Lease liabilities		(24.5)	(23.9)
Trade and other payables	3.7	(834.9)	(1,084.6)
Deferred income	3.8	(42.9)	(50.9)
Current tax payable		-	(2.8)
Liabilities directly associated with the assets held for sale	3.3	(67.3)	(90.5)
<b>Total current liabilities</b>		<b>(969.6)</b>	(1,252.7)
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	4.2	(156.4)	(175.4)
Lease liabilities		(218.7)	(237.8)
Trade and other payables	3.7	(60.4)	(60.4)
Deferred income	3.9	(40.8)	(46.6)
Retirement benefit obligations	5.1	(75.5)	(59.0)
<b>Total non-current liabilities</b>		<b>(551.8)</b>	(579.2)
<b>Total liabilities</b>		<b>(1,521.4)</b>	(1,831.9)
<b>Net assets</b>		<b>126.7</b>	168.9
<b>Capital and reserves</b>			
Called up share capital	4.4	69.9	69.9
Share premium account	4.4	56.8	56.8
Capital redemption reserve	4.4	5.6	5.6
Other reserves	4.4	12.6	12.6
Translation reserve	4.4	(1.0)	(1.0)
Retained earnings		(17.2)	25.0
<b>Total equity attributable to equity shareholders of the Company</b>		<b>126.7</b>	168.9

Approved by the Board of Directors on 24 March 2021 and signed on its behalf by:



**W Berman**  
Chief Executive



**M S Willis**  
Chief Finance Officer

The notes on pages 103 to 181 form part of these financial statements  
Registered Company Number: 02304195

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2020

	Notes	2020 £m	Restated - see Section 1 2019 £m
<b>Cash flows from operating activities</b>			
Loss for the year		(24.7)	(117.4)
Adjustment for taxation		(4.9)	3.3
Adjustment for net financing expense		38.8	43.0
		9.2	(71.1)
Depreciation and amortisation		43.7	44.7
Share based payments		1.2	0.6
Pension past service costs		3.3	(4.8)
Loss/(profit) on sale of businesses and property, plant and equipment		6.8	(33.3)
Impairment of goodwill		12.5	102.4
Impairment of assets held for sale		0.8	1.9
Impairment of property, plant and equipment		3.2	25.9
Contribution into defined benefit pension scheme		(12.5)	(7.6)
Changes in inventories	3.4	294.8	186.7
Changes in trade and other receivables		23.4	1.7
Changes in trade and other payables		(267.6)	(127.4)
Movement in contract hire vehicle balances	3.5	(51.3)	(55.6)
Cash generated from operations		67.5	64.1
Taxation paid		(4.4)	(3.3)
Bank and stocking interest paid		(20.5)	(26.8)
Lease interest paid		(14.0)	(14.4)
Lease interest received		1.0	1.1
<b>Net cash from operating activities</b>		<b>29.6</b>	<b>20.7</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of businesses	6.1	16.6	67.4
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	(60.2)	(115.0)
Proceeds from sale of property, plant, equipment and intangible assets	3.1, 3.2	61.6	70.6
Receipt of lease receivables		1.9	2.2
<b>Net cash from investing activities</b>		<b>19.9</b>	<b>25.2</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		-	(9.7)
Repurchase of own shares		-	(0.5)
Payment of lease liabilities		(28.7)	(28.8)
Repayment of loans		(40.0)	(5.0)
Proceeds from issue of loans (net of directly attributable transaction costs)		18.2	5.4
<b>Net cash outflow from financing activities</b>		<b>(50.5)</b>	<b>(38.6)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1.0)</b>	<b>7.3</b>
Cash and cash equivalents at 1 January		55.7	51.4
Effects of exchange rate changes on cash held		1.3	(3.0)
<b>Cash and cash equivalents at 31 December</b>	4.2	<b>56.0</b>	<b>55.7</b>

The notes on pages 103 to 181 form part of these financial statements

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

	2020 £m	2019 £m
Net (decrease)/increase in cash and cash equivalents	(1.0)	7.3
Repayment of loans	40.0	5.0
Proceeds from issue of loans (net of directly attributable transaction costs)	(18.2)	(5.4)
Non-cash movements	(1.5)	(0.5)
Decrease in net debt in the year	19.3	6.4
Opening net debt	(119.7)	(126.1)
<b>Closing net debt</b>	<b>(100.4)</b>	<b>(119.7)</b>

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

The notes on pages 103 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 2020 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 Group domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2020 comprise the Group 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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards ("adopted IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Group has elected to prepare its parent Group financial statements in accordance with FRS 101. These are presented on pages 182 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 a loss before tax of £29.6m (2019: loss of £114.1m). The directors consider that the current economic outlook presents significant uncertainty in terms of sales volume and pricing and that the threat from further COVID-19 lockdowns and the risk of rising unemployment as Government support measures are gradually withdrawn present uncertainties to future trading conditions. Whilst the directors have instituted measures to preserve cash and reduce costs, 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 £175.0m 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 on 1 March 2023 and includes covenants, a breach of which would result in the amounts drawn becoming repayable on demand. The Group did not require use of Government backed borrowing facilities such as the Coronavirus large business interruption loan scheme. The Group remained compliant with its banking covenants throughout the year to 31 December 2020.

The Group instigated a number of mitigating actions to protect it against the financial impact of the dealership closures required by the Government's measures to combat COVID-19. This included accessing Government support measures such as the Coronavirus job retention scheme, utilising the retail discount scheme for rates and deferring VAT, as well as utilising support measures from vehicle manufacturers and stocking loan providers to extend payment periods, in particular during the first national lockdown. The Group also reviewed its level of planned capital expenditure and either cancelled or postponed certain projects.

The Directors have assessed the potential on-going impacts of the COVID-19 pandemic coupled with wider economic disruption and have scenario modelled a base cash flow forecast for the period to 31 December 2022, the going concern assessment period. This forecast has considered externally sourced economic forecasts to determine the outlook for vehicle volume forecasts through-out the period being assessed. The base case forecast includes the benefit of the previously announced cost reduction programmes and the assumption of the successful completion of the previously announced transaction to dispose of the remaining US dealership. This forecast assumes low levels of market growth.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Going concern *Continued*

The Directors have also prepared a severe but plausible downside scenario. The scenario removes the disposal of the final US dealership, assumes two further one-month national lockdowns without Government support measures in the next 12 months, and includes the impact of a reasonable downside contraction in sales volumes and margins which is below that experienced in 2020. The Group believes that it would be able to withstand the conditions of this severe but plausible downside scenario with the mitigations available to it and wholly within its control, principally being the curtailment of uncommitted investment capital expenditure. In this scenario, the Group remain within its facility limits and in covenant compliance, although headroom is limited.

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 severe but plausible downside forecasts indicate that the Group will remain in compliance with the Group's covenants.

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

### Prior year adjustment

The Group has made adjustments to the presentation of the comparative Consolidated Cash Flow Statement. Receipt of lease receivables (£2.2m) has been presented in investing activities as it relates such activities, whereas in the previous financial statements it was included in financing activities. The Group has also presented cash flows for the interest portion of the lease liability and finance lease receivable as operating cash flows, consistent with the Groups policy for presenting interest paid/received in the cash flow statement. In the previous financial statements these amounts of £14.4m and £1.1m respectively were including in financing cash flows. As a result of these reclassifications net cash from operating activities for 2019 reduced from £34.0m to £20.7m. These reclassifications have no effect on total cash flows in the comparative period.

### Judgements

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

Key judgements	Effect on Financial Statements	Alternative accounting judgement that could have been applied	Effect of that alternative accounting judgement
Deferred tax assets:			
No recognition of certain deferred tax assets as the Group believes their recovery to be too uncertain.	No recognition of potential assets of £10.6m relating to unutilised tax losses of £13.8m and unrecognised net capital losses of £41.9m.	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-£10.6m.



# 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 2021 budget as well as the fair value of individual assets.	✓	✓	3.1
Inventory fair value (UK used inventory of £215.4m (2019: £330.3m))	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

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

### 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.

### Government grants

Government grants are recognised when there is reasonable assurance the grants will be received and the conditions of the grant will be complied with. Income from government grants during 2020 of £42.3m, being the Coronavirus Job Retention Scheme, is included within payroll expenses. A further £10.1m benefit has been received by way of business rates relief during 2020 by way of waivers to these charges.

### 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.

In assessing fair value less costs to sell, the estimated future cash flows are multiplied by an appropriate trading multiple or by assessing the fair value of the individual assets.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

### **Impairment** *continued*

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 2020 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Group:

- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions
- Definition of Material – Amendments to IAS 1 and IAS 8

### **Other standards**

A number of new standards, amended standards and interpretations are effective for annual periods beginning after 1 January 2021 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 new standards, amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 1 and 2

### **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 per share for a given period.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

**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.

### Trading Dealerships

There are dealerships that were trading at 31 December 2020

### Operating profit/(loss) reconciliation

	2020 £m	2019 £m
Underlying operating profit	45.9	26.7
Settlement of historic VAT issues (see note 2.6)	-	1.6
(Losses)/gains on the sale of businesses and property, plant and equipment (see note 2.6)	(6.8)	33.3
Past service costs (see note 2.6)	(3.3)	4.8
Pension scheme administration costs (see note 2.6)	(1.0)	-
Impairment of goodwill (see note 2.6)	(12.5)	(102.4)
Impairment of assets held for sale (see note 2.6)	(0.8)	(1.9)
Impairment of property, plant and equipment (see note 2.6)	-	(2.6)
Impairment of right of use assets (see note 2.6)	(3.2)	(23.3)
Car Store and other business closure costs (see note 2.6)	(2.8)	(1.8)
Termination and severance payments (see note 2.6)	(6.3)	(5.5)
Non-underlying operating (loss) items	(36.7)	(97.8)
<b>Operating profit/(loss)</b>	<b>9.2</b>	<b>(71.1)</b>

### (Loss)/profit before tax reconciliation

	2020 £m	2019 £m
Underlying profit/(loss) before tax	8.2	(16.4)
Non-underlying operating (loss) items (see reconciliation above)	(36.7)	(97.8)
Non-underlying net finance (costs)/income (see note 2.6)	(1.1)	0.1
Non-underlying operating (loss) and finance costs items	(37.8)	(97.7)
<b>(Loss) before tax</b>	<b>(29.6)</b>	<b>(114.1)</b>

### (Loss)/profit after tax reconciliation

	2020 £m	2019 £m
Underlying profit/(loss) after tax	9.0	(16.4)
Non-underlying operating (loss) and finance costs items (see reconciliation above)	(37.8)	(97.7)
Non-underlying tax (see note 2.6)	4.1	(3.3)
Non-underlying operating (loss)/profit, finance costs and tax items	(33.7)	(101.0)
<b>(Loss) after tax</b>	<b>(24.7)</b>	<b>(117.4)</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

**Underlying basic earnings per share** ('underlying earnings per share') – the Group presents underlying basic earnings per share as the directors consider that this is a better measure of comparative performance. Underlying basic earnings per share is calculated by dividing the underlying profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. A full reconciliation of how this is derived is found in note 2.8.

**Underlying diluted earnings per share** – the Group presents underlying diluted earnings per share as the directors consider that this is a better measure of comparative performance. Underlying diluted earnings per share is calculated by dividing the underlying profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees, LTIPs and share warrants. A full reconciliation of how this is derived is found in note 2.8.

**Leverage ratio** – the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. The reconciliation of this and the composition of underlying EBITDA is shown in note 4.2.

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### 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.

### Revenues by Department - Franchised UK Motor

	Group revenue 2020 £m	Disposals revenue 2020 £m	Other non like-for-like revenue 2020 £m	Like-for-like revenue 2020 £m	Group revenue 2019 £m	Disposals revenue 2019 £m	Other non like-for-like revenue 2019 £m	Like-for-like revenue 2019 £m
Aftersales revenue	226.3	(4.9)	(2.6)	218.8	326.2	(26.8)	(1.5)	297.9
Used vehicle revenue	1,157.5	(41.4)	(4.3)	1,111.8	1,702.5	(184.5)	-	1,518.0
New vehicle revenue	1,208.0	(11.1)	(7.7)	1,189.2	1,702.1	(96.1)	-	1,606.0
Total Revenue	2,591.8	(57.4)	(14.6)	2,519.8	3,730.8	(307.4)	(1.5)	3,421.9

### Revenues by Department - Car Store

	Group revenue 2020 £m	Disposals revenue 2020 £m	Other non like-for-like revenue 2020 £m	Like-for-like revenue 2020 £m	Group revenue 2019 £m	Disposals revenue 2019 £m	Other non like-for-like revenue 2019 £m	Like-for-like revenue 2019 £m
Aftersales revenue	-	-	-	-	2.5	(2.5)	-	-
Used vehicle revenue	88.5	(0.3)	-	88.2	267.8	(131.8)	-	136.0
Total Revenue	88.5	(0.3)	-	88.2	270.3	(134.3)	-	136.0

### Revenues by Department - Franchised US Motor

	Group revenue 2020 £m	Disposals revenue 2020 £m	Other non like-for-like revenue 2020 £m	Like-for-like revenue 2020 £m	Group revenue 2019 £m	Disposals revenue 2019 £m	Other non like-for-like revenue 2019 £m	Like-for-like revenue 2019 £m
Aftersales revenue	17.3	(0.3)	-	17.0	40.7	(19.0)	-	21.7
Used vehicle revenue	22.0	(1.1)	-	20.9	75.7	(59.2)	-	16.5
New vehicle revenue	118.6	(2.2)	-	116.4	305.9	(162.3)	-	143.6
Total Revenue	157.9	(3.6)	-	154.3	422.3	(240.5)	-	181.8

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Gross profit by Department - Franchised UK Motor

	Group gross profit 2020 £m	Disposals gross profit 2020 £m	Other non like-for-like gross profit 2020 £m	Like-for-like gross profit 2020 £m	Group gross profit 2019 £m	Disposals gross profit 2019 £m	Other non like-for-like gross profit 2019 £m	Like-for-like gross profit 2019 £m
Aftersales gross profit	111.2	(1.7)	(0.9)	108.6	161.5	(12.4)	(0.7)	148.4
Used vehicle gross profit	99.5	(2.4)	(0.3)	96.8	105.2	(6.5)	-	98.7
New vehicle gross profit	79.1	(0.5)	(1.1)	77.5	104.9	(5.8)	-	99.1
Total Gross profit	289.8	(4.6)	(2.3)	282.9	371.6	(24.7)	(0.7)	346.2

### Gross profit by Department - Car Store

	Group gross profit 2020 £m	Disposals gross profit 2020 £m	Other non like-for-like gross profit 2020 £m	Like-for-like gross profit 2020 £m	Group gross profit 2019 £m	Disposals gross profit 2019 £m	Other non like-for-like gross profit 2019 £m	Like-for-like gross profit 2019 £m
Aftersales gross profit	-	-	-	-	(1.8)	1.8	-	-
Used vehicle gross profit	7.3	0.1	-	7.4	12.7	(4.6)	-	8.1
Total Gross profit	7.3	0.1	-	7.4	10.9	(2.8)	-	8.1

### Gross profit by Department - US Motor

	Group gross profit 2020 £m	Disposals gross profit 2020 £m	Other non like-for-like gross profit 2020 £m	Like-for-like gross profit 2020 £m	Group gross profit 2019 £m	Disposals gross profit 2019 £m	Other non like-for-like gross profit 2019 £m	Like-for-like gross profit 2019 £m
Aftersales gross profit	9.1	(0.2)	-	8.9	21.1	(10.4)	-	10.7
Used gross profit	1.7	-	-	1.7	5.7	(4.6)	-	1.1
New vehicle gross profit	12.5	(0.3)	-	12.2	29.9	(17.5)	-	12.4
Total Gross profit	23.3	(0.5)	-	22.8	56.7	(32.5)	-	24.2

### Underlying operating profit/(loss)

	Group underlying operating profit/ (loss) 2020 £m	Disposals underlying operating profit 2020 £m	Other non like-for-like underlying operating profit 2020 £m	Like-for-like underlying operating profit 2020 £m	Group underlying operating profit/ (loss) 2019 £m	Disposals underlying operating profit 2019 £m	Other non like-for-like underlying operating profit 2019 £m	Like-for-like underlying operating profit 2019 £m
Franchised UK Motor	18.5	12.2	(0.7)	30.0	13.0	13.0	0.5	26.5
Car Store	(1.2)	0.2	-	(1.0)	(25.2)	18.6	-	(6.6)
Software	12.1	-	-	12.1	13.4	-	-	13.4
Leasing	13.3	-	-	13.3	12.8	-	-	12.8
US Motor	3.2	0.7	-	3.9	12.7	(2.4)	-	10.3
Total underlying operating profit	45.9	13.1	(0.7)	58.3	26.7	29.2	0.5	56.4

# 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.

#### Franchised UK Motor segment, Car Store segment and US Motor segment

The Franchised UK, Car Store 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.
Aftersales 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 3.8). 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 supplies its software on a hosting basis and licencing specific numbers of users to access this service. As such Pinewood supplies '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
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	
<b>Primary geographical markets</b>											
Europe	2,591.8	3,730.8	88.5	270.3	16.4	17.6	69.4	64.4	-	-	2,766.1
North America	-	-	-	-	-	-	-	-	157.9	422.3	157.9
Africa	-	-	-	-	0.4	0.5	-	-	-	-	0.4
Asia	-	-	-	-	0.2	0.2	-	-	-	-	0.2
Revenue from external customers	2,591.8	3,730.8	88.5	270.3	17.0	18.3	69.4	64.4	157.9	422.3	2,924.6
<b>Major products/service lines</b>											
After-sales revenue	226.3	326.2	-	2.5	-	-	-	-	17.3	40.7	243.6
Used vehicle revenue	1,157.5	1,702.5	88.5	267.8	-	-	-	-	22.0	75.7	1,268.0
New vehicle revenue	1,208.0	1,702.1	-	-	-	-	-	-	118.6	305.9	1,326.6
Software revenue	-	-	-	-	17.0	18.3	-	-	-	-	17.0
Leasing revenue	-	-	-	-	-	-	69.4	64.4	-	-	69.4
Revenue from external customers	2,591.8	3,730.8	88.5	270.3	17.0	18.3	69.4	64.4	157.9	422.3	2,924.6
<b>Timing of revenue recognition</b>											
At point in time	2,581.0	3,722.8	87.4	269.3	0.9	1.7	28.5	20.4	157.9	422.3	2,855.7
Over time	10.8	8.0	1.1	1.0	16.1	16.6	40.9	44.0	-	-	68.9
Revenue from external customers	2,591.8	3,730.8	88.5	270.3	17.0	18.3	69.4	64.4	157.9	422.3	2,924.6

# 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:

	2020 £m	2019 £m
Aftersales work in progress yet to be completed	1.2	1.5

#### Contract liabilities

The Group recognises the following contract liabilities:

	2020 £m	2019 £m
Deposits received from customers	21.6	18.7
Unearned proportion of warranty policies sold	15.0	19.4

Movements in the deferred income balance in respect of the warranty policies is presented in note 3.8 which shows the value of policies sold during the year and the income recognised during the year.

### 2.2 Net operating expenses

	2020 £m	2019 £m
Net operating expenses:		
Distribution costs	(167.5)	(256.2)
Administrative expenses	(172.0)	(322.2)
Impairment loss on trade receivables	(0.3)	(0.6)
Rents received	1.2	1.9
	<b>(338.6)</b>	(577.1)

### 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 specialism 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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

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

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

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

The tables of financial performance presented in the Operational and Financial Review on pages 25 to 35 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.

Year ended 31 December 2020

	Franchised UK Motor £m	Car Store £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	<b>Total £m</b>
Total gross segment revenue	2,591.8	88.5	22.3	86.3	-	2,788.9	157.9	<b>2,946.8</b>
Inter-segment revenue	-	-	(5.3)	(16.9)	-	(22.2)	-	<b>(22.2)</b>
<b>Revenue from external customers</b>	<b>2,591.8</b>	<b>88.5</b>	<b>17.0</b>	<b>69.4</b>	<b>-</b>	<b>2,766.7</b>	<b>157.9</b>	<b>2,924.6</b>
Operating profit/(loss) before non-underlying items	18.5	(1.2)	12.1	13.3	-	42.7	3.2	<b>45.9</b>
Non-underlying items	(30.1)	(0.1)	-	-	-	(30.2)	(6.5)	<b>(36.7)</b>
Operating profit/(loss)	(11.6)	(1.3)	12.1	13.3	-	12.5	(3.3)	<b>9.2</b>
Finance expense	-	-	-	(3.1)	(35.9)	(39.0)	(0.8)	<b>(39.8)</b>
Finance income	-	-	-	-	1.0	1.0	-	<b>1.0</b>
<b>Segmental (loss)/profit before tax</b>	<b>(11.6)</b>	<b>(1.3)</b>	<b>12.1</b>	<b>10.2</b>	<b>(34.9)</b>	<b>(25.5)</b>	<b>(4.1)</b>	<b>(29.6)</b>

Other items included in the income statement are as follows:

Depreciation and impairment	(38.4)	(0.6)	(0.7)	(40.8)	-	(80.5)	(0.1)	<b>(80.6)</b>
Impairment of goodwill	(12.5)	-	-	-	-	(12.5)	-	<b>(12.5)</b>
Impairment of property, plant and equipment	(3.1)	(0.1)	-	-	-	(3.2)	-	<b>(3.2)</b>
Amortisation	(0.4)	-	(3.3)	(0.2)	-	(3.9)	-	<b>(3.9)</b>
Share based payments	(1.2)	-	-	-	-	(1.2)	-	<b>(1.2)</b>
Impairment of assets held for sale	(0.8)	-	-	-	-	(0.8)	-	<b>(0.8)</b>
Termination and severance costs	(6.3)	-	-	-	-	(6.3)	-	<b>(6.3)</b>
Business closure costs	(4.2)	-	-	-	-	(4.2)	-	<b>(4.2)</b>
Pension past service cost	(3.3)	-	-	-	-	(3.3)	-	<b>(3.3)</b>
Other income - profit/(loss) on the sale of businesses and property, plant and equipment	(0.3)	-	-	-	-	(0.3)	(6.5)	<b>(6.8)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

Year ended 31 December 2019

	Franchised UK Motor £m	Car Store £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	<b>Total £m</b>
Total gross segment revenue	3,730.8	270.3	23.4	87.7	-	4,112.2	422.3	<b>4,534.5</b>
Inter-segment revenue	-	-	(5.1)	(23.3)	-	(28.4)	-	<b>(28.4)</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	(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>
Pension past service credit	4.8	-	-	-	-	4.8	-	<b>4.8</b>
Other income - profit on the sale of businesses and property	0.3	-	-	-	-	0.3	33.0	<b>33.3</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:

	2020 Number	2019 Number
Sales	2,426	3,156
Aftersales	3,308	4,304
Administration	1,617	2,104
	<b>7,351</b>	9,564

Costs incurred in respect of these employees were:

	2020 £m	2019 £m
Wages and salaries	165.4	271.6
Social security costs	18.1	25.4
Contributions to defined contribution plans (see note 5.1)	7.4	11.6
Cost recognised for defined benefit plans (see note 5.1)	4.4	(3.0)
Share based payments (see note 4.6)	1.2	0.6
	<b>196.5</b>	306.2

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 68 to 82.

The Group appropriately used government assistance from the Coronavirus Job Retention Scheme and has benefited from £42.3m of furlough support during the year, which is recognised against the wages and salaries expense. The furlough support is included in the underlying result as the Group do not consider it to meet the definition of non-underlying when taken together with the payroll costs that the amount compensates for.

### 2.5 Audit fees

	2020 £000	2019 £000
Auditor's remuneration:		
Fees payable to the company's Auditor for the audit of the company's annual accounts	520.0	350.0
Fees payable to the company's Auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	250.0	210.0
Audit-related assurance services	170.0	80.0
Tax compliance services	70.0	71.0
Other assurance services	10.0	10.0
	<b>1,020.0</b>	721.0



# 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.

	2020 £m	2019 £m
Within operating expenses:		
Settlement of historic VAT issues	-	1.6
Impairment of goodwill	<b>(12.5)</b>	(102.4)
Impairment of assets held for sale	<b>(0.8)</b>	(1.9)
Impairment of property, plant and equipment	-	(2.6)
Impairment of right of use assets	<b>(3.2)</b>	(23.3)
Termination and severance costs	<b>(6.3)</b>	(5.5)
Business closure costs	<b>(2.8)</b>	(1.8)
Pension scheme administration costs	<b>(1.0)</b>	-
Past service costs in respect of pension obligations	<b>(3.3)</b>	4.8
	<b>(29.9)</b>	(131.1)
Within other income - gains on the sale of businesses, property, plant and equipment:		
(Losses)/gains on the sale of businesses	<b>(6.5)</b>	32.1
Gains on the sale of property	<b>1.1</b>	1.2
Losses on the disposal of property, plant and equipment	<b>(1.4)</b>	-
	<b>(6.8)</b>	33.3
Within net finance expense:		
Interest on settlement of historic VAT issues	-	1.9
Net interest on pension scheme obligations	<b>(1.1)</b>	(1.8)
	<b>(1.1)</b>	0.1
<b>Total non-underlying items before tax</b>	<b>(37.8)</b>	(97.7)
Non-underlying items in tax	<b>4.1</b>	(3.3)
<b>Total non-underlying items after tax</b>	<b>(33.7)</b>	(101.0)

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 £12.5m made during the year (2019: £102.4m) (see note 3.1).

Group property, plant and equipment and assets held for sale have been reviewed for possible impairments. As a result of this review there was an impairment charge against assets held for sale of £0.8m during the year (2019: £1.9m) and property, plant and equipment of £3.2m (2019: £25.9m) which comprised impairment of owned assets of £nil (2019: £2.6m) and right of use assets of £3.2m (2019: £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 (2019: £nil).

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

### 2.6 Non-underlying items *continued*

The High Court ruling in the Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others published in October 2018 held that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. Following a further High Court ruling on 20 November 2020 the case extends the scope of the GMP equalisation to include previous transfer values paid from the scheme since 1990. An allowance for the estimated impact of this has been included in the benefit obligations at 31 December 2020 of £3.3m and is recorded as a non-underlying past service cost in the Income Statement. During the previous year a Pension Increase Exchange exercise was carried out and the impact of this was to recognise a credit of £4.8m in the past service cost line.

The administration costs of the pension scheme in respect of the Pension Protection Fund levy is shown as a non-underlying item in 2020 due to the significant increase in this charge which was £1.0m in the year, a increase of over four times that of the previous year.

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 £1.1m has been recognised during the year (2019: £1.8m).

Other income consists of the profit or loss on disposal of businesses and property, plant and equipment. This comprises a £6.5m loss (2019: £32.1m profit) on disposals of motor vehicle dealerships during the year (of which £6.5m was in respect of discontinued operations (2019: £33.0m)), a £1.1m profit on sale of properties (2019: £1.2m) and a loss of £1.4m (2019: £nil) in respect of losses on the disposal of plant and equipment as a result of the closure of businesses during the year. This does not include routine transactions in relation to the disposal of individual assets, and only relates to the disposal or closure of motor vehicle dealerships and associated properties.

The Group undertook a review of its operations during the year which resulted in a number of business closures. The resultant costs of closure of these sites of £2.8m have been recognised as a non-underlying item in 2020. These costs were in addition to the £1.4m losses on plant and equipment referred to above, making the total closure cost for the year £4.2m. These closures were further to the closure of 22 Car Stores and one preparation centre in the previous year, costs of closure of these sites being £1.8m were likewise recognised as a non-underlying item in 2019.

During the year as part of the Group's business review and rationalisation a large number of redundancies were made, the cost of which is presented as a non-underlying item of £6.3m. During the previous year some of the Group's senior executive team were offered compensation on terminating their employment contracts which amounted to £5.5m.

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 were £0.3m which resulted in a net gain of £3.5m reported in 2019.

# 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*

	2020 £m	2019 £m
UK corporation tax:		
Current tax on loss for the year	-	(3.6)
Adjustments in respect of prior periods	2.2	-
	<b>2.2</b>	(3.6)
Overseas taxation:		
Current tax on profit for the year	(0.7)	13.4
Adjustments in respect of prior periods	(1.4)	0.2
	<b>(2.1)</b>	13.6
Total current tax	<b>0.1</b>	10.0
Deferred tax expense:		
Origination and reversal of temporary differences	(5.0)	(6.7)
Total deferred tax	<b>(5.0)</b>	(6.7)
<b>Total income tax (credit)/expense in the income statement</b>	<b>(4.9)</b>	3.3

Factors affecting the tax (credit)/charge for the period:

The tax assessed is different from the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)

The differences are explained below:

	2020 £m	2019 £m
Loss before taxation	<b>(29.6)</b>	(114.1)
Tax on loss at UK rate of 19.00% (2019: 19.00%)	<b>(5.6)</b>	(21.7)
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	<b>0.9</b>	0.3
Permanent differences arising in respect of fixed assets	<b>1.2</b>	1.6
Tax rate differential on overseas income	<b>(0.4)</b>	1.1
Non-underlying items (see below)	<b>2.2</b>	22.0
Impact of UK corporation tax rate change	<b>(2.4)</b>	0.6
Adjustments to tax charge in respect of previous periods	<b>(0.8)</b>	(0.6)
Total income tax (credit)/expense in the income statement	<b>(4.9)</b>	3.3

#### Taxation - Other comprehensive income

	2020 £m	2019 £m
Relating to defined benefit plan remeasurement (gains) and losses	<b>5.7</b>	0.2
Other short term temporary differences	<b>0.2</b>	-
	<b>5.9</b>	0.2

# 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. The deferred tax asset at 31 December 2020 has therefore been measured using 19%.

A UK corporation tax rate of 25% was announced in the Chancellor's Budget of 3 March 2021, along with a temporary extension to the loss carry-back rules allowing up to £2m of tax losses to be carried back to the preceding 3 periods. The 25% rate will apply from 1 April 2023 and the carry-back of losses is expected to apply to year ends 31 December 2020 and 31 December 2021. If these two measures had been substantively enacted at the balance sheet date the deferred tax asset would have increased by £6.1m and the current tax asset increased by £0.4m.

The USA deferred tax liability as at 31 December 2020 has been calculated based on a blended federal and Californian state tax basis using the expected long term federal rate of 21% substantively enacted at the balance sheet date.

#### Factors affecting the tax charge /credit

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 / charge

The tax credit in relation to non-underlying items referred to in note 2.6 is £4.1m (2019: £3.3m charge). Of the £4.1m credit £0.4m related to discontinued operations. The tax credit is lower than the non-underlying loss multiplied by the tax rate (19%) mainly due to £12.5m of the loss not being eligible for tax relief (goodwill impairment).

#### Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £13.8m (2019: £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 £41.9m (2019: £35.2m).

#### 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 deferred tax assets all relate to the UK and the deferred tax liabilities relate to the US. The offset amounts are as follows:

	2020 £m	2019 £m
Deferred tax assets	37.9	25.9
Deferred tax liabilities	(1.5)	(0.4)
	36.4	25.5

# 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 2019 £m	Recognised on initial application of IFRS 16 £m	Credited/ (charged) to consolidated income statement £m	Credited to other comprehensive income £m	Exchange differences £m	<b>At 31 December 2019 £m</b>
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>
<b>Tax assets/(liabilities)</b>	<b>9.8</b>	<b>8.7</b>	<b>6.7</b>	<b>0.2</b>	<b>0.1</b>	<b>25.5</b>

	At 1 January 2020 £m	Credited/ (charged) to consolidated income statement £m	Credited to other comprehensive income £m	Exchange differences £m	<b>At 31 December 2020 £m</b>
Property, plant and equipment	5.5	0.3	-	-	<b>5.8</b>
Retirement benefit obligations	10.1	(1.3)	5.7	-	<b>14.5</b>
Other short term temporary differences	1.8	(1.3)	0.2	-	<b>0.7</b>
Losses	8.1	7.3	-	-	<b>15.4</b>
<b>Tax assets/(liabilities)</b>	<b>25.5</b>	<b>5.0</b>	<b>5.9</b>	<b>-</b>	<b>36.4</b>

A deferred tax asset on UK losses of £6.8m was generated during 2019 due to the exceptional nature of activity that occurred during 2019. A further £7.3m was generated in 2020 due to the business interruption from the Covid-19 pandemic. A deferred tax asset for the losses has been recognised as the Group has been historically profitable (it made taxable profits in the UK in 2018 and immediately preceding periods), made an underlying profit in 2020, and is expected to be profitable in future.

# 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

	2020 Earnings per share pence	2020 Earnings Total £m	2019 Earnings per share pence	2019 Earnings Total £m
Basic earnings per share from continuing operations	(1.6)	(21.6)	(10.7)	(148.9)
Basic earnings per share from discontinued operations	(0.2)	(3.1)	2.3	31.5
Basic earnings per share	(1.8)	(24.7)	(8.4)	(117.4)
Adjusting items:				
Non-underlying items attributable to the parent from continuing operations	2.2	31.3	9.4	130.7
Non-underlying items attributable to the parent from discontinued operations	0.5	6.5	(2.4)	(33.0)
Non-underlying items attributable to the parent (see note 2.6)	2.7	37.8	7.0	97.7
Tax effect of non-underlying items from continuing operations	(1.0)	(13.4)	(0.4)	(6.0)
Tax effect of non-underlying items from discontinued operations	0.7	9.3	0.6	9.3
Tax effect of non-underlying items	(0.3)	(4.1)	0.2	3.3
Underlying earnings per share from continuing operations (Non-GAAP measure)	(0.3)	(3.7)	(1.8)	(24.2)
Underlying earnings per share from discontinued operations (Non-GAAP measure)	0.9	12.7	0.6	7.8
Underlying earnings per share (Non-GAAP measure)	0.6	9.0	(1.2)	(16.4)
Diluted earnings per share from continuing operations	(1.6)	(21.6)	(10.7)	(148.9)
Diluted earnings per share from discontinued operations	(0.2)	(3.1)	2.3	31.5
Diluted earnings per share	(1.8)	(24.7)	(8.4)	(117.4)
Diluted earnings per share - underlying from continuing operations (Non-GAAP measure)	(0.3)	(3.7)	(1.8)	(24.2)
Diluted earnings per share - underlying from discontinued operations (Non-GAAP measure)	0.9	12.7	0.6	7.8
Diluted earnings per share - underlying (Non-GAAP measure)	0.6	9.0	(1.2)	(16.4)

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

	2020 Number	2019 Number
Weighted average number of ordinary shares in issue	1,390.5	1,390.6
Weighted average number of dilutive shares under option	6.1	2.6
Weighted average number of shares in issue taking account of applicable outstanding share options	1,396.6	1,393.2
Non-dilutive shares under option	38.3	8.7

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

### 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 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>
At 31 December 2019	406.8	16.1	4.4	<b>427.3</b>
At 1 January 2020	406.8	16.1	4.4	<b>427.3</b>
Additions	-	4.3	0.3	<b>4.6</b>
Disposals	-	-	(0.3)	<b>(0.3)</b>
At 31 December 2020	406.8	20.4	4.4	<b>431.6</b>
<b>Amortisation</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>
At 31 December 2019	244.0	7.7	3.3	<b>255.0</b>
At 1 January 2020	244.0	7.7	3.3	<b>255.0</b>
Amortised during the year	-	3.3	0.6	<b>3.9</b>
Impairment	12.5	-	-	<b>12.5</b>
Disposals	-	-	(0.3)	<b>(0.3)</b>
At 31 December 2020	256.5	11.0	3.6	<b>271.1</b>
<b>Carrying amounts</b>				
At 1 January 2019	265.9	7.1	1.1	<b>274.1</b>
At 31 December 2019	162.8	8.4	1.1	<b>172.3</b>
At 31 December 2020	150.3	9.4	0.8	<b>160.5</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:	<b>2020</b> <b>£m</b>	2019 £m
Amortisation of internally generated intangible assets	<b>3.3</b>	2.8
Amortisation of other intangible assets	<b>0.6</b>	0.7
Impairment of goodwill	<b>12.5</b>	102.4
Research and development costs	<b>0.8</b>	0.6

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) 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 2021. The 2021 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 2022 to 2025 forecast represents a projection from the 2021 bottom up forecast and is a short term income growth of 1.9% and short term cost growth of 2.2% based on short term market inflation assumptions.

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 1.9% (2019: 1.6%) has been assumed beyond 2025. The growth rate of 1.9% 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 9.7% and 13.7% (2019: discount rates varied between 9.4% and 14.6%). The increase in average discount rates reflect the cash flow forecasts being risk adjusted to a lesser degree this year

# 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:

2019	At 1	Business disposals	Impairment	Exchange adjustments	Classified as non-current held for sale	At 31	PPE (note 3.2) Impairment	RoU asset (note 3.2) Impairment	Recoverable amount of CGU	Recoverable amount approach	Discount rate/ Trading Multiple	Headroom
	January 2019					December 2019						
Ford	69.7	-	-	-	-	69.7	-	-	191.2	VIU	9.5%	30.8
Vauxhall	64.4	-	(29.2)	-	-	35.2	-	(1.3)	91.2	VIU	9.5%	-
BMW	7.9	-	(7.9)	-	-	-	-	(0.2)	45.4	DRC	Equal to book value	-
Mercedes	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	9.4%	-
MINI	7.3	-	(7.3)	-	-	-	-	-	1.4	DRC	Equal to book value	-
Citroen	11.5	-	(1.9)	-	-	9.6	-	-	24.3	VIU	9.5%	-
Nissan	9.7	-	(9.7)	-	-	-	(0.7)	-	4.9	VIU	9.6%	-
Car Store	-	-	-	-	-	-	(0.8)	(18.7)	25.0	DRC	Equal to book value	-
Renault	12.2	-	(0.3)	-	-	11.9	-	-	22.6	VIU	9.6%	-
Trucks	12.1	-	-	-	-	12.1	-	-	40.5	FVLCTS	7.7%	23.7
Others	26.1	-	(1.8)	-	-	24.3	(0.5)	(1.2)	452.7	VIU/DRC/FVLCTS	9.5% - 14.6%	344.5
<b>Total</b>	<b>265.9</b>	<b>(0.7)</b>	<b>(102.4)</b>	<b>-</b>	<b>-</b>	<b>162.8</b>	<b>(2.6)</b>	<b>(23.3)</b>	<b>961.1</b>			
2020	At 1	Business disposals	Impairment	Exchange adjustments	Classified as non-current held for sale	At 31	PPE (note 3.2) Impairment	RoU asset (note 3.2) Impairment	Recoverable amount of CGU	Recoverable amount approach	Discount rate/ Trading Multiple	Headroom
	January 2020					December 2020						
Ford	69.7	-	-	-	-	69.7	-	-	160.9	VIU	12.8%	9.0
Vauxhall	35.2	-	-	-	-	35.2	-	(0.9)	78.3	VIU	11.9%	1.0
BMW	-	-	-	-	-	-	-	-	61.8	VIU	13.0%	15.5
Mercedes	-	-	-	-	-	-	-	-	68.2	VIU	12.7%	51.2
Jaguar Land Rover	-	-	-	-	-	-	-	-	76.4	VIU	12.8%	21.3
MINI	-	-	-	-	-	-	-	-	21.3	VIU	11.2%	18.2
Citroen	9.6	-	(6.1)	-	-	3.5	-	(0.1)	14.3	VIU	9.7%	-
Nissan	-	-	-	-	-	-	-	-	18.4	VIU	10.5%	12.1
Car Store	-	-	-	-	-	-	-	-	24.3	DRC	Equal to book value	-
Renault	11.9	-	-	-	-	11.9	-	-	27.3	VIU	10.5%	7.4
Trucks	12.1	-	(6.4)	-	-	5.7	-	-	17.3	VIU	10.5%	5.6
Others	24.3	-	-	-	-	24.3	-	(2.2)	401.9	VIU/DRC	10.3% - 13.7%	319.9
<b>Total</b>	<b>162.8</b>	<b>-</b>	<b>(12.5)</b>	<b>-</b>	<b>-</b>	<b>150.3</b>	<b>-</b>	<b>(3.2)</b>	<b>970.4</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	2020 £m	2019 £m
UK Motor	128.0	140.5
Pinewood	0.3	0.3
Leasing	22.0	22.0
	150.3	162.8

#### 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, 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.

The directors and management have considered and assessed reasonably possible changes to the key assumptions. 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.

Within a downside, the reasonably possible changes to the key assumptions are a reduction in the long term growth rate of 1.9%, which would equate to a 0% long term growth rate. Short term growth rate reduction of 1.9% to all incomes, which would equate to a 0% increase each period. Finally an increase on 1% to all discount rates.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

Sensitivity by CGU	Headroom Increase				Further Impairment to goodwill and assets (if applicable)		
	Carrying Value £m	Current Headroom £m	Long-Term Growth Rate 1.0% Increase £m	Discount Rate 1.0% Decrease £m	Long-Term Rate 1.9% Decrease £m	Discount Rate 1.0% Increase £m	Short-Term Growth Rate Income 1.9% Decrease £m
Ford	69.7	9.0	13.7	19.5	(10.2)	(6.6)	(34.1)
Vauxhall	35.2	1.0	7.0	9.8	(8.6)	(6.8)	(22.0)
BMW	-	15.5	5.4	7.6	-	-	-
Mercedes	-	51.2	5.7	8.1	-	-	-
Jaguar Land Rover	-	21.3	6.5	9.2	-	-	-
MINI	-	18.2	2.4	3.2	-	-	-
Citroen	3.5	-	1.6	2.1	(2.5)	(2.1)	(11.6)
Nissan	-	12.1	2.3	3.0	-	-	-
Car Store	-	-	-	-	-	-	-
Renault	11.9	7.4	3.4	4.5	-	-	(1.0)
Trucks	5.7	5.6	2.1	2.8	-	-	(0.7)
Others	24.3	319.9	29.8	40.6	-	-	-
<b>Total</b>	<b>150.3</b>	<b>461.2</b>					

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

Ford is the CGU with the largest carrying value of Goodwill (£69.7m) noted above. For an impairment to occur in the Ford CGU, there would have to be either: a reduction in the short term income growth rate of 0.4% or an increase in the pre-tax discount rate to 13.4%.

# 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
- Right of use assets - over the period of the lease
- 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 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>
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	(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>

# 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 2020	695.5	86.3	37.6	245.3	<b>1,064.7</b>
Additions	16.9	6.6	35.8	72.6	<b>131.9</b>
Disposals	(21.6)	(7.7)	(47.7)	-	<b>(77.0)</b>
Contract hire vehicles transferred to inventory	-	-	-	(87.5)	<b>(87.5)</b>
Classified as non-current assets held for sale	(5.4)	-	-	-	<b>(5.4)</b>
Reinstated from non-current assets held for sale	3.7	-	-	-	<b>3.7</b>
At 31 December 2020	689.1	85.2	25.7	230.4	<b>1,030.4</b>
<b>Depreciation</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>
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	(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>
At 1 January 2020	299.0	56.7	5.4	75.3	<b>436.4</b>
Charge for the year	25.6	8.0	6.1	40.9	<b>80.6</b>
Impairment	3.2	-	-	-	<b>3.2</b>
Disposals	(8.0)	(5.7)	(6.6)	-	<b>(20.3)</b>
Contract hire vehicles transferred to inventory	-	-	-	(43.2)	<b>(43.2)</b>
Classified as non-current assets held for sale	(0.5)	-	-	-	<b>(0.5)</b>
Reinstated from non-current assets held for sale	1.4	-	-	-	<b>1.4</b>
At 31 December 2020	320.7	59.0	4.9	73.0	<b>457.6</b>
<b>Carrying amounts</b>					
At 1 January 2019	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>
At 31 December 2020	368.4	26.2	20.8	157.4	<b>572.8</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
Assets leased out under operating leases					
Cost at 31 December 2020	18.2	-	-	230.4	<b>248.6</b>
Accumulated depreciation at 31 December 2020	(8.6)	-	-	(73.0)	<b>(81.6)</b>
Accumulated Impairment at 31 December 2020	(0.3)	-	-	-	<b>(0.3)</b>
Carrying value of assets leased out under operating leases at 31 December 2020	9.3	-	-	157.4	<b>166.7</b>

Property, plant and equipment includes right-of-use assets of £146.0m (see Note 4.7).

During the year two properties were re-classified as property, plant and equipment following decisions to withdraw them from sale. Both 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. One property was re-instated at its recoverable value having been previously impaired down to that value, the other being reinstated at its original carrying value less depreciation that would have been charged had the asset not been classified as held for sale. The depreciation adjustment was immaterial.

	2020 £m	2019 £m
Building projects currently under construction for which no depreciation has been charged during the year	<b>6.1</b>	19.6
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment	<b>22.4</b>	8.4
Cumulative interest charges capitalised as construction costs and included in land and buildings	<b>4.9</b>	4.4

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

	2020 £m	2019 £m
Depreciation of property, plant and equipment - leased	<b>19.0</b>	19.2
Depreciation of contract hire vehicles - leased	<b>40.9</b>	42.1
Depreciation of property, plant and equipment - owned	<b>20.7</b>	22.0

#### Cash flow statement information

Additions to property, plant, equipment and intangible assets:		
Additions to land and buildings	<b>(16.9)</b>	(37.8)
Additions to plant and equipment	<b>(6.6)</b>	(10.9)
Additions to motor vehicles	<b>(35.8)</b>	(62.8)
Additions to intangible assets (see note 3.1)	<b>(4.6)</b>	(4.8)
Total additions	<b>(63.9)</b>	(116.3)
Less additions of property, plant and equipment acquired under finance leases for which no cash flow arises (see note 4.7)	<b>9.3</b>	8.0
Cash flows relating to additions of property, plant and equipment made by the US disposal group disclosed within assets held for sale	<b>(5.6)</b>	(6.7)
Cash flows from investing activities in respect of additions to property, plant and equipment	<b>(60.2)</b>	(115.0)

Cash flows relating to the purchase of contract hire vehicles are disclosed within Movement in contract hire vehicle balances (see note 3.5).



# 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 sales of the Aston Martin business being concluded in July 2018, the sale of Jaguar Land Rover Mission Viejo and Newport Beach completed in 2019 and the sale of the Chevrolet business completed in the first half of 2020 for proceeds of £16.6m. The sale of the Jaguar Land Rover business in Los Angeles completed in January 2021 for proceeds of £16.3m. A further sale of the Jaguar Land Rover business in Santa Monica is expected to be completed during the first half of 2021. 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 2020 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.

	<b>2020</b>	2019
	<b>£m</b>	£m
Goodwill	-	6.2
Other intangible assets	-	0.1
Property, plant and equipment	<b>50.4</b>	61.7
Inventories	<b>31.2</b>	50.2
Trade and other receivables	<b>10.0</b>	19.1
Assets held for sale	<b>91.6</b>	137.3
Trade and other payables	<b>(67.3)</b>	(90.5)
Liabilities held for sale	<b>(67.3)</b>	(90.5)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

	<b>2020</b>	2019
	<b>£m</b>	£m
Exchange differences on translation of discontinued operation	-	(0.2)
Other comprehensive income from discontinued operation	-	(0.2)
	<b>2020</b>	2019
	<b>£m</b>	£m
Net cash from/(used in) operating activities	<b>4.6</b>	(43.7)
Net cash from investing activities	<b>11.4</b>	79.2
Net cash used in financing activities	<b>(43.0)</b>	(21.8)
Net cash (decrease)/increase generated by discontinued operation	<b>(27.0)</b>	13.7
Included within net cash used in financing activities for 2020 is £40.0m in respect of a dividend paid by the US company to its UK holding company.		
	<b>2020</b>	2019
	<b>pence</b>	pence
Basic earnings per share from discontinued operation	<b>(0.2)</b>	2.3
Underlying basic earnings per share from discontinued operation	<b>0.1</b>	0.6
Diluted earnings per share from discontinued operation	<b>(0.2)</b>	2.3

### Balance sheet

The Group has classified assets of the US motor business as held for sale as at 31 December 2020. These comprise of Intangible fixed assets, property, plant and equipment, inventories, trade and other receivables. 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 2021. 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:

	<b>2020</b>	2019
	<b>£m</b>	£m
Goodwill	-	6.2
Other intangible assets	-	0.1
Property, plant and equipment	<b>57.8</b>	74.5
Inventories	<b>31.2</b>	50.2
Trade and other receivables	<b>10.0</b>	19.1
	<b>99.0</b>	150.1

### Income statement

The following items have been credited/(charged) to the income statement during the year:	Income statement category	<b>2020</b>	2019
		<b>£m</b>	£m
(Loss)/profit on sale of assets classified as held for sale	Other income - (losses)/gains on the sale of businesses and property	<b>(4.0)</b>	32.9
Impairment of assets held for sale	Net operating expenses	<b>(0.8)</b>	(1.9)

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 (2019: £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. Costs incurred in bringing each product to its present location and condition are included and cost is based on price including delivery costs less specific trade discounts. Fair value reviews 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

	2020 £m	2019 £m
New and used vehicles	505.9	730.5
Consignment vehicles	81.7	79.5
Vehicle parts and other inventories	21.2	29.0
	<b>608.8</b>	839.0

	2020 £m	2019 £m
Inventories recognised as an expense during the year	2,535.0	3,977.8
Carrying value of inventories subject to retention of title clauses	544.2	726.4
Write-down of inventories to net realisable value	10.9	7.2

The key assumptions underpinning the net realisable value of UK used vehicle inventory are (i) the time to sell each vehicle; (ii) the expected sales price at the date of sale. If the average time to sell a vehicle is increased by 30 days then it would reduce the value of UK used vehicle inventory by £2.4m. If the expected sales price at the date of sale were to decrease by £500 per vehicle then it would reduce the value of UK used vehicle inventory by £4.5m (2019: 'if our assumptions were £500 per unit worse for used vehicles that expected to make a loss per unit' £2.4m) at the balance sheet date.

#### Cash flow statement information

	2020 £m	2019 <sup>1</sup> £m
Movement in inventory	230.2	120.6
Inventory changes in business combinations and disposals	-	(2.9)
Impact of exchange differences	0.3	0.5
Non cash movement in consignment vehicles	2.2	7.7
Classified as held for sale	17.8	11.5
Transfer value of contract hire vehicles from fixed assets to inventory	44.3	49.3
Cash flow decrease due to movements in inventory	<b>294.8</b>	186.7

<sup>1</sup> There was a typographic error in this note in the 2019 accounts that has now been corrected

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.5 Movement in contract hire vehicle balance

	2020 £m	2019 £m
Depreciation	40.9	42.1
Changes in trade and other payables and deferred income	(16.5)	13.3
Purchases of contract hire vehicles	(72.6)	(107.9)
Unwinding of discounts in contract hire residual values	(3.1)	(3.1)
	(51.3)	(55.6)

### 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

	<b>2020</b>	2019
	<b>£m</b>	£m
Trade receivables	<b>38.4</b>	42.4
Allowance for doubtful debts	<b>(0.4)</b>	(0.4)
	<b>38.0</b>	42.0
Accrued manufacturer rebate receivables	<b>17.8</b>	25.3
Other receivables	<b>36.7</b>	34.7
Prepayments	<b>2.1</b>	4.9
	<b>94.6</b>	106.9

All amounts are due within one year with the exception of £0.2m other receivables and 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 2020 was £40.6m (2019: £50.9m). This includes trade receivables that have been classified as held for sale of £2.6m (2019: £8.9m).

The average credit period taken on sales of goods is 29 days (2019: 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 £0.3m (2019: £0.6m).

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

	<b>Trade receivables</b>	<b>Manufacturer bonus receivables</b>	<b>Other receivables</b>	Trade receivables	Manufacturer bonus receivables	Other receivables
	<b>2020</b>	<b>2020</b>	<b>2020</b>	2019	2019	2019
	<b>£m</b>	<b>£m</b>	<b>£m</b>	£m	£m	£m
Not past due	<b>25.0</b>	<b>13.7</b>	<b>32.1</b>	28.6	17.4	33.9
Past due 0-30 days	<b>10.4</b>	<b>2.3</b>	<b>2.5</b>	9.7	4.4	0.5
Past due 31-120 days	<b>1.6</b>	<b>1.8</b>	<b>2.1</b>	3.4	3.5	0.3
Past due 120+ days	<b>1.4</b>	-	-	0.7	-	-
	<b>38.4</b>	<b>17.8</b>	<b>36.7</b>	42.4	25.3	34.7
Provision for impairment	<b>(0.4)</b>	-	-	(0.4)	-	-
	<b>38.0</b>	<b>17.8</b>	<b>36.7</b>	42.0	25.3	34.7

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.6 Trade and other receivables *continued*

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

	2020 £m	2019 £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	0.4	0.4

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

#### 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.

	2020 £m	2019 £m
Non-current	16.6	20.6
Current	2.0	2.4
	18.6	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

	2020 £m	2019 £m
Trade payables	589.4	843.1
Contract hire buyback commitments	81.0	88.1
Consignment vehicle liabilities	81.7	79.5
Payments received on account	21.6	18.7
Other taxation and social security	36.9	25.8
Accruals	84.7	89.8
	<b>895.3</b>	1,145.0
Non-current	60.4	60.4
Current	834.9	1,084.6
	<b>895.3</b>	1,145.0

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.8 Deferred income

#### 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.

	Warranty policies £m	Contract hire £m	Total £m
At 1 January 2020	19.4	78.1	<b>97.5</b>
Created in the year	14.6	31.5	<b>46.1</b>
Recognised as income during the year	(11.9)	(40.9)	<b>(52.8)</b>
Recognised as income and utilised against warranty claims	(7.1)	-	<b>(7.1)</b>
At 31 December 2020	15.0	68.7	<b>83.7</b>
Non-current	4.8	36.0	<b>40.8</b>
Current	10.2	32.7	<b>42.9</b>
	15.0	68.7	<b>83.7</b>
Recognition of opening balance as at 31 December 2019			
Recognised during the year	14.0	36.9	<b>50.9</b>
Carried forward at 31 December 2020	5.4	41.2	<b>46.6</b>
	19.4	78.1	<b>97.5</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 2020 or 31 December 2019 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	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	92.5
Finance lease receivables	Amortised cost	18.6
Cash and cash equivalents	Amortised cost	56.0

#### 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>2020</b>	2019
	<b>£m</b>	£m
Cash and cash equivalents	<b>56.0</b>	55.7
Non-current interest bearing loans and borrowings	<b>(156.4)</b>	(175.4)
	<b>(100.4)</b>	(119.7)

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</b>	Carrying value and fair value
	<b>2020</b>	2019
	<b>£m</b>	£m
Bank balances and cash equivalents	<b>56.0</b>	55.7

#### Borrowings

As at 31 December 2020, the Group had a £175m credit facility and a £60m senior note, expiring as set out below:

	Expiry Date	<b>£m</b>
Revolving credit facility	March 2022	<b>175.0</b>
Senior note	March 2023	<b>60.0</b>
		<b>235.0</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 £240.0m 5 year committed bank facility and a £60.0m 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 and as at 31 December 2020 it was fully amortised, the remaining £0.1m as at 31 December 2019 being amortised during the year. In March 2020, the Revolving credit facility was extended for a further year to March 2022 incurring fees and costs of £1.8m to be amortised over the expected life of the facility. At 31 December 2020, £1.35m had been amortised and £0.45m remains to be amortised in future periods.

	Current margin	Commitment (non-utilisation) fee
Revolving credit facility	2.50%	0.88%
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), measured on a rolling twelve month basis every quarter, plus increasing margin uplifts on a quarterly basis. At 31 December 2020, the margin was 1.75%, consequent on the Group having achieved a ratio of under 0.5 for the twelve month period ended 30 September 2020, plus cumulative quarterly uplifts of a further 0.75%. 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 leverage and fixed charge cover. The Group complied with these covenants during the period.

The leverage covenant is calculated at the ratio of net debt to underlying profit before tax, depreciation, amortisation and finance charges (excluding vehicle stocking plan interest charges disclosed in note 4.3) calculated on an IAS 17 basis. This ratio can not exceed 3.00 times. At 31 December 2020 the ratio was 1.36 times.

The fixed charge cover covenant is calculated as the ratio of underlying profit before tax, depreciation, amortisation and finance charges (excluding vehicle stocking plan interest charges disclosed in note 4.3) calculated on an IAS 17 basis plus rent paid to finance charges (excluding vehicle stocking plan interest charges disclosed in note 4.3) plus rent paid. This ratio must exceed 1.60 times. At 31 December 2020 the ratio was 2.46 times.

#### 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 2 March 2021 the maturity of the revolving credit facility has been extended to 1 March 2023. The margin uplift mechanism has been replaced by a flat margin of 4.85%, increasing to 6.00% by 1 October 2021 and by a further 0.25% each quarter commencing 1 January 2023.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### Summary of borrowings

	Carrying value 2020 £m	Fair value 2020 £m	Carrying value 2019 £m	Fair value 2019 £m
Non-current:				
Bank borrowings	96.2	96.2	115.2	115.2
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	218.7	218.7	237.8	237.8
Total non-current	375.1	375.1	413.2	413.2
Finance leases	24.5	24.5	23.9	23.9
Total current	24.5	24.5	23.9	23.9
Total borrowings	399.6	399.6	437.1	437.1

# 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 2020	175.4	261.7	69.9	74.0	25.0	<b>640.8</b>
<b>Cash flows from financing activities</b>						
Payment of lease liabilities	-	(23.6)	-	-	-	<b>(23.6)</b>
Repayment of loans	(40.0)	-	-	-	-	<b>(40.0)</b>
Proceeds from issue of loans	18.2	-	-	-	-	<b>18.2</b>
	(21.8)	(23.6)	-	-	-	<b>(45.4)</b>
Other changes						
The effect of changes in foreign exchange rates	1.3	-	-	-	-	<b>1.3</b>
New finance leases undertaken - non cash	-	9.3	-	-	-	<b>9.3</b>
Disposal of finance leases - non cash	-	(4.3)	-	-	-	<b>(4.3)</b>
Liability-related : Lease expenses - non cash	-	0.1	-	-	-	<b>0.1</b>
Liability-related : Amortisation of fees and expenses	1.5	-	-	-	-	<b>1.5</b>
Equity-related : Total other changes	-	-	-	-	(42.2)	<b>(42.2)</b>
At 31 December 2020	156.4	243.2	69.9	74.0	(17.2)	<b>526.3</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.

# 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 2020 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	56.0	Amortised cost	Floating GBP	0.70% - 2.11%	6 months or less
<b>Borrowings</b>						
Non - current:						
Bank borrowings	Other financial liabilities	59.6	Amortised cost	Floating GBP	2.45% - 2.82%	6 months or less
Bank borrowings	Other financial liabilities	36.6	Amortised cost	Floating USD	2.55% - 3.60%	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	218.7	Amortised cost	Fixed GBP	1.91% - 8.00%	n/a
Total non-current		375.1				
Finance leases	Other financial liabilities	24.5	Amortised cost	Fixed GBP	1.91% - 8.00%	n/a
Total current		24.5				
Total borrowings		399.6				

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

	2020 £m	2019 £m
Pound sterling	363.0	361.7
US dollar	36.6	75.4
	399.6	437.1

### 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>2020</b>	2019
	<b>£m</b>	£m
Between 1 and 2 years	<b>96.2</b>	115.2
Between 2 and 5 years	<b>60.2</b>	60.2
	<b>156.4</b>	175.4

Maturities include amounts drawn under revolving credit facilities which are contractually repayable generally within a month of the year end but which may be redrawn at the Group's option. The maturities above therefore represent the final repayment dates for these facilities. If the amounts drawn at the year end were redrawn at the Group's usual practice of monthly drawings, the total cash outflows associated with all borrowings, assuming interest rates remain at the same rates as at the year end, are estimated on an undiscounted basis as follows:

	Carrying amount	Contractual cashflows	Within 6 months	6 - 12 months	1-2 years	2-5 years	over 5 years
Bank borrowings	96.2	99.2	1.2	1.2	96.8	-	-
Senior note	60.0	67.8	1.7	1.7	3.5	60.9	-
Loan notes	0.2	0.4	-	-	-	0.4	-
	156.4	167.4	2.9	2.9	100.3	61.3	-
Finance leases	243.2	349.3	18.8	18.2	35.9	99.0	177.4
Trade payables (including vehicle stocking credit lines)	589.4	596.0	373.3	222.7	-	-	-
	989.0	1,112.7	395.0	243.8	136.2	160.3	177.4

The Group has the following undrawn borrowing facilities:

	<b>2020</b>	2019
	<b>£m</b>	£m
Expiring in 1-2 years	<b>78.8</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 £60.0m 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) 2020 £m</b>	Profit/(loss) 2019 £m
100 basis points increase	<b>(4.5)</b>	(4.7)
Tax effect	<b>0.9</b>	0.9
Effect on net assets	<b>(3.6)</b>	(3.8)
100 basis points decrease	<b>4.5</b>	4.7
Tax effect	<b>(0.9)</b>	(0.9)
Effect on net assets	<b>3.6</b>	3.8

#### 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. With several US assets disposed of during the year, the hedging requirement has decreased. The Group has therefore borrowed USD 50.0m (2019: USD 100.0m) 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.

	2020 \$m	2019 \$m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	50.0	100.0
	£m	£m
Foreign exchange (losses)/gains on translation of borrowings to sterling at balance sheet date	(1.3)	3.0
Foreign exchange gains/(losses) on translation of net investments to sterling at balance sheet date	1.3	(3.2)
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:

	2020 £m	2019 £m
Manufacturer finance arm	360.8	474.7
Third party stock finance	183.4	280.7
Bank	64.6	83.6
Total inventories	608.8	839.0

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. The maturity analysis on page 152 includes stock finance facilities.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The third party stock facilities have prescribed limits and can be used to fund virtually any vehicle. Any undrawn amount is therefore directly relatable to the ability of the Group to increase inventory and fund it accordingly. Undrawn third party stock finance facilities at 31 December 2020 amounted to £147.0m (2019: £47.0m). In contrast, manufacturer limits vary with the manufacturer's requirements (depending on the amount of stocks each manufacturer wishes to put into the network, which varies depending on the time of year and level of production) and are therefore not directly related to the Group's liquidity: it is therefore not appropriate to quote an undrawn facility.

The key contractual terms of the facilities (both manufacturer and third party) are:

- The facilities are usually structured as an agency to purchase vehicles on behalf of the funder.
- Those vehicles are immediately sold back to Pendragon on deferred payment terms.
- Legal title to the vehicles thus remains with the funder as the funder has purchased the vehicles (via the dealer as agent) and has an unpaid invoice (either in part or in full) outstanding from Pendragon.
- The unpaid invoice is therefore trade credit and is accounted for as a trade payable in the financial statements.
- The payment terms for the invoice vary with the type of vehicle.
  - A new vehicle invoice typically requires no upfront deposit payment (a new i.e. unregistered vehicle, does not depreciate) and remains outstanding for varying periods up to 360 days.
  - A used vehicle invoice typically requires an immediate payment of c.10% i.e. so that the effective "loan to value" given for the vehicle is c.90%. As a used vehicle depreciates with age and mileage, periodic instalment payments might also be required, for example 2% per month or 10% at day 90.
- Interest is payable in respect of the unpaid invoice. Most new vehicle invoices from manufacturers have an interest free period followed by commercial rates of interest. Interest rates from third party stock funders are at a commercial rate from the start.

Payment of any outstanding amounts is due on the earlier of the sale of the vehicle by Pendragon to a customer, or upon the expiry of a pre-determined maturity period. The maturity period varies by funder and by type of vehicle but is up to 360 days in respect of new vehicles and 330 days in respect of used vehicles.

Manufacturer facility agreements are tied to the franchise agreement i.e. for as long as the franchise agreement is operational the manufacturer will provide funding facilities to enable the franchisee to sell the product. Other than that, the normal provisions regarding immediate termination due to an insolvency event or change of control would apply.

Third party facility agreements are uncommitted and can be terminated immediately upon default or upon written notice by either party; those notice periods vary by agreement but can be from 30-120 days. In practice, if notice is given, no new contracts for funding individual vehicles would be entered into by the funding partner and the facility in respect of each individual vehicle would be paid down over time as normal i.e. on the earlier of the normal maturity of the facility for a particular vehicle or upon sale of the vehicle to a customer. Despite the uncommitted nature of the agreements, most relationships with funders are of a long standing nature. All of the Group's stock funding partners were supportive during the period's Covid closures, by suspending payments due on their respective facilities.

# 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 2020 comprises:

	2020 £m	2019 £m
Net debt	100.4	119.7
Finance lease liabilities	218.7	237.8
Stock finance	544.2	755.4
Pension deficit	75.5	59.0
	<b>938.8</b>	1,171.9

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 and to service its debt requirements through generating cash flow. The Group uses a leverage ratio based on net debt : underlying EBITDA ratio as key indicator of its capital management. At 31 December 2020 the leverage ratio achieved was 0.8 : 1, calculated as follows:

	2020 £m	2019 £m
Underlying operating profit	45.9	26.7
Depreciation	80.6	83.3
Amortisation	3.9	3.5
Underlying EBITDA	130.4	113.5
Net debt (being net debt as set out above)	100.4	119.7
Leverage ratio	0.8	1.1

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2020 and 2019 are set out below:

	2020	2019
Underlying profit/(loss) before tax (£m)	<b>8.2</b>	(16.4)
Underlying earnings per share (p)	<b>0.6</b>	(1.2)
Net debt : underlying EBITDA	<b>0.8</b>	1.1

The Group's capital structure and capital allocation priorities were reassessed during 2020 as part of the determination of the Group's strategy for the next five years. That strategy shall require investment to grow the used car non-franchise business, to develop Pinewood's offering and to maintain and improve the UK Motor franchise business. The previously instigated strategy to dispose of the US Motor business to realise its value of approximately £100m before tax, is nearly complete. In total to date, total disposal proceeds of £95.1m have been received (including £16.3m received in January 2021). One business remains to be sold.

The Group believes that it will continue to generate strong cash flows and shall be developing a funding strategy during 2021 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	2020 £m	2019 £m
Interest payable on bank borrowings, Senior note and loan notes	8.5	8.2
Vehicle stocking plan interest	13.6	19.3
Interest payable on finance leases	14.0	14.4
Net interest on pension scheme obligations (non-underlying - see note 2.6)	1.1	1.8
Less: interest capitalised	(0.5)	(0.8)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	36.7	42.9
Unwinding of discounts in contract hire residual values	3.1	3.1
Total finance expense	39.8	46.0

Interest of £0.5m has been capitalised during the year on assets under construction at an average rate of 5.75% (2019: £0.8m).

#### Finance income

Recognised in profit and loss	2020 £m	2019 £m
Interest receivable on finance leases	1.0	1.1
Interest on settlement of historic VAT issues	-	1.9
Total finance income	1.0	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 2019 and 31 December 2020	1,396,944,404	69.9

There were no issues of ordinary shares during the year.

During the previous year, 2,204,621 ordinary shares having a nominal value of £0.1m were bought back and subsequently cancelled 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 2020, 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 made no transactions during 2020 and anticipate that no further transactions will be made during 2021.

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. There were no transfers into the capital redemption reserve during the year in respect of shares purchased by the Group and subsequently cancelled (2019: £0.1m).

#### 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 2020 was £0.8m (2019: £0.8m), being 6.4m (2019: 6.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2019: £0.33). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2020 was £18.1m (2019: £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 68 to 82.

# 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.

	<b>2020</b>	2019
	<b>£m</b>	£m
Ordinary shares		
Final dividend in respect of 2019 of nil per share (2018: 0.7p per share)	-	9.7
	-	9.7

The Board is not recommending the payment of a final dividend for 2020 (2019: nil).



# 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 2020	Number of options millions 2020	Weighted average exercise price 2019	Number of options millions 2019
Outstanding at beginning of period	23.1p	5.2	23.6p	5.5
Exercised during the period	-	-	0.0p	-
Lapsed during the period	5.0p	(0.6)	31.8p	(0.3)
Outstanding at the end of the period	24.0p	4.6	23.1p	5.2
Exercisable at the end of the period	24.0p	4.6	23.1p	5.2

The options outstanding at 31 December 2020 have an exercise price in the range of 8.82p to 31.82p and a weighted contractual life of 2.7 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 2020 were as follows:

Exercise period	Date of grant	Exercise price per share	At 31 December 2019 Number	Exercised Number	Lapsed Number	At 31 December 2020 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	-	(100,000)	1,000,000
19 September 2017 to 19 September 2024	18 September 2014	31.82p	2,879,500	-	(50,000)	2,829,500
			5,173,795	-	(585,977)	4,587,818

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 or previous year.

All options are settled by physical delivery of shares.

# NOTES TO THE FINANCIAL STATEMENTS

## 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 2020 is 6.4p (2019: 6.4p).

#### Executive Long Term Incentive Plan (“LTIPs”)

The number and weighted average exercise prices of executive LTIPs is as follows:

	<b>Weighted average exercise price 2020</b>	<b>Number of options millions 2020</b>	Weighted average exercise price 2019	Number of options millions 2019
Granted during the period	<b>0.00p</b>	<b>27.6</b>	-	-
Outstanding at the end of the period	<b>0.00p</b>	<b>27.6</b>	-	-

Movements in the number of options to acquire ordinary shares under the Group’s LTIP, together with the outstanding position at 31 December 2020 were as follows:

Exercise period	Date of grant	At 31 December 2019 Number	Granted Number	<b>At 31 December 2020 Number</b>
27 October 2023	28 October 2020	-	27,648,123	<b>27,648,123</b>

All grants of LTIPs were issued pursuant to the Long Term Incentive Plan, which prescribed an earnings per share performance criterion. It is a pre-condition that vesting will not occur if earnings per share growth in the three year performance period does not exceed RPI by at least 4 percent. All is subject to an underpin of creating absolute total shareholder value. In the case of the Company, this means that growth in the value of a shareholding in the Company must exceed the growth in the value of shares in the comparator index the Company is in, currently the FTSE 350.

Executive bonuses relating to performance in the second half of 2020 will be granted in the form of deferred share awards that will vest one year after grant date. They automatically convert into one ordinary share each on vesting at an exercise price of nil. The executives do not receive any dividends and are not entitled to vote in relation to the deferred shares during the vesting period.

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 number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised. The fair value of the services received in return for the LTIPs is measured by reference to the fair value of the LTIPs granted. The estimate of the fair value of the services received in respect of the LTIPs is measured using the Black-Scholes option pricing model. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2020 is 14.08p.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation *continued*

<b>Executive LTIP Scheme</b>	<b>2020</b>	<b>2019</b>
Number of share options granted in year	<b>27,648,123</b>	-
Weighted average share price (pence)	<b>0.00</b>	-
Weighted average exercise price (pence)	<b>0.00</b>	-
Weighted average fair value (pence)	<b>14.08</b>	-
Expected volatility (%)	<b>58.6%</b>	-
Expected life (years)	<b>2.3</b>	-
Risk free rate (%)	<b>-6.3%</b>	-
Expected dividend yield (%)	<b>0.0%</b>	-

Expected volatility was determined by calculating the historical volatility of the Group's share price over the corresponding historical period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and team member turnover.

#### **Value Creation Plan ("VCP")**

A VCP award was granted as 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 holders 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 holder's percentage entitlement to growth in value below. The VCP ended on 31 December 2020 and the conditions were not satisfied so the award lapsed at this date. No VCP awards were made in 2020.

Movements in the number of options to acquire ordinary shares under the Group's VCP, together with the outstanding position at 31 December 2020 were as follows:

Exercise period	Date of grant	At 31		<b>At 31 December 2020 Number</b>
		December 2019 Number	Lapsed Number	
31 December 2020	26 May 2017	5,977,001	(5,977,001)	-

#### **Income statement**

The Group recognised a total net expense of £1.2m (2019: £0.7m) as an employee benefit cost in respect of all equity-settled share based payment transactions included within administration costs.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Leases

#### Accounting policies

##### Leases as a Lessee

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.

Sale and leaseback transactions. When a transfer of an asset is made and it is deemed a sale in accordance with IFRS15, the resulting right-of-use asset arising from the leaseback is measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Gain or loss is recognised only at the amount that relates to the rights transferred to the buyer-lessor.

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

#### 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 2020 property leases had an average of around 11 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>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>
<b>Balance at 1 January 2020</b>	158.7	-	0.5	<b>159.2</b>
Additions to right of use assets	8.9	-	0.4	<b>9.3</b>
Depreciation charge	(18.5)	-	(0.5)	<b>(19.0)</b>
Impairment	(3.2)	-	-	<b>(3.2)</b>
Other disposals of right of use assets	(0.3)	-	-	<b>(0.3)</b>
<b>Balance at 31 December 2020</b>	145.6	-	0.4	<b>146.0</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*

#### Lease liabilities

	Land & buildings £m	Plant & Equipment £m	Motor vehicles £m	Total £m	Included within liabilities associated with the assets held for sale £m
<b>Balance at 1 January 2019</b>	(280.7)	-	(0.5)	<b>(281.2)</b>	(39.4)
Additions to right of use assets	(8.0)	-	(0.4)	<b>(8.4)</b>	-
Interest expense related to lease liabilities	(13.6)	-	-	<b>(13.6)</b>	(0.8)
Interest expense related to lease liabilities capitalised	-	-	-	-	(1.8)
Disposals of lease liabilities	4.2	-	-	<b>4.2</b>	-
Repayment of lease liabilities (including interest element)	37.0	-	0.4	<b>37.4</b>	5.8
Exchange adjustments	-	-	-	-	1.4
Other movements	(0.1)	-	-	<b>(0.1)</b>	-
<b>Balance at 31 December 2019</b>	(261.2)	-	(0.5)	<b>(261.7)</b>	(34.8)
Non-current	(237.8)	-	-	<b>(237.8)</b>	
Current	(23.4)	-	(0.5)	<b>(23.9)</b>	
<b>Balance at 31 December 2019</b>	(261.2)	-	(0.5)	<b>(261.7)</b>	
<b>Balance at 1 January 2020</b>	(261.2)	-	(0.5)	<b>(261.7)</b>	(34.8)
Additions to right of use assets	(8.9)	-	(0.4)	<b>(9.3)</b>	-
Interest expense related to lease liabilities	(13.3)	-	-	<b>(13.3)</b>	(0.7)
Interest expense related to lease liabilities capitalised	-	-	-	-	(1.7)
Disposals of lease liabilities	4.3	-	-	<b>4.3</b>	-
Repayment of lease liabilities (including interest element)	36.5	-	0.4	<b>36.9</b>	5.8
Exchange adjustments	-	-	-	-	0.8
Other movements	(0.1)	-	-	<b>(0.1)</b>	-
<b>Balance at 31 December 2020</b>	(242.7)	-	(0.5)	<b>(243.2)</b>	(30.6)
Non-current	(218.7)	-	-	<b>(218.7)</b>	
Current	(24.0)	-	(0.5)	<b>(24.5)</b>	
<b>Balance at 31 December 2020</b>	(242.7)	-	(0.5)	<b>(243.2)</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.

Future increases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately 16.5% (2019: 17.1%) of the Group's lease liabilities are subject to inflation linked rentals. Rental changes linked to inflation or rent reviews typically occur on an annual basis.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

Other future possible cash outflows not included in the lease liability include the payment of dilapidations in respect of properties where the lease contains specific condition of return clauses. Whilst the Group endeavours to maintain its properties to a high standard it is likely that such payments will be made in the future when lease contacts end.

#### Amounts recognised in profit or loss

	2020 £m	2019 £m
Depreciation of right of use assets	19.0	19.2
Impairment of right of use assets (non-underlying)	3.2	23.3
Interest on lease liabilities	14.0	14.4
Loss on sale and leaseback transaction	2.4	-
Expense relating to variable lease payments not included in lease liabilities	1.4	0.2
Expenses relating to low value leases	0.1	-
Expenses relating to short term leases	6.8	3.6

Expense relating to variable lease payments not included in lease liabilities relate to the payment of dilapidation claims made on properties.

During the year the Group completed a sale and leaseback transaction of a motor vehicle dealership property that was built and developed by the Group. The transaction resulted in proceeds of £10.5m and a loss on sale of £2.4m which was recognised immediately in the income statement as a result of the previous property carrying amount being more than the sale price (established at fair value) at the point of leaseback. The lease is for a term of 15 years and has resulted in a right of use asset addition and an increase in lease liabilities of £5.9m. The transaction is in line with the Group's ambition to focus its resources on generating returns through its motor businesses whilst ensuring the property remains available to Pendragon.

#### The Group as lessor

##### Leases as a Lessor

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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

#### Balance Sheet

#### Lease receivables

<b>Land and buildings</b>	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Balance at 1 January 2020</b>	<b>23.0</b>	24.7
Additions to lease receivables	<b>0.2</b>	0.5
Interest income related to lease receivables	<b>1.0</b>	1.1
Disposals of lease liabilities	<b>(2.7)</b>	-
Payment of lease receivables (including interest element)	<b>(2.9)</b>	(3.3)
<b>Balance at 31 December 2020</b>	<b>18.6</b>	23.0
Non-current	<b>16.6</b>	20.6
Current	<b>2.0</b>	2.4
	<b>18.6</b>	23.0

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

	<b>2020</b>	2019
	<b>£m</b>	£m
Less than one year	<b>3.0</b>	3.6
Between one and two years	<b>3.0</b>	3.7
Between two and three years	<b>3.0</b>	3.6
Between three and four years	<b>2.8</b>	3.6
Between four and five years	<b>2.0</b>	3.4
More than five years	<b>9.9</b>	15.0
Total undiscounted lease receivable	<b>23.7</b>	32.9
Unearned finance income	<b>(5.1)</b>	(9.9)
	<b>18.6</b>	23.0



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Obligations under finance leases *continued*

At the 31 December 2020 balance sheet date, the Group had contracted with tenants for the following future minimum lease payments on leases classified as operating leases.

	2020 Property	2019 Property
Less than one year	1.1	1.1
Between one and two years	0.9	0.9
Between two and three years	0.8	0.6
Between three and four years	0.7	0.4
Between four and five years	0.7	0.4
More than five years	3.4	2.3
	<b>7.6</b>	5.7

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

### Amounts recognised in profit or loss

	2020 £m	2019 £m
Operating lease rentals received	1.2	1.9
Interest received on finance lease receivables	1.0	1.1
	<b>2.2</b>	3.0

# 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 2020 to the Legal & General arrangement were £2.4m (2019: £2.8m). 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 2020 were £5.0m (2019: £8.7m). The combined contributions to the Group's Personal Pension arrangement (including the US Motor business) and the Peoples Pension scheme therefore totalled £7.4m in the period (2019: £11.6m).

# 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, who 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.

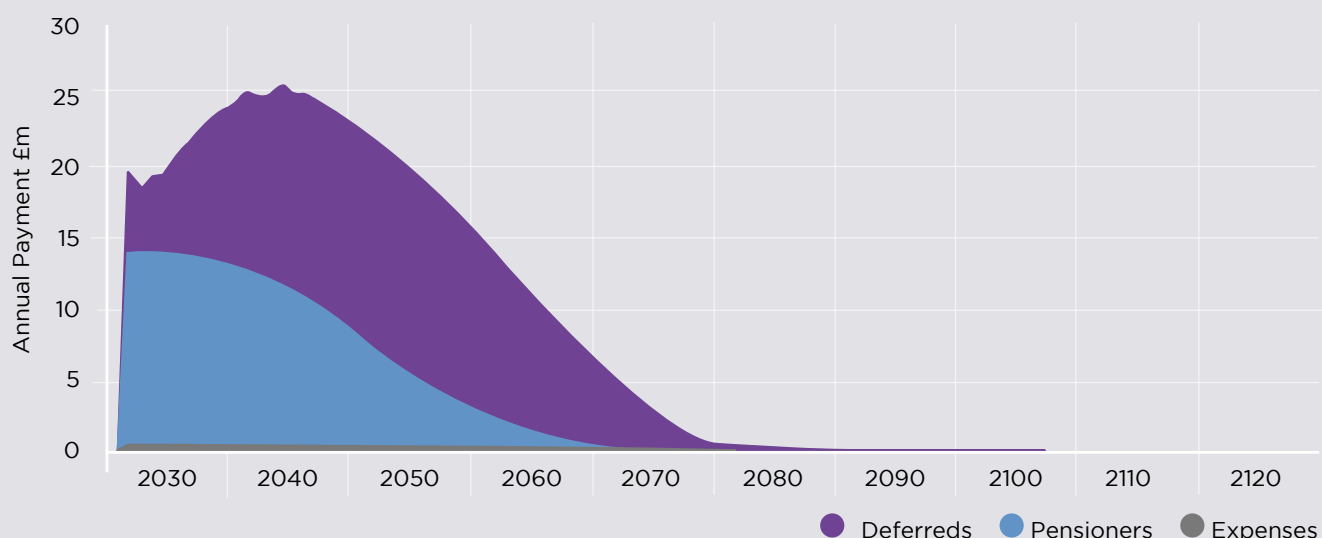
Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2020 there was an outstanding balance of £0.9m (2019: £0.9m)

#### 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 2020; 'Pensioners' are those in receipt of pension at 31 December 2020.

The actual total cash liabilities shown above are estimated at £747m. The value of these liabilities discounted to present value at 31 December 2020 are £599.1m.

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 £37.4m (with a most recent market valuation of £43.5m), 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 (2019: £3.0m) 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 2018 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 2020 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:

	2020	2019	2018
Inflation - RPI	<b>3.05%</b>	2.85%	3.25%
Inflation - CPI	<b>2.55%</b>	2.05%	2.25%
Discount rate	<b>1.40%</b>	2.05%	2.85%
Mortality table assumption *	<b>VitaCurves CMI 2019 M (1%) / VitaCurves CMI 2019 F (1%)</b>	VitaCurves CMI 2018 M (1%) / VitaCurves CMI 2018 F (1%)	VitaCurves CMI 2017 M (1%) / VitaCurves CMI 2017 F (1%)

\*The mortality table assumption implies the following expected future lifetime from age 65:

	2020 Years	2019 Years	2018 Years
Males aged 45	<b>22.1</b>	22.6	22.8
Females aged 45	<b>24.2</b>	24.7	24.9
Males aged 65	<b>21.1</b>	21.2	21.8
Females aged 65	<b>23.0</b>	23.1	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 outcome of the formal consultation on the proposed changes to RPI was announced on 25 November 2020 and confirmed that RPI will match CPI including Housing (CPIH) from 2030. CPIH is essentially the same as CPI but with an allowance for owner occupied housing. In the past, on average over the long term, CPIH has been almost the same as CPI inflation, and is expected to be materially lower than RPI. The assumptions use a single break-even RPI inflation rate which, when applied to the projected benefit cashflows underlying a pension scheme with a 16 year duration, would give broadly the same result as applying the full Bank of England inflation curve to the same cashflows. For the reporting period ending 31 December 2019 an RPI inflation assumption of 2.85% p.a. was used, which included an inflation-risk premium deduction of 0.4% p.a. to the break-even inflation rate, to reflect the likelihood of change in the longer term i.e. the RPI inflation assumption was 3.25% before the premium. On balance, it is reasonable to assume that RPI reform is now priced into the market implied RPI curve, such that the temporary adjustment to the inflation risk premium for RPI reform at 31 December 2019 can now be removed. The assumptions therefore make no change to the base derivation of the break-even RPI assumption (i.e. 3.25%), but revert to adjusting the gilt market-implied RPI rate at 31 December 2020 by an inflation risk premium of 0.2% p.a., which reflects a general allowance for the inflation risk premium within the inflation curve. This results in an RPI inflation assumption of 3.05% p.a. as at 31 December 2020. The impact of this change is estimated to have increased liabilities by £10.0m.

At present there is no reliable indicator for market expectations of CPI inflation. Therefore, typical market practice is to make an adjustment to the RPI assumption which takes into account the expected differences between the two inflation

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

measures. On the assumption that the market implied RPI rate from 2030 fully reflects the anticipated future reforms, it would be consistent to assume that the gap between RPI and CPI from 2030 would be nil, and the RPI/CPI gap remains unchanged from previous estimates before 2030. For the previous reporting period, the CPI inflation assumption of 2.05% p.a. was derived as the RPI assumption less 0.8% p.a. This is equivalent to a long term RPI/CPI gap of 1.0% p.a. allowing for the higher deduction from the market implied RPI rate at 31 December 2019. The assumptions update the RPI/CPI gap to be an average of 0.50% p.a. which broadly reflects an average of a retention of a long term 1.0% p.a. assumed gap before 2030 and a 0% gap thereafter, suitably weighted to reflect the scheme's exposure to CPI liabilities. This results in a CPI inflation assumption of 2.55% p.a. for the reporting period ending 31 December 2020. The impact of changing this RPI "wedge" from the previous 0.8% p.a. to the current 0.5% p.a. is to increase the liabilities by approximately £6.0m.

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below. The Group regards these sensitivities as reasonably likely to occur.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease/increase of 3.9%
Rate of inflation	Increase/decrease by 0.25%	Increase/decrease of 2.0%
Mortality	Increase in life expectancy of 1 year	Increase by 3.4%

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 2020 is 16 years (2019: 16 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 100% of the liabilities (2019: 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. The scheme's assets can therefore be broadly subdivided into two categories: return-seeking assets which aim to achieve a level of growth to reduce the deficit and "protection seeking" assets, which comprise the LDI assets held to mitigate the changes in liabilities. There is further diversification within these individual categories, as further described below.

# 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:

<b>Scheme assets and liabilities</b>	<b>2020 £m</b>	2019 £m	2018 £m
UK equities	-	-	129.1
Overseas equities	<b>60.3</b>	106.3	1.9
Unit trust	-	-	13.2
Corporate bonds	<b>91.3</b>	87.6	-
Government bonds	-	-	-
Liability driven investments	<b>182.7</b>	115.4	58.9
Diversified growth fund	<b>153.4</b>	119.9	163.1
Cash	<b>35.9</b>	43.0	51.8
Fair value of scheme assets	<b>523.6</b>	472.2	418.0
Present value of funded defined benefit obligations	<b>(599.1)</b>	(531.2)	(486.3)
Net liability on the balance sheet	<b>(75.5)</b>	(59.0)	(68.3)

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 assets are held within pooled investment vehicles (where cash is invested in a quoted fund designed by the fund manager).

#### Investment risk

The pension scheme has exposure to a number of risks:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

Other price risk: this is the risk that the fair value of future cash flows of financial assets will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

#### Credit risk

The Scheme is subject to credit risk as it has credit fund exposure and has cash balances. The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the holdings in the pooled investment vehicles, and is indirectly exposed to credit risks arising on the financial instruments that make up the pooled investment vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

#### Currency risk

The Scheme's liabilities are denominated in sterling. The Scheme is exposed to currency risk because some of its investments are held in overseas markets. For example, the Scheme invests in pooled funds that hold overseas equities, global credit and also funds where the manager has discretion to hold overseas assets. The respective fund managers hedge all, or a proportion of, these risks back to sterling.

#### Interest rate risk and other price risk

The Scheme is subject to interest rate risk on the investments comprising of bonds and cash held through pooled vehicles and other price risk arises principally in relation to the Scheme's return-seeking portfolio which includes equities held in pooled investment vehicles. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

#### Fair value determination

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

Level 3: Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability

A summary of the risks and the fair value determination is set out in the table below:

	Interest rate risk £m	Other price risk £m	Other £m	Level 1 £m	Level 2 £m	Level 3 £m
LDI and cash	124.1	-	-	35.3	88.8	-
Credit funds	185.2	-	-	-	185.2	-
Equity	-	84.5	-	47.6	36.9	-
Private markets	-	-	79.6	-	55.5	24.1
DGF	-	-	49.5	-	49.5	-
	309.3	84.5	129.1	82.9	415.9	24.1
Being:						
Indirect - Bonds	274.0	-	-	-	274.0	-
Indirect - Cash	35.3	-	-	35.3	-	-
Indirect - equities	-	84.5	-	47.6	36.9	-
Indirect - multi-asset	-	-	129.1	-	105.0	24.1
	309.3	84.5	129.1	82.9	415.9	24.1

No specific risk is assigned to investment held in multi-asset pooled investment vehicles, as they are multi-asset by definition, and therefore the asset allocations within these funds, and the associated risk thereon, change frequently.

The Private markets investments have a level 3 valuation as they comprise investments in one fund invested in property.

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 2020 and at 31 December 2019.

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

	2020 £m	2019 £m
Net liability for defined benefit obligations at 1 January	(59.0)	(68.3)
Contributions received	12.5	7.6
(Expense)/income recognised in the income statement	(4.4)	3.0
Actuarial gains and losses recognised in the statement of other comprehensive income	(24.6)	(1.3)
Net liability for defined benefit obligations at 31 December	(75.5)	(59.0)

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

	2020 %	2019 %
Deferred plan participants	59	58
Retirees	41	42

	2020 £m	2019 £m
Actual return on assets	58.6	66.0
Expected contributions in following year	12.8	12.5

<b>Total in the income statement</b>	<b>2020 £m</b>	<b>2019 £m</b>
Net interest on obligation	1.1	1.8
Past service cost	3.3	(4.8)
	<b>4.4</b>	<b>(3.0)</b>

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

	2020 £m	2019 £m
Operating expenses	3.3	(4.8)
Finance costs	1.1	1.8

The expected discount rate as at 31 December 2020 was 1.40%. This compares to the discount rate of 2.05% used in the calculation of the interest income for the period ending 31 December 2019.

Based on the reported deficit of £75.5m at 31 December 2020 and the discount rate assumption of 2.05% the charge in 2021 is expected to be £1.1m.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

#### **Past service costs**

The High Court ruling in the Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others published in October 2018 held that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. Allowance was made in the benefit obligations at 31 December 2018 for the estimated impact, with a cost recorded as a benefit change in the Income Statement.

A further High Court ruling on 20 November 2020 in the Lloyds Bank Trustees' case extends the scope of the GMP equalisation to include previous transfer values paid from the scheme since 1990. An allowance for the estimated impact of this has been included in the benefit obligations at 31 December 2020 of £3.3m and similarly recorded as a past service cost in the Income Statement.

#### **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 of £4.8m arising was 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 was all recognised 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

	2020 £m	2019 £m
Cumulative amount at 1 January	(52.9)	(51.6)
Recognised during the period	(24.6)	(1.3)
Cumulative amount at 31 December	(77.5)	(52.9)

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

	2020 £m	2019 £m
Return on plan assets excluding interest income	50.0	54.3
Experience gain/(loss) on scheme liabilities	1.5	(5.1)
Changes in assumptions underlying the present value of scheme obligations	(76.1)	(50.5)
	(24.6)	(1.3)

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

	2020 £m	2019 £m
Opening present value of defined benefit obligation	531.2	486.3
Interest cost	10.7	13.5
Past service cost	3.3	(4.8)
Remeasurements:		
Experience adjustments	(1.5)	5.1
Actuarial gains due to changes in demographic assumptions	5.2	0.2
Actuarial (gains)/losses due to changes in financial assumptions	70.9	50.3
Benefits paid	(20.7)	(19.4)
Closing present value of defined benefit obligation	599.1	531.2

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

	2020 £m	2019 £m
Opening fair value of assets	472.2	418.0
Interest income	9.6	11.7
Return on plan assets, excluding interest income	50.0	54.3
Contributions by employer	12.5	7.6
Benefits paid	(20.7)	(19.4)
End of period	523.6	472.2

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

<b>History of experience adjustments</b>	<b>2020 £m</b>	2019 £m	2018 £m	2017 £m	2016 £m
Present value of defined benefit obligation	<b>599.1</b>	531.2	486.3	521.8	544.6
Fair value of scheme assets	<b>523.6</b>	472.2	418.0	459.0	441.4
Deficit in schemes	<b>75.5</b>	59.0	68.3	62.8	103.2
Experience adjustments on scheme liabilities:					
Amount	<b>74.6</b>	55.6	(37.9)	(7.4)	111.2
Percentage of scheme liabilities (%)	<b>12.5%</b>	10.5%	(7.8%)	(1.4%)	20.4%
Experience adjustments on scheme assets:					
Amount	<b>50.0</b>	54.3	(38.8)	28.4	49.9
Percentage of scheme liabilities (%)	<b>8.3%</b>	10.2%	(8.0%)	5.4%	9.2%

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 6 - OTHER NOTES

This section contains the notes and information relating to acquisitions and disposals and related party transactions:

6.1 Business disposals

6.2 Related party transactions

### 6.1 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 its Chevrolet business in California for net proceeds of £16.6m which resulted in a loss on disposal of £6.5m. The assets of the business were classified as part of a disposal group held for sale.

Net assets at the date of disposal:

	US Businesses £m	Net book value £m
Assets held for sale	23.1	23.1
Loss on sale of businesses	(6.5)	(6.5)
Proceeds on sale satisfied by cash and cash equivalents	16.6	16.6

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

During the previous year the Group disposed of six UK dealerships representing Jaguar and Land Rover and four US dealerships representing Jaguar and Land Rover for proceeds of £67.4m and realising a profit of £32.1m on disposal.

### 6.2 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 68 to 82.

Directors of the Group and their immediate relatives control 0.7459% of the ordinary shares of the Group.

During the year key management personnel compensation was as follows:

	2020 £m	2019 £m
Short term employee benefits	2.2	1.4
Post-employment benefits	0.1	0.1
Termination payments	-	1.4
Share based payments	1.1	0.6
	3.4	3.5

# COMPANY BALANCE SHEET


At 31 December 2020

	Notes	2020 £m	2019 £m
<b>Fixed assets</b>			
Investments	5	804.0	804.0
Loans to subsidiary undertakings		90.0	90.0
		<b>894.0</b>	894.0
<b>Current assets</b>			
Debtors (amounts due after more than one year:£15.1m)	6	41.2	38.0
		<b>41.2</b>	38.0
Creditors: amounts falling due within one year	7	(392.7)	(371.6)
		<b>(351.5)</b>	(333.6)
<b>Net current liabilities</b>			
Total assets less current liabilities		<b>542.5</b>	560.4
Creditors: amounts falling due after more than one year	8	(156.2)	(175.2)
Retirement benefit obligations		(75.4)	(59.0)
		<b>310.9</b>	326.2
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	11	69.9	69.9
Share premium account		56.8	56.8
Capital redemption reserve	11	5.6	5.6
Other reserves	11	13.9	13.9
Profit and loss account		164.7	180.0
		<b>310.9</b>	326.2
<b>Equity shareholders' funds</b>			

Approved by the Board of Directors on 24 March 2021 and signed on its behalf by:



**W Berman**  
Chief Executive



**M S Willis**  
Chief Finance Officer

Registered Company Number: 2304195

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

# COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Note	2020 £m	2019 £m
<b>Profit/(loss) for the year</b>		<b>0.8</b>	(31.4)
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement (losses) and gains		<b>(22.9)</b>	0.4
Income tax relating to defined benefit plan remeasurement (losses) and gains		<b>5.7</b>	0.2
<b>Other comprehensive income for the year, net of tax</b>		<b>(17.2)</b>	0.6
<b>Total comprehensive income for the year</b>		<b>(16.4)</b>	(30.8)

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

# COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	<b>Total £m</b>
<b>Balance at 1 January 2020</b>	69.9	56.8	5.6	13.9	180.0	<b>326.2</b>
Total comprehensive income for 2020						
Profit for the year	-	-	-	-	0.8	<b>0.8</b>
Other comprehensive income for the year, net of tax	-	-	-	-	(17.2)	<b>(17.2)</b>
Total comprehensive income for the year	-	-	-	-	(16.4)	<b>(16.4)</b>
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	-	1.1	<b>1.1</b>
Total contributions by and distributions to owners	-	-	-	-	1.1	<b>1.1</b>
Balance at 31 December 2020	69.9	56.8	5.6	13.9	164.7	<b>310.9</b>
<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						
Loss 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>
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>

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) Basis 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 the 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 103 to 104.

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.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 1 Accounting Policies *continued*

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
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. 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.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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## 1 Accounting Policies *continued*

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 units').

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** 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 profit after taxation attributable to the Company dealt with in its own accounts for the year ended 31 December 2020 is £0.8m (2019: loss £31.4m).

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 £164.7m (2019: £180.0m) which is stated after deducting the ESOT reserve of £18.2m (2019: £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 £3.4m (2019: £3.5m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 68 to 82.

The directors are the only employees of the Company.

## 4 Dividends

	2020 £m	2019 £m
Ordinary shares		
Final dividend in respect of 2019 of nil per share (2018: 0.7p per share)	-	9.7
	-	9.7

The Board is not recommending the payment of a final dividend for 2020 (2019: nil).

## 5 Investments

	Shares in subsidiary undertakings £m
<b>Cost</b>	
At 31 December 2019 and at 31 December 2020	<b>981.2</b>
<b>Impairment</b>	
At 31 December 2019 and at 31 December 2020	<b>(177.2)</b>
<b>Net book value</b>	
At 31 December 2019 and at 31 December 2020	<b>804.0</b>

In assessing the carrying value of investments in subsidiary undertakings, the Group has assessed the recoverable amount of each investment using the same methodology and assumptions that were used to derive the recoverable amounts of CGUs (which are allocated to the relevant subsidiary) that was undertaken as part of the goodwill impairment assessment; included the intercompany receivables and payables due between group entities and then assessed whether there were additional current assets, such as cash, which should be included in the Investment recoverable amount.

This assessment resulted in £nil provision for impairment for the year ended 31 December 2020 (2019: £108.4m) to the investment in subsidiary undertakings.

The calculation is sensitive to the key assumptions used in determining the recoverable amount of the CGUs that are then allocated to the investments in subsidiary undertakings (further details provided in note 3.1 of the Group financial statements). The directors and management have considered and assessed reasonably possible changes to the key assumptions as set out below.

	Long term growth rate 1.9% decrease £m	Discount rate 1.0% increase £m	Short term income growth rate 1.9% decrease £m
Provision for impairment of investments in subsidiary undertakings	(29.9)	(19.6)	(89.1)

# 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:

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.

**Incorporated in Great Britain** having a registered office at Loxley House, 2 Little Oak Drive, Annesley, Nottingham, NG15 0DR:

Alloy Racing Equipment Limited	Pendragon Automotive Services Limited *	Manchester Garages Limited
Bramall Quicks Dealerships Limited	Stratstone.com Limited	Merlin (Chatsworth) Limited
Car Store Limited	Pendragon Group Pension Trustees Limited *	Miles (Chesham) Limited
CD Bramall Dealerships Limited	Allens (Plymouth) Limited	Motors Direct Limited
Chatfields Limited	Andre Baldet Limited	Munn Holdings Limited
Derwent Vehicles Limited	Arena Auto Limited	Neville (EMV) Limited
Evans Halshaw Limited	Bletchley Motor Company Limited	Newport (Gwent) Motor Company Limited
National Fleet Solutions Limited	Bletchley Motor Contracts Limited	Oggelsby's Limited
Pendragon Vehicle Management Limited	Bletchley Motor Group Limited	P.J.Evans (Holdings) Limited
Pendragon Finance & Insurance Services Limited *	Bletchley Motor Rentals Limited	Paramount Cars Limited
Pendragon Management Services Limited	Bletchley Motors Car Sales Limited	Pendragon Company Car Finance Limited
Pendragon Motor Group Limited	Bramall Contracts Limited	Pendragon Demonstrator Finance Limited
Pendragon Premier Limited	Bridgegate Limited	Pendragon Demonstrator Finance November Limited
Pendragon Property Holdings Limited	Brightdart Limited	Pendragon Demonstrator Sales Limited
Pendragon Sabre Limited	Buist Manor Limited	Petrogate Properties Limited
Pinewood Technologies PLC *	C P Evinson Limited	Pinewood Computers Limited
Reg Vardy (MML) Limited	C.G.S.B Holdings Limited	Plumtree Motor Company Limited
Reg Vardy (VMC) Limited **	CD Bramall Motor Group Limited	Quicks (1997) Motor Holdings Limited
Reg Vardy Limited *	CD Bramall Pensions Limited	Quicks Finance Limited
Stratstone Limited	CD Bramall Pension Trustee Limited	Reades of Telford Limited
Stripestar Limited	Central Motor Company (Leicester) Limited	Regency Automotive Limited
Victoria (Bavaria) Limited	Charles Sidney Limited	Reg Vardy (AMC) Limited
Chatfields - Martin Walter Limited	Davies Holdings Limited	Reg Vardy (Property Management) Limited
Pendragon Group Services Limited *	Dunham & Haines Limited	Rudds Limited
Pendragon Overseas Limited *	Evans Halshaw (Cardiff) Limited	Skipper of Aintree Limited
Pendragon Stock Limited	Evans Halshaw (Dormants) Limited *	Skipper of Cheltenham Limited
Pendragon Stock Finance Limited	Evans Halshaw (Halifax) Limited	Skipper of Darlington Limited
Vardy Contract Motoring Limited	Evans Halshaw (Midlands) Limited	Skipper of Wakefield Limited
Vardy Marketing Limited	Evans Halshaw Group Pension Trustees Limited	Suresell Limited
Pendragon Limited Partner Limited *	Evans Halshaw Motor Holdings Limited	The Car and Van Store Limited
Bramall Quicks Limited	Executive Motors (Stevenage) Limited	The McGill Group Limited
Car Store.com Limited	Folletts Limited	The Skipper Group Limited
CD Bramall Limited *	G.E. Harper Limited	Tins Limited *
Stratstone Motor Holdings Limited *	Godfrey Davis (Trust) Limited	Trust Motors Limited
Petrogate Limited	Godfrey Davis Motor Group Limited	Trust Properties Limited
Reg Vardy (Property Management) Limited	Kingston Reconditioning Services Limited	Vertcell Limited
Reg Vardy (TMC) Limited	Lewcan Limited	Wayahead Fuel Services Limited
Reg Vardy (TMH) Limited	Manchester Garages (Cars) Limited	
Evans Halshaw.com Limited	Manchester Garages Holdings 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 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

	2020 £m	2019 £m
Amounts due within one year:		
Prepayments	26.1	27.5
	26.1	27.5
Amounts due after more than one year:		
Deferred tax (see note 9)	15.1	10.5
	15.1	10.5
	41.2	38.0

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

## 7 Creditors: amounts falling due within one year

	2020 £m	2019 £m
Amounts due to subsidiary undertakings	380.1	359.0
Bank loans and overdrafts	12.6	12.6
	392.7	371.6

Amounts due to subsidiary undertakings are repayable on demand but may remain outstanding indefinitely.

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

	2020 £m	2019 £m
Bank loans (repayable between one and two years)	96.2	115.2
5.75% Senior note 2023	60.0	60.0
	156.2	175.2

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>2020</b>	2019
	<b>£m</b>	£m
Deferred tax assets	<b>15.1</b>	10.5

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 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>
At 1 January 2020	10.1	0.4	<b>10.5</b>
(Charged)/credited to income statement	(1.4)	0.3	<b>(1.1)</b>
Credited to equity	5.7	-	<b>5.7</b>
At 31 December 2020	14.4	0.7	<b>15.1</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 2020 are fully disclosed above in note 4.6 of this report.

## 11 Called up share capital and reserves

	Number	<b>£m</b>
Allotted, called up and fully paid shares of 5p each at 31 December 2019 and at 31 December 2020	1,396,944,404	<b>69.9</b>

There were no issues of ordinary shares during the year.

During the previous year, 2,204,621 ordinary shares having a nominal value of £0.1m were bought back and subsequently cancelled 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 2020, 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 made no transactions during 2020 and anticipate that no further transactions will be made during 2021.

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 2020 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 2020 was £0.8m (2019: £0.8m), being 6.4m (2019: 6.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2019: £0.33). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2020 was £18.1m (2019: £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 68 to 82.

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. There were no transfers into the capital redemption reserve during the year in respect of shares purchased by the Group and subsequently cancelled (2019: £0.1m).

## **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 6.2 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 2021

24 March	date of this Report
24 March	preliminary announcement of 2020 results
19 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

	<b>2020</b> <b>IFRS 16</b> <b>£m</b>	2019 IFRS 16 £m	2018 IAS 17 £m	2017 IAS 17 £m	2016 IAS 17 £m
Revenue	<b>2,924.6</b>	4,506.1	4,627.0	4,739.1	4,537.0
Gross profit	<b>353.2</b>	472.7	550.5	552.9	559.6
Operating profit/(loss) before other income	<b>16.0</b>	(104.4)	(30.1)	91.5	100.1
(Loss)/profit before taxation	<b>(29.6)</b>	(114.1)	(44.4)	65.3	73.0
Basic earnings per share	<b>(1.8p)</b>	(8.4p)	(3.6p)	3.7p	3.8p
Net assets	<b>126.7</b>	168.9	345.6	425.4	372.8
Net borrowings (note 1)	<b>100.4</b>	119.7	126.1	124.1	79.6

## Other financial information

Underlying profit/(loss) before tax	<b>8.2</b>	(16.4)	47.8	60.4	75.4
Underlying earnings per share (note 4)	<b>0.6p</b>	(1.2p)	2.8p	3.3p	3.9p
Net debt : underlying EBITDA (note 6)	<b>0.8</b>	1.1	0.9	0.9	0.6
Gross margin	<b>12.1%</b>	10.5%	11.9%	11.7%	12.3%
Total operating margin (note 2)	<b>0.5%</b>	-2.3%	-0.7%	1.8%	2.2%
After tax return on equity (note 3)	<b>-16.7%</b>	-45.6%	-13.1%	13.4%	14.5%
Dividends per share (note 5)	-	-	1.5p	1.6p	1.5p
Dividend cover (times) (note 7)	-	-	2.0	2.4	2.7
Interest cover (times) (note 8)	<b>0.2</b>	(1.7)	(0.5)	3.5	3.7
Gearing (note 9)	<b>79.2%</b>	70.9%	36.5%	29.2%	24.6%

## Business summary

Number of franchise points	<b>146</b>	166	186	194	196
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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 the final dividend per share.

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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