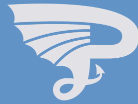

PENDRAGON

2021 ANNUAL REPORT

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CHAIRMAN'S STATEMENT

Ian Filby, Non-Executive Chairman

Since joining the Company as non-executive chairman in November 2021, I am delighted to be able to report a record underlying profit before tax of £83.0m, reflective of the positive contributions made by all parts of our business. Our associates have clearly played a vital role in our success, and I would like to thank them for their energy and input as we continue to implement and deliver our strategy.

Effective and strong governance remains a prerequisite to success for all our stakeholders. The Board is collectively responsible for the long-term success of the Company, and, lead by me as Chairman, continues to perform the role of strategic leadership, setting corporate goals and overseeing the management of risk through regular discussion and debates. I am pleased to report that the Company already operates to professional governance standards, and I aim to maintain, innovate and enhance these where necessary to further aid the effective implementation of our strategic objectives. For further information on governance, please see our Governance Report at page 63.

The Group remains focused on implementing and delivering our strategic objectives of (i) unlocking value in franchised UK motor; (ii) growing and diversifying Pinewood and (iii) disrupting UK used car sales, and as non-executive chairman, it is my intention to drive implementation and ensure their successful delivery.

I do not underestimate that the next year will remain challenging; the recent onset of war in The Ukraine is already affecting the supply of components for new vehicles, in addition to the microchip shortage, impacting global supply chains. However, I am confident that with a well developed and focussed strategy, and our continued ability to innovate, the Group is already well placed to adapt and seek out opportunities in an increasingly fast changing retail environment. I am looking forward to working with our strong executive and non-executive team over the coming months as we continue to build our business and deliver against our strategy.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Bill Berman, Chief Executive Officer

I am delighted with the performance across each of our business divisions during FY21, which resulted in record levels of Group underlying profit before tax. The excellent work that our teams have delivered to adapt our digital channels and effect changes to our proposition helped us accomplish a strong FY21 and position us well going forward.

Whilst challenges as a result of the Covid-19 pandemic remained prevalent in FY21, in particular the impact of the full lockdown for over 100 days at the start of the year, our digital capabilities meant we were able to trade with confidence despite the uncertainty. Our teams have put in significant efforts to continuously upgrade our digital capabilities throughout the year, capabilities that demonstrated the strength of an effective hybrid-channel offering allowing our associates to engage and transact with customers both physically and digitally and to ultimately be able to fulfil demand through a combination of full store experiences, home delivery options and click and collect.

We have worked hard to improve our digital capabilities, but it remains our belief, re-enforced with customer research and surveys that we conducted during the year, and evidenced by consumer behaviour post lock-downs, that around 90% of consumers want some form of physical interaction in their purchasing journey, whether this be in viewing, test-driving and inspecting the car or when they ultimately take ownership. Our focus therefore continues to be on providing our customers with a true omni-channel proposition across our business, developing our offering to allow seamless transition between physical and digital channels.

GROUP STRATEGY

Late in 2020 we launched our plan to
'transform automotive retail through digital innovation and operational excellence'

I am hugely encouraged with the progress we made during FY21, with a large number of new initiatives delivered in order to:

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

In the UK motor division, we successfully launched a number of new initiatives which are covered in more detail in the UK motor business review section of this report, but include significant enhancements to digital functionality such as online payments, new modules developed by Pinewood to improve consistency in our sales processes and improvements to our vehicle valuation tools to drive more efficient purchasing and higher purchase conversion rates. In addition, we introduced an enhanced range of used vehicle guarantee products, using data analytics to introduce new multi-price point products varying on vehicle age and mileage, developed self-service payment options for aftersales customers and reviewed our aftersales pricing. These initiatives, alongside supply dynamics, have underpinned our strong margin performance during FY21. In addition to delivering these changes, our team have identified a strong pipeline of initiatives that will be introduced in FY22.

Our software business has enabled many of the technology improvements required to deliver these initiatives, and remains a key advantage for the Group in order to facilitate and to maintain a high pace of change. Pinewood's product developments will also enable our future initiatives such as enhancements to our vehicle acquisition and management platform and will provide the technology for our revised used car proposition. Pinewood has also demonstrated its reputation as a leading DMS provider through its award of certified status with BMW, one of only two global partners to support BMW's retail integration strategy. Pinewood has also notably strengthened its partnership with Renault and achieved certification in the UK and Ireland. Pinewood remained focussed on its core objective to grow users, adding 24% to its international user base despite restrictive travel conditions.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Finally, we launched a re-branded CarStore proposition to the market late in 2021, with a refreshed brand identity and, as importantly, a new, fully transactional website, incorporating Pinewood's best in class functionality. These changes are supported by a new instore operating model. The result is a highly differentiated proposition which successfully blends physical and digital locations enabling customers with the flexibility to utilise both in-store and online channels as they choose. We also made good progress with the first of our new format stores, a conversion of our site in Chesterfield which, along with two new locations, will be completed in 2022. During 2022, we will develop our 'new' used car proposition to maximise utilisation of the Group's inventory and physical sites.

TRADING PERFORMANCE

All of the strategic improvements we have made aided us in maximising favourable market conditions, in particular during the second half of the year, to deliver a very strong trading performance. The new car market was heavily constrained by well publicised supply shortages but we outperformed the market in the brands we represent with unit volumes down 2.1% on a like-for-like basis compared to a represented franchises market down 3.5%, supported by excellent gross profit per unit ("GPU") performance of £1,911, up £463 year on year.

The used market benefited from the shortage in new cars, with demand driving up the price of used cars. Across UK Motor and CarStore combined, our used car revenue was up 43% compared to FY20 on a like-for-like basis. Volume was up 14.4% on a like-for-like basis, against a market up 11.7%. Our focus on initiatives designed to improve GPU, combined with the strong market dynamics resulted in combined used GPU of £1,675, up 43% vs FY20.

The changes we made to restructure our cost base and store estate during the latter part of FY20 underpinned our overall profitability in FY21. As a result of these changes we have reduced our underlying operating costs (adjusted to remove a combined impact of £12.2m from furlough, grants and rates relief) by approximately £110m compared to the same period in 2019 (down £121.0m reported), the last comparable period before the pandemic, whilst gross profit is down just £31.4m against FY19, despite the material reduction in the number of sites in the UK from 209 at the start of 2019 to 149 at the end of 2021 and the disposal of the US assets. I am confident that this revised cost structure positions us well for future profitability.

It was particularly pleasing to see the strong financial performance in Franchised UK Motor supported by solid performance in both our software and leasing businesses, both of which delivered increased operating profits . CarStore continued its trend of improvements, delivering its first full-year of operating profit. Finally, we successfully completed the sale of the remaining US assets, with total proceeds of £106m before tax now realised.

Overall, I am delighted with the progress we have made both strategically and operationally, which have resulted in record-breaking profitability, with the Group reporting underlying profit before tax of £83.0m and a reported profit before tax after non-underlying items of £73.3m.

Finally, I would like to extend my thanks to all of our associates who have performed exceptionally during the year. I am also delighted to welcome Ian Filby to our Board as the Company's new Non-Executive Chairman. Ian brings a wealth of digital retail expertise to our Board as well as being an experienced Chairman and NED.

Bill Berman
Chief Executive

23 March 2022

OUTLOOK

- Performance over the first two months of FY22 has been good, with underlying profit in January and February ahead of 2021. Supply constraints in both new and used cars have continued to support higher gross margins. Both new and used margins are expected to reduce during the course of 2022 from extraordinary levels achieved in 2021.
- The shortage of new cars is expected to continue during FY22. The Board are conscious of inflationary cost pressures in labour and utilities in particular, which combined with the impact of business rates reverting to full levels will result in higher costs in FY22. We are mindful of the further impact that the conflict in Ukraine may have on both supply and costs.
- We remain confident we have the right strategy in place and we expect to make positive progress towards our long-term goals this year, and expect to deliver underlying profitability before tax in line with the Board's expectations.

BUSINESS SEGMENTS

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

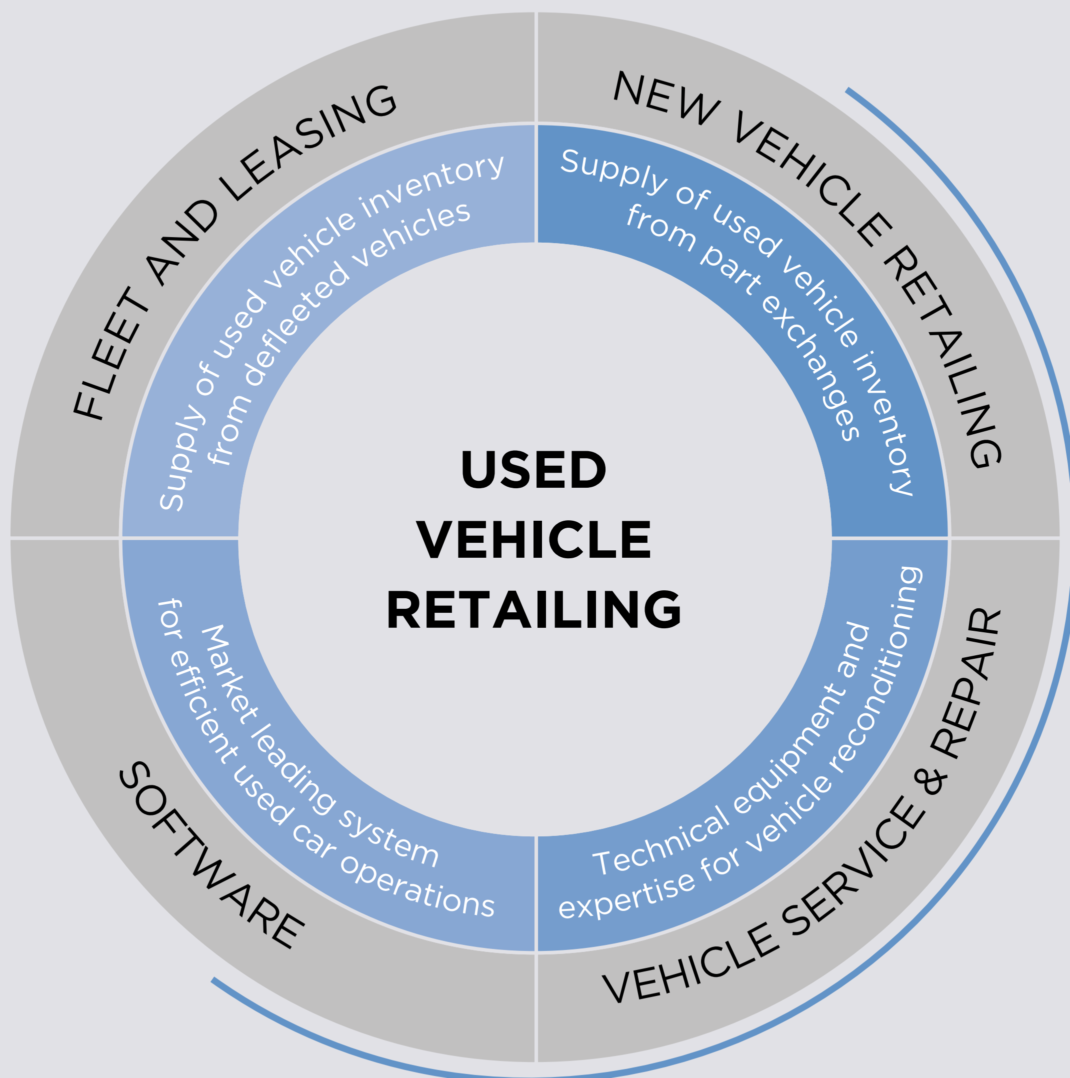
FRANCHISED UK MOTOR
Sale and servicing of vehicles in the UK

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

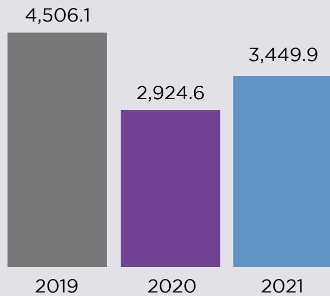
CARSTORE
Own brand omni-channel proposition for the sale of used vehicles in the UK

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

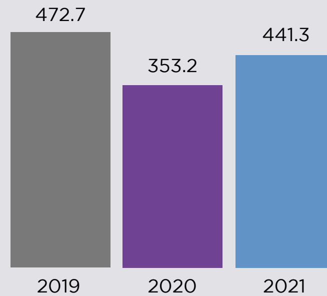
US MOTOR
(Discontinued)
Sale and servicing of vehicles in the US



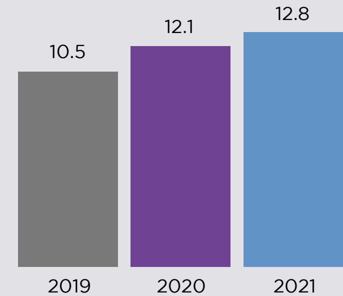
FINANCIAL SUMMARY



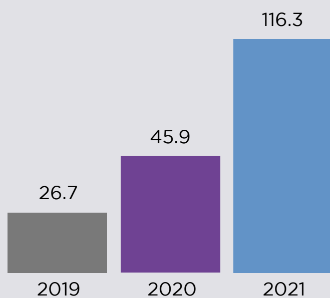
£3,449.9M
REVENUE



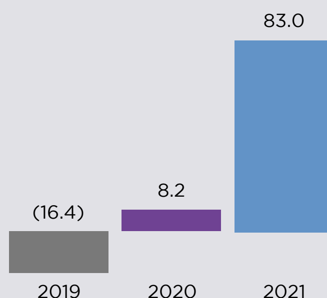
£441.3M
GROSS PROFIT



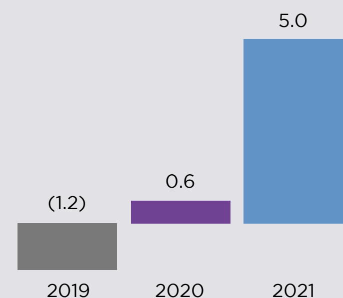
12.8%
GROSS MARGIN



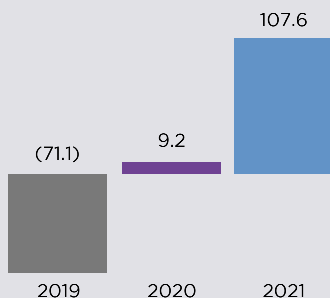
£116.3M
UNDERLYING OPERATING PROFIT



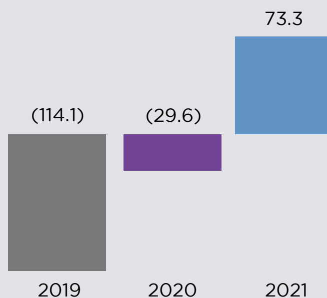
£83.0M
UNDERLYING PROFIT BEFORE TAX



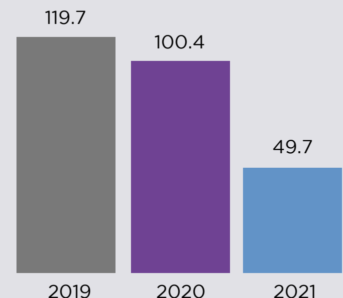
5.0P
UNDERLYING EPS



£107.6M
OPERATING PROFIT / (LOSS)



£73.3M
PROFIT / (LOSS) BEFORE TAX



£49.7M
ADJUSTED 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

Strong financial performance

- Increase in Group Revenue of 18.0% to £3,449.9m (FY20: £2,924.6m). Revenue up 27.1% on a like-for-like basis.
- Record underlying profit before tax of £83.0m, up 912.2% from the previous year (FY20: £8.2m).
- After non-underlying items the Group reported profit before tax of £73.3m (FY20: loss of £29.6m).
- Cost restructuring resulted in Group underlying operating expenses £121.0m lower than pre-pandemic in FY19, whilst gross profit is down just £31.4m in the same period, driving higher profitability.
- Adjusted net debt reduced by £50.7m to £49.7m, including the repayment of £28.9m of VAT deferred from FY20.

Disciplined strategic delivery

- Strong progress with strategy to "transform automotive retail through digital innovation and operational excellence" with a large number of new initiatives delivered across the Group.
- Significant progress to unlock value in UK Motor, with material changes to digital capabilities and operational efficiency.
- Pinewood development powering Group's digital capabilities.
- CarStore relaunched with new website, full omnichannel purchasing journey and a revised customer proposition.
- Appointment of experienced Non-Executive Chairman, Ian Filby.

PERFORMANCE INDICATORS

KEY FINANCIAL MEASURES

KPI	Definition	2021 Performance	Change
Underlying EPS	Underlying profit after tax divided by weighted average number of shares	5.0p	up 733.3%
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	£83.0m	up 912.2%
Underlying Operating Margin	Underlying operating profit divided by revenue	3.4%	up 1.8%
Leverage ratio	Adjusted net debt : underlying EBITDA is the ratio of our adjusted net debt to underlying EBITDA	0.3	down 63%

KEY STRATEGIC MEASURES

KPI	Definition	2021 Performance	Change
Aftersales Revenue	All aftersales revenues (like-for-like)[1]	£260.7m	up 18.9%
Used Revenue	All used vehicle revenues (like-for-like)[1]	£1,700.5m	up 43.3%
Used GPU	Used gross profit divided used retail units sold	£1,675	up 43.2%
New GPU	New gross profit divided new retail units sold	£1,911	up 32.0%

[1] 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 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 2021, 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
CUSTOMERS			
We continue to engage with our customers in a variety of ways, including:- Measuring customer KPIs from OEM surveys reported to management; Management and directors continue to visit dealerships, regularly listening to customer feedback; Online review of our services through platforms such as Trust Pilot regularly monitored by our marketing teams; Undertaking mystery shopping exercises periodically carried out to provide insight into the customer perspective and journey	Our purpose is to deliver a high quality, personalised service to all our customers across all of our business divisions: Franchised UK Motor, CarStore, Software and Leasing	• Product range, price and quality • Convenience and accessibility • Ease of transacting • Customer service • Responsible use of personal data	• Improving and developing the on-line customer journey for ease of transacting • Continued prioritisation of customer safety following reopening of operations throughout the Covid-19 pandemic.
ASSOCIATES			
We listen carefully to the views of our employees across all our businesses. In 2021, we appointed a Chief People Officer who is further innovating and developing our engagement processes. We continue to operate an independent whistleblowing helpline, enabling employees to raise any issues or matters of concern in confidence	We wish to continue to be a responsible employer, both in terms of continuing to ensure the health, safety and wellbeing of our employees and also ensuring we maintain a responsible approach to the pay and benefits our employees receive.	• Fair employment • Fair pay and benefits • Tackling our gender pay gap • Diversity and inclusion • Training, development and career opportunities • Health and safety • Responsible use of personal data	• 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 61 of this Annual Report • We put in place stringent measures to protect employee safety • Continued to enhance the range of benefits available • Recruitment and appointment of a diversity and equality officer currently underway

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 continuation of 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 continued other charitable activities where possible, as reported at page 62 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
ENVIRONMENT			
Over the last 12-18 months, we have re-evaluated seriously our responsibilities to our customers, investors, associates, suppliers and the public in terms of how our activities as a retailer impact the natural environment. We continue to regularly review our environment policy.	We acknowledge the responsibility we have to protect the environment and to minimise the environmental impact of our activities.	• Minimising atmospheric emissions, commercial and industrial waste • Minimising vehicle movements causing nuisance or noise • Minimising industrial noise and energy wastage • Complying with statutory requirements relating to environmental matters • Ensuring environmental priorities are accounted for appropriately in planning and decision making	• Operate an obsolete asset disposal policy • Minimise and where possible, eliminating pollution • We continue to reduce incidences of energy wastage wherever possible, as reported in our Environment, Social and Governance Report at page 55 of this Annual Report • We have successfully reduced our carbon emissions from our commuting activities, see page 56 of this Annual Report • We continue to work with various of our OEM partners to effect the roll out of PHEV charging points across our dealership network
SHAREHOLDERS AND POTENTIAL SHAREHOLDERS			
Annual Report and Accounts Corporate website AGM Results announcements and presentation Shareholder and analyst meeting with management, followed by feedback from brokers and financial PR consultants Engagement via the Directors and Company Secretary	We work to ensure our shareholders and their representatives have a good understanding of our strategy and business model	• Long term value creation • Fair and equal treatment • Growth opportunity • Financial stability • Transparency • To share in the success of our business • Dividends	• Committed to reducing pension entitlement of executive directors to the workforce average • The chief executive officer and chief finance officer report back to the Board after the investor roadshows • 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 • The non-executive chairman and senior independent director are available to shareholders and respond on matters relating to their responsibilities where requested • We continue to consult with all major shareholders in relation our remuneration policy • We will engage with shareholders in the future about when to resume dividends

BUSINESS PROFILES

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

BUSINESS PROFILES

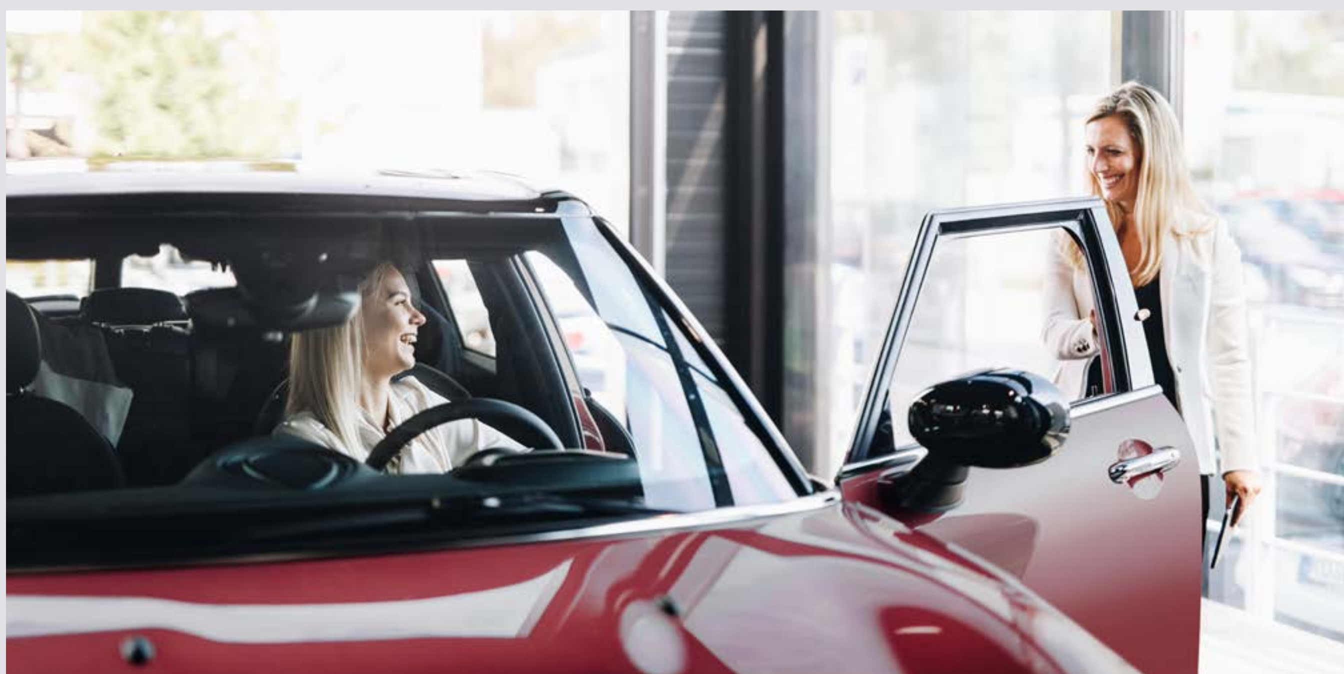
FRANCHISED UK MOTOR

Sale and servicing of vehicles in the UK.

Operating Highlights

- Revenue grew by 23.1% to £3,191.2m (FY20: £2,591.8m). Revenue up 26.7% on a like-for-like basis.
- Underlying operating profit up 363.8% to £85.8m (FY20: £18.5m).
- Strong performance during H1, despite Q1 lock-down, with underlying operating profit of £37.6m (H120: loss of £18.1m), accelerating in H2 to £48.2m (H220: £36.6m).
- Reported operating profit after non-underlying items of £81.3m (FY20: operating losses of £11.6m).
- Increased gross margins in all areas.
- Used margin of 9.7% (FY20: 8.6%).
- New margin of 7.3% (FY20: 6.5%).
- Aftersales margin of 50.7% (FY20: 49.1%).
- Used vehicle gross profit per unit increased by £530 to £1,730 (FY20: £1,200).
- New vehicle gross profit per unit increased by £463 to £1,911 (FY20: £1,448).
- Pendragon new units sold down 2.1% on a like-for-like basis (down 4.3% total reported), against the market for represented brands down 3.5% and the total market as measured by SMMT up 1%.
- Used unit volume up 13.1% on a like-for-like basis against a market up 11.7%.

"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, CarStore"



- **Evans Halshaw 94**
  - Ford 35
  - Vauxhall 20
  - Citroën 11
  - Renault 6
  - Dacia 6
  - Peugeot 4
  - DAF 4
  - Nissan 4
  - Kia 2
  - 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**
  - CarStores 9
  - EH Used Car Centres 2

149 UK RETAIL POINTS

151K VEHICLES SOLD

24M WEBSITE VISITS

BUSINESS PROFILES

SOFTWARE - PINEWOOD

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

Operating Highlights

- Revenue grew by 9.4% to £24.4m (FY20: £22.3m).
- Operating profit up 3.3% to £12.5m (FY20: £12.1m).
- 24% increase in international users.
- Continued investment in product developments to enable Group digital capabilities, deliver finance products online and facilitate digital payments.
- Achieved accreditation as first certified Dealer Management System (DMS) by BMW UK, and second global Retail Integration Strategy (RIS) partner.

Dealer Management System Features

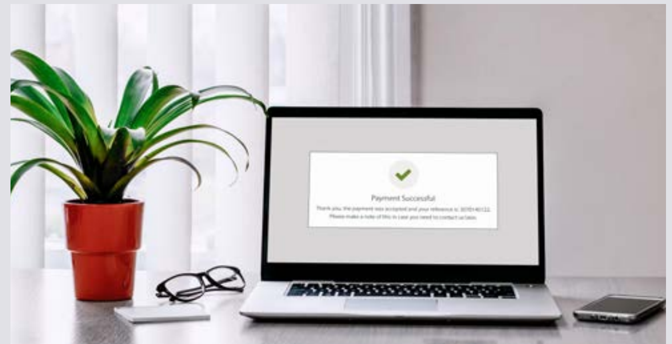
Every part of the business in one place.

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.

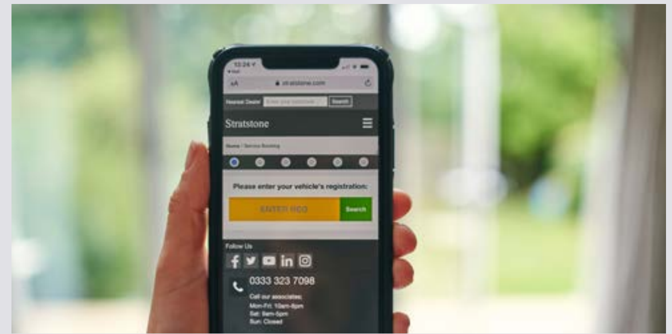
This is a valuable time saving asset for our users, facilitating increased productivity and reduced inputting time.

Personalised video to customers



Online payments

Integrated website solution for online buying



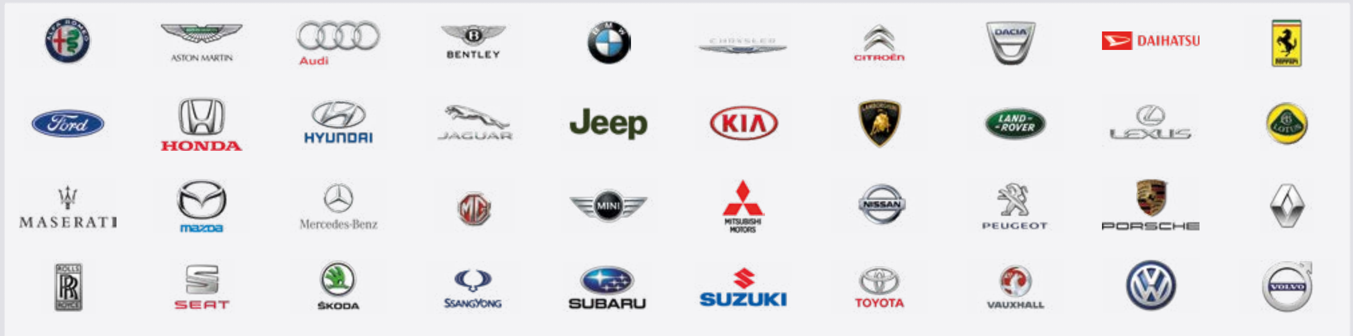
Integrated website solution for service booking

"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."

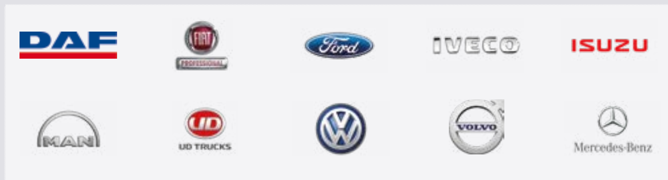
Gold
Microsoft Partner

Integration with over 50 manufacturers

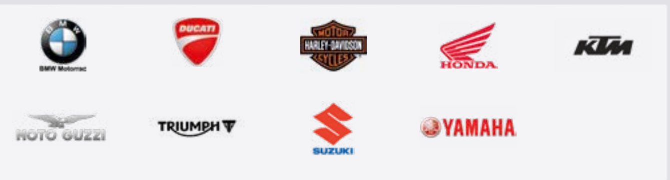
Cars:



Commercial Vehicles:



Motorbikes:



Pinewood Apps

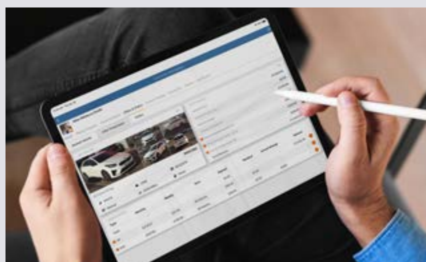
Our apps are designed to streamline processes and improve efficiency across the whole dealership.

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

- Revenue grew by 4.2% to £89.9m (FY20: £86.3m).
- Operating profit up 31.6% to £17.5m (FY20 : £13.3m).
- Growth in profit driven by higher profit on disposal of de-fleeted vehicles.

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

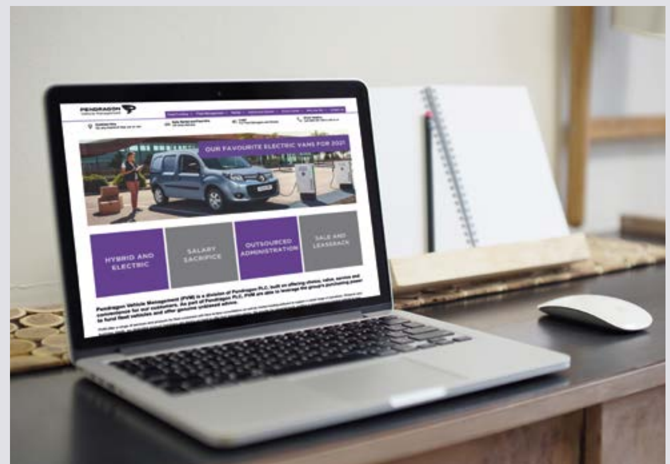
Sale and Leaseback

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."



CARSTORE

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

Operating Highlights

- Revenue grew by 59.9% to £141.5m (FY20: £88.5m).
- Full year underlying operating profit of £1.6m (FY20: Loss of £1.2m).
- Reported operating profit, after non-underlying items, of £1.3m (FY20: operating losses of £1.3m).
- First profitable full-year leaves CarStore well-positioned to deliver future growth ambitions.
- Improvement in gross margins to 9.1% (FY20: 8.2%).
- Gross profit per unit at £1,221 (FY20: £865).
- New customer proposition and fully transactional website launched. Customers able to shop fully online with home delivery, in store or across channels: a complete omni-channel proposition.
- Used unit volume up 26.0% on a like-for-like basis against a market up 11.7%.

US MOTOR

Sale and servicing of vehicles in the US.

Operating Highlights

- Disposal of final US Motor assets completed in FY21.
- Total proceeds of £106.0m from the combined total of all US sites since 2018

LIFE AT PENDRAGON

Our people are at the core of the company, they are Pendragon's life and soul, and are what makes us great. Pendragon aims to attract, retain and develop the best and brightest associates.

Pendragon is transforming for tomorrow, simplifying our business to deliver our strategy and adapt to the tough market environments that have been uniquely unpredictable. Long term success relies on inspiring and nurturing a range of talent. 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.

We remain focussed on making our business and our sector appeal future generations and to support this, our people strategy focusses on:

- Developing our group purpose to enable a progressive culture
- Driving progressive HR policies, benefits and support where possible
- 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 the 'best candidate experience' award, acknowledging our desire to continually improve our recruitment experience for our candidates and internal stakeholders.

Looking after our associates is essential and we continuously review our benefits offering. Our ambition is to offer an industry competitive total reward package that values our associates and enables us to be a responsible and attractive employer. Our benefits offering was revamped in December to ensure our associates feel cared for. We introduced increased annual leave, life assurance, sick pay and critical health cover for everyone, in addition to our Employee Assistance confidential help line.

We continue to provide comprehensive training. Our dedicated Learning and Development team partners closely with the Strategy and Transformation team to deploy learning programmes that drive our overall ambition to transform automotive retail through digital innovation and operational excellence.

Significant focus was given to ensuring our customers receive the best possible experience, we partnered with providers to deliver customer service training that puts customer experience at its very heart and will change the perception of how our sales people help the buying experience. We also focussed on training our associates on a number of technological system changes that will also ultimately simplify the buying experience of our customers. 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, Pendragon associates have participated in community activities giving time, money and knowledge to organisations, people and causes both locally and nationally. We continued our whole company support for the BBC's Children in Need appeal, the Save the Children Christmas Jumper Day and also supported Stand Up to Cancer, both through employee fund raising and donating a car for Stand Up to Cancer to use as a prize.

INDUSTRY INSIGHT

NEW CAR VEHICLE REGISTRATIONS FOR YEAR ENDED 31 DECEMBER ('000)			
	2021	2020	Change %
UK New Registrations	**1,647.2**	**1,631.1**	**1.0%**
Group Represented* UK New Registrations	**925.1**	**959.1**	**-3.5%**

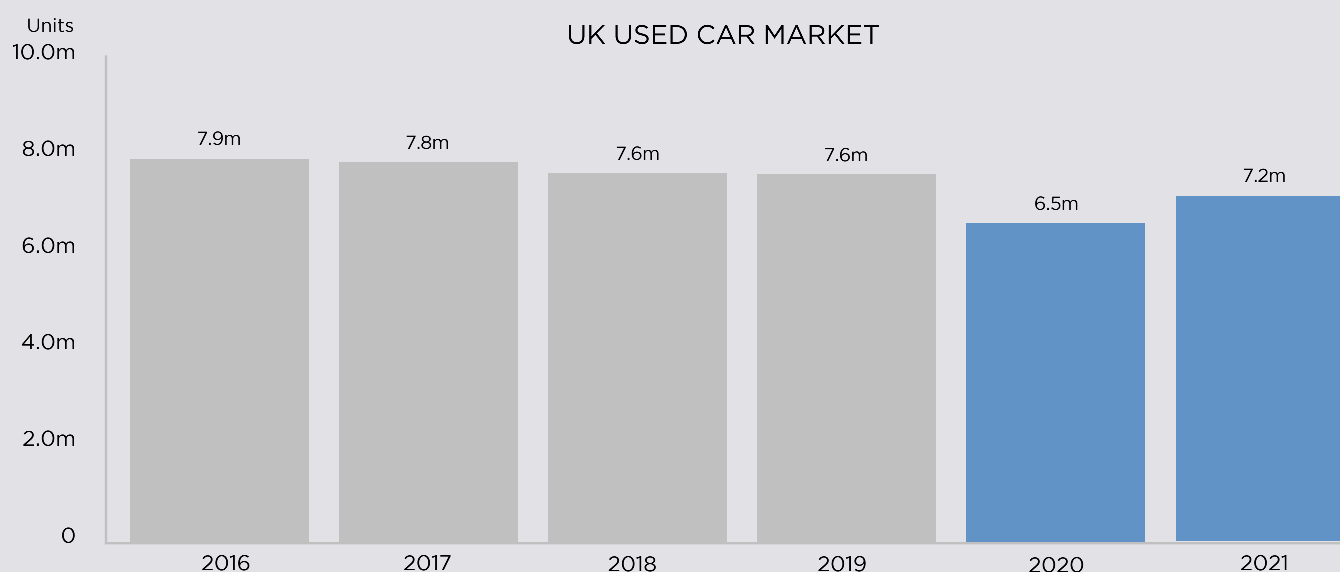
Source: new car vehicle registrations data from the 'Society of Motor Manufacturers and Traders'.
*Group Represented - defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

USED CAR MARKET

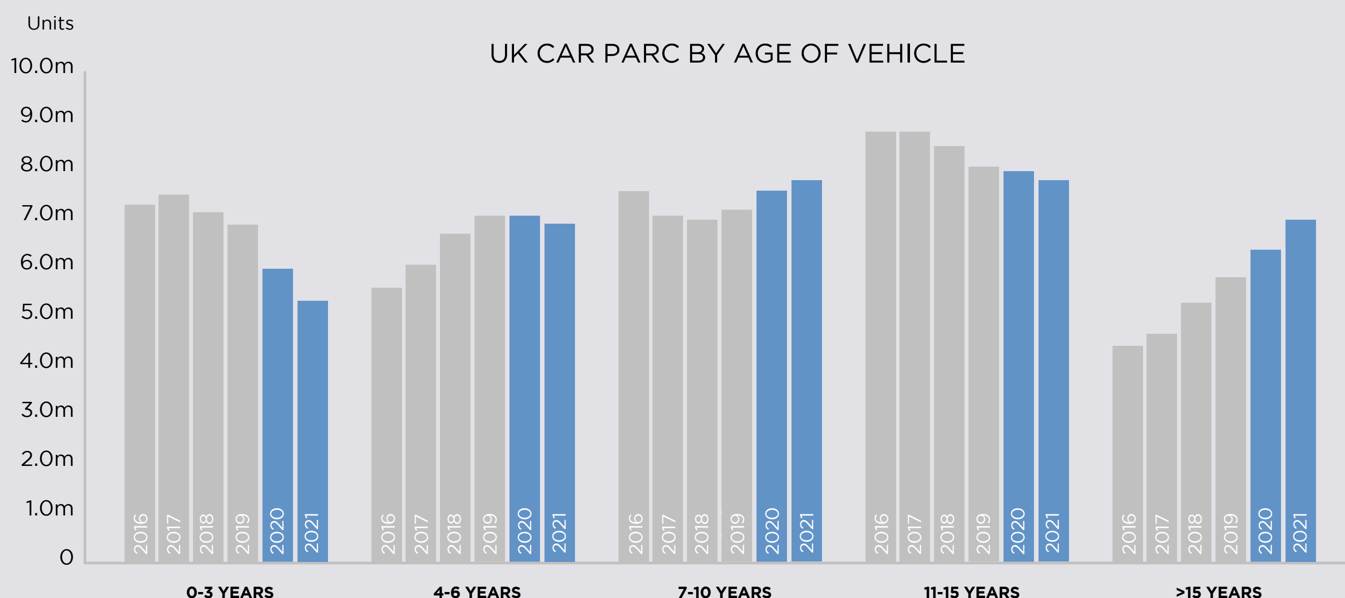
We believe the UK is the most attractive used car market globally, with a ratio of over three used cars sold for every one new. The used car market in FY21 in the UK was 7.2m units, an increase of 11.7% against 2020. Based on the desired age and mileage profile for our target market, we believe there 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 FY21, a rise of 0.4% on the prior year. The car parc can also be segmented into markets representing different age groups. At the end of FY21, around 15% of the car parc was represented by less than three-year-old cars, around 20% by four to six-year-old cars and 65% 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.



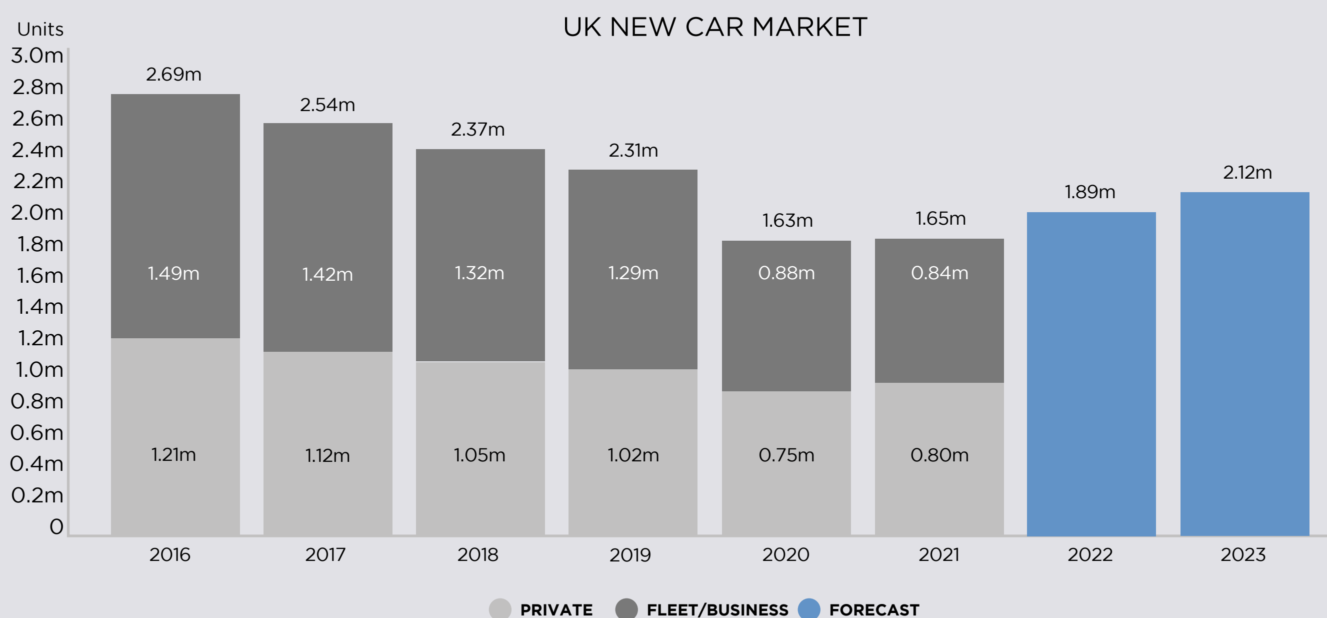
Source: GMAP



Source: GMAP

NEW CAR MARKET

The UK new car market which comprised 1.65m vehicles in FY21, respresenting an increase of 1.0% over the prior year, 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 49% 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 51% of the market in the year.



Source: SMMT

OPERATIONAL AND FINANCIAL REVIEW

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BUSINESS REVIEW

SEGMENTAL PERFORMANCE								
Units sold	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)	LFL Change (%)
USED UNITS								
CarStore	5,526	5,039	10,565	4,321	4,066	8,387	26.0%	26.0%
Franchised UK Motor	48,368	39,393	87,761	38,992	43,953	82,945	5.8%	13.1%
US Motor	51	-	51	275	258	533	-90.4%	-
Total	**53,945**	**44,432**	**98,377**	**43,588**	**48,277**	**91,865**	**7.1%**	**14.4%**
NEW UNITS								
Franchised UK Motor	30,067	22,218	52,285	21,659	32,981	54,640	-4.3%	-2.1%
US Motor	397	-	397	945	1,219	2,164	-81.7%	-
Total	**30,464**	**22,218**	**52,682**	**22,604**	**34,200**	**56,804**	**-7.3%**	**-2.1%**

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
- CarStore – 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 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)	LFL Change (%)
REVENUE								
Franchised UK Motor	1,673.8	1,517.4	3,191.2	1,067.1	1,524.7	2,591.8	23.1%	26.7%
Software	12.1	12.3	24.4	10.8	11.5	22.3	9.4%	9.4%
CarStore	66.0	75.5	141.5	43.1	45.4	88.5	59.9%	60.4%
Leasing	49.0	40.9	89.9	37.3	49.0	86.3	4.2%	4.2%
US Motor	28.3	0.3	28.6	68.5	89.4	157.9	-81.9%	-
Inter-segment revenue	(13.6)	(12.1)	(25.7)	(8.5)	(13.7)	(22.2)	15.8%	15.8%
Revenue	**1,815.6**	**1,634.3**	**3,449.9**	**1,218.3**	**1,706.3**	**2,924.6**	**18.0%**	**27.1%**
GROSS PROFIT								
Franchised UK Motor	182.3	202.1	384.4	108.9	180.9	289.8	32.6%	35.4%
Software	11.2	11.3	22.5	9.9	10.6	20.5	9.8%	9.8%
CarStore	5.3	7.6	12.9	2.9	4.4	7.3	76.7%	75.4%
Leasing	10.5	11.5	22.0	6.7	10.9	17.6	25.0%	25.0%
US Motor	4.0	-	4.0	9.0	14.3	23.3	-82.8%	-
Inter-segment gross profit	(2.1)	(2.4)	(4.5)	(2.1)	(3.2)	(5.3)	-15.1%	-15.1%
Gross Profit	**211.2**	**230.1**	**441.3**	**135.3**	**217.9**	**353.2**	**24.9%**	**35.0%**
UNDERLYING OPERATING PROFIT								
Franchised UK Motor	37.6	48.2	85.8	(18.1)	36.6	18.5	363.8%	171.3%
Software	6.7	5.8	12.5	5.9	6.2	12.1	3.3%	3.3%
CarStore	0.3	1.3	1.6	(1.7)	0.5	(1.2)	n/a	n/a
Leasing	8.1	9.4	17.5	4.7	8.6	13.3	31.6%	31.6%
US Motor	(0.8)	(0.3)	(1.1)	(1.6)	4.8	3.2	n/a	n/a
Underlying Operating (Loss)/Profit	**51.9**	**64.4**	**116.3**	**(10.8)**	**56.7**	**45.9**	**153.4%**	**109.6%**
Gross Margin %	11.6%	14.1%	12.8%	11.1%	12.8%	12.1%	0.7%	0.8%
Underlying Operating Margin %	2.9%	3.9%	3.4%	(0.9%)	3.3%	1.6%	1.8%	1.4%
Operating (Loss)/Profit	**48.1**	**59.5**	**107.6**	**(31.2)**	**40.4**	**9.2**	**1,069.6%**	

BUSINESS REVIEW

FRANCHISED UK MOTOR (£m)	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
REVENUE							
Used	781.0	785.9	1,566.9	509.2	648.3	1,157.5	35.4%
Aftersales	131.1	130.8	261.9	97.7	128.6	226.3	15.7%
New	761.7	600.7	1,362.4	460.2	747.8	1,208.0	12.8%
Revenue	**1,673.8**	**1,517.4**	**3,191.2**	**1,067.1**	**1,524.7**	**2,591.8**	**23.1%**
GROSS PROFIT							
Used	68.6	83.2	151.8	36.4	63.1	99.5	52.6%
Aftersales	65.0	67.7	132.7	45.3	65.9	111.2	19.3%
New	48.7	51.2	99.9	27.2	51.9	79.1	26.3%
Gross Profit	**182.3**	**202.1**	**384.4**	**108.9**	**180.9**	**289.8**	**32.6%**
Gross margin rate	10.9%	13.3%	12.0%	10.2%	11.9%	11.2%	0.8%
Underlying Operating Expenses	(144.7)	(153.9)	(298.6)	(127.0)	(144.3)	(271.3)	10.1%
Underlying Operating Profit/ (Loss)	**37.6**	**48.2**	**85.8**	**(18.1)**	**36.6**	**18.5**	**363.8%**
Underlying Operating margin rate	**2.2%**	**3.2%**	**2.7%**	**(1.7)%**	**2.4%**	**0.7%**	**2.0%**
Stocking Interest[1]	(4.7)	(4.6)	(9.3)	(7.4)	(5.3)	(12.7)	-26.8%
Profit/(Loss) after Stocking Interest	**32.9**	**43.6**	**76.5**	**(25.5)**	**31.3**	**5.8**	**1,219.0%**
Operating Profit/(Loss	**37.5**	**43.8**	**81.3**	**(32.0)**	**20.4**	**(11.6)**	**n/a**
Total Revenue Change	56.9%	-0.5%	23.1%				
Like-for-like Revenue Change	64.1%	1.5%	26.7%				
Used Units Sold	48,368	39,393	87,761	38,992	43,953	82,945	5.8%
New Units Sold	30,067	22,218	52,285	21,659	32,981	54,640	-4.3%
Used GPU (£)[2]	1,418	2,112	1,730	934	1,437	1,200	44.2%
New GPU (£)[2]	1,620	2,304	1,911	1,256	1,574	1,448	32.0%
Number of Locations	141	140	140	160	144	144	-2.8%
Average Used Selling Price (£)[3]	14,357	17,498	15,774	12,612	13,723	13,224	19.3%
Average New Selling Price (£)[3]	25,524	26,549	25,976	21,764	23,372	22,750	14.2%

[1] 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.
[2] GPU = Gross Profit per Unit. It is calculated as total New/Used GP divided by total New/Used retail units sold.
[3] 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

The Franchised UK Motor business operated from 138 franchise points and two used cars only retail points which represent a range of volume and premium products offering both sales and service functions.

- Meaningful progress in respect of strategy to improve performance and unlock significant value in the Franchised UK Motor division.

- Introduced a number of new digital initiatives, underpinned by Pinewood, designed to enhance the customer journey across our range of brands and act as the foundation of our omni-channel model.
- Lean operating model, with further areas to drive efficiencies identified.

Strategy delivery

Unlock value in the Franchised UK Motor division

The Group has made meaningful progress with its 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

Whilst we fundamentally believe that there will always be a major role for bricks and mortar in vehicle purchasing, we expect that the changes in consumer habits towards the adoption of new digital channels, amplified by the Covid-19 pandemic will remain a major part of the customer journey. Following the rapid strengthening of our digital and home delivery capabilities we identified a number of initiatives to drive performance through digital innovation.

Through the course of 2021 we introduced a number of new digital initiatives designed to enhance the customer journey across our range of brands and underpin our omni-channel model. These improvements have been focussed on improving customer experience and accelerating data-led decision making in order to improve consistency. We introduced a new "Sales+" module, developed by Pinewood, that implemented a consistent digital and instore customer journey from first point of enquiry through to completion of the sale, added additional functionality including remote digital signatures, and automatically offers guarantee products matched to the specific vehicles being purchased, or automatically matched to the length of a finance contract.

We are increasingly using data to power the business and have improved both the technology and processes that we use to value vehicles acquired through part-exchange and through our "Sell-Your-Car" service, with a single, data led, valuation tool implemented that provides improved valuations and condition grading, as well as developing the Customer Relationship Management (CRM) to maximise initial valuation to appointment conversion.

During the year, we also introduced online payment functionality alongside the ability for customers to purchase ancillary insurance products online. Following this, we successfully launched real time, automated finance application and approval process online in both Evans Halshaw and CarStore, with Stratstone brands to follow, for customers who want to purchase the vehicle fully online with financing.

In addition to these delivered changes, we have made further progress in our ambitions to develop a Group-wide platform to power the appraisal, purchase, preparation and dynamic pricing of used vehicles, identifying our roadmap and trialling elements such as data led, automated and centralised pricing. Each of these improvements will drive our medium-term margin improvement targets and will benefit from further developments during FY22.

During FY22 we will also develop Sales+ capabilities further to streamline the digital journey to improve Finance and Insurance (F&I) conversion rates by enhancing the products presented to the customer.

Drive operational excellence and best practice

There is further opportunity for us to improve our operational practices, and drive efficiencies. We are developing focussed internal reporting, utilising Power BI tools, to provide insight into performance in areas such as vehicle preparation efficiency and sales force effectiveness. These improvements will also reduce costs, and improve profit margins. Our strategic review also identified a series of opportunities and initiatives to drive substantial improvements to aftersales gross margin.

BUSINESS REVIEW

During FY21 we built upon the developments to our used car guarantee propositions. We initially reviewed our products in Q3 FY20, introducing a new three-year used-car guarantee product to complement our existing one and two year products, based upon a single price point for all vehicles. Following the launch we saw good migration into the three year-product. In FY21, we introduced a new, tiered, pricing model with multiple price points based on vehicle age and mileage, utilising data analytics to set differential pricing rather than single price points. We expect this new pricing model to drive improved margins in our guarantee products.

In addition, we improved margin performance in vehicles sold via trade channels as a result of offering vehicles via online platforms rather than physical auctions, which also delivered a wider UK customer reach. We also completed an internal review and external benchmarking of our aftersales labour rates in the year resulting in an improvement to the charging rate within Evans Halshaw in particular. Finally we developed our processes to improve the conversion rate of repair work we identified as required when a customer's car is in a service centre, developed self-serve finance payment options for this work to improve the customer journey and reviewed our service adviser incentivisation to improve conversion rates, all of which underpinned the improvement to aftersales revenues and gross margin.

During FY22 we plan to make a number of further changes to the way we operate. Firstly, we will implement a programme to target process improvements to improve the speed and quality of used vehicle preparation. This will improve the time taken to prepare a newly acquired used car, bringing it to market faster thereby maximising returns. This will be supported by an enhanced digital presentation of the vehicle to customers. We will also make further improvements to our aftersales and service plan propositions.

Operate from a lean and efficient cost base

In 2020 we made significant changes to our store and regional operating teams in order to right-size the model and to embed the efficiency gains we delivered during the Covid-19 pandemic. These changes have contributed significantly to the performance during FY21. In addition, we transitioned from company provided cars to cash allowances and associated preferential offers for a number of our associates, and decentralised various customer enquiries to dealerships, reducing certain central costs. During FY21 we completed a Finance Transformation programme, centralising core finance processes into a central shared service centre, supported by investment into automation technologies in key processes such as payments, receipts and reporting. We invested into new finance business partnering capabilities to support the businesses growth objectives through high quality analytics.

Operating Review

Overall, FY21 was an exceptional year for the UK motor division, despite continued significant disruption from Covid-19 during the first quarter, with the mandatory physical closure of showrooms from 1 January through to 12 April. The Group was able to largely mitigate this disruption as a result of the significant adaptations made to the Group's omni-channel capabilities. In illustration of the rapid adaptation, a total of over 40,000 vehicles were delivered to customers across the Group through a combination of home delivery and customer collection in the first-quarter, whilst dealerships were physically closed.

Performance during the rest of FY21, particularly during the second half was very strong, driven firstly by the implementation of strategic initiatives and secondly the strength of market conditions. As we emerged from the lock-downs of both 2020 and Q1 2021, there were high levels of pent up demand for both new and used cars, which combined

with well-publicised supply constraints in both new and used cars, resulted in significant increases in gross margins.

New Car volumes were down 2.1% on a like-for-like basis (total reported down 4.3%), outperforming a reduction of 3.5% across the franchises in which Pendragon operates but slightly below the total market growth up 1.0%. New units were up 43.1% during the first-half as strong demand was supported by existing new car inventory. As supply was disrupted as a result of micro-chip shortages impacting the OEM supply chains and as inventory was exhausted, sales in the second half were limited by supply, and were down by 31% vs last year. This supply disruption resulted in a focus on margin, with lower levels of vehicle discounting required and OEM's focussing on production of higher margin models. As a result, the gross profit per unit ("GPU") was £1,911, up 32% compared to FY20, with the second half being particularly strong at £2,304 per unit, up 46.3% compared to H2 FY20.

Used Car volumes also rebounded strongly compared to FY20, up 13.1% on a like-for-like basis, outperforming the wider market which grew by 11.7%. Changes delivered through our strategy to "unlock value in UK Motor", combined with well-publicised tailwinds in used car pricing, led to a GPU of £1,730 up 44.2% compared to FY20. Margin strengthened significantly during the second half, reaching £2,112 per unit.

Aftersales revenue also grew in the period, up by 18.9% on a like-for-like basis (total reported up 15.7%) with the growth reflecting both the disruption from partial opening only in H1 FY20 as well as further like-for-like growth in the second half of FY21. In addition, the continued impact of strategy-led productivity improvements made resulted in an improvement in the gross margin of 160bps to 50.7% (FY20: 49.1%).

Financial Review

Revenue increased by 23.1% to £3,191.2m in FY21 (26.7% on a like-for-like basis), for the reasons outlined above.

Gross profit grew by 32.6% to £384.4m in FY21 (35.4% on a like-for-like basis). The improvements in margin in both new and used GPU's, together with improved efficiency in aftersales resulted in gross profit growth out performing revenue growth materially.

Whilst underlying operating expenses grew by 10.0% compared to H1 FY20, this is a reflection of the level of furlough support received in FY20. The leaner operating model with reduced headcounts introduced in H2 FY20, combined with the reduced cost base following the closure of 15 stores in H2 FY20 have resulted in a reported cost base of £298.6m which is a material reduction to a comparable cost base of £358.6m in FY19, before the Covid-19 pandemic. This material improvement in the cost base, together with the higher level of gross profit, is reflected in the underlying operating profit of £85.8m.

The division recorded an underlying operating profit of £85.8m (FY20: £18.5m) and a reported operating profit after non-underlying items of £81.3m (FY20: loss of £11.6m).

BUSINESS REVIEW

SOFTWARE (£m)	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Revenue	12.1	12.3	24.4	10.8	11.5	22.3	9.4%
Gross Profit	11.2	11.3	22.5	9.9	10.6	20.5	9.8%
Gross margin rate	92.6%	91.9%	92.2%	91.7%	92.2%	91.9%	0.3%
Operating Expenses	(4.5)	(5.5)	(10.0)	(4.0)	(4.4)	(8.4)	19.0%
Operating Profit	**6.7**	**5.8**	**12.5**	**5.9**	**6.2**	**12.1**	**3.3%**
Operating margin rate	**55.4%**	**47.2%**	**51.2%**	**54.6%**	**53.9%**	**54.3%**	**-3.1%**
Total Revenue Change	12.0%	7.0%	9.4%				

A more detailed breakdown of the Pinewood financials for FY21 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 accouts
Revenue	4.9	19.5	24.4	-	24.4
Gross Profit	4.4	18.1	22.5	-	22.5
Operating Expenses	(2.0)	(7.7)	(9.7)	(0.3)	(10.0)
Operating Profit	**2.4**	**10.4**	**12.8**	**(0.3)**	**12.5**

SOFTWARE

Operating Review

- 90% of revenues are recurring
- Strong international growth was driven by system installations in the Nordic markets
- Strong OEM support through partnerships with BMW and Renault

Strategy delivery – Grow and diversify Pinewood

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 continued to focus on both elements of the 'grow and diversify' strategy:

- Grow: expansion of the direct sales model in the Nordic markets has been supported by incorporation in Sweden and new market hires. New market launches were delivered in Vietnam and Mauritius. Further international growth is planned in FY22.
- Diversify: development of the core DMS product continues. New products designed to support digital automotive retail are being developed to initially benefit Pendragon and, in the longer term, the external customer base. Pinewood will also be a key enabler in the development of vehicle acquisition, management and pricing platforms and powering the new standalone used car brand's web capabilities.

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 which is highly fragmented, is estimated to be worth approximately £2.5bn, 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 costs;
- 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 focused on developing recurring revenue streams. Today, around 90% of Pinewood's revenues are on a recurring basis. Whilst Pendragon remains an important customer to Pinewood, as Pinewood has grown, Pendragon's proportion of the Pinewood total user base has been diluted to c.17% with intra-group charging maintained at a competitive market rate.

During FY21, overall net user numbers (excluding Pendragon) increased by 2%. Across Pinewood's international markets there was a 24% increase in user numbers. Strong international growth was driven by system installations in the Nordic markets, which was supported by overseas hiring and the creation of a new team employed by Pinewood Technologies Northern Europe AB, based in Sweden. International user numbers also saw double digit percentage growth in Pinewood's Asian and African markets, with successful launches in two new countries: Vietnam and Mauritius.

In the UK market (excluding Pendragon) there was a small decrease in user numbers, driven largely by two exceptional customer exits, one following acquisition by a competitor and another within the HGV market moving to a specialist system. Despite the user reduction, overall UK DMS revenues increased by 9% (3% after adjusting for the Covid discount which benefited the FY20 base period).

During FY21 Pinewood accelerated its investment in the functionality of its DMS platform. This included the development of online sales capabilities and tools, as well as further improvements to platform architecture and security. These developments included the release of the newly developed Sales+ module, which has been designed to improve the efficiency and consistency of the sales process. This module was developed with Pendragon and initially implanted across that business. In addition, new capabilities were launched to support both digital document signing and remote online payments. Further, Pinewood developed tools to support customer sales journeys such as functionality for photo background removal to improve image presentation consistency and video sound enhancement to allow better online presentation of personalised vehicle videos. These new capabilities will be available as ancillary products for customers and are expected to contribute to revenue growth in FY22.

There has been good further progress in terms of OEM support in the UK and internationally, most notably with Pinewood's DMS achieving UK certification as part of BMW's Retail Integration Strategy alongside a role as a global partner to lead further development. Pinewood has also notably strengthened its partnership with Renault and achieved certification in the UK and Ireland. Both these OEM certifications have driven enquiries for the system and Pinewood starts FY22 with a healthy sales pipeline.

Pinewood delivered a strong performance in FY21 as reflected in the increased user numbers and revenue growth. The performance was particularly pleasing given the context of continuing pandemic related uncertainty and the restrictions on international travel. Pinewood continues to ensure full continuity of its services and develop the DMS to assist its customers in the new retail environment.

Financial Review

Total revenues increased by 9.4% compared to FY20.. UK DMS recurring revenues grew by 9% in total (2% after adjusting for the impact of the Covid-19 discount in FY20), whilst international recurring revenues grew by 43%. In addition to recurring revenue growth, DMS transactional charges and system training and implementation revenues increased by 21%, driven by lockdown restrictions easing.

Gross profit increased by 9.8% to £22.5m largely driven by higher revenues, together with a slight increase in gross margins.

Operating costs increased by £1.6m, or 19.0%, compared to FY20. This increase was driven by higher amortisation and development expenditure, due to ongoing increases in investment in the development of the DMS software asset. There was also an increase in expenditure on international operations, driven by the start-up of Pinewood Technologies Northern Europe AB. In the UK there was an increase in payroll costs largely due to the reversal of the prior year benefit from the Coronavirus Job Retention Scheme. Operational efficiencies led to a slight reduction in administrative, travel and office expenditures.

As a result of these movements, underlying operating profit was £12.5m, an increase of 3.3%. Reported operating profit after non-underlying items was £12.5m (FY20: £12.1m).

BUSINESS REVIEW

CARSTORE (£m)	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Revenue	66.0	75.5	141.5	43.1	45.4	88.5	59.9%
Gross Profit	5.3	7.6	12.9	2.9	4.4	7.3	76.7%
Gross margin rate	8.0%	10.1%	9.1%	6.7%	9.7%	8.2%	0.9%
Underlying Operating Expenses	(5.0)	(6.3)	(11.3)	(4.6)	(3.9)	(8.5)	32.9%
Underlying Operating Profit / (Loss)	**0.3**	**1.3**	**1.6**	**(1.7)**	**0.5**	**(1.2)**	**n/a**
Underlying Operating margin rate	**0.5%**	**1.7%**	**1.1%**	**(3.9)%**	**1.1%**	**(1.4)%**	**2.5%**
Stocking Interest[1]	(0.2)	(0.3)	(0.5)	(0.2)	(0.2)	(0.4)	25.0%
Profit after Stocking Interest	**0.1**	**1.0**	**1.1**	**(1.9)**	**0.3**	**(1.6)**	**n/a**
Operating Profit / (Loss)	**0.3**	**1.0**	**1.3**	**(1.7)**	**0.4**	**(1.3)**	**n/a**
Total Revenue Change	53.1%	66.3%	59.9%				
Like-for-like Revenue Change	54.2%	66.3%	60.4%				
Units Sold	5,526	5,039	10,565	4,321	4,066	8,387	26.0%
Used GPU (£)[2]	959	1,508	1,221	671	1,071	865	41.2%
Number of Locations	9	9	9	11	9	9	-
Average Selling Price (£)[3]	10,522	12,969	11,559	8,677	9,913	9,278	24.6%

[1]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 used cars. It is included as an alternative performance measure in the table above for information.
[2]GPU = Gross Profit per Unit. It is calculated as total Used GP divided by total Used retail units sold.
[3]Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles.

CARSTORE

- Relaunched the brand with a highly differentiated proposition, focussed on seamlessly blending physical and digital locations
- Successful launch of a new website, incorporating all of the new Group capabilities developed by Pinewood, including the ability to fully transact online, including real time financing options and part exchange capability
- By 2025, we are targeting the development of eight further physical full-scale, stand-alone locations to provide greater choice for customers and drive meaningful market share

Strategy delivery - Disrupt 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.

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

In FY21 we defined the vision for the rebranded proposition, determined the brand values, behaviours and promises. In addition, we completed comprehensive research to determine the revised brand name look and feel ahead of its launch in December 2021. Following this research, the Group decided to retain the CarStore brand name, which benefits from excellent brand recognition and high trust scores (Trustpilot score of 4.6), and support it with a new brand identity, logo and tone of voice and a new website providing a complete omnichannel purchasing journey.

Differentiate the value proposition

During 2021 we completed an evaluation of the CarStore value proposition and relaunched the brand with a highly differentiated proposition, focussed on seamlessly blending physical and digital locations giving customers the freedom to approach the process in the way that works best for them. Our research confirmed that 88% of consumers prefer some form of personal or physical contact in their purchasing journey, or at least the opportunity to have one.

Changes to the proposition include the successful launch of a new website, incorporating all of the new Group capabilities developed by Pinewood (as outlined in the UK Motor and Pinewood business reviews), including the ability to fully transact online, including real time financing options and part exchange capability. This online capability is supported by the physical stores, where the operating model has a new sales structure implemented to support revised hybrid, omnichannel purchasing journeys; all supported by a personal adviser as a single point of customer contact, allowing customers to start

and end their journey in either physical or digital locations, seamlessly. Comprehensive training and a new brand behaviours programme have been rolled out to all associates to support them in this new approach. Customers are able to visit stores and test drive vehicles, or if they prefer have it delivered directly to home, supported by a 14 day money-back guarantee.

The used car strategy will evolve to incorporate further locations, initially in Evans Halshaw, with 10 Evans Halshaw sites already benefitting from the improved used car journey established during FY21. Ultimately, we believe our used car proposition will benefit from offering the breadth of our inventory and strength of our national network infrastructure. Further Evans Halshaw inventory will be added to the CarStore.com website during FY22.

Scale the physical estate

By 2025, we are targeting the development of eight further physical full-scale, stand-alone locations to provide greater choice for customers and drive meaningful market share. During FY21, we identified Chesterfield, an existing CarStore location as the first site to test the new physical proposition.

Chesterfield is a purpose-built CarStore with currently unutilised land owned adjacent to the current footprint, providing the right potential to develop to the required scale, with space for approximately 450 vehicles. The existing customer facilities are currently being developed to represent the new brand proposition and the conversion work will be completed early in Q2 FY22.

During FY22 we expect to commence two further builds on land owned in Borehamwood and Warrington. In addition, we will initially add 10 new 'CarStore' direct locations. These small format stores will extend the geographic reach of the Group's 'Sell Your Car' locations and provide further collection points for CarStore customers.

Operating Review

During FY21 CarStore recorded an underlying operating profit of £1.6m compared to operating losses of £1.2m in FY20, delivering CarStore's first full year of underlying profitability.

CarStore performed well in FY21, with volume up 26% on a like-for-like basis against the overall used car market which was up 11.7%, supported by the strategic developments above. In addition to strategic benefits, the business benefitted from favourable tailwinds which increased the full-year average selling price by 25% year on year. As a result of these factors, the gross profit per unit improved by 41% to £1,221 (FY20: £865).

Financial Review

Revenue grew by 59.9% to £141.5m in the period (60.4% on a like-for-like basis). Enhanced digital propositions helped to mitigate the impact of lock-down during the first quarter. Overall, volumes were up 26.0% on a like-for-like basis, with revenue growth also supported by increased used car selling prices throughout the second-half.

Gross profit increased by 76.7% to £12.9m (74.3% on a like-for-like basis), as a result of the volume growth combined with the improved gross profit per unit of £1,221.

Operating costs increased by 33.7% from £8.5m to £11.3m with the increase in costs principally driven by the year on year reduction in support via the Coronavirus job retention scheme received in H1 FY20.

The underlying operating profit for CarStore was £1.6m (FY20: loss of £1.2m) and the reported operating profit after non-underlying items was £1.3m (FY20: loss of £1.3m).

BUSINESS REVIEW

LEASING (£m)	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Revenue	49.0	40.9	89.9	37.3	49.0	86.3	4.2%
Gross Profit	10.5	11.5	22.0	6.7	10.9	17.6	25.0%
Gross margin rate	21.4%	28.1%	24.5%	18.0%	22.2%	20.4%	4.1%
Operating Expenses	(2.4)	(2.1)	(4.5)	(2.0)	(2.3)	(4.3)	4.7%
Operating Profit	**8.1**	**9.4**	**17.5**	**4.7**	**8.6**	**13.3**	**31.6%**
Operating margin rate	16.5%	23.0%	19.5%	12.6%	17.6%	15.4%	4.1%
Revenue Change	31.4%	-16.5%	4.2%				

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 delivered a strong financial performance in FY21 with operating profit growth of 31.6%. This growth was principally driven by the exceptional profit per unit on de-fleeted vehicles, which were up by 55% year on year, as a result of increased used vehicle prices compared to residual values set on historical contracts. Overall, the fleet size declined during FY21 by approximately 15%, with the ability to transact new customers constrained by the availability of new vehicles. PVM has a strong pipeline of customers and expects to reverse this reduction as new car supply eases.

PVM's fleet is experiencing a rapid change in the powertrains being requested by customers 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 increased by 4.2%, with growth largely resulting from increased turnover on disposals. Gross profit increased by 25.0% and with operating expenses growing by 4.7%. As a result of these movements, operating profit increased by 31.6% to £17.5m (FY20: £13.3m).

US MOTOR (£m)			
REVENUE	FY21	FY20	Change (%)
Used	3.0	22.0	-86.4%
Aftersales	2.8	17.3	-83.8%
New	22.8	118.6	-80.8%
Revenue	**28.6**	**157.9**	**-81.9%**
GROSS PROFIT			
Used	0.2	1.7	-88.2%
Aftersales	1.6	9.1	-82.4%
New	2.2	12.5	-82.4%
Gross Profit	**4.0**	**23.3**	**-82.8%**
Gross margin rate	14.0%	14.8%	-0.8%
Underlying Operating Expenses	(5.1)	(20.1)	-74.6%
Underlying Operating (Loss)/Profit	**(1.1)**	**3.2**	**n/a**
Underlying Operating margin rate	**-3.8%**	**2.0%**	**-5.8%**
Operating Loss	**(5.0)**	**(3.3)**	**51.5%**

US MOTOR

Operating Review

The revenue and gross profit performance is principally driven by the final months of trading in the two remaining US Motor Group locations until their disposal during the first half of FY21, which together with low levels of ongoing operational costs associated with the winding up of US operations, resulted in an underlying operating loss of £1.1m (FY20: profit of £3.2m) and a reported operating loss after non-underlying items of £5.0m (FY20: loss of £3.3m).

The remaining disposals were both completed during FY21, with Santa Monica completed on the 29 March 2021 for consideration of £10.8m and Los Angeles completed on 29 January 2021 for consideration of £16.3m.

Total cumulative proceeds since the first sale in 2018 of £106.0m have been received for the disposal of the US Motor Group, against a target objective of £100m.

Ongoing operating expenses to support the full-wind up of US activities of approximately £1.5m are expected during FY22.

FINANCIAL REVIEW

UNDERLYING NET FINANCING COSTS

Underlying net financing costs reduced by £4.4m to £33.3m, principally driven by a reduction of £3.8m in vehicle stocking plan interest as a result of lower inventories. The increase in interest payable on bank borrowings was driven by an increase in the interest rate of the revolving credit facility to 6.00% agreed as part of the extension of the facility earlier in 2021, together with amortisation of arrangement fees, partially offset by lower average utilisation during the period.

£m	2021	2020	Change (%)
Interest payable on bank borrowings, senior note and loan notes	(9.1)	(8.0)	13.8%
Vehicle stocking plan interest	(9.8)	(13.6)	-27.9%
Net lease interest	(11.7)	(13.0)	-10.0%
Unwinding of discounts in contract hire residual values	(2.7)	(3.1)	-12.9%
Total Underlying Net Financing Costs	**(33.3)**	**(37.7)**	**-11.7%**

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 £9.7m of pre-tax non-underlying items against a charge of £37.8m in FY20. The current year charge includes non-cash impairments of property right of use assets amounting to £9.6m. These charges include a £5.0m impairment of assets relating to US leases retained on disposal of the remaining businesses and a charge of £4.6m for the impairment of vacant UK leasehold property assets.

Pension costs of £1.0m reflect the interest charge on pension scheme obligations.

The Group recorded profits on the sale of properties, plant and equipment and businesses in the period of £2.7m, arising from a combination of profits on disposal of the remaining US businesses of £0.7m, a net £2.0m profit on the disposal of surplus UK property during the year.

There were termination and severance costs of £1.8m in FY21 of which £1.3m relates to the transfer of Finance process from dealerships to a centralised shared service centre as outlined part of the Finance Transformation in the UK motor business review. The remaining £0.5m is driven by a combination of a small number of further redundancy payments, relocation costs and Director recruitment fees relating to the search for the Group's Non-Executive Chairman.

£m	H1 2021	H2 2021	FY 2021	FY 2020
Impairment of goodwill, property, assets held for sale and right of use assets	(5.4)	(4.2)	(9.6)	(16.5)
Termination and severance costs	(0.9)	(0.9)	(1.8)	(6.3)
Gains / (losses) on the sale of businesses and property, plant and equipment	2.4	0.3	2.7	(6.8)
Business closure costs	0.1	(0.1)	-	(2.8)
Pension costs	(0.5)	(0.5)	(1.0)	(5.4)
Total non-underlying items before tax	**(4.3)**	**(5.4)**	**(9.7)**	**(37.8)**
Non-underlying items in tax	0.8	1.4	2.2	4.1
Total non-underlying items after tax	**(3.5)**	**(4.0)**	**(7.5)**	**(33.7)**

CAPITAL ALLOCATION

Adjusted Net debt* has reduced by £50.7m from £100.4m at 31 December 2020 to £49.7m at 31 December 2021. This reduction includes the repayment of deferred VAT amounting to £28.9m within the year. The adjusted net debt to underlying EBITDA ratio* was 0.3x for the rolling 12 months to FY21. The adjusted net debt to underlying EBITDA ratio has moved from 0.8x at FY20 principally as a result of the strong trading performance in the year, combined with the disposal proceeds from the sale of the remaining US assets received early in 2021. Overall, since the process began in 2018, the Group has received total proceeds of £106.0m, before tax for the disposal of its US dealership assets.

* This is an Alternative Performance Measure (APM), see page 117 for more detail.

FINANCIAL REVIEW

CASH FLOW

The following table summarises the cash flows and adjusted net debt of the Group for the twelve-month periods ended 31 December 2021 and 31 December 2020 as follows:

SUMMARY CASHFLOW AND ADJUSTED NET DEBT (£m)

	2021	2020
Underlying Operating Profit	**116.3**	**45.9**
Depreciation and Amortisation	36.1	43.7
Share Based Payments	2.9	1.2
Non-underlying Items	(1.8)	(10.1)
Contribution into defined benefit pension scheme	(12.8)	(12.5)
Working Capital and Contract Hire Vehicle Movements[1]	(41.2)	(0.7)
Cash Generated from Operations	**99.5**	**67.5**
Capital Expenditure	(17.7)	(23.6)
Fixed Asset Vehicles Net Movement	-	4.9
Business and Property Disposals	31.7	36.7
Net Capital Income[2]	**14.0**	**18.0**
Tax Paid	(7.1)	(4.4)
Interest Paid excluding lease interest[3]	(17.5)	(20.5)
Lease Payments & Receipts[4]	(36.7)	(39.8)
Other	(1.5)	(1.5)
Decrease in Adjusted Net Debt	**50.7**	**19.3**
Opening Adjusted Net Debt	100.4	119.7
Closing Adjusted Net Debt	**49.7**	**100.4**

[1] being the change in trade and other receivables, change in trade and other payables, change in stocking loans and movement in contract hire vehicle balances. [2] 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. [3] being bank and stocking interest paid. [4] being receipts of lease receivables and payment of lease liabilities including lease interest paid and received.

RECONCILIATION TO CONSOLIDATED CASH FLOW STATEMENT (£m)

	2021	2020
Net Cash From Operating Activities	**63.2**	**29.6**
Net capital income	14.0	18.0
Receipt of lease receivables	2.2	1.9
Net cash from investing activities	**16.2**	**19.9**
Financing cash flows as included above		
Payment of lease liabilities	(27.2)	(28.7)
Financing cash flows not included above relating to loans		
Repayment of loans	(88.8)	(40.0)
Proceeds from issue of loans (net of directly attributable transaction costs)	18.7	18.2
Net cash outflow from financing activities	**(97.3)**	**(50.5)**

FINANCIAL REVIEW

The cash generated from operations was an inflow of £99.5m in FY21 compared to an inflow of £67.5m in FY20 with an increase in underlying operating profit of £70.4m to £116.3m (FY20: £45.9m) with the year on year growth driven by a combination of a very strong trading period and the comparative period last year being impacted by the more severe impact of the first national lock-down in the first half of FY20. In addition to the improvement in underlying operating profit, there was also a significant reduction in cash non-underlying items, falling to £1.8m in FY21 compared to £10.1m in FY20.

These improvements were partially offset by a working capital outflow of £41.2m (FY20: £0.7m) which was driven by combination of the payment of VAT deferred from 2020 under the Covid-19 government support scheme amounting to £28.9m, an out flow of approximately £17m following the reduction in new car inventory and the associated loss of VAT timing benefits, and an approximate £17m outflow relating to increased cash funding of used vehicles as a result of an approximate 40% increase in used car valuations over FY21. These outflows were partially offset by approximately £20m of inflows, driven by a combination of factors including; higher levels of customer deposits; inflows relating to lower levels of manufacturer bonus and finance income debt and; a winding down in US debtors following the disposal of the remaining businesses.

The net capital income of £14.0m (FY20: £18.0m) was principally driven by £31.7m cash received from business and property disposals, comprising of £16.3m from the disposal of Los Angeles, £10.8m from the disposal of Santa Monica and £4.6m from the disposal of other excess property. Capital expenditure of £17.7m remained at a lower level as we continued to exercise caution as the risk of disruption from Covid remained prevalent. In addition, a number of major projects that were expected to be completed in the second-half of FY21 were impacted by supply constraints and will complete in FY22.

Lease payments and receipts were £3.1m lower year on year at £36.7m. The impacts of annual rent increases were more than offset by reductions from re-assignment, sublet or expiry of a total of 12 leases of vacant stores, a small number of compounds and other properties in the UK completed in FY21, and which will result in an annual equivalent rent reduction of c.£2.0m, together with the full-year impact of the 15 lease exits completed during FY20 and a reduction relating to the disposal of US leases. The Group continues to focus on the management of its vacant leasehold property portfolio and expects to make further progress with the exit of a number of these leases in FY22.

With effect from March 2021 in respect of light commercial vehicles, and with effect from June 2021 in respect of passenger vehicles, the way in which the Group acquires vehicles from Ford changed. From these two respective dates, the Group became the importer of Ford vehicles into the UK, rather than acquiring the vehicles from Ford UK. This has led 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. Taking into account the revised expectation of new car supply, the resulting change in monthly cashflows over the course of a year is estimated in the range of -£1m to -£21m, 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 increased adjusted net debt by approximately £1.6m, which was lower than originally expected due to lower stock levels than originally anticipated.

FINANCIAL REVIEW

BALANCE SHEET SUMMARY

The following table summarises the balance sheet of the Group at 31 December 2021 and 31 December 2020.

BALANCE SHEET (£m)

	2021	2020
Property	217.6	222.8
Plant & Equipment	24.2	46.6
Goodwill	150.3	150.3
Intangible Assets	11.1	10.2
Right of Use Assets - property	126.5	146.0
Contract hire vehicle assets	131.2	157.4
Inventories	512.8	608.8
Receivables[1]	118.9	113.2
Net Assets Held for Resale[2]	10.4	31.7
Net Tax Balances[4]	26.6	37.8
Total Assets	**1,329.6**	**1,524.8**
Payables[3]	(689.1)	(829.3)
Lease Liabilities	(222.1)	(243.2)
Contract hire vehicle Liabilities	(119.5)	(149.7)
Retirement Benefit Obligations	(23.6)	(75.5)
Adjusted Net Debt[5]	(49.7)	(100.4)
Total Liabilities	**(1,104.0)**	**(1,398.1)**
Shareholders' Funds	**225.6**	**126.7**

[1] being trade and other receivables and finance lease receivables [2] being assets classified as held for sale and liabilities directly associated with assets held for sale
[3] being trade and other payables less contract hire liabilities [4] being deferred tax assets, current tax assets and current tax payable
[5] being cash and cash equivailents and interest bearing loans and borrowings

Net assets have increased from £126.7m at 31 December 2020 to £225.6m at 31 December 2021. At 31 December 2021, the Group had £217.6m (£344.1m including IFRS16 right of use assets) of land and property assets (31 December 2020: £222.8m (£368.8m including IFRS16 right of use assets)). The reduction in property principally reflects the disposal of excess property together with depreciation, partially offset by capital investments.

The movement in plant and equipment is largely driven by a combination of ongoing depreciation, which is impacted by a lower level of capital expenditure, together with a transfer of vehicle fixed assets to inventory. Previously included within plant & equipment were cars used as employee cars and as service loan vehicles amounting to approximately £19m. These vehicles are turned several times during the year and are made available for sale either immediately or not long after purchase as part of the Groups normal business activities. Considering the short life span of these assets it was decided that as at 1 January 2021 those vehicles would be reclassified as inventory to better reflect their current asset nature.

Stock has reduced by £95.9m to £512.8m (31 December 2020: £608.8m), which is largely as a result of a reduction of c.£210m in new car inventory driven by manufacturing shortfalls resulting from the well-publicised chip shortages. This reduction has been partially offset by an increase in used vehicle inventory of approximately £110m driven by an increase in the average value of used cars in stock, which have appreciated by c.40% compared to FY20 combined with the transfer of cars from fixed assets to inventory of £18.9m as outlined above, partially offset by a lower level of demonstrator vehicles.

Net assets held as for sale have reduced by £21.3m to £10.4m, principally driven by the completion of the disposal of the remaining US assets early in 2021.

The reduction in payables of £140.2m to £689.1m (31 December 2020: £829.3m) principally relates to the lower vehicle creditors as a result of the reduction in vehicle inventory together with a reduction in the VAT creditor driven by the repayment of £28.9m of deferred VAT.

The net liability for defined benefit pension scheme obligations has decreased from £75.5m at FY20 to £23.6m at FY21. The decrease of £51.9m comprises of contributions of £12.8m, a net interest expense recognised in the income statement of £1.0m and a net actuarial gain of £40.1m. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The Group contributed £12.8m 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.

The following table summarises the balance sheet of the Group at 31 December 2021 and 31 December 2020.

DIVIDEND

The Group is not proposing a final dividend for 2021.

REVOLVING CREDIT FACILITY (RCF)

In March 2022 the Group refinanced its £175m RCF and £60m Private Placement, both of which were due to mature in March 2023. The new facilities comprise a 5 year, amortising, £100m Term Loan, maturing March 2027, with the Group's existing Private Placement lender plus a new lender, and a £75m 3+1+1 RCF with the Group's existing bankers, maturing March 2025, with extensions available at the election of lenders to March 2026 and then March 2027.

RISK OVERVIEW AND MANAGEMENT

PRINCIPAL RISKS

Recognising that all businesses entail elements of risk, the Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The Board continues to carry out robust assessments of the Group's emerging and principal risks in relation to its strategy and overall business objectives. The table on pages 44 to 52 is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. A key has been added to these tables to further explain the relationship between each principal risk and the Group's three strategic pillars. The specific risks are not intended to represent an exhaustive list of all potential risks and uncertainties. Thorough risk reviews, involving company-wide participation, have been completed in 2021 by the Risk Control Group. There were no new risks identified as a result, though a number of risks and mitigation disclosures have been updated as a result, including:

- Risk relating to Covid-19 is no longer considered a principal risk and the residual risk factors are now reflected within certain other principal risk disclosures, including Health & Safety, People, Strategy, and Manufacturer Relations. This approach recognises that the risk of Covid-19 has not gone entirely away and the changes made to our people safety, customer journey and supporting business processes have increased our Group's resilience to a level where we regard the situation as business as usual.
- Risk relating to the UK's trade agreement following the UK's exit from the EU is no longer considered a principal risk and the residual risk factors are now reflected within the Manufacturer relations risk disclosure
- Risk relating to Technology and Information Systems, and Information and Cyber Security are now presented as two separate principal risks, whereas these were previously consolidated as one principal risk. This aligns to how these risks are managed across our focused governance structures. The actions within our information security improvement plan have been largely completed. During 2022, for additional assurance, there will be independent assessments conducted of the impact these actions have had on the control environment
- Risk relating to climate change, and all other aspects of Environmental, Social and Governance responsibilities is overseen by a new committee, formed in September 2021 with a remit to provide strategic direction and oversight. The Group does not consider these risks to be principal risks, but does recognise that they are important aspects of existing principal risks relating to Environment and Regulatory & Compliance.
- People related risk has increased in likelihood, driven by external factors and in line with what is occurring in the wider population as the nation emerges from the pandemic and the economy and labour market picks up. A number of mitigating actions have been implemented in second half of 2021, including enhancements to associates overall employment benefits and the appointment of a Chief People Officer. Further mitigation actions are planned for 2022.

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 64.

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. Controls are designed to ensure that the Group's financial reporting presents a true and fair reflection of the Group's financial position. During 2021 the Group completed a Finance Transformation programme and this has centralised and streamlined the operation of its Motor Division key financial controls, including those relating to supplier payments, debtor management and balance sheet reconciliations.

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. During the year the risk management process was enhanced further, with the implementation of on-line risk registers. This has made the consolidation and review of risk information more efficient and effective. The content of the risk registers is 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 43. The Group follows the principles of the Three lines assurance model and during 2021 a formal assurance map was documented with management and discussed with the Audit Committee. In addition to the responsibilities of management, the Group deploys specialist Second line support and oversight for certain principal risks through dedicated teams including Finance & Insurance and Health & Safety. In addition, a well-established Internal Audit function provides independent Third line assurance, with priorities being agreed at least annually with the Audit Committee. Any control issues identified by Internal Audit and Second line teams, follow a strict protocol to ensure their effective and timely remediation. Examples of internal audits carried out during 2021 included sales invoicing, vehicle & finance/insurance products sales system, and used car buying.

RISK OVERVIEW AND MANAGEMENT

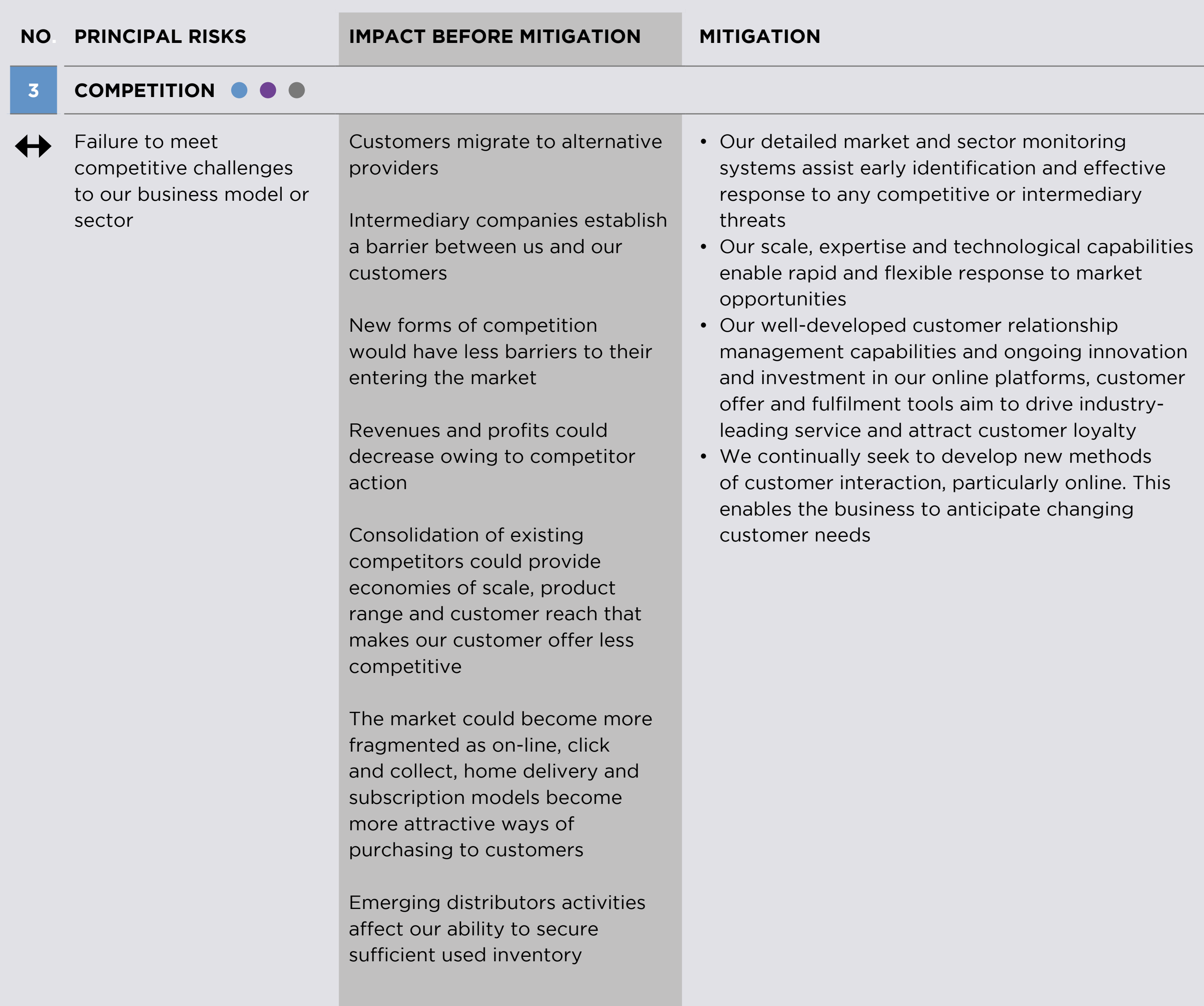
Residual Risk Trend: ↔ Unchanged ↑ Increasing ↓ Decreasing

Link to Strategy: ● Unlock value in franchised UK Motor ● Grow and diversify Pinewood ● Disrupt UK used car sales

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
1	**STRATEGY** ● ● ●		
↔	Failure to adopt the right strategy, or Failure of our adopted strategy to deliver the desired outcomes, or Failure to implement our strategy effectively Delay to strategic delivery and investment financial constraints as a result of Covid-19	We miss our profit growth and/or debt management target, alienate key stakeholders and are unable to invest adequately in our business 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	• Our strategy is informed by significant research and market data • 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 the Annual Report • 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 & Transformation and other dedicated resources to support the delivery of our strategic initiatives and provide robust governance, including financial tracking • Our sophisticated management information identifies threats to the success of our strategy both during the planning and implementation phases, and informs mitigating actions, both directionally and operationally • We ensure that we monitor our manufacturer and third party customer service measures and take action in the event of low scores • We focus strongly on efficient use of working capital through embedded disciplines, especially in relation to vehicle inventory • We review capital expenditure plans to ensure our ROI objectives are achievable • Our business plan has been fully refreshed in 2021 and has taken into account the latest economic predictions

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
2	**MANUFACTURER RELATIONSHIPS**		
	Dependence on vehicle manufacturers for the success of our business Failure to maintain sustainable, mutually rewarding relationships with our manufacturers	Failure of, or weaknesses in our vehicle manufacturers' financial condition, reputation, marketing, production and distribution capabilities (including those arising from the ongoing effect of coronavirus Covid-19 such as the shortage of semi-conductors and other disruptions to the supply chain); or the effectiveness of the supply chain response to EU Trade Deal Rules of Origin; or a lack of alignment with manufacturers' remuneration systems for dealers impairs our investments and prevents us achieving our profit goals Failure to adapt to the impact of lower new vehicle registrations on future Aftersales revenue streams within our business Failure of our vehicle manufacturers to develop within required timelines to meet both regulatory and consumer requirements around BEV and Hybrid emission vehicles 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 Failure to positively adapt to OEM consolidation such as the creation of multi brand operations and network rationalisation Failure to positively adapt to changes Manufacturers are introducing or may make to their business models, including the introduction of agency distribution models, direct sales to customers, increased involvement in the used vehicle market, and other changes that may affect the traditional dealer franchise model Failure to positively adapt to changes in Competition regulation, following the expiry of the Vertical Block Exemption Regulation 330/2010 in May 2022 and any new regulations arising	• Our diverse franchise representation avoids over reliance on any single manufacturer • Our close contact with our vehicle manufacturers seeks to ensure our respective goals and strategic decisions are communicated, understood and aligned, to deliver mutually acceptable performance • Our appropriately targeted investment in franchise assets and our performance maintains our reputation as a quality representative for our brand manufacturers • Our investment in marketing initiatives and our online presence supplement and enhance our market presence and offering over and above manufacturers' marketing effort • Our diverse franchise representation ensures new vehicle inventory is supplied from a wide variety of sources • 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 • Our ongoing innovation and investment in customer choice as to how they wish to purchase a vehicle makes us an attractive partner to OEMs • 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

RISK OVERVIEW AND MANAGEMENT



NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
3	**COMPETITION**		
↔	Failure to meet competitive challenges to our business model or sector	Customers migrate to alternative providers Intermediary companies establish a barrier between us and our customers New forms of competition would have less barriers to their entering the market Revenues and profits could decrease owing to competitor action Consolidation of existing competitors could provide economies of scale, product range and customer reach that makes our customer offer less competitive The market could become more fragmented as on-line, click and collect, home delivery and subscription models become more attractive ways of purchasing to customers Emerging distributors activities affect our ability to secure sufficient used inventory	• Our detailed market and sector monitoring systems assist early identification and effective response to any competitive or intermediary threats • Our scale, expertise and technological capabilities enable rapid and flexible response to market opportunities • Our well-developed customer relationship management capabilities and ongoing innovation and investment in our online platforms, customer offer and fulfilment tools aim to drive industry-leading service and attract customer loyalty • We continually seek to develop new methods of customer interaction, particularly online. This enables the business to anticipate changing customer needs

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
4	**ENVIRONMENTAL**		
	Progression towards greener technologies, autonomous driving, and/or pay-per-use, rather than owning a vehicle UK taxes change to penalise road use, fuel type, vehicle use and to increase VAT 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 OEMs restricting distribution of certain vehicle models in the UK in response to emission targets Failure to recognise and minimise the environmental impact of our business activities	Customers choose greener vehicles we cannot supply Overall vehicle parc reduces Vehicle purchase and use declines, adversely affecting revenue opportunities Lower demand for petrol, diesel and hybrid vehicles and potential impact on vehicle residual values 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 Reductions in sales volumes or margins due to loss of certain product lines and future aftersales opportunities Investment cost to adapt to a broad range of BEV products by 2030 and PHEV and MHEV by 2035 is not adequately considered	• We represent vehicle brands which are responding effectively to the greener technology agenda and latest Government timescales • We identify trends in demand through our sophisticated management information and analysis tools and tailor our model accordingly • We monitor sales by fuel type to maintain an appropriate inventory profile • Our breadth of relationships with asset finance companies and geographic footprint help us to provide innovative mobility solutions for private and business vehicle users, whatever their needs • We maintain the right level of tax expertise to interpret and assess proposed changes, respond with well-informed advice and effectively assist our strategic planning and the design and implementation of appropriate mitigating actions • The Group's Environment Policy has recently been refreshed, in order to provide further specific oversight and direction as to the impact of the Company's activities on climate change, nature loss, solid waste (including single use plastics) and resource availability. We continue to develop, enhance and monitor our operational standards, ensuring that environmental priorities are accounted for appropriately in planning and decision making, and where possible, the impact of our activities on the environment is reduced or minimised.

RISK OVERVIEW AND MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
5	**REGULATORY AND COMPLIANCE**		
↔	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 & Insurance products to our customers, or adverse changes in trade tariffs Failure to respond to changes in legislation, in particular in relation to environmental, labour relations, and governance, which could lead to shareholder and other stakeholder dissatisfaction	This could lead to fines, criminal penalties, litigation and an adverse impact on our reputation, financial results, and/or our ability to do business. We may be restricted from continuing certain business activities, such as those regulated by the FCA Resources are diverted to address urgent remediation, as well as taking proceedings or defending legal or regulatory action The ability to obtain appropriate inventory is impeded and/or purchase costs rise	• 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 • Our culture focuses strongly on good compliance delivering good performance • We operate a Finance & 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 • Our team of compliance specialists design, and we communicate effectively, processes that support our businesses to minimise the risk of non-compliance • In the case of new vehicles, our diverse representation mitigates the risk and for parts we maintain alternative sources of supply where possible • In September 2021 we implemented a committee to provide strategic direction and oversight to our Environmental, Social and Governance agendas. The work of the committee will be informed by our self-assessment of ESG practices, which has recently been conducted using an independent benchmarking tool. Further information can be found at page 55 within our ESG Repor
6	**TECHNOLOGY AND INFORMATION SYSTEMS**		
↔	Failure of our IT infrastructure or key systems, including failure to maintain and build performance, capacity and resilience Failure to invest in new technologies and maintain a cohesive and comprehensive technological capability	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	• We adopt and regularly update robust Disaster Recovery measures, including within our dealer management systems • • We operate a Pendragon Group IT function, reporting to the Chief Information Officer, to set strategy for technology including cloud-based systems and processes. Disaster Recovery capability and systems availability is in place for all core systems

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
7	**INFORMATION AND CYBER SECURITY**		
	Failure to meet our business objectives due to an inability to protect our customers, personnel and our assets from security threats and vulnerabilities associated with our business activities	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	• The Chief Information Officer has reviewed our cyber security measures through an independent third party • An Information Security Improvement Plan is in-flight, supported by an external advisor to provide oversight and direction to remediation activities • The Information Security Steering Committee, operational since March 2020, oversees change and operational activities relating to information security. Various improvements have been delivered over the last year, including centralised management of all devices across the estate, including dealerships, advanced threat protection on all user devices, and process improvements. Further improvements are planned for this year, including obtaining Cyber Essentials certification to demonstrate our maturity • 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 • We have cyber liability insurance in place, that includes Cyber Incident Response Centre, providing access to expertise to assist during a crisis
8	**DATA SECURITY AND DATA PRIVACY**		
	Failure to comply with legal or regulatory requirements relating to data security or data privacy in the course of our business activities	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	• We regularly review our data protection policies, controls, Associate training and the use of third party systems • Our Pinewood business monitors cyber security threats and has systems and processes in place to deal with incidents • We have cyber liability insurance in place • The Chief Information Officer has reviewed our cyber security measures through an independent third party. An Information Security Improvement Plan is in-flight, supported by an external advisor engaged to provide oversight and direction to remediation activities • The Information Security Steering Committee has been operational since March 2020 to oversee change and operational activities relating to information security • A Data Protection Steering Committee is in place to govern GDPR risk management activities

RISK OVERVIEW AND MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
9	**RELIANCE ON ESTIMATES**		
↔	Failure to maintain reliable systems and methods for provision of financial estimates	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 with particular risk from fluctuating used vehicle prices and the retirement benefit obligation Reputational damage and inability to raise funding for the Group's business Revenue and profits all suffer damage	• We assess actual outturns of previous estimates to test the robustness of adopted assumptions, and adjust the estimating approach accordingly • We support estimates with reliable external research where available
10	**PEOPLE**		
↑	Failure to attract, motivate, develop and retain the required capability and promote an appropriate culture to deliver our business & people strategy	This could lead to an inability to deliver our business strategy and achieve our focused results. We could lose market share and adversely affect our customers owing to poor service Loss of key personnel and skilled workers (e.g. technicians) would impact operational performance, and relationships with key brand partners and suppliers Colleague engagement deteriorates due to difficulties experienced directly or indirectly by the pandemic, including the Great Resign, economic instability, and wellbeing of the workforce An unprecedented rise in salaries could increase our fixed costs to a level that is unsustainable for the organisation to compete	• We have appointed a Chief People Officer who is responsible for delivering a people strategy • The HR Transformation Steering Group is responsible for overseeing change and all operational activities relating to associates • We are investing in strategic workforce planning in order to be ahead of the competition with regards to future skills needed • We focus on clear learner journeys and career paths to ensure we have the right skills in the organisation • We invest in online means of attraction and recruitment, targeting the right quality candidates • We continually review our performance management framework, to ensure it remains effective and is linked to competencies and career pathways • We continually review and adapt for the market conditions our employment terms, salaries and performance related pay elements at all levels • We adopt and renew responsive succession plans for all key roles. Within our Motor Division we complete a Talent Review twice yearly • We regularly review our policies, controls & Associate training. We leverage our scale to afford training opportunities and progression within the Group • We continuously improve our cultural purpose and behaviours to recognise and engage our associates beyond monetary reward

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
11	**MACRO-ECONOMIC, POLITICAL AND ENVIRONMENTAL**		
↔	European economic instability and/or UK or Global economic and business conditions deteriorate UK Governmental spending constraints Longer term unemployment resulting in lower consumer spending, in particular on big ticket items	Fewer purchasers of vehicles Spend on luxury purchases reduces due to higher unemployment and job insecurity Vehicle manufacturers oversupply into UK market or alterations to supply terms, damages margins and vehicle values Lower demand for vehicle servicing	• 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
12	**FINANCE & TREASURY**		
↓	Lack of availability of debt funding	As set out in more detail in note 4.2 the Group has an amortising Senior Term Facilities Agreement of £100m maturing in March 2027, and a Revolving Credit Facility of £75m maturing in March 2025, with extensions at the option of the lenders to March 2026 and then to March 2027. Without the requisite facilities the Group would be unable to meet debt obligations	• Our business model produces strong free cash flow generation • We maintain adequate committed facilities to meet forecast debt funding requirements and have recently agreed new debt facilities to mature between March 2025 and March 2027 • Diversification of funding sources, monitor daily our funding requirements
	Increasing Pension liabilities arising from our defined benefit scheme	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	• The Defined Benefit Scheme was closed to new entrants in 2000 and for future service accrual in 2006 • Regular review by our pension trustees of investment strategy and liability reduction and risk mitigation, taking professional advice, including triennial valuations • Deficit funding recovery plan in place

RISK OVERVIEW AND MANAGEMENT

NO	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
13	HEALTH, SAFETY & ENVIRONMENTAL		
↔	Failure to provide safe working and retail environments 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, or fail to make appropriate safety choices as Covid-19 regulation is reduced/ removed Failure to control the environmental hazards present within our operations	This could lead to illness and injury, fatalities, lost working time, civil claims and clean-up costs Our reputation could be adversely affected and regulatory action could result in prohibition, fines and criminal penalties and closure of businesses We experience issues with short-term staff shortages if new variants of the virus emerge and subsequently spread amongst our workforce, or if large teams are required to isolate 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	• We work to the Health & Safety Executive's 'Plan, Do, Check, Act' framework for managing risk in the workplace • We allocate clear responsibilities for delivery of safe places to work and shop • In consultation with the business and where appropriate, external specialists we adopt process-driven initiatives to mitigate specific risk areas • We are well prepared with robust provision for safe-working under socially distanced conditions, with enhanced hygiene protocols and rapid response to localised issue. Safety remains our number one priority and is monitored by a centrally coordinated team. Plans are in place should the situation escalate again • We measure and review our performance against appropriate benchmarks • We allocate local accountability for sites' compliance and provide specialist support to responsible leaders • We monitor site conditions and drive corrective action through audit follow-up • 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 • 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

VIABILITY STATEMENT

VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (the 'Code'), taking into account the company's current position and principal risks, the Directors have assessed the viability and prospects of the company over the three-year period to 31 December 2024.

The Group normally expects to have in place facilities of three-years and therefore this remains the appropriate time-frame to assess viability. 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 a severe downturn to vehicle volumes and margins based on externally sourced forecasts, restricted new car supply due to manufacturing constraints and the impact of two further Covid-19 related national lock-downs of one month duration as a result of government-imposed restrictions. In this scenario, capital expenditure has been reduced to run-rate expenditure and committed projects.

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 are mindful of the potential impacts to macro-economic conditions and further risk of disruption to supply chains that the conflict in Ukraine presents, but after assessing the risks do not believe there to be a material risk to going concern.

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 42 to 52. The risk disclosures section of the consolidated financial statements set out the principal risks the Group is exposed to, including strategic, operational, economic, market, environmental, credit, technological, regulatory and team member resource. The Board considers risks during the year on triannual basis through the Risk Control Group and annually at a Board meeting with ad hoc reporting as required.

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

The availability of debt funding. New agreements for both the revolving credit facility and private placement were signed in March 2022 and expire after the three year period to 31 December 2024. Covenant tests have been performed on the severe but plausible downside scenario which resulted in no covenant breaches.

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. 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 2021, 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 2024.

Approved by order of the Board

Mark Willis
Chief Finance Officer
23 March 2022

DIRECTORS' REPORT

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group has re-evaluated its responsibilities to our customers, investors, associates, suppliers and the public in terms of how our activities as a retailer impact the natural environment, how we treat people such as our employees, customers and those in the communities in which we operate and how we control and govern the operation of our Company.

It is clear that the context in which businesses, including our own, now operate is being increasingly transformed by climate change, nature loss, social unrest around inclusion and working conditions, Covid-19 and changing expectations as to the role of corporations, such as the part businesses are expected to play regarding equality and access to economic opportunities. Although the Group has operated various environmental, social and governance related policies for a number of years, including the following:-

- Diversity and Equal Opportunities Policy;
- Anti-Slavery and Human Trafficking Policy;
- Gender Pay Gap Report;
- Environment Policy,

Amongst others, this first combined environmental, social and governance ("ESG") report aims to set out transparently:-

- Where the Group is today in terms of environmental, social and governance measures already in place, including what standards and measures we currently work to and monitor;
- Where the Group aspires to be in the future, in terms of future targets and plans to improve our ESG reporting and the efficacy of the measures we implement;
- How the Group aims to achieve our targets, with appropriately defined milestones achievable over the medium to long term, against which we can monitor our progress.

Although the Group already has a number of high level ESG measures and controls in place, clearly, it is recognised that in some areas of ESG implementation, we are still at the beginning of a journey of continuous improvement, as we seek to progress our ESG initiatives to maturity, as part of, and aligned to our wider strategic objectives.

ENVIRONMENTAL REPORT

Since 2009, the Group has operated to a formal Environment Policy, pursuant to which our responsibility to protect the environment and minimise the environmental impact of our activities is explicitly recognised. In partnership with our associates, manufacturers, customers and suppliers, the Company aims to operate to high standards of environmental protection appropriate to its business activities.

The Group's Environment Policy has recently been refreshed, in order to provide further specific oversight and direction from the Board of directors as to the impact of the Company's activities on climate change, nature loss, solid waste (including single use plastics) and resource availability. We continue to develop, enhance and monitor our operational standards, ensuring that environmental priorities are accounted for appropriately in planning and decision making, and where possible, the impact of our activities on the environment is reduced or minimised.

We are pleased to confirm that we have included in our Environmental Report certain of the climate-related financial disclosures consistent with the four recommendations and the eleven recommended disclosures set, however as we try and align our approach to the updated TCFD additional guidance (Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (2021 TCFD Annex)) which was released in October 2021, there are some recommendations in the 2021 TCFD Annex: All Sector Guide that will require more time for us to fully consider. In line with the current Listing Rules requirements (as referred to in Listing Rule 9.8.6R(8)), the areas where we require more time to implement are:

- A description of specific climate related issues arising in each time horizon and how these issues serve as an input to our financial planning process, the time periods used and how these risks and opportunities are prioritised.
- A description of the relative significance of climate related risks in relation to our other principal risks, and how we have determined the potential size and scope of these risks.
- A description of the specific key climate related targets and the metrics used to assess climate related risks and opportunities, including the key metrics used, how these are incorporated into remuneration policies, internal carbon prices and historic comparative information for these metrics, including the methodologies used.
- Provision of Scope 3 emissions and the related risks.

We will be working to implement the rest of the 2021 TCFD Annex recommendations over the course of the next two years, except for scope 3 emissions where further clarity is needed as to what is applicable for the Group, and intend to apply these more fully in our future TCFD reports as required by the Listing Rules.

In relation to the TCFD thematic areas, the Company's current position is detailed in the table below.

ENVIRONMENTAL REPORT

Governance	Strategy	Risk Management	Metrics and Targets
The Board of directors is responsible for setting the Company's Environment Policy, which outlines our principles and approaches to protect the environment, minimise the environmental impact of our operations and provides a governance framework to manage climate related risks and opportunities. In addition to this policy framework, the Company has established an ESG working group tasked with taking forward a number of initiatives, including in relation to our approach to the environment and assessing and managing climate related risks and opportunities.	The actual and potential impacts climate change can make on our business, strategy and financial planning are outlined further in this Environmental Report below. However, in outline, HM Government's decision to ban the sale of all new petrol and diesel vehicles by 2030 presents a significant opportunity for the business to harness the move to PHEV and BHEV vehicles, which provides resilience in our future strategy initially in the new market but, increasingly over time, in the used vehicle market as consumers move to these products. Initiatives to reduce our impact on the environment are detailed further below. The Group will continue to monitor climate related risks and opportunities to ensure that the Group is resilient and well prepared to face any emerging issues and engages regularly with both manufacturers and consumers to facilitate this.	Climate related risks are considered as part of our wider risk assessment processes, and in the groupwide assessment of principle risks and uncertainties detailed earlier in this report at pages 42 to 52.	Our assessment of climate related risks and opportunities is summarised below; as we have indicated, although we have a number of high level measures already in place, we are still at the beginning of our journey in terms of improving and enhancing our metrics and targets in relation to (i) climate change; (ii) land use and ecological sensitivity; (iii) solid waste and single use plastics and (iv) product diversification. We anticipate that both our metrics and targets will be developed and enhanced further over time as our ability to collect and collate the necessary data becomes more sophisticated.

CLIMATE CHANGE: REDUCING CARBON AND WASTE

Recognising the goals of the Paris Agreement to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit global warming to 1.5°C, the Company's objective is to achieve annual reductions in the amount of CO2 we emit from our facilities and our driving activities.

Our Target:	Our Progress:	Initiatives to ensure continued delivery:
Annual reductions (where possible) in the amount of CO2 emitted from our facilities and driving activities.	We have reduced the tonnage of C02 emitted from our facilities by 512 tonnes year on year, and the tonnage of C02 emitted from driving activities by 2,889 tonnes year on year.	• Increased and ongoing electrification or hybridisation of company car fleet, and selection of most energy efficient vehicles where possible; • Continued reduction of carbon emissions from commuting activity through hybrid and remote working and technological solutions; • Setting defined and measured routes for customer demonstrator vehicle usage to reduce emissions; • Improving the energy efficiency of our facilities led by the results of mandatory energy assessments of sites in accordance with the ESOS Regulations 2014; • Installation of LED lighting, limit periods when full lighting is used at facilities out of hours, auto closure of external doors, installation of insulators to limit heat escape, installation of solar panel and solar energy systems on any new build developments.

GLOBAL GREENHOUSE GAS EMISSIONS DATA

Source	Tonnes of CO_2 per £m	
	01.01.21 – 31.12.21	**01.01.20 – 31.12.20**
CO_2 emitted from facilities	5,616	6,128
CO_2 emitted from driving activities	12,419*	4,402
Intensity ratio (tonnes of CO_2 per £m of revenue)	**5.2**	**3.6**

*It should be noted that a comparison to 2020 reported emissions, at 4,402 tonnes is flat. This was due to a change in methodology, with only some categories of travel included in the 2020 methodology, and, in particular, emissions from commuting were previously excluded. Interpath analysed mileage, vehicle and employees Data for three years (2019-2021) to quantify the total mileage and CO2 emissions across internal operations (company cars, service loans, demonstrators, parts vans) and employee commutes. Vehicle sales are outside the scope of the review. The mileage of vehicles was extracted from vehicle stock and sales information. A vehicle master list was provided from CAP HPI to provide carbon emissions data for each vehicle. Employee home and work postcode information was used to calculate commuting distances, with an average C02 emissions per mile (based on the UK average) used to calculate the total emissions.

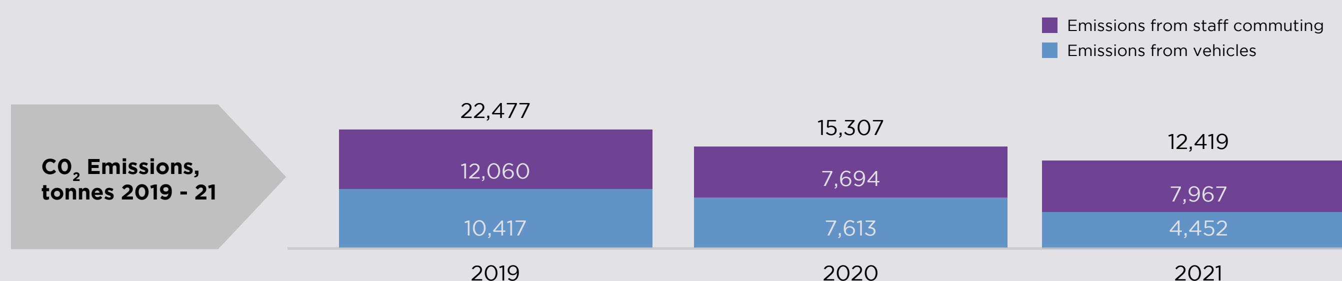
ENERGY USAGE

	2021	2020
kWh	26,721,975	25,864,153

*Scope 1 only

In 2021, the Company engaged Interpath Advisory, a specialist financial advisory business to review and quantify the carbon emissions generated by its internal fleet and Associates commuting to work for the period 2019-2021. Emissions have been quantified across various business dimensions, including division, make, model and usage profile in order to understand how our business activity in this area contributes to carbon emissions. Overall, emissions for 2021 were 12,419 tonnes, of which 4,452 tonnes was from internal fleet operations and 7,967 tonnes from commuting, representing a 19% decrease on total 2020 emissions which was entirely driven by the reduction in internal fleet emissions, which dropped from 7,613 tonnes in 2020 to 4,452 tonnes in 2021.

Over the period 2019 to 2021, emissions have declined by 45% from 22,477 to 12,419 tonnes, due to a combination of structural changes in the business and improved efficiency in the vehicle fleet. Structural changes were a reduction in the total number of employees from 7,850 in 2019 to 5,267 in 2021, together with a reduction in the number of locations from 204 to 164. Fleet mix changes resulted in average emissions per mile decreasing from 210.4 g/mile to 191.7g/mile, due to more efficient vehicles being used. This was markedly the case in the delivery vehicles (drop cars) category, with average emissions dropping by 79g/mile, a 32% reduction.



ENVIRONMENTAL REPORT

LAND USE AND ECOLOGICAL SENSITIVITY

The Group remains conscious of the impact of its land use and dealership footprint on the environment. Consequently, where new dealerships or developments are proposed, wherever possible, we prioritise the development of brownfield sites or the repurposing of our existing estate accordingly. For all our new developments, active steps are taken in conjunction with the relevant local authority to prepare and agree a biodiversity plan suitable for the location being developed. In addition, the majority of new developments are prepared and assessed in accordance with BREEAM 'Very Good' standards, which are intended to assess the design, construction and intended use and future-proofing of new building developments, including the local, natural or manmade environment surrounding the building.

Our Target:	Our Progress:	Initiatives to ensure continued delivery:
Prioritise the development of new dealerships or developments on brownfield sites or by repurposing the existing estate	Development of new sites at Chesterfield, Trafford, Borehamwood and Warrington on brownfield sites	• Agreed biodiversity plans with the local authority • Assessment of new build sites in accordance with BREEAM 'Very Good' standards.

SOLID WASTE: SINGLE USE PLASTICS

Although we are not a manufacturer, the Group uses a significant volume of single use plastics through our supply chain, primarily in terms of aftersales parts. In 2021, we successfully recycled 65.73 metric tonnes of single use plastics across all our businesses. However, we estimate that this is only a proportion of the total single use plastic used across the Group, and we are now actively reviewing our procurement activities with a view to developing a set of procurement standards and best practice which will include, inter alia, renewing and refreshing the recycling expectations across all our businesses, as well as the review of supplier packaging to further target a reduction of single use plastics forming part of packaging or product supplied to us wherever possible.

Our Target:	Our Progress:	Initiatives to ensure continued delivery:
Reduce use of single use plastics procured through the Group's supply chain and increase tonnage of single use plastics recycled.	We recycled 65.73 metric tonnes of single use plastic in 2021.	• New procurement standards requiring Group suppliers to demonstrate initiatives/steps to reduce single use plastic • Requirement on suppliers to minimise packaging waste • Re-communication to businesses in terms of recycling expectations and ethos.

PRODUCT DIVERSIFICATION

The UK Government has announced that by 2030, the sale of new petrol and diesel powered cars in the UK will end. In line with this Government commitment, and acting primarily as a retailer in conjunction with our manufacturer/OEM partners, we are actively and consciously working to promote and further the sale of battery, electric and hybrid vehicles across our businesses. We continue to evolve our Group strategy accordingly to ensure it remains resilient to the changing product mix. We consider the move to PHEV and BHEV products as part of our corporate planning processes. Although we are pleased to report that interest in electric powered vehicles continues to rise across the Group, with sales of both PHEV and BHEV vehicles increasing year on year, we are also acutely conscious that there is still a long way to go before electric vehicles become the dominant choice of our customers.

Notwithstanding our increased and continued efforts to diversify the range of products we retail, including furthering the retail and promotion of new electric vehicles, we also recognise that as a standalone retailer of used vehicles, the retail of petrol and diesel used vehicles will continue for a number of years as these legacy vehicles continue to work through retail channels. In time, we anticipate that the availability of used electric and hybrid vehicles will increase, as these become the pre-dominant, and eventually, only vehicles available in the new market, and technology continues to improve.

Our Target:	**Our Progress:**	**Initiatives to ensure continued delivery:**
Increase percentage of Group revenue attributable to the sale of electric vehicles.	Year on year, we have increased sales of new electric and hybrid vehicles by 5.8%, and sales of used electric and hybrid vehicles by 13.3%.	• Close liaison with our OEM partners to promote diversification into electric vehicle sales; • Target to install 500 electric vehicle charging points across our dealership and property estate by 2025;

SOCIAL REPORT

OUR PEOPLE

Our associates have a crucial role in delivering our strategy and creating value. We aim to be a responsible employer through all that we do. The health, safety and wellbeing of our associates are primary considerations in the way we do business. We work to attract, develop and retain the best talent, equipped with the right skills for the future.

ACCOUNTABILITY

Looking after our associates is essential and we continuously review our benefits offering. Our ambition is to offer an industry competitive total reward package that values our associates and enables us to be a responsible and attractive employer. This year we extended life assurance for all our people and introduced a critical illness sick pay policy to ensure our associates could feel comfortable in the knowledge that there would be financial help for them should the worst happen. In order to promote the wellbeing of our workforce we also increased leave entitlement for a large proportion of the workforce. Pendragon continues to invest in pension scheme arrangements to support its associates, offering a choice of schemes allowing colleagues to select the most appropriate for their circumstances.

DIVERSITY AND INCLUSION

We strongly believe that diversity, inclusion and equality of opportunity for all our associates, no matter who they are, will be essential to our future success. People are the heart of our business and we remain committed to fostering a culture that is representative of the societies in which we live. We aim to ensure that our associates can bring their authentic selves to work and achieve their full potential. 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. This year we launched a mandatory learning programme for the business to educate our people with regards to their responsibilities in trems of diversity and inclusion.

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 UK Corporate Governance Code (Code). In order to further this objective in our recruitment processes, we continue to partner with Ruebik, an external recruitment agency committed to reaching and providing access to diverse talent pools to further diversify our talent pool on future appointments.

GENDER BALANCE

We describe our approach to Board composition diversity in the Nomination Committee's report on page 74.

Number of Group Employees by category

	as at 31 December 2021			as at 31 December 2020		
	Female	Male	Total	Female	Male	Total
Director	1	7	8	1	6	7
Senior Manager	2	8	10	2	8	10
All employees	1,186	4,068	5,254	1,393	4,143	5,536

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 in accordance with the statutory timescale.

LEARNING & DEVELOPMENT

Training and development is tailored and targeted to roles or services as part of a blended learning offer integrating online learning with virtual and classroom training (where covid regulations have permitted). Training is systematically planned and delivered to ensure Pendragon meets regulatory and statutory requirements and to ensure that both our associates and customers are not exposed to any risks. Individual and business development needs are identified in real time through performance check-ins and responded to as necessary. Internally we have completed over 54,130 thousand hours of training for our associates. In addition to this, we also work in collaboration with our manufacturer partners to deliver product and vehicle training to a high standard and ensure robust knowledge and expertise on the vehicles we sell.

COMMUNICATION & HYBRID WORKING

We aim to meet the challenges presented by our size and nationwide diverse geography through constant review of, and innovation in our internal communications, ensuring we reach all our associates. During the Covid-19 pandemic, we were early adopters of home working practices and technologies where practicable, to ensure the uninterrupted continuation of our businesses. This now embedded innovation has lead

to the adoption of a formal hybrid working policy across the Group, applicable where job role allows, providing our associates with a more flexible and considered approach to how and where they perform their work, where possible. We consider that the hybrid working model has significantly changed associate perceptions of the Company as an employer, as well as increasing productivity and efficiency. 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.

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, 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 on-line health and safety systems, operations manuals and regular communications on topical issues. Our health and safety management system provides our UK leadership and associates with detailed access to information, guidance and control measures.

COVID-19 AND HEALTH & SAFETY

During 2021 and the ongoing continuation of the Covid-19 pandemic, the Group took a number of actions to ensure that all businesses and areas remained as fully prepared as possible, and able to react to its continued impact. 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.

The Group's Crisis Management Team (CMT), consisting of the chief executive officer, chief finance officer, chief operating officer, company secretary, chief people officer, chief information officer and other members of senior operational leadership remains able to be convened rapidly to plan any ongoing responses and actions as necessary in relation to the pandemic, and continued to meet as necessary in 2021 to inform and plan appropriate responses to developments in the pandemic.

In addition, the company secretary regularly reviewed 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 updated and advised the CMT, the executive directors and operational leadership as to the prevailing legal position(s) to ensure we acted accordingly.

SOCIAL REPORT

Throughout 2021, specialists in our Group health and safety team continued to risk assess every dealership and workplace in accordance with HM Government approved Covid-safe working practices. Dealerships and other working environments 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-19 safe working audits were re-performed by the Group health and Safety team and logged on our MySafeCenta Health and Safety system to ensure practices were maintained. Appointed social distancing marshalls at each location advised, re-enforced and ensured social distancing and Covid-19 safe working practices continue to be followed. Covid-19 afe working training modules were developed and rolled out in conjunction with the Pendragon Learning Academy and our health and safety team collected incident data, allowing a daily Covid-19 Incident Summary to be collated for the Group on a dealership by dealership basis, ensuring leadership could 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, and continued to be used and revised in 2021, 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 an expected increase in RIDDOR1 reported accidents in 2021, rising to 43 per 10,000 employees (2020: 18 per 10,000 employees). This increase returns the Group to pre Covid-19 levels. 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 .

OUR COMMUNITIES

Our strategy considers the impact of the company's operations on the community and our wider societal responsibilities.

We are predominantly a retail operator, with a tangible presence in the many communities our businesses serve. During 2021, as a result primarily of the continuation of the Covid-19 pandemic, our usual monthly fundraising events supporting a range of national charities were curtailed. We continued our support for the BBC's Children in Need appeal, the Save the Children Christmas Jumper Day and also supported Stand Up to Cancer, both through employee fund raising and donating a car for Stand Up to Cancer to use as a prize. We aim to return to more widespread community involvement through local engagement, and by contributing to local areas, for example by our associates and businesses organising charity events to support schools, hospitals and local children's and medical charities. 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 and at each of them we operate in strict compliance with all applicable employment 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 2021, and survey our key suppliers on a frequent basis to ensure continued adherence to our policy.

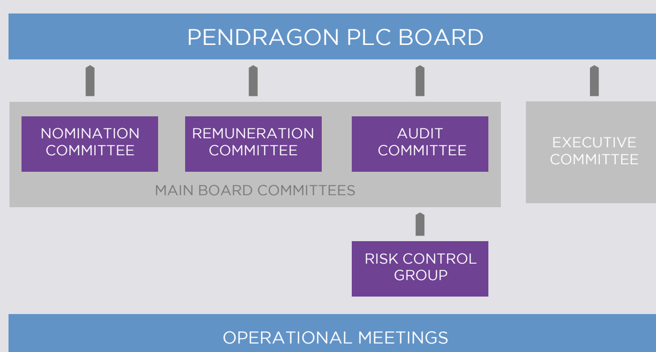
CORPORATE GOVERNANCE REPORT

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 2021, 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 to meet our objectives. We take collective responsibility for Pendragon's long term success. The executive directors, led by the chief executive officer, 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, including the environmental, social and governance impacts of the same, 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 non-executive chairman holds himself available to engage with shareholders, together with the Senior Independent Director, 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 23 March 2022, the Board comprises three executive directors and five non-executive directors, including the non-executive chairman. The respective responsibilities of the Board, the non-executive chairman and the chief executive are clearly defined by the Board in formal responsibilities documents, which the Board reviewed and readopted in December 2021. 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 01 November 2021, Ian Filby was appointed non-executive chairman of the Company, and, simultaneously with his appointment, Bill Berman relinquished the role of executive chairman which he had continued to hold on an interim basis since September 2019. The Company recognises that for the period during which Bill Berman held the role of interim executive chairman and chief executive officer, the Company was not compliant with provision 9 of the Code, in that performing the role of interim chairman, Mr Berman was effectively performing the role of chairman and chief executive. The Company continues to consider that, given exceptional circumstances, latterly driven by the Covid-19 pandemic, the continuation of Mr Berman in the interim chairman role until 01 November 2021, when Ian Filby was formerly appointed as the non-executive chairman was fully justified. Following the appointment of Ian Filby to the position of non-executive chairman, the Board now considers that the roles of chief executive officer and non-executive chairman are fully segregated, and that an appropriate combination of executive and non-executive directors is otherwise in place in accordance with the Code.

As noted below, in accordance with the Code, all Directors will be subject to annual re-election at the Annual General Meeting of the company. Details of the Directors offering themselves for election or re-election in 2022, together with directors' brief biographical details appear on pages 66 and 67, and gender balance details are on page 60.

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

CORPORATE GOVERNANCE REPORT

with provision 38 of the Code. However, as outlined in the Director's Remuneration Report at page 79, it is our intention to ensure the chief operating officer's salary supplement in lieu of pension contribution is reduced accordingly 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.

NON-EXECUTIVE DIRECTORS AND INDEPENDENCE

The legacy of the Covid-19 pandemic for the Board has been a rapid switch to remote working without affecting the efficacy or the ability of the Board to function. Throughout ten months of 2021, when he continued to hold the role of Interim Chairman as well as Chief Executive Officer, Bill Berman has 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, until the appointment of Ian Filby as non-executive chairman on 01 November 2021, the Board and interim chairman, as advised by the company secretary, operated conflict management procedures with intensified and enhanced vigilance for the first ten months of the year. These procedures were deemed effective. Although throughout the early part of 2021, the Board's primary focus was on the effective operational management of the Company as national restrictions associated with the pandemic began to be lifted, the Board was also able to focus on reinstating a Board structure where the roles of non-executive chairman and chief executive officer are performed by separate individuals, in accordance with provision 9 of the Code, culminating in the appointment of Ian Filby as non-executive chairman on 01 November 2021. 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;
- 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 non-executive chairman and respective committee chairmen are performing their roles effectively;
- all non-executive directors are independent in character and judgment;
- no director has any relationships or circumstances which could affect their exercising independent judgement; and
- the non- 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.
- The Board considers that Bill Berman provided strategic leadership whilst fulfilling the role of interim executive chairman, and that, following his appointment to the role of non-executive chairman, Ian Filby has also provided strategic leadership in continuation. The Company considers that the Board has been able to function effectively. During 2021, 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 2021, 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 non-executive chairman, the Committee chairmen and the Board as a whole and the non-executive chairman has factored suggested improvements into our 2022 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 chairman ensures that 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 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.

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

BOARD ATTENDANCE

Current Directors	Board	Audit	Nomination	Remuneration
William Berman (B)	13/13	N/A	N/A	N/A
Martin Casha	13/13	N/A	N/A	N/A
Dietmar Exler (I) (SID)	13/13	5/5	5/5	4/4
Ian Filby 1 (N) (I)	1/1	N/A	1/1	1/1
Nikki Flanders (I)	12/13	5/5	5/5	4/4
Brian Small (I) (A)	13/13	5/5	5/5	4/4
Mark Willis	13/13	N/A	N/A	N/A
Mike Wright (I) (R) (N) 2	13/13	5/5	5/5	4/4

(B) Interim Chairman of the Board until 01 November 2021
(I) Considered by the Board to be independent
(A) Committee chairman
(N) Committee chairman
(R) Committee chairman

1. Appointed as a non-executive chairman on 01 November 2021
2. Acting Nomination Committee chairman until 01 November 2021
Shows the number of meetings attended out of the total a director was eligible to attend

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 management of risk. Specific areas of risk assessment and control fall within the remit of committees of the Board; details of their work in 2021 appear below and in the Directors' Remuneration Report on pages 76 to 90.

THE BOARD'S REVIEW OF RISKS AND CONTROLS IN 2021

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 2021. Internal audit reports have highlighted some areas of control that need improving which the Company are addressing. 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 strategy, and (ii) that appropriate mitigation is in place.

Our Company policies on managing financial risk and application of hedging are set out in note [ ] to the financial statements. The principal risks and uncertainties we have identified are on pages 44 to 52 and our viability statement is on page 53.

WORK OF THE RISK CONTROL GROUP

The accountability framework described on pages 42 and 43 is designed to ensure comprehensive management of risk across the Group's businesses. A revised, overarching Risk Management Policy was introduced in October 2019, and reviewed and renewed in October 2021, 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 attends 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 executive management. The executive directors are responsible for communicating and implementing mitigating controls and operating suitable systems of check. The RCG met three times in 2021.

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 designed to reduce incidences of theft and fraud. The RCG ensures any internal control deficiencies identified are swiftly remediated.

BOARD OF DIRECTORS

IAN FILBY
Non-executive Chairman
(N*) (R)

Ian joined Pendragon on 01 November 2021 as non-executive chairman, following a 40 year career in retail, a large proportion of which was spent with Alliance Boots. In his last executive role, Ian was the chief executive officer of furniture retailer DFS, which significantly increased its market leadership in both online and in physical stores during his tenure; Ian's extensive executive experience enables him to provide effective leadership of Pendragon's Board and advise in relation to the Company's future strategy. Currently, Ian is the non-executive chairman of Joules PLC, the premium lifestyle brand.

BILL BERMAN
Chief Executive Officer

Bill joined Pendragon on 18 April 2019 as a non-executive director, and became chief executive officer on 19 February 2020. 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 Deputy Chair / Senior Independent Director 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.

Key to memberships, roles and re-election status
* Committee chairman
** Acting Committee chairman until 01 November 2021
(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

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

Nikki has over 25 years in-depth retail experience, from physical to online, leading on growth and transformation strategies across multiple goods and services categories, including digital services, energy and telco products. She is currently the Managing Director of the Customer division (UK and Ireland) at SSE plc. Her previous roles include Chief Operating Officer at Drax plc, Managing Director for Digital at Telefonica Plc and other senior leadership roles within Centrica plc, Marks and Spencer plc and WH Smiths plc. Nikki is widely recognised as a leading advocate for Diversity & Inclusion and in conjunction with her career experience brings deep commercial, customer and people leadership experience with valuable insights.

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
www.stratstone.com
www.carstore.com

Group Support business websites
www.pinewood.co.uk
www.pendragonvehiclemanagement.co.uk
www.quickco.co.uk

Registered number 2304195

AUDIT COMMITTEE REPORT

The Audit Committee is a committee of the Board and has been chaired by Brian Small since January 2020, made up entirely of independent non-executive directors. Their names and qualifications are on pages 66-67 and attendance at meetings in the table on page 65.

KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

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

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

THE COMMITTEE'S WORK IN 2021

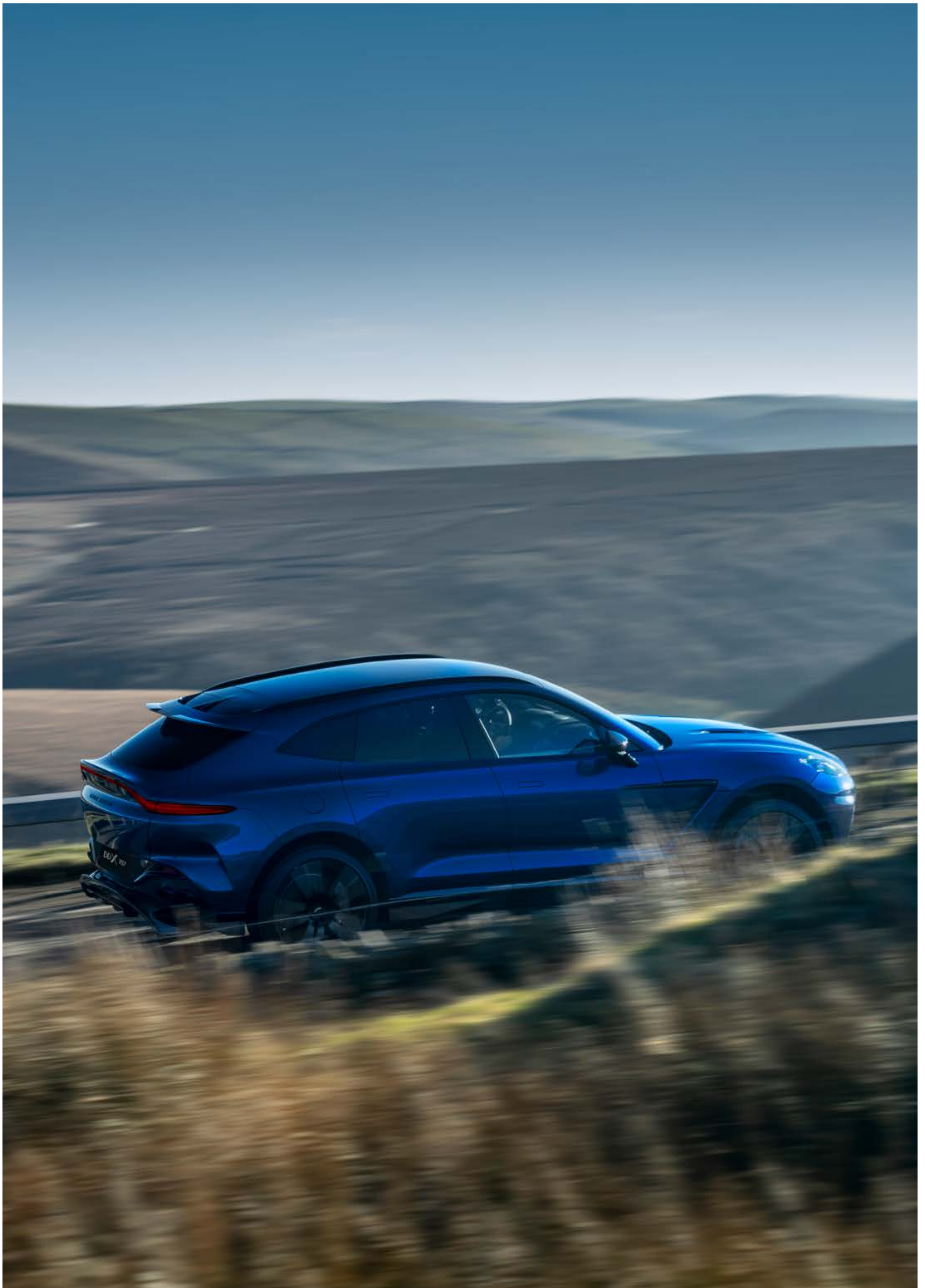
The Audit Committee met five times in 2021 and this report describes its work and conclusions.

FINANCIAL STATEMENTS REVIEW

The Committee received the auditor's memorandum on the company's 2020 financial statements and the auditor's memorandum on the unaudited 2021 interim results. In each case, it discussed the auditor's findings with the auditor, satisfied itself of the integrity of the financial statements and recommended the financial statements for approval by the Board. Key aspects of those discussions and relevant considerations and conclusions are below.

AUDIT RISK CONSIDERED BY THE COMMITTEE

The table on pages 70-71 sets out the key audit risks and judgments applied, for the 2021 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	Evidence considered and conclusion reached
GOING CONCERN The committee considered the Group's ability to continue as a going concern which included reviewing cash flow forecasts as prepared by the Directors for the period to 31 December 2023 and considering a severe, but plausible downside.	The committee reviewed both the base case and severe, but plausible downside scenarios presented by the Directors. Those forecasts indicate that the Group will continue to operate within its facility limits and in compliance with the relevant covenants. 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 53 and within the going concern statement on page 102.
VEHICLE INVENTORY VALUATION This is the risk that the value of inventory set out in note • 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 an assessment of used inventory valuation, including the level of inventory held across the business, the ageing of the inventory, the stock turn of the inventory and an analysis of market factors including the parc of used vehicles, the used vehicle market sales rate and historic movements in used vehicle prices. The Committee 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 vehicle inventory risk remained the same as in the prior year.
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 of the parent company investments. To assess the valuation of parent company investments to the value of subsidiary assets, analysis has been performed to establish CGU asset impairment. 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. The Committee were also satisfied with the conclusion that previous impairments of the parent company investment in Stratstone Motor Holdings Limited and Pendragon Overseas Limited totalling £177.2m should be reversed in 2021 due to the significantly improved trading performance of the Stratstone Motor Holdings Limited sub-Group and the Pendragon Overseas Limited sub-Group in the last two years.

PENSION SCHEME LIABILITIES The amounts reflected in the financial statements in respect of pension scheme liabilities involve judgements made in relation actuarial assumptions, long-term interest rates, inflation, longevity and investment returns. The liabilities are set out in note • to the financial statements. There is a risk that the value of the pension scheme liabilities could be materially under or over stated in the context of the sensitivity analysis in that note. Following a court ruling in 2018 regarding equalisation of GMP between men and women an additional pension liability has been recorded.	The Committee ascertained that judgements made on pension scheme were all based on advice from the Group's pension adviser. The final calculations in respect of the Group's defined benefit pension scheme liability were performed by our pension scheme actuary. The Committee discussed with the auditor the assumptions applied, in particular the findings of the auditor's own pension specialist. The Committee concluded that the judgements applied were appropriate.
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.
DEFERRED TAX ASSET The Group recognises deferred tax assets if they believe their recovery can be justified.	The Group has considered the forecasts presented by management that indicated the capability of the Group to generate future taxable profits to recover the deferred tax asset of £22.1m. There are unutilised tax losses within the Group of £13.8m relating to former overseas businesses for which no deferred tax asset has been recognised pending the availability of intra-group losses. There are also unrecognised capital losses net of rolled over gains of £46.7m.

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, and noted that the current auditor, KPMG had issued to the company all requisite assurances of its independence. The Committee reported its conclusions to the Board, namely, that there are no existing or historical relationships or other matters which adversely affect the independence of KPMG as the company's auditor, and no performance shortcomings or unresolved issues relating to fee levels.

The lead audit partner, Craig Parkin, was appointed in early 2021.

POLICY ON AUDIT TENDERING

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

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

The Committee also took into account that under the current EU legislation on audit firm rotation the current auditor could not be reappointed after 2023. The tender process for the new auditor will be initiated during 2022.

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 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 129. 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 2021 (2020: 0.25:1).

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 Committee was

satisfied that the scope and quality of the internal audit work performed reflects an effective, well-functioning team, and the Committee concluded that the scope and quality of 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 65) 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 64.

REVIEW OF ANTI-BRIBERY CONTROLS AND WHISTLEBLOWING

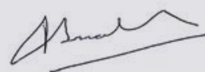
The Committee reviewed the company's anti-bribery processes and controls and evaluated and approved these and the company's bribery risk assessment. On its recommendation, the Board readopted the company's anti-bribery policy statements and associated controls. The Committee considered reports on known 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

Approximately one-fifth of our workforce are required to complete, on an annual basis, a mandatory training module 'Doing the Right Thing and Conflicts of Interest' which provides realistic, scenario based training of conflict situations, likely bribery risk and similar appropriate to our business. There have been no incidents of actual corruption or bribery recorded in our businesses in 2021.

APPROVAL

This report was approved by the Committee and signed on it's behalf by:-



Brian Small
Chairman of the Audit Committee
23 March 2022

NOMINATION COMMITTEE REPORT

The Nomination Committee was chaired by Mike Wright on an interim basis from October 2019, until Ian Filby assumed the role on his appointment as non-executive chairman following his appointment in November 2021. The Nomination Committee is made up entirely of independent non-executive directors. Their names and qualifications are on pages 66-67 and attendance at meetings in the table at page 65 above.

KEY RESPONSIBILITIES OF THE NOMINATION COMMITTEE

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

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

THE COMMITTEE'S WORK IN 2021

The Nomination Committee met five times in 2021. This report describes its work and conclusions.

REVIEW OF BOARD COMPOSITION AND BALANCE

In February 2021, the Committee met for the purpose of recommencing the process for recruitment of a non-executive chairman, which included further detailed consideration of the role profile and agency selected to ensure that candidates with the correct capabilities, attributes, skills and experience were attracted. In addition to this, the Committee further reviewed the structure of the Board, in relation to its size, composition to ensure that situations would not arise resulted in one party or group dominating the decision making process. The adequacy of time devoted by the non-executive directors to Board business, and the independence of the non-executive directors was also considered; the Committee concluded that all non-executive directors were able to devote sufficient time to their roles, and all remained independent. The position of senior independent director was also considered, and the Committee recommended that Mr Dietmar Exler be appointed to this role. The need to further develop and expand succession planning was also considered; it would be a priority of the Chief People Officer on appointment to develop a Company-wide succession plan.

In March 2021, the Committee reviewed progress with the process to find and appoint a non-executive chairman and concluded the process remained on track and the candidate profiling was appropriate.

In June 2021, Committee members were asked to each submit a shortlist of 5-7 candidates from the Longwater Partners longlist of non-executive chairman candidates, with a view to arriving at a consensus shortlist of between 5-7 candidates to progress to panel interview stage.

In September 2021, the Committee met and recommended to the Board the appointment of Ian Filby as non-executive chairman, and it was announced that Ian Filby would commence his role as non-executive chairman on 01 November 2021. The appointment of Ian Filby increased the complement of non-executive directors on the Board to five.

In December 2021, the Committee considered it appropriate, given the appointment of a new committee chairman, to reassess the structure of the Board in terms of size, composition and potential vacancies, the combination of executive to non-executive directors and the balance of the Board, to ensure that no one individual or group of individuals dominated discussion of decision making. The Committee concluded that the size and structure outlined still remained appropriate for the Company, and considered that both the size, structure and balance of the Board remained appropriate, although for the avoidance of doubt, this structure did not preclude the appointment of additional directors, such as non-executive directors with specialist skills should the Committee, and ultimately the Board, consider it necessary and prudent to do so in line with the execution of the Company's strategy.

In terms of succession planning, the Committee further noted that its primary focus is on executive and non-executive director succession planning, but should also be mindful of the need to develop orderly succession plans to senior management positions, in accordance with provision 17 of the UK Corporate Governance Code; work on succession planning would be progressed further in Q1 2022. In addition, the Committee recommended that Mr Mike Wright be reappointed as a non-executive director on a further three year term.

EVALUATION

The annual evaluations of the Board and its members were conducted by the Board and are described on page 64. 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 2021, 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 maintain our relationship with Ruebik, an external recruitment agency committed to reaching and providing access to diverse talent pools to assist with these processes. Ruebik successfully led the process to recruit a chief people officer below Board level in 2021.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a committee of the Board, and has been chaired by Mike Wright since March 2018. It is made up entirely of independent non-executive directors. Their names and qualifications are on pages 66-67 and attendance at meetings in the table on page 65.

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.

THE COMMITTEE'S WORK IN 2021

The Remuneration Committee met four times in 2021. The Directors' Remuneration Report, beginning at page 77, describes its work and conclusions.

DIRECTORS’ REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN’S LETTER TO SHAREHOLDERS

Dear Shareholder

As Chairman of Pendragon’s Remuneration Committee, I am pleased to present the Director’s Remuneration Report for the financial year ended 31 December 2021. 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 responded to the ongoing Covid-19 pandemic, and the transition out of it in the latter part of the year.

Adoption of the new Remuneration Policy in 2021

In 2021, we continued to deploy our remuneration policy as appropriate 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 the expectations of our major shareholders; and*
- *continue to take into account the disruptive challenges faced by both the automotive sector, as well as the external economic factors such as 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)

The Remuneration Committee remained extremely conscious of the impact of the pandemic on our employees, customers and other stakeholders. As such, the pandemic context remained a key consideration for decisions made by the Committee in 2021 in the deployment of Remuneration Policy.

2021 Outturn

As highlighted earlier, in 2021, the Company delivered an underlying profit of £83.0m, as a result of the clear execution and implementation of our strategy in 2021, and market conditions. As a result, for the year under review, bonuses were paid to the executive directors at maximum amount, at 150% of basic salary. Although no awards vested under the long term incentive plan in 2021, the Committee assessed whether or not the performance conditions applicable to the October 2020 and July 2021 awards had been satisfied. Having undertaken a detailed assessment of both the financial metrics (EPS targets) and the applicable 2021 strategic metrics, the Committee concluded that the performance conditions had been satisfied in full in terms of the EPS metrics and that the Company had delivered significantly on stretching strategic targets for 2021, such that both the October 2020 and July 2021 long term incentive plans would vest at 91.6% in October 2023 and July 2024 respectively.

Both the October 2020 and July 2021 long term incentive awards made with an exceptional performance period under discretion granted to the Committee as advised in July 2021; it is the Committee's intention to revert to awards with a three-year performance period and two-year holding period in Spring 2022, in accordance with the Company's core remuneration policy.

AGM

At last year’s AGM, 57.78% of shareholders voted in favour of the Directors’ annual Remuneration Report. We wish to thank all our shareholders who continue to support the implementation of our Remuneration Policy to ensure that our executive and leadership team continue to be motivated in what remain challenging, and unprecedented times for the automotive retail sector. It firmly remains the Committee’s view that our policy was a key driver in the Company’s continued success in response to the continuation of the Covid-19 pandemic through the larger part of 2021.

We hope that the disclosure provided in this report continues to provide clear insight into the Committee’s decisions and we look forward to receiving your continued support at the next 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 three 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), 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 three-year period that the remuneration policy operates. During this time, salaries may be increased each year.

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

Significant changes in role scope may require further adjustments to bring salaries into line with new responsibilities.

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

OPERATION

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

- the performance and experience of the individual concerned;
- any change in responsibilities;
- appropriate executive remuneration benchmarking, reflecting the size and sector of the Company

Base salaries are paid monthly in arrears.

PERFORMANCE METRICS

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

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 15% of salary, following reductions on 1 June 2020, 01 January 2021 and 01 January 2022. By 01 January 2023, the contribution will be in line with the wider workforce at 6% of salary;

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

OPERATION

Post-2009 executives: participation in a defined contribution pension scheme.

Pre-2009 executives: deferred membership of defined benefit pension scheme.

PERFORMANCE METRICS

No performance metrics apply.

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

OPERATION
The core design of the LTIP 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.

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 one-year performance period and overall three-year vesting period in exceptional circumstances.

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.

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 5 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 3 years.

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

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

DIRECTORS' REMUNERATION REPORT

POLICY ON NON-EXECUTIVE DIRECTORS' REMUNERATION

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

Fee Type	Fee Level	Change in 2021
Chairman fee	£150,000	None
Basic fee:	£50,000	None
Supplementary fees:		
Senior Independent Director	£4,000	None
Audit Committee Chairman	£10,000	None
Remuneration Committee Chairman	£5,000	None
Nomination Committee Chairman	Nil	None

Notes accompanying the future Remuneration Policy table:

1. Malus and clawback – 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 three-year period of the deferral. Under the LTIP, clawback will continue to apply for up to two years following the three-year vesting period.

   As a minimum, the events in which malus and clawback may apply are as follows:
   - Material misstatement of financial statements.
   - Gross misconduct/fraud of the participant.
   - Where there has been an error in the calculation of performance outcomes, the value of awards, or the number of shares under an award.
   - Participant has caused reputational damage to the Company.
   - Participant has wholly or in part caused the corporate failure of the Company.

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

2. Salary – base salaries are set by reference to the criteria specified in the table above. If a salary is initially set below the market rate, a phased realignment may be made over time.
3. Annual bonus – a target of underlying (adjusted) profit was selected as this measure directly correlates to Company's overall business plan. The specific measures, targets and weightings may vary from year to year in order to align with the Company's strategy and the measures will be dependent on the Company's goals over the year under review. Performance measures are determined by the Remuneration Committee who seek external guidance on the appropriateness of any performance targets set relative to the market.
4. Long term incentive plans – LTIP: under the Company's 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 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 01 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 a 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 of former directors that have been disclosed to shareholders in previous remuneration reports (e.g. all historic awards that were granted under any LTIPs that remain outstanding, as detailed in the company's latest Annual Report), and which remain eligible to vest based on their original award terms. Details of any payments to former directors will be set out in the Annual Report on remuneration as they arise. With regard to any promotions to executive director positions, the company will retain the ability to honour payments agreed prior to executives joining the Board, albeit any payments agreed in consideration of being promoted to the Board will be consistent with the policy on new appointments as an executive director detailed in the Remuneration Policy at www.pendragonplc.com

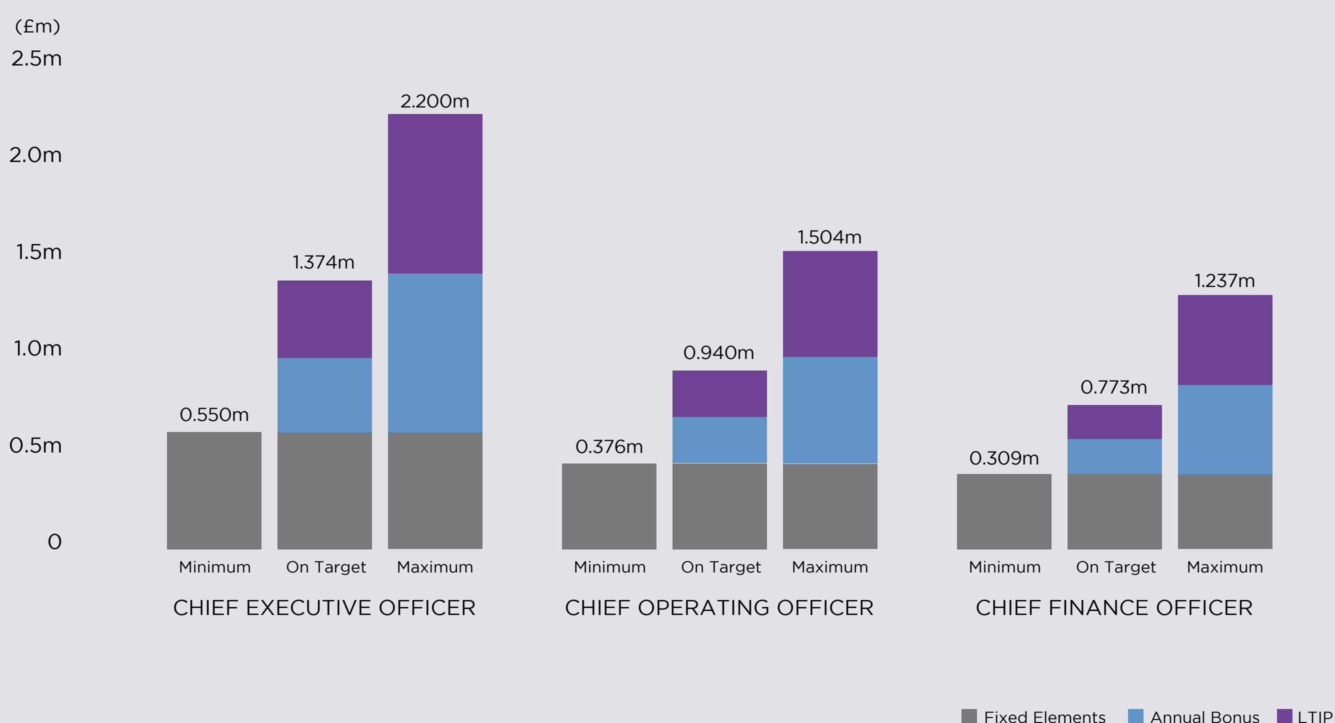
ILLUSTRATION OF OUR REMUNERATION POLICY FOR 2022

The table below illustrates the operation of the remuneration policy and provide estimates of the potential future remuneration that Executive Directors would receive, in the scenarios shown, in accordance with the directors' remuneration policy for 2020. Potential outcomes based on different performance scenarios are provided for each Executive Director. A significant percentage of remuneration is linked to performance, particularly at maximum levels.

The chart below illustrates the remuneration that could be paid to each of the executive directors, based on salaries at the start of the financial year 2021.

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[1]	100% of the maximum bonus[1]
Long Term Incentive Plan		16.66%	50% of maximum LTIP[2]	100% of the maximum LTIP[2]

[1]The maximum bonus available for executive directors is equivalent to 150% of base salary.
[2]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.
[3]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).

Policy area	
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)
Brian Small	10.12.19	31.12.22	9
Nikki Flanders	13.03.20	31.12.23	21
Dietmar Exler	20.04.20	31.12.23	21
Ian Filby	01.11.21	31.12.24	31
Mike Wright	01.01.22	31.12.24	33

THE COMMITTEE'S WORK IN 2021

- determined annual bonus awards in respect of 2020 performance
- set and revised the annual bonus plan terms for 2021
- determined performance targets and granted LTIP awards in July 2021
- set 2021 executive director salary levels
- noted remuneration trends across the Group
- considered the gender pay gap report

ADVISERS

During 2021, the Committee received external advice from PwC, who received fees of £18,780 in respect of the same. The company secretary also acts as secretary to the Committee and provided additional advice.

HISTORY OF CHIEF EXECUTIVE REMUNERATION

In terms of the single total figure of remuneration for executive directors in 2021, shareholders should be aware that no long term incentives vested in 2021: the data in the LTIP column in the single total figure of remuneration for executive directors table on page 85 for 2021 reflects the outcome of the October 2020 and July 2021 LTIP awards at the equivalent of base salary, and is included in the table as the applicable performance period concluded at the end of the financial year 2021. The awards themselves do not vest until October 2023 and July 2024 respectively.

Chief Executive	**2021**	2020	2019[2]	2018	2017	2016	2015	2014	2013	2012
Total Remuneration £k (single figure)	**3,410[1]**	510	464	589	727	1,605	1,775	3,472	2,961	857
Annual bonus award (% of maximum that could have been paid)	**100%**	100%[3]	0%	0%	30%	87%	100%	100%	100%	54%
Percentage of LTIP vesting[3]	**0%[4]**	0%	0%	0%	0%	100%	56%	100%	100%	0%

1. Of the single total remuneration figure attributable to 2021 of £3,410k, £2,016k is the cash equivalent as a percentage of salary for LTIPs awarded in October 2020 and July 2021, which do not vest until October 2023 and July 2024 respectively. The CEO has not received a cash payment in 2021 of £3,410k: actual payment received in 2021 is £1,394k.
2. Total remuneration for the chief executive role in 2019 has been calculated based on total remuneration paid to the holder of the role of chief executive officer for the period from 01.01.2019 to 30.06.2019, with the total remuneration payable for full reporting period based on extrapolated data assuming the last holder of the role of chief executive officer had continued in the role at the same level of remuneration to the end of the full reporting period.
3. The annual bonus awarded in 2020 was for the period 01 July 2020 to 31 December 2020 with a reduced maximum level of quantum available.
4. Percentage of shares vesting under the Pendragon Long Term Incentive Plan against the maximum number of shares that could have been received; the October 2020 LTIP vests in October 2023, the July 2021 LTIP vests in July 2024, subject to satisfaction of applicable performance conditions.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS AND THE INTERIM EXECUTIVE CHAIRMAN 2021 (AUDITED INFORMATION)

	Base Salary £000		Taxable benefits[1] £000		Pension[2] £000		Bonus[3] £000		LTIP[4] £000			Single total figure £000		Total Fixed Remuneration	Total Variable Remuneration
	2021	2020[5]	2021	2020	2021	2020	2021	2020[6]	2021 (Oct 2020 Award vests Oct 2023)	2021 (July 2021 Award vests July 2024)	2020	2021	2020	2021	2020
Current Directors															
William Berman	550	510	19	-	-	-	825	413	1,260	756	0	3,410	923	569	2,841
Martin Casha	307	287	7	9	61	72	461	227	422	422	0	1,680	595	375	1,305
Mark Willis	303	292	14	4	-	-	454	225	694	417	0	1,882	521	317	1,565

1. Taxable benefits include life assurance, private health care, professional subscriptions, contribution to home telephone costs and the provision of up to two cars or car allowance (at the Director's election);
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 a pensioner member. In accordance with Investment Association (IA) guidance, a phased reduction in the salary supplement in lieu of pension contribution received by Martin Casha has commenced, such that by 01 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 2021 equivalent to 150% of base salary.
4. Although no LTIPs vested under the LTIP in 2021, given that LTIPs previously awarded in October 2020 and July 2021 vest in respect of the performance to the end of the financial year 2021, the Remuneration Committee assessed the performance conditions applicable to the October 2020 and July 2021 awards and determined that: (i) the EPS targets for both the October 2020 and July 2021 awards would be satisfied in full; and (ii) the Company had delivered significantly on stretching strategic metrics set for both awards measured over 2021, resulting in 91.6% of the total awards vesting. The October 2020 LTIP vests in October 2023 and the July 2021 LTIP vests in July 2024.
5. Base salaries were lower than usual in 2020 as a result of the executive directors voluntarily agreeing to a 20% reduction in their basic salaries for April and May 2020.
6. 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 figures in the table are the cash equivalent level. No bonus payments were made in cash to the directors for 2020.

SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS 2021 (AUDITED INFORMATION)

	Basic Fee £000		Taxable benefits £000		SID/Committee Chair Fee £000		Single total figure £000	
	2021	2020	2021	2020	2021	2020	2021	2020
Current Directors								
Dietmar Exler	50	35	-	-	4	-	54	35
Ian Filby[1]	25	-	-	-	-	-	25	-
Nikki Flanders	50	36	-	-	-	-	50	36
Brian Small	50	52	-	-	10	10	60	62
Mike Wright	50	47	-	-	10	10	60	57

1. Ian Filby was appointed to the Board on 01.11.21. Accordingly, his fees are for the period 01.11.21 to 31.12.21

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.

DIRECTORS' REMUNERATION REPORT

PERFORMANCE RELATED PAY FOR 2021: ANNUAL BONUS

Given their commercial sensitivity, we do not publish the details of targets in advance. However, the Committee considered the targets to be measurable and appropriately stretching at point of award. For 2021, the maximum annual bonus opportunity was 150% of base salary, only achievable for performance 50% in excess of the Company's target underlying profit based on the FY 2021 Corporate Plan. The 2021 bonus performance metric was set as underlying profit for the full year, determined in accordance with the Company's 2021 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 the full year at the time of the award.

Details of percentages of salary payable at threshold, target and maximum are set out in the table below, together with the actual outturn for 2021. As the Committee determined that as underlying profit achieved was ahead of the 2021 Corporate Plan, bonus would be payable at the maximum level.

Target aligned to 2021 Corporate Plan	Percentage of basic salary payable	Underlying Profit Outcome based on 2021 Corporate Plan	Actual Outturn FY2021 Underlying Profit	% of Maximum Bonus Awarded	Payout: % of basic salary payable
Threshold (equal to 20% below Target)	25%	£25,040,000			
Target (achieving 2021 Corporate Plan)	50%	£31,300,000			
Maximum (equal to 50% above Target)	75%	£39,125,000	✓	100%	150%

LONG TERM INCENTIVES VESTING IN 2021

Although no awards vested under the long term incentive plan in 2021, the Committee assessed whether or not the performance conditions applicable to the October 2020 and July 2021 awards had been satisfied. Having undertaken a detailed assessment of both the financial metrics (EPS targets) and the applicable 2021 strategic metrics, the Committee concluded that the performance conditions had been satisfied in full in terms of the EPS metrics and that the Company had delivered significantly on stretching strategic targets for 2021, such that both the October 2020 and July 2021 long term incentive plans would vest at 91.6% in October 2023 and July 2024 respectively.

Both the October 2020 and July 2021 long term incentive awards were made with an exceptional performance period under discretion granted to the Committee; it is the Committee's intention to revert to awards with a three-year performance period and two-year holding period in Spring 2022, in accordance with the Company's core remuneration policy.

LONG TERM INCENTIVE PLAN AWARDS ("LTIP") AWARDED IN 2021

In July 2021, 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 12-month performance period, commencing on 01 January 2021 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 2.75p, the latest available at the time of the award. 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) and reflect those strategic milestones the Company considers able to achieve in 2021. Delivery against the 2021 strategic milestone performance conditions has been 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.

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%	Threshold:	16.66%	Straight line vesting between these points
		Target:	66.66%	
		Maximum:	100%	
Strategic metrics (50%)	(iv) Unlock value in franchised UK Motor: Embed product extension; Rollout operational efficiency; Trial and rollout new propositions. (v) Grow and diversify Pinewood: Deliver existing order pipeline; Geographic expansion; Deliver product extension.	(vi) Disrupt standalone used cars: Rollout rebrand; Embed product extension; Define and launch revised value proposition; Launch 1 new site		

*Target EPS for 2021 used was the latest analyst's consensus EPS of 2.75p, available at the time of award

BASE SALARY FOR 2022

Base salaries for the executive directors will remain unchanged from the 2021 salary levels, other than the incremental increase for Martin Casha to reflect the reduction of that element of his remuneration which is salary sacrifice in lieu of pension contribution.

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.

PERFORMANCE RELATED PAY FOR 2022: ANNUAL BONUS

The annual bonus for the 2022 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 2022 annual bonus is underlying profit based on the FY 2022 Corporate Plan. The target itself, as it relates to the 2022 financial year is considered to be commercially sensitive, and as such we do not publish details of these in advance.

Target aligned to 2022 FY Corporate Plan	% of basic salary payable	Underlying Profit Outcome based on FY 2022 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 2022 Corporate Plan)	100%	Year end Corporate Plan Target Profit/Loss (£Xm/-£Xm)	66.66%
Maximum (equal to 50% above Target)	150%	ear end Corporate Plan Target Profit/Loss (£Xm/-£Xm) plus 25%	100%

LONG TERM INCENTIVES FOR 2022

As previously announced, it is the Committee's intention to revert to awards with a three-year performance period and two-year holding period in Spring 2022, in accordance with the Company's core remuneration policy. The Committee is currently considering an appropriate combination of financial and strategic metrics as performance conditions to be applied to the 2022 LTIP award.

DIRECTORS' REMUNERATION REPORT

TOTAL SHAREHOLDER RETURN[1]

The graph below shows the total shareholder return ("TSR")[2] on the company's shares in comparison to the FTSE Small Cap Index (excluding investment companies).[3] TSR has been calculated as the percentage change, during the relevant period, in the market price of the shares, assuming that any dividends paid are reinvested on the ex-dividend date. The relevant period is the ten years ending 31 December 2021. The notes at the foot of the graph provide more detail of the TSR calculation.

PENDRAGON PLC TSR 2011 - 2021

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 2021 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 ten year period ending 31 December 2021 detailed above.

DIRECTORS' SHAREHOLDINGS

The shareholdings of all Directors, including the shareholdings of their connected persons as at 31 December 2021, are set out below. There have been no changes in the Directors' interests from 31 December 2021 to the date of this report.

The CEO has a shareholding requirement of 200% of salary, with other Executive Directors having a shareholding requirement of 100% of salary. There is no company policy on non-executive director share ownership; this policy will be reviewed in 2022.

DIRECTORS' SHAREHOLDINGS (AUDITED)

	Number of shares held outright		**Outstanding deferred bonus shares (vest June 2022)**	**Awards over nil-cost options**			Shareholding requirement (% of base salary)	Shareholding as at 31 December 2021 (% of base salary)
	As at 31 December 2021	As at 31 December 2020		Vested but not exercised	Unvested and subject to continued employment	Unvested and subject to performance conditions and continued employment		
Executive Directors								
William Berman	Nil	Nil	2,825,342	-	12,910,518	-	200%	0%
Martin Casha	9,559,780	9,559,780	1,538,938	-	5,135,844	-	100%	701%
Mark Willis	Nil	Nil	1,538,744	-	7,100,785	-	100%	0%
Non Executive Directors								
Dietmar Exler	210,000	N/A	N/A	-	-	-	N/A	N/A
Nikki Flanders	Nil	N/A	N/A	-	-	-	N/A	N/A
Brian Small	400,000	N/A	N/A	-	-	-	N/A	N/A
Mike Wright	250,000	Nil	-	-	-	-	N/A	N/A

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 2021 compared to 2020	8%[1]	7%
% change in benefit 2021 compared to 2020	0%	2%
% change in bonus 2021 compared to 2020	100%	39%

1. The percentage change in CEO salary reflects the return to the normal base salary level of £550k following a voluntary reduction of 20% in base salary for April and May 2020: on a like for like basis CEO salary is therefore unchanged year on year.

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 2021.

Financial year	Method	25th percentile pay ratio (lower quartile)	Median pay ratio (median)	75th percentile pay ratio (upper quartile)
2021	Option B	30:1	25:1	19:1

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

RELATIVE IMPORTANCE OF SPEND ON PAY

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

Team member pay			Distribution to shareholders		
2021 (£m)	2020 (£m)	% change	2021	2020	% change
£203.7m	£227.0m	-10.3%	£0m	£0m	-

SHAREHOLDERS’ VOTE ON REMUNERATION AT THE 2021 AGM

2020 Directors’ Remuneration Report	Number	Proportion of votes cast
Votes cast in favour	648,206,890	57.78%
Votes cast against	473,650,567	42.22%
Total votes cast in favour or against	1,121,857,457	100%
Votes withheld	265,534	

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 2021 was 23.2 pence and the range during the year was 11.82 pence to 23.4 pence.

APPROVAL

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

Mike Wright
Chairman of the Remuneration Committee
23 March 2022

DIRECTORS' REPORT

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 25 and the Viability Statement set out on page 53. Additional information on which the directors are required by law to report is set out below and in the following:-

- Environmental, Social and Governance Report
- Board of Directors
- Audit Committee Report
- Nomination Committee Report
- Directors' Remuneration Report
- Directors' Report
- Directors' Responsibility Statement

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

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 106 to 188. 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 2021.

APPOINTMENT AND POWERS OF THE COMPANY'S DIRECTORS

Appointment and removal of directors is governed by the company's articles of association (the Articles), the UK Corporate Governance Code (the Code), the Companies Acts and related legislation. Subject to the Articles (which shareholders may amend by special resolution), relevant legislation and any directions given by special resolution, the company and its group is managed by its board of directors. By resolutions passed at company general meetings, the shareholders have authorised the directors: (i) to allot and issue ordinary shares; (ii) to offer and allot ordinary shares in lieu of some or all of the dividends; and (iii) to make market purchases of the company's ordinary shares (in practice, exercised only if the directors expect it to result in an increase in earnings per share). Details of movements in the company's share capital are given in note • to the financial statements.

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 2021.

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 pages 66-67. 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 76 to 90 . Directors who served during 2021 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 89 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 31.12.21	Number at 31.12.20
William Berman	nil	nil
Martin Casha	9,559,780	9,559,780
Dietmar Exler	210,000	n/a
Ian Filby	nil	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 2021, 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' share capital are set out in note [••] 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 2021 AGM.

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 28 February 2022 the directors had been advised of the following interests in the shares of the company:-

Shareholder	Number of shares	Percentage of voting rights of the issued share capital
Anders Hedin Invest AB	366,758,321	26.25
Schroders	165,178,025	11.82
Odey Asset Management	143,400,491	10.27
Briarwood Chase Management	140,307,967	10.04
Hosking Partners	78,008,660	5.58
Dimensional Fund Advisors	43,507,925	3.11
Farringdon Asset Management	38,682,862	2.77
Huntington Partners	27,859,210	1.99
Teleios Capital	26,553,847	1.90
Blackrock Inc	25,422,394	1.82

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

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

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting can

be found in the notes to the notice of the AGM. Details of the exercise of voting rights attached to the ordinary shares held by the company's Employee Benefit Trust are set out below. None of the ordinary shares, including those held by the Employee Benefit Trust, carries any special voting rights with regard to control of the company.

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

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

SHARES HELD BY THE PENDRAGON EMPLOYEE BENEFIT TRUST

As at 31 December 2021, the company's Employee Benefit Trust with Accuro Trustees (Jersey) Limited (the Trustee) held 5,846,832 shares, representing 0.46% of the total issued share capital at that date (2020: 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 transferred 573,258 shares to satisfy such entitlements (2020:0).

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 2021. 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 (2020: £ 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 themself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

By order of the Board

Richard Maloney
Company Secretary
23 March 2022

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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 UK-adopted international accounting standards 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.

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 UK-adopted international accounting standards;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

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

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

Approved by order of the Board

Mark Willis
Chief Finance Officer
23 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDRAGON PLC

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Pendragon PLC ("the Company") for the year ended 31 December 2021 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Statement of Comprehensive Income, Company Statement of Changes in Equity, Company Balance Sheet, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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.

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 25 financial years ended 31 December 2021. 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 2020), 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.

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

Going Concern Risk vs 2020: ↓

Refer to pages 112 to 113 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 have reduced from 2020 given the improved financial performance of the group and the improved economic outlook.

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 requirement for the group to extend or refinance its senior note and revolving credit facilities;
- The requirement for the group to maintain access to banking facilities that support stocking levels; and
- The impact of the semi-conductor chip shortage on the availability of new cars.

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 2021 to the forecast cash flows over the same period;
- **Key dependency assessment:** We discussed the key trends within the sector with our automotive sector specialists 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.
- **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:** Considering whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including 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 (2020 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 (£351.5 million (2020: £215.4 million)) Risk vs 2020:↔
Refer to page 70 Audit Committee report, pages 113 and 146 (accounting policy) and page 146 (financial disclosures).

The risk – subjective valuation
The Group holds significant levels of used vehicle inventory. Used vehicle selling prices vary depending upon a number of factors including general economic conditions, falling diesel vehicle 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 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:

- **Test of controls:** Evaluating the management review controls over the used vehicle inventory valuation process;
- **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; and
- **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 (2020 result: acceptable).

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

Post retirement benefits obligation (£569.2 million (2020: £599.1 million)) Risk vs 2020: ↔

Refer to page 71 Audit Committee report, page 177 (accounting policy) and pages 177 to 186 (financial disclosures).

The risk – Subjective valuation

Small changes in the assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's pension obligation.

The significant risk specifically relates to the areas of estimation uncertainty in the calculation of the liability including the discount rate, rate of inflation and forecast mortality.

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

Our response – Our procedures included:

- **Benchmarking assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; and
- **Sensitivity analysis:** We performed sensitivity analysis on input assumptions noted above;
- **Assessing actuaries' credentials:** We evaluated the scope, competency and objectivity of the Group's experts who assisted in determining the actuarial assumptions used to determine the defined benefit obligation;
- **Tests of details:** We evaluated the calculations prepared by management's external actuaries to assess the impact of the assumptions used on the Group Financial Statements;
- **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to the discount rate, inflation and mortality assumptions.

We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results: We found the valuation of the pension obligation to be acceptable (2020 result: acceptable).

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

Carrying value of parent company's investments in subsidiaries £981.2m (2020: £804.0m), reversal of impairment £177.2m (2020: £Nil); Risk vs 2020: ↔

Refer to page 70 Audit Committee report, pages 193 and 194 (accounting policy) and page 196 (financial disclosures).

The risk – Forecast-based valuation

The carrying amount of the parent company's investments in subsidiaries are significant and at risk of being held at the incorrect value. The risk in the prior year was irrecoverability which is no longer relevant due to the improved performance of the Group.

The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting trading conditions and cash flows and discounted future cash flows.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use and the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the parent financial statements as a whole.

Our response – Our procedures included:

- **Impairment calculation:** We re-performed the impairment calculations, including the reversal of impairment calculation, in relation to the carrying value of the parent company investment for each individual subsidiary investment;
- **Historical comparisons:** We assessed the reasonableness of the forecasts by considering the historical accuracy of the previous forecasts.
- **Benchmarking assumptions:** We compared the Group's assumptions used in the cash flow forecasts to externally derived data in relation to key inputs such as projected market growth, cost inflation and discount rates;
- **Sensitivity analysis:** We performed sensitivity analysis for the reasonably possible downsides for key assumptions such as discount rate, growth rate into perpetuity and EBITDA.
- **Comparing valuations:** We compared the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cash flows; and
- **Assessing transparency:** We assessed the adequacy of the parent company's disclosures in respect of the investment is subsidiaries balance.

We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results: We found the carrying value of parent company's investments in subsidiaries to be acceptable (2020 result: acceptable).

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 (2020: £4.0 million) determined with reference to a benchmark of Group revenue, normalised by averaging over the last five years due to the volatility in the results as a consequence of the Covid-19 pandemic, of which it represents 0.1% (2020: 0.1% of Group total revenue normalised by averaging over the last four years). We consider this to be the most appropriate benchmark given the losses made by the Group in recent years as well as the sector in which the entity operates, its ownership and financing structure, and the focus of users.

Materiality for the parent company financial statements as a whole was set at £1.8 million (2020: £1.4 million), which is the component materiality for the parent company determined by the group audit engagement team. This is lower than the materiality we would otherwise have determined by reference to a benchmark of the company's net assets, of which it represents 0.6% (2020: 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 75% (2020: 65%) of materiality for the financial statements as a whole, which equates to £3.0 million (2020: £2.6 million) and £1.4 million (2020: £1.0 million), respectively.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million (2020: £0.2 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected thirteen (2020: thirteen) of the Group's twenty four reporting components (2020: 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 92% (2020: 88%) of the Group's revenue, 90% (2020: 90%) of total profits and losses that made up Group profit before tax and 93% (2020: 92%) of Group total assets.

The Group audit team approved the component materialities, which ranged from £0.6 million to £2.2 million (2020: £0.6 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 (2020: thirteen) components, including the audit of the parent company.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

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 we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 53 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 and sales staff.
- Using analytical procedures to identify any unusual 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 Group management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates such as used vehicle inventory provision; and
- the risk that new and used car sales are overstated through recording revenues in the wrong period.

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

Further detail in respect of the valuation of used vehicle inventory is set out in the key audit matter disclosures in section 2 of this report, where our response addresses the fraud risk and details that we found the carrying value of used vehicle inventory to be acceptable.

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 unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

Identifying and responding to risks of material misstatement related to 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, and as one of the Group entities is a financial regulated entity, 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 Company 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 non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of company legislation recognising the financial nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. 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)*

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 53 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures on pages 42 to 52 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 53 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 the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in these respects.

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

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 95, 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.

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. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Craig Parkin (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill, Snowhill Queensway, Birmingham B4 6GH
23 March 2022

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2021

	Notes	Continuing operations £m	Discontinued operations* £m	**2021 £m**	Continuing operations £m	Discontinued operations* £m	2020 £m
Revenue	2.1	3,421.3	28.6	**3,449.9**	2,766.7	157.9	2,924.6
Cost of sales		(2,984.0)	(24.6)	**(3,008.6)**	(2,436.8)	(134.6)	(2,571.4)
Gross profit		437.3	4.0	**441.3**	329.9	23.3	353.2
Operating expenses	2.2	(326.5)	(9.9)	**(336.4)**	(317.1)	(20.1)	(337.2)
Operating profit/(loss) before other income		110.8	(5.9)	**104.9**	12.8	3.2	16.0
Other income - gains/(losses) on the sale of businesses and property, plant and equipment	2.6	1.8	0.9	**2.7**	(0.3)	(6.5)	(6.8)
Operating profit/(loss)		112.6	(5.0)	**107.6**	12.5	(3.3)	9.2
Analysed as:							
Underlying operating profit		117.4	(1.1)	**116.3**	42.7	3.2	45.9
Non-underlying operating (loss)	2.6	(4.8)	(3.9)	**(8.7)**	(30.2)	(6.5)	(36.7)
Finance expense	4.3	(34.9)	(0.3)	**(35.2)**	(39.0)	(0.8)	(39.8)
Finance income	4.3	0.9	-	**0.9**	1.0	-	1.0
Net finance costs		(34.0)	(0.3)	**(34.3)**	(38.0)	(0.8)	(38.8)
Analysed as:							
Underlying net finance costs		(33.0)	(0.3)	**(33.3)**	(36.9)	(0.8)	(37.7)
Non-underlying net finance costs	2.6	(1.0)	-	**(1.0)**	(1.1)	-	(1.1)
Profit/(loss) before taxation		78.6	(5.3)	**73.3**	(25.5)	(4.1)	(29.6)
Analysed as:							
Underlying profit before taxation		84.4	(1.4)	**83.0**	5.8	2.4	8.2
Non-underlying (loss) before taxation	2.6	(5.8)	(3.9)	**(9.7)**	(31.3)	(6.5)	(37.8)
Income tax (expense)/credit	2.7	(13.1)	1.3	**(11.8)**	3.9	1.0	4.9
Profit/(loss) for the year		65.5	(4.0)	**61.5**	(21.6)	(3.1)	(24.7)
Analysed as:							
Underlying profit/(loss) after taxation		70.0	(1.0)	**69.0**	6.0	3.0	9.0
Non-underlying (loss) after taxation	2.6	(4.5)	(3.0)	**(7.5)**	(27.6)	(6.1)	(33.7)
Earnings per share							
Basic earnings per share	2.8	4.7p	(0.3p)	**4.4p**	(1.6p)	(0.2p)	(1.8p)
Diluted earnings per share	2.8	4.6p	(0.3p)	**4.3p**	(1.6p)	(0.2p)	(1.8p)
Non GAAP measure:							
Underlying basic earnings per share	2.8	4.9p	0.1p	**5.0p**	(0.3p)	0.9p	0.6p
Underlying diluted earnings per share	2.8	4.8p	0.1p	**4.9p**	(0.3p)	0.9p	0.6p

* The discontinued operations are in respect of the Group's US business which prior to disposal was classified as held for sale (see note 3.3).

The notes on pages 112 to 188 form part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 £m	2020 £m
Profit/(loss) for the year		**61.5**	(24.7)
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and (losses)	5.1	**40.1**	(24.6)
Income tax relating to defined benefit plan remeasurement (gains) and losses	2.7	**(6.9)**	5.7
		33.2	(18.9)
Items that are or may be reclassified to profit and loss:			
Foreign currency translation differences of foreign operations		**-**	-
		-	-
Other comprehensive income for the year, net of tax		**33.2**	(18.9)
Total comprehensive income for the year		**94.7**	(43.6)
Total comprehensive income for the period attributable to equity shareholders of the company arises from:			
Continuing operations		**98.7**	(40.5)
Discontinued operations - see note 3.3		**(4.0)**	(3.1)
		94.7	(43.6)

The notes on pages 112 to 188 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation differences £m	Retained earnings £m	**Total £m**
Balance at 1 January 2021	69.9	56.8	5.6	12.6	(1.0)	(17.2)	**126.7**
Total comprehensive income for 2021							
Profit for the year	-	-	-	-	-	61.5	**61.5**
Translation differences taken to profit and loss on termination of operation	-	-	-	-	1.0	-	**1.0**
Other comprehensive income for the year, net of tax	-	-	-	-	-	33.2	**33.2**
Total comprehensive income for the year	-	-	-	-	1.0	94.7	**95.7**
Share based payments	-	-	-	-	-	2.9	**2.9**
Income tax relating to share based payments	-	-	-	-	-	0.3	**0.3**
Balance at 31 December 2021	69.9	56.8	5.6	12.6	-	80.7	**225.6**
Balance at 1 January 2020	69.9	56.8	5.6	12.6	(1.0)	25.0	**168.9**
Total comprehensive income for 2020							
Loss for the year	-	-	-	-	-	(24.7)	**(24.7)**
Other comprehensive income for the year, net of tax	-	-	-	-	-	(18.9)	**(18.9)**
Total comprehensive income for the year	-	-	-	-	-	(43.6)	**(43.6)**
Share based payments	-	-	-	-	-	1.2	**1.2**
Income tax relating to share based payments	-	-	-	-	-	0.2	**0.2**
Balance at 31 December 2020	69.9	56.8	5.6	12.6	(1.0)	(17.2)	**126.7**

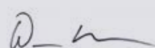
The notes on pages 112 to 188 form part of these financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2021

	Notes	**2021 £m**	2020 £m
Non-current assets			
Property, plant and equipment	3.2	**499.5**	572.8
Goodwill	3.1	**150.3**	150.3
Other intangible assets	3.1	**11.1**	10.2
Finance lease receivables		**15.5**	16.6
Deferred tax assets	2.7	**22.1**	36.4
Total non-current assets		**698.5**	786.3
Current assets			
Inventories	3.4	**512.8**	608.8
Trade and other receivables	3.6	**101.3**	94.6
Finance lease receivables		**2.1**	2.0
Current tax assets		**4.5**	1.4
Cash and cash equivalents	4.2	**37.6**	56.0
Assets classified as held for sale	3.3	**10.4**	99.0
Total current assets		**668.7**	861.8
Total assets		**1,367.2**	1,648.1
Current liabilities			
Lease liabilities	4.7	**(26.7)**	(24.5)
Trade and other payables	3.7	**(692.7)**	(834.9)
Deferred income	3.8	**(37.2)**	(42.9)
Liabilities directly associated with the assets held for sale	3.3	**-**	(67.3)
Total current liabilities		**(756.6)**	(969.6)
Non-current liabilities			
Interest bearing loans and borrowings	4.2	**(87.3)**	(156.4)
Lease liabilities	4.7	**(195.4)**	(218.7)
Trade and other payables	3.7	**(41.9)**	(60.4)
Deferred income	3.8	**(36.8)**	(40.8)
Retirement benefit obligations	5.1	**(23.6)**	(75.5)
Total non-current liabilities		**(385.0)**	(551.8)
Total liabilities		**(1,141.6)**	(1,521.4)
Net assets		**225.6**	126.7
Capital and reserves			
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)
Retained earnings		**80.7**	(17.2)
Total equity attributable to equity shareholders of the Company		**225.6**	126.7

Approved by the Board of Directors on 23 March 2022 and signed on its behalf by:



W Berman
Chief Executive

M S Willis
Chief Finance Officer

The notes on pages 112 to 188 form part of these financial statements
Registered Company Number: 02304195

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2021

	Notes	**2021 £m**	2020 £m
Cash flows from operating activities			
Profit/(loss) for the year		**61.5**	(24.7)
Adjustment for taxation		**11.8**	(4.9)
Adjustment for net financing expense		**34.3**	38.8
		107.6	9.2
Depreciation and amortisation		**36.1**	43.7
Share based payments		**2.9**	1.2
Pension past service costs		**-**	3.3
(Profit)/loss on sale of businesses and property, plant and equipment		**(2.7)**	6.8
Impairment of goodwill		**-**	12.5
Impairment of assets held for sale		**-**	0.8
Impairment of property, plant and equipment		**9.6**	3.2
Contribution into defined benefit pension scheme		**(12.8)**	(12.5)
Changes in inventories	3.4	**107.8**	294.8
Changes in trade and other receivables		**(1.1)**	23.4
Changes in trade and other payables		**(111.1)**	(267.6)
Movement in contract hire vehicle balances	3.5	**(36.8)**	(51.3)
Cash generated from operations		**99.5**	67.5
Taxation paid		**(7.1)**	(4.4)
Bank and stocking interest paid		**(17.5)**	(20.5)
Lease interest paid		**(12.6)**	(14.0)
Finance lease interest received		**0.9**	1.0
Net cash from operating activities		**63.2**	29.6
Cash flows from investing activities			
Proceeds from sale of businesses	6.1	**27.2**	16.6
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	**(18.6)**	(60.2)
Proceeds from sale of property, plant, equipment and intangible assets	3.1, 3.2	**5.4**	61.6
Receipt of lease receivables		**2.2**	1.9
Net cash from investing activities		**16.2**	19.9
Cash flows from financing activities			
Payment of lease liabilities		**(27.2)**	(28.7)
Repayment of loans		**(88.8)**	(40.0)
Proceeds from issue of loans (net of directly attributable transaction costs)		**18.7**	18.2
Net cash outflow from financing activities		**(97.3)**	(50.5)
Net decrease in cash and cash equivalents		**(17.9)**	(1.0)
Cash and cash equivalents at 1 January		**56.0**	55.7
Effects of exchange rate changes on cash held		**(0.5)**	1.3
Cash and cash equivalents at 31 December	4.2	**37.6**	56.0

The notes on pages 112 to 188 form part of these financial statements

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN ADJUSTED NET DEBT

	2021 £m	2020 £m
Net decrease increase in cash and cash equivalents	**(17.9)**	(1.0)
Repayment of loans	**88.8**	40.0
Proceeds from issue of loans (net of directly attributable transaction costs)	**(18.7)**	(18.2)
Non-cash movements	**(1.5)**	(1.5)
Decrease in adjusted net debt in the year	**50.7**	19.3
Opening adjusted net debt	**(100.4)**	(119.7)
Closing adjusted net debt	**(49.7)**	(100.4)

The reconciliation of net cash flow to movement in adjusted 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 112 to 188 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2021 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 2021 comprise the Group and its subsidiaries and the Group's interest in jointly controlled entities, together referred to as the 'Group'.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Pendragon PLC transitioned to UK adopted International Accounting Standards ("Adopted IFRSs"), in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The consolidated financial statements of the Group as at and for the year ended 31 December 2021 are prepared in accordance with International Financial Reporting Standards as adopted in the United Kingdom.

The Group has elected to prepare its parent Group financial statements in accordance with FRS 101. These are presented on pages 189 to 200.

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 Directors are, at the time of approving the financial statements, satisfied that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of further Covid-19 lockdowns, a macro-economic downturn, a market correction in used pricing and shortfalls in new car supply resulting from shortages in microchips impacting manufacturing.

The Group meets its day-to-day working capital requirements from a revolving credit facility of £75m and senior note of £100m together with cash balances and a requirement for on-going access to rolling vehicle credit stocking facilities. The senior note is due for renewal in March 2027 and the revolving credit facility is due for renewal in March 2025, with a further two, one-year options (available at the election of lenders). The senior note and revolving credit facility have quarterly leverage and fixed charge covenants, as well as an absolute EBITDA covenant, a breach of which would result in the amounts drawn becoming repayable on demand. The Group did not make 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 2021.

In the context of the above, the directors have prepared cash flow forecasts for the period to 31 December 2023 which indicate that, taking account of reasonably possible downsides, the Group will have sufficient funds to meet its liabilities as they fall due for that period. The Directors have assessed the potential on-going impacts of the Covid-19 pandemic coupled with the risk of disruption to new car supply and have modelled scenarios as follows:

1. A base cash flow forecast. The 2022 figures in this forecast are based on the Group's 2022 budget, which is based on externally sourced forecasts and reflect current run-rates and expected strategic improvements. The 2023 figures in the base cash flow forecast are taken from the Group's 5 year strategy plan, as announced in H2 2020. Cost inflation has been considered and additional costs have been included to account for increased wage inflation.

SECTION 1 - BASIS OF PREPARATION

Going concern *Continued*

2. A severe, but plausible downside scenario. The directors have also prepared a sensitised forecast which considers the impact of certain severe but plausible downside events, when compared to the base case. This scenario reflects a severe downturn to vehicle volumes and margins, based on more pessimistic assumptions than are assumed in externally sourced forecasts. This considers both a worsening in economic conditions and restricted new car supply due to manufacturing constraints, together with the impact of two further national lock-downs of one month duration as a result of government-imposed restrictions. In this scenario, capital expenditure has been reduced to run-rate expenditure and projects committed to. This scenario demonstrates that the Group would remain within its facility limits and in compliance with the relevant covenants.

The Directors are mindful of the potential impacts to macro-economic conditions and further risk of disruption to supply chains that the conflict in Ukraine presents, but after assessing the risks do not believe there to be a material risk to going concern.

Based on the above, the directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

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. There are no key accounting judgements, without estimation, that have been applied in these financial statements.

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
Inventory fair value (UK used inventory of £351.4m (2020: £215.4m))	The Group assessment of fair values of used inventory involves an element of estimation. The key assumption is estimating the likely sale period and the expected profit or loss on sale for each of our inventory items that are held at the year end point. We conduct this analysis by looking at stock by age category and comparing historical trends and our forward expectations on these assumptions.	✓		3.4
Retirement benefit obligations	The main assumptions in determining the Group's Retirement Benefit Obligations are: discount rate, mortality and rate of inflation. Full detail is included in the pension note, 5.1.	✓	✓	5.1

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Accounting Estimates *Continued*

In preparing these financial statements, management has considered the potential impacts of climate change. This has included reassessing the estimated useful lives of assets and developing assumptions, used in determining estimates, by considered potential impacts of climate risks and the Group's planned response.

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.

Foreign currencies

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

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

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

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

Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

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 2021 of £1.6m (2020: £42.3m), being the Coronavirus Job Retention Scheme, is included within payroll expenses. A further £8.7m (2020: £10.1m) has received by way of business rates relief during 2021 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.

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

No new or amended standards and interpretations have been adopted during the year.

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:

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

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.

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.

Operating profit reconciliation

	2021 £m	2020 £m
Underlying operating profit	**116.3**	45.9
Gains/(losses) on the sale of businesses and property, plant and equipment (see note 2.6)	**2.7**	(6.8)
Past service costs (see note 2.6)	**-**	(3.3)
Pension scheme administration costs (see note 2.6)	**-**	(1.0)
Impairment of goodwill (see note 2.6)	**-**	(12.5)
Impairment of assets held for sale (see note 2.6)	**-**	(0.8)
Impairment of right of use assets (see note 2.6)	**(9.6)**	(3.2)
Car Store and other business closure costs (see note 2.6)	**-**	(2.8)
Termination and severance payments (see note 2.6)	**(1.8)**	(6.3)
Non-underlying operating (loss) items	**(8.7)**	(36.7)
Operating profit	**107.6**	9.2

Profit/(loss) before tax reconciliation

	2021 £m	2020 £m
Underlying profit before tax	**83.0**	8.2
Non-underlying operating (loss) items (see reconciliation above)	**(8.7)**	(36.7)
Non-underlying net finance (costs) (see note 2.6)	**(1.0)**	(1.1)
Non-underlying operating (loss) and finance costs items	**(9.7)**	(37.8)
Profit/(loss) before tax	**73.3**	(29.6)

Profit/(loss) after tax reconciliation

	2021 £m	2020 £m
Underlying profit after tax	**69.0**	9.0
Non-underlying operating (loss) and finance costs items (see reconciliation above)	**(9.7)**	(37.8)
Non-underlying tax (see note 2.6)	**2.2**	4.1
Non-underlying operating (loss), finance costs and tax items	**(7.5)**	(33.7)
Profit/(loss) after tax	**61.5**	(24.7)

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.

Adjusted net debt – All loans and borrowings less cash and cash equivalents less IFRS 16 lease liabilities less vehicle stocking loans.

Leverage ratio – the Group uses the ratio of adjusted 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.

Like-for-Like reconciliations

Like for like (LFL) results only include trading businesses which have comparative trading periods in two consecutive financial years. 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 those businesses which are not like-for-like which have recently commenced operation and therefore do not have a full current year and prior year history plus any retail points closed during the current or previous period. The like-for-like adjustments are split between those in relation to businesses disposed and those other adjustments which relate to the elimination of results for a period in a year which does not have a corresponding amount in the comparative year.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Revenues by Department - Franchised UK Motor

	Group revenue 2021 £m	Disposals revenue 2021 £m	Other non like-for-like revenue 2021 £m	**Like-for-like revenue 2021 £m**	**Group revenue 2020 £m**	Disposals revenue 2020 £m	Other non like-for-like revenue 2020 £m	**Like-for-like revenue 2020 £m**
Aftersales revenue	**261.9**	-	(1.2)	**260.7**	**226.3**	(7.1)	-	**219.2**
Used vehicle revenue	**1,566.9**	-	(7.9)	**1,559.0**	**1,157.5**	(58.8)	-	**1,098.7**
New vehicle revenue	**1,362.4**	-	(9.6)	**1,352.8**	**1,208.0**	(22.7)	-	**1,185.3**
Total Revenue	**3,191.2**	-	(18.7)	**3,172.5**	**2,591.8**	(88.6)	-	**2,503.2**

Revenues by Department - Car Store

	Group revenue 2021 £m	Disposals revenue 2021 £m	Other non like-for-like revenue 2021 £m	**Like-for-like revenue 2021 £m**	**Group revenue 2020 £m**	Disposals revenue 2020 £m	Other non like-for-like revenue 2020 £m	**Like-for-like revenue 2020 £m**
Used vehicle revenue	**141.5**	-	-	**141.5**	**88.5**	(0.3)	-	**88.2**
Total Revenue	**141.5**	-	-	**141.5**	**88.5**	(0.3)	-	**88.2**

Revenues by Department - Franchised US Motor

	Group revenue 2021 £m	Disposals revenue 2021 £m	Other non like-for-like revenue 2021 £m	**Like-for-like revenue 2021 £m**	**Group revenue 2020 £m**	Disposals revenue 2020 £m	Other non like-for-like revenue 2020 £m	**Like-for-like revenue 2020 £m**
Aftersales revenue	**2.8**	(2.8)	-	**-**	**17.3**	(17.3)	-	**-**
Used vehicle revenue	**3.0**	(3.0)	-	**-**	**22.0**	(22.0)	-	**-**
New vehicle revenue	**22.8**	(22.8)	-	**-**	**118.6**	(118.6)	-	**-**
Total Revenue	**28.6**	(28.6)	-	**-**	**157.9**	(157.9)	-	**-**

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Gross profit by Department - Franchised UK Motor

	Group gross profit 2021 £m	Disposals gross profit 2021 £m	Other non like-for-like gross profit 2021 £m	**Like-for-like gross profit 2021 £m**	**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**
Aftersales gross profit	**132.7**	-	(0.6)	**132.1**	**111.2**	(3.1)	-	**108.1**
Used vehicle gross profit	**151.8**	-	(0.4)	**151.4**	**99.5**	(3.5)	-	**96.0**
New vehicle gross profit	**99.9**	-	(1.4)	**98.5**	**79.1**	(1.2)	-	**77.9**
Total Gross profit	**384.4**	-	(2.4)	**382.0**	**289.8**	(7.8)	-	**282.0**

Gross profit by Department - Car Store

	Group gross profit 2021 £m	Disposals gross profit 2021 £m	Other non like-for-like gross profit 2021 £m	**Like-for-like gross profit 2021 £m**	**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**
Used vehicle gross profit	**12.9**	-	-	**12.9**	**7.3**	0.1	-	**7.4**
Total Gross profit	**12.9**	-	-	**12.9**	**7.3**	0.1	-	**7.4**

Gross profit by Department - US Motor

	Group gross profit 2021 £m	Disposals gross profit 2021 £m	Other non like-for-like gross profit 2021 £m	**Like-for-like gross profit 2021 £m**	**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**
Aftersales gross profit	**1.6**	(1.6)	-	**-**	**9.1**	(9.1)	-	**-**
Used gross profit	**0.2**	(0.2)	-	**-**	**1.7**	(1.7)	-	**-**
New vehicle gross profit	**2.2**	(2.2)	-	**-**	**12.5**	(12.5)	-	**-**
Total Gross profit	**4.0**	(4.0)	-	**-**	**23.3**	(23.3)	-	**-**

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Underlying operating profit/(loss)

	Group underlying operating profit/ (loss) 2021 £m	Disposals underlying operating profit 2021 £m	Other non like-for-like underlying operating profit 2021 £m	**Like-for-like underlying operating profit 2021 £m**	**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/ (loss) 2020 £m**
Franchised UK Motor	**85.8**	1.2	(1.0)	**86.0**	**18.5**	13.1	0.1	**31.7**
Car Store	**1.6**	-	-	**1.6**	**(1.2)**	0.2	-	**(1.0)**
Software	**12.5**	-	-	**12.5**	**12.1**	-	-	**12.1**
Leasing	**17.5**	-	-	**17.5**	**13.3**	-	-	**13.3**
US Motor	**(1.1)**	1.1	-	**-**	**3.2**	(3.2)	-	**-**
Total underlying operating profit	**116.3**	2.3	(1.0)	**117.6**	**45.9**	10.1	0.1	**56.1**

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

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

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

2.1 Revenue

Accounting policy

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 proportionately 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.

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 were no such warranties offered for sale in the US Motor segment.

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Leasing

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

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Leasing	Where vehicles are supplied to a leasing group for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the transfer of control is deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset to generate future rentals and, in accordance with IFRS 16 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing group are held as deferred income allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. A finance charge is accrued against the present value of the repurchase commitment and recorded as a finance expense in the income statement. The remaining deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term. No additional disclosures are made under IFRS 16 as there are no future rentals receivable. These vehicles are held within 'property, plant and equipment' at their cost to the Group and are depreciated to their residual values over the terms of the leases. These assets are transferred into inventory at their carrying amount when they cease to be rented and they become available for sale as part of the Group's ordinary course of business. Rentals are billed and paid for on a monthly basis.
Maintenance	The Group offer a maintenance contract to customers to cover routine servicing and unexpected repairs of vehicles under a leasing contract. Revenue is recognised over the period of the contract on a straight line basis. Maintenance contracts are billed and paid for on a monthly basis.
Used Vehicles	The Group recognises revenue on the sale of ex contract hire motor vehicles when they have been supplied to the customer. This occurs on delivery or collection of the product. Vehicles are paid for on delivery.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Software

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

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

NOTES TO THE FINANCIAL STATEMENTS

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	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	**2021 £m**	2020 £m
Primary geographical markets												
Europe	3,191.2	2,591.8	141.5	88.5	18.8	16.4	69.1	69.4	-	-	**3,420.6**	2,766.1
North America	-	-	-	-	-	-	-	-	28.6	157.9	**28.6**	157.9
Africa	-	-	-	-	0.5	0.4	-	-	-	-	**0.5**	0.4
Asia	-	-	-	-	0.2	0.2	-	-	-	-	**0.2**	0.2
Revenue from external customers	3,191.2	2,591.8	141.5	88.5	19.5	17.0	69.1	69.4	28.6	157.9	**3,449.9**	2,924.6
Major products/service lines												
Aftersales revenue	261.9	226.3	-	-	-	-	-	-	2.8	17.3	**264.7**	243.6
Used vehicle revenue	1,566.9	1,157.5	141.5	88.5	-	-	-	-	3.0	22.0	**1,711.4**	1,268.0
New vehicle revenue	1,362.4	1,208.0	-	-	-	-	-	-	22.8	118.6	**1,385.2**	1,326.6
Software revenue	-	-	-	-	19.5	17.0	-	-	-	-	**19.5**	17.0
Leasing revenue	-	-	-	-	-	-	69.1	69.4	-	-	**69.1**	69.4
Revenue from external customers	3,191.2	2,591.8	141.5	88.5	19.5	17.0	69.1	69.4	28.6	157.9	**3,449.9**	2,924.6
Timing of revenue recognition												
At point in time	3,182.2	2,581.0	140.5	87.4	1.9	0.9	32.1	28.5	28.6	157.9	**3,385.3**	2,855.7
Over time	9.0	10.8	1.0	1.1	17.6	16.1	37.0	40.9	-	-	**64.6**	68.9
Revenue from external customers	3,191.2	2,591.8	141.5	88.5	19.5	17.0	69.1	69.4	28.6	157.9	**3,449.9**	2,924.6

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

Contract liabilities

The Group recognises the following contract liabilities:

	2021 £m	2020 £m
Deposits received from customers	**26.2**	21.6
Unearned proportion of warranty policies sold	**16.5**	15.0

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

	2021 £m	2020 £m
Net operating expenses:		
Distribution costs	**(171.5)**	(167.5)
Administrative expenses	**(166.5)**	(172.0)
Impairment loss on trade receivables	**(0.2)**	(0.3)
Rents received	**1.8**	1.2
	(336.4)	(338.6)

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.

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.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

The tables of financial performance presented in the Operational and Financial Review on pages 24 to 41 are based upon these segmental reports.

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

Year ended 31 December 2021

	Franchised UK Motor £m	Car Store £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	**Total £m**
Total gross segment revenue	3,191.2	141.5	24.4	89.9	-	3,447.0	28.6	**3,475.6**
Inter-segment revenue	-	-	(4.9)	(20.8)	-	(25.7)	-	**(25.7)**
Revenue from external customers	3,191.2	141.5	19.5	69.1	-	3,421.3	28.6	**3,449.9**
Operating profit/(loss) before non-underlying items	85.8	1.6	12.5	17.5	-	117.4	(1.1)	**116.3**
Non-underlying items	(4.5)	(0.3)	-	-	-	(4.8)	(3.9)	**(8.7)**
Operating profit/(loss)	81.3	1.3	12.5	17.5	-	112.6	(5.0)	**107.6**
Finance expense	-	-	-	(2.7)	(32.2)	(34.9)	(0.3)	**(35.2)**
Finance income	-	-	-	-	0.9	0.9	-	**0.9**
Segmental (loss)/profit before tax	81.3	1.3	12.5	14.8	(31.3)	78.6	(5.3)	**73.3**
Other items included in the income statement are as follows:								
Depreciation and impairment	(31.1)	(0.1)	(0.6)	(38.5)	-	(70.3)	(0.1)	**(70.4)**
Impairment of property, plant and equipment	(4.3)	(0.3)	-	-	-	(4.6)	(5.0)	**(9.6)**
Amortisation	(0.4)	-	(3.7)	(0.1)	-	(4.2)	-	**(4.2)**
Share based payments	(2.9)	-	-	-	-	(2.9)	-	**(2.9)**
Termination and severance costs	(1.8)	-	-	-	-	(1.8)	-	**(1.8)**
Business closure costs	(0.2)	-	-	-	-	(0.2)	0.2	**-**
Other income - profit on the sale of businesses and property, plant and equipment	1.8	-	-	-	-	1.8	0.9	**2.7**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

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	**Total £m**
Total gross segment revenue	2,591.8	88.5	22.3	86.3	-	2,788.9	157.9	**2,946.8**
Inter-segment revenue	-	-	(5.3)	(16.9)	-	(22.2)	-	**(22.2)**
Revenue from external customers	2,591.8	88.5	17.0	69.4	-	2,766.7	157.9	**2,924.6**
Operating profit before non-underlying items	18.5	(1.2)	12.1	13.3	-	42.7	3.2	**45.9**
Non-underlying items	(30.1)	(0.1)	-	-	-	(30.2)	(6.5)	**(36.7)**
Operating profit	(11.6)	(1.3)	12.1	13.3	-	12.5	(3.3)	**9.2**
Finance expense	-	-	-	(3.1)	(35.9)	(39.0)	(0.8)	**(39.8)**
Finance income	-	-	-	-	1.0	1.0	-	**1.0**
Segmental (loss)/profit before tax	(11.6)	(1.3)	12.1	10.2	(34.9)	(25.5)	(4.1)	**(29.6)**
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)	**(80.6)**
Impairment of goodwill	(12.5)	-	-	-	-	(12.5)	-	**(12.5)**
Impairment of property, plant and equipment	(3.1)	(0.1)	-	-	-	(3.2)	-	**(3.2)**
Amortisation	(0.4)	-	(3.3)	(0.2)	-	(3.9)	-	**(3.9)**
Share based payments	(1.2)	-	-	-	-	(1.2)	-	**(1.2)**
Impairment of assets held for sale	(0.8)	-	-	-	-	(0.8)	-	**(0.8)**
Termination and severance costs	(6.3)	-	-	-	-	(6.3)	-	**(6.3)**
Business closure costs	(2.8)	-	-	-	-	(2.8)	-	**(2.8)**
Pension past service cost	(3.3)	-	-	-	-	(3.3)	-	**(3.3)**
Other income - (losses) on the sale of businesses and property, plant and equipment	(0.3)	-	-	-	-	(0.3)	(6.5)	**(6.8)**

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:

	2021 Number	2020 Number
Sales	**1,811**	2,426
Aftersales	**2,470**	3,308
Administration	**1,208**	1,617
	5,489	7,351

Costs incurred in respect of these employees were:

	2021 £m	2020 £m
Wages and salaries	**182.9**	207.7
Less - receipts from the Government Coronavirus Job Retention Scheme	**(1.6)**	(42.3)
Social security costs	**17.9**	18.1
Contributions to defined contribution plans (see note 5.1)	**7.2**	7.4
Cost recognised for defined benefit plans (see note 5.1)	**1.0**	4.4
Share based payments (see note 4.6)	**2.9**	1.2
	210.3	196.5

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 77 to 90.

The Group appropriately used government assistance from the Coronavirus Job Retention Scheme and has benefitted from £1.6m of furlough support during the year (2020: £42.3m), 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

Auditor's remuneration:	**2021 £000**	2020 £000
Fees payable to the company's Auditor for the audit of the company's annual accounts	**513.0**	520.0
Fees payable to the company's Auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	**300.0**	250.0
Audit-related assurance services	**140.0**	170.0
Other assurance services	**-**	10.0
	953.0	950.0

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.

	2021 **£m**	2020 £m
Within operating expenses:		
Impairment of goodwill	**-**	(12.5)
Impairment of assets held for sale	**-**	(0.8)
Impairment of right of use assets	**(9.6)**	(3.2)
Termination and severance costs	**(1.8)**	(6.3)
Business closure costs	**-**	(2.8)
Pension scheme administration costs	**-**	(1.0)
Past service costs in respect of pension obligations	**-**	(3.3)
	(11.4)	(29.9)
Within other income - gains on the sale of businesses, property, plant and equipment:		
Gains/(losses) on the sale of businesses	**0.7**	(6.5)
Gains on the sale of property	**2.0**	1.1
Losses on the disposal of property, plant and equipment	**-**	(1.4)
	2.7	(6.8)
Within net finance expense:		
Net interest on pension scheme obligations	**(1.0)**	(1.1)
	(1.0)	(1.1)
Total non-underlying items before tax	**(9.7)**	(37.8)
Non-underlying items in tax	**2.2**	4.1
Total non-underlying items after tax	**(7.5)**	(33.7)

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

Goodwill has been reviewed for any possible impairment and as a result of this review there was no impairment charge made during the year (2020: £12.5m) (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 no impairment charge against assets held for sale made during the year (2020: £0.8m) and property, plant and equipment of £9.6m (2020: £3.2m) which was all in respect of right of use assets. 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 (2020: £nil).

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. In the previous year a £3.3m charge was recorded as a non-underlying past service cost in the Income Statement. No charge was made in the current year.

The administration costs of the pension scheme in respect of the Pension Protection Fund levy of £1.0m was shown as a non-underlying item in 2020 due to the significant increase in this charge of over four times that of the previous year. As this charge has now normalised for 2021 the cost is now taken as an underlying administration expense.

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 £1.0m has been recognised during the year (2020: £1.1m).

Other income consists of the profit or loss on disposal of businesses and property, plant and equipment. This comprises a £0.7m gain (2020: £6.5m loss) on disposals of motor vehicle dealerships during the year (of which £0.7m was in respect of discontinued operations (2020: £6.5m loss)), a £2.0m profit on sale of properties (2020: £1.1m). In the previous year £1.4m was recognised in respect of losses on the disposal of plant and equipment as a result of the closure of businesses during that year. These do 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 previous year which resulted in a number of business closures. There was no net cost recognised during the year as a £0.2m expense in the UK was matched by a £0.2m credit in the US. In 2020 the resultant costs of closure of these sites was £2.8m and was recognised as a non-underlying item. These costs were in addition to the £1.4m losses on plant and equipment in 2020 referred to above, making the total closure cost for the previous year £4.2m.

There were termination and severance costs of £1.8m in FY21 (2020: £6.3m) of which £1.3m relates to the transfer of Finance process from dealerships to a centralised shared service centre as outlined part of the Finance Transformation in the UK motor business review. The remaining £0.5m is driven by a combination of a small number of further redundancy payments, relocation costs and Director recruitment fees relating to the search for the Group's Non-Executive Chairman.

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.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Taxation - Income statement *continued*

	2021 £m	2020 £m
UK corporation tax:		
Current tax on profit/(loss) for the year	**3.9**	-
Adjustments in respect of prior periods	**-**	2.2
	3.9	2.2
Overseas taxation:		
Current tax on profit/(loss) for the year	**1.1**	(0.7)
Adjustments in respect of prior periods	**(0.9)**	(1.4)
	0.2	(2.1)
Total current tax	**4.1**	0.1
Deferred tax expense:		
Origination and reversal of temporary differences	**8.2**	(3.3)
Adjustments in respect of prior periods	**(0.5)**	(1.7)
Total deferred tax	**7.7**	(5.0)
Total income tax expense/(credit) in the income statement	**11.8**	(4.9)

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

The tax assessed is different from the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)

The differences are explained below:	2021 £m	2020 £m
Profit/(loss) before taxation	**73.3**	(29.6)
Tax on profit/(loss) at UK rate of 19.00% (2020: 19.00%)	**13.9**	(5.6)
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	**0.5**	0.9
Permanent differences arising in respect of fixed assets	**0.8**	1.2
Unrecognised losses	**0.1**	-
Tax rate differential on overseas income	**(0.1)**	(0.4)
Non-underlying items (see below)	**(0.4)**	2.2
Impact of UK corporation tax rate change	**(1.6)**	(2.4)
Adjustments to tax charge in respect of previous periods	**(1.4)**	(0.8)
Total income tax expense/(credit) in the income statement	**11.8**	(4.9)

Taxation - Other comprehensive income	2021 £m	2020 £m
Relating to defined benefit plan remeasurement (gains) and losses	**(6.9)**	5.7
Other short term temporary differences	**0.3**	0.2
	(6.6)	5.9

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Tax rate

The UK tax rate applying throughout 2021 was 19%, this rate is set to increase to 25% on 01 April 2023. The rate change to 25% was substantively enacted on 24 May 2021 and as such the deferred tax assets and liabilities forecast to remain at 31 March 2023 have been revalued to 25%. The remeasurement of a portion of the deferred tax asset gives a tax credit to the income statement of £1.6m reducing the effective tax rate for the period, without the restatement credit the effective tax rate on underlying profits would have been 20.5%.

The rate applied to US profits is a blend of federal and Californian state rates.

During 2021 the remaining two dealerships in the USA were sold. No deferred tax liability remains at 31 December 2021 in relation to the US operations.

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. The tax charge/credit is increased/decreased by the incidence of non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

Non-underlying tax credit

The tax credit in relation to non-underlying items referred to in note 2.6 is £2.2m (2020: £4.1m). The tax credit is higher than the non-underlying loss multiplied by the tax rate (19%) due to a portion of gains on disposal of property being non-taxable.

Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £13.8m (2020: £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 £46.7m (2020: £41.9m). During 2021 Pinewood established an operation in Sweden, this Swedish subsidiary has been loss making in its start-up phase and no deferred tax asset has been recognised on the losses of £0.3m

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:

	2021 £m	2020 £m
Deferred tax assets	**22.1**	37.9
Deferred tax liabilities	**-**	(1.5)
	22.1	36.4

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

	At 1 January 2021 £m	(Charged)/ Credited to consolidated income statement £m	(Charged)/ Credited to other comprehensive income £m	**At 31 December 2021 £m**
Property, plant and equipment	5.8	2.2	-	**8.0**
Retirement benefit obligations	14.5	(2.5)	(6.9)	**5.1**
Other short term temporary differences	0.7	0.7	0.3	**1.7**
Losses	15.4	(8.1)	-	**7.3**
Tax assets/(liabilities)	36.4	(7.7)	(6.6)	**22.1**

As discussed elsewhere in the report the Group returned to profits during 2021 despite national lockdowns in the UK affecting trading in the first-half of the year. The return to profit resulted in the use of £8.1m of the deferred tax asset in respect of losses. The use of losses is restricted to 50% of taxable profits over £5m resulting in a spreading of losses across periods where brought forward losses are over £5m. The deferred tax asset on losses remaining at 31 December 2021 is £7.3m. This deferred tax asset on losses has been recognised on the basis that the Group will continue to make profits in the future against which the losses can be used. In order to support the recognition of the £7.3m deferred tax asset on losses, modelling was undertaken to review the recovery period of the deferred tax asset. The modelling was based on management forecasts and showed that the deferred tax asset on losses is expected to be recovered by 2023. A plausible downside case was also modelled which included reduced sales volumes and margins; this downside case modelling showed that the deferred tax asset on losses would be recovered by 2024.

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

	2021 Earnings per share pence	**2021 Earnings Total £m**	2020 Earnings per share pence	2020 Earnings Total £m
Basic earnings per share from continuing operations	**4.7**	**65.5**	(1.6)	(21.6)
Basic earnings per share from discontinued operations	**(0.3)**	**(4.0)**	(0.2)	(3.1)
Basic earnings per share	**4.4**	**61.5**	(1.8)	(24.7)
Adjusting items:				
Non-underlying items attributable to the parent from continuing operations	**0.4**	**5.8**	2.2	31.3
Non-underlying items attributable to the parent from discontinued operations	**0.3**	**3.9**	0.5	6.5
Non-underlying items attributable to the parent (see note 2.6)	**0.7**	**9.7**	2.7	37.8
Tax effect of non-underlying items from continuing operations	**(0.3)**	**(3.1)**	(1.0)	(13.4)
Tax effect of non-underlying items from discontinued operations	**0.1**	**0.9**	0.7	9.3
Tax effect of non-underlying items	**(0.2)**	**(2.2)**	(0.3)	(4.1)
Underlying earnings per share from continuing operations (Non-GAAP measure)	**4.9**	**68.2**	(0.3)	(3.7)
Underlying earnings per share from discontinued operations (Non-GAAP measure)	**0.1**	**0.8**	0.9	12.7
Underlying earnings per share (Non-GAAP measure)	**5.0**	**69.0**	0.6	9.0
Diluted earnings per share from continuing operations	**4.6**	**65.5**	(1.5)	(21.6)
Diluted earnings per share from discontinued operations	**(0.3)**	**(4.0)**	(0.2)	(3.1)
Diluted earnings per share	**4.3**	**61.5**	(1.8)	(24.7)
Diluted earnings per share - underlying from continuing operations (Non-GAAP measure)	**4.8**	**68.2**	(0.3)	(3.7)
Diluted earnings per share - underlying from discontinued operations (Non-GAAP measure)	**0.1**	**0.8**	0.9	12.7
Diluted earnings per share - underlying (Non-GAAP measure)	**4.9**	**69.0**	0.6	9.0

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

	2021 Number	2020 Number
Weighted average number of ordinary shares in issue	**1,390.7**	1,390.5
Weighted average number of dilutive shares under option	**25.1**	6.1
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,415.8**	1,396.6
Non-dilutive shares under option	**28.7**	38.3

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

NOTES TO THE FINANCIAL STATEMENTS

SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

	Goodwill £m	Development costs £m	Other intangibles £m	**Total £m**
Cost				
At 1 January 2020	406.8	16.1	4.4	**427.3**
Additions	-	4.3	0.3	**4.6**
Disposals	-	-	(0.3)	**(0.3)**
At 31 December 2020	406.8	20.4	4.4	**431.6**
At 1 January 2021	406.8	20.4	4.4	**431.6**
Additions	-	5.0	0.1	**5.1**
At 31 December 2021	406.8	25.4	4.5	**436.7**
Amortisation				
At 1 January 2020	244.0	7.7	3.3	**255.0**
Amortised during the year	-	3.3	0.6	**3.9**
Impairment	12.5	-	-	**12.5**
Disposals	-	-	(0.3)	**(0.3)**
At 31 December 2020	256.5	11.0	3.6	**271.1**
At 1 January 2021	256.5	11.0	3.6	**271.1**
Amortised during the year	-	3.7	0.5	**4.2**
At 31 December 2021	256.5	14.7	4.1	**275.3**
Carrying amounts				
At 1 January 2020	162.8	8.4	1.1	**172.3**
At 31 December 2020	150.3	9.4	0.8	**160.5**
At 31 December 2021	150.3	10.7	0.4	**161.4**

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:	**2021 £m**	2020 £m
Amortisation of internally generated intangible assets	**3.7**	3.3
Amortisation of other intangible assets	**0.5**	0.6
Impairment of goodwill	**-**	12.5
Research and development costs	**1.0**	0.8

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 2022. The 2022 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 2023 to 2026 forecast represents a projection from the 2022 bottom up forecast with a short term income growth 2.0% and short term costs growth of 2.4% 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 2.0% (2020: 1.9%) has been assumed beyond 2026. The growth rate of 2.0% 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 pre-tax discount rates used are specific to each CGU and vary between 9.7% and 15.2% (2020: discount rates varied between 9.7% and 13.7%).

Goodwill by segment	**2021 £m**	2020 £m
UK Motor	**128.0**	128.0
Pinewood	**0.3**	0.3
Leasing	**22.0**	22.0
	150.3	150.3

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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	**Total £m**
Cost					
At 1 January 2020	695.5	86.3	37.6	245.3	**1,064.7**
Additions	16.9	6.6	35.8	72.6	**131.9**
Disposals	(21.6)	(7.7)	(47.7)	-	**(77.0)**
Contract hire vehicles transferred to inventory	-	-	-	(87.5)	**(87.5)**
Classified as non-current assets held for sale	(5.4)	-	-	-	**(5.4)**
Reinstated from non-current assets held for sale	3.7	-	-	-	**3.7**
At 31 December 2020	689.1	85.2	25.7	230.4	**1,030.4**
At 1 January 2021	689.1	85.2	25.7	230.4	**1,030.4**
Reclassification	-	-	(22.7)	-	**(22.7)**
Exchange adjustments	0.1	-	-	-	**0.1**
Additions	17.4	4.4	0.1	42.4	**64.3**
Buisness disposals	-	(1.6)	-	-	**(1.6)**
Other disposals	(19.9)	(1.5)	(0.6)	-	**(22.0)**
Contract hire vehicles transferred to inventory	-	-	-	(48.0)	**(48.0)**
Classified as non-current assets held for sale	(10.5)	-	-	-	**(10.5)**
Reinstated from non-current assets held for sale	7.1	0.1	-	-	**7.2**
At 31 December 2021	683.3	86.6	2.5	224.8	**997.2**

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**
Depreciation					
At 1 January 2020	299.0	56.7	5.4	75.3	**436.4**
Charge for the year	25.6	8.0	6.1	40.9	**80.6**
Impairment	3.2	-	-	-	**3.2**
Disposals	(8.0)	(5.7)	(6.6)	-	**(20.3)**
Contract hire vehicles transferred to inventory	-	-	-	(43.2)	**(43.2)**
Classified as non-current assets held for sale	(0.5)	-	-	-	**(0.5)**
Reinstated from non-current assets held for sale	1.4	-	-	-	**1.4**
At 31 December 2020	320.7	59.0	4.9	73.0	**457.6**
At 1 January 2021	320.7	59.0	4.9	73.0	**457.6**
Reclassification	-	-	(3.8)	-	**(3.8)**
Exchange adjustments	0.1	-	-	-	**0.1**
Charge for the year	24.8	6.6	0.5	38.5	**70.4**
Impairment	9.6	-	-	-	**9.6**
Buisness disposals	-	(1.2)	-	-	**(1.2)**
Other disposals	(14.0)	(0.7)	(0.6)	-	**(15.3)**
Contract hire vehicles transferred to inventory	-	-	-	(17.9)	**(17.9)**
Classified as non-current assets held for sale	(2.7)	-	-	-	**(2.7)**
Reinstated from non-current assets held for sale	0.8	0.1	-	-	**0.9**
At 31 December 2021	339.3	63.8	1.0	93.6	**497.7**
Carrying amounts					
At 1 January 2020	396.5	29.6	32.2	170.0	**628.3**
At 31 December 2020	368.4	26.2	20.8	157.4	**572.8**
At 31 December 2021	344.0	22.8	1.5	131.2	**499.5**
Assets leased out under operating leases					
Cost at 31 December 2021	38.2	-	-	224.8	**263.0**
Accumulated depreciation at 31 December 2021	(16.0)	-	-	(93.6)	**(109.6)**
Accumulated impairment at 31 December 2021	(4.6)	-	-	-	**(4.6)**
Carrying value of assets leased out under operating leases at 31 December 2021	17.6	-	-	131.2	**148.8**

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

Property, plant and equipment includes right-of-use assets of £126.5m (see Note 4.7).

Included within motor vehicles were cars used as employee cars and as service loan vehicles. These vehicles are turned several times during the year and are made available for sale either immediately or not long after purchase as part of the Group's normal business activities. Considering the short life span of these assets it was decided that as at 1 January 2021 those vehicles would be reclassified as inventory to better reflect their current asset nature. Vehicles that remain classified as tangible fixed assets are those that are retained for periods in excess of one year and will include for example delivery, transporter and recovery vehicles.

During the year one property was re-classified as property, plant and equipment following a decision to withdraw it from sale. The property has been re-instated at the lower of its recoverable amount, or the carrying amount had the asset never been moved to assets held for sale. In this instance the property was re-instated at its recoverable value having been previously impaired down to that value.

	2021 £m	2020 £m
Building projects currently under construction for which no depreciation has been charged during the year	**8.7**	6.1
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment	**7.1**	22.4
Cumulative interest charges capitalised as construction costs and included in land and buildings	**5.2**	4.9

The following items have been charged to the income statement as operating expenses during the year:		
Depreciation of property, plant and equipment - leased	**18.5**	19.0
Depreciation of contract hire vehicles - leased	**38.5**	40.9
Depreciation of property, plant and equipment - owned	**13.4**	20.7

Cash flow statement information	**2021 £m**	2020 £m
Additions to property, plant, equipment and intangible assets:		
Additions to land and buildings	**(17.4)**	(16.9)
Additions to plant and equipment	**(4.4)**	(6.6)
Additions to motor vehicles	**(0.1)**	(35.8)
Additions to intangible assets (see note 3.1)	**(5.1)**	(4.6)
Total additions	**(27.0)**	(63.9)
Less additions of property, plant and equipment acquired under leases for which no cash flow arises (excludes fees capitalised of £0.1m (2020: £nil))(see note 4.7)	**8.7**	9.3
Cash flows relating to additions of property, plant and equipment made by the US disposal group disclosed within assets held for sale	**(0.3)**	(5.6)
Cash flows from investing activities in respect of additions to property, plant and equipment	**(18.6)**	(60.2)

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

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 it was subsequently classified as a discontinued operation and disposal group held for sale. In the period between this announcement and the end of 2020 proceeds of £78.8m had been received on the sale of individual stores. During the first half of 2021 the Group sold its two remaining stores for proceeds of £27.0m. The results of the US Business are shown as a discontinued operation within these consolidated financial statements. At the start of the financial year the assets and liabilities of the US operation were classified as held for sale as a disposal group. On disposal of the remaining two businesses no further assets are being held for sale and any remaining balances have been restated to their original categorisations. The operation intends to maintain a small presence in the US to facilitate the settlement of outstanding transactions and provide support in assisting the complete wind down of the business which is likely to be in excess of one year in duration. No impairment loss has been recognised in the income statement for the year ended 31 December 2021 in respect of this transaction prior to its declassification.

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 until the sale of the final business unit in March 2021, 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.

	2021 **£m**	2020 £m
Property, plant and equipment	-	50.4
Inventories	-	31.2
Trade and other receivables	-	10.0
Assets held for sale	-	91.6
Trade and other payables	-	(67.3)
Liabilities held for sale	-	(67.3)

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.3 Assets held for sale and discontinued operations *continued*

	2021 £m	2020 £m
Exchange differences on translation of discontinued operation	-	-
Other comprehensive income from discontinued operation	-	-

	2021 £m	2020 £m
Net cash (used in)/from operating activities	(5.4)	4.6
Net cash from investing activities	27.6	11.4
Net cash used in financing activities	(31.3)	(43.0)
Net cash decrease generated by discontinued operation	(9.1)	(27.0)

Included within net cash used in financing activities for 2021 is £28.8m (2020: £40.0m) in respect of a dividend paid by the US company to its UK holding company.

	2021 pence	2020 pence
Basic earnings per share from discontinued operation	(0.3)	(0.2)
Underlying basic earnings per share from discontinued operation	(0.1)	0.1
Diluted earnings per share from discontinued operation	(0.3)	(0.2)

Balance sheet

The Group 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. At 31 December 2021 there were no assets of the US motor business classified as held for sale.

The Group also holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during 2022. 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:	2021 £m	2020 £m
Property, plant and equipment	10.4	57.8
Inventories	-	31.2
Trade and other receivables	-	10.0
	10.4	99.0

Income statement

The following items have been credited/(charged) to the income statement during the year:	Income statement category	2021 £m	2020 £m
Profit/(loss) on sale of assets classified as held for sale	Other income - gains/(losses) on the sale of businesses and property, plant and equipment	1.7	(4.0)
Impairment of assets held for sale	Net operating expenses	-	(0.8)

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £0.4m would have been recognised (2020: £0.5m).

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

	2021	2020
	£m	£m
New and used vehicles	**461.2**	505.9
Consignment vehicles	**27.2**	81.7
Vehicle parts and other inventories	**24.4**	21.2
	512.8	608.8

	2021	2020
	£m	£m
Inventories recognised as an expense during the year	**2,972.0**	2,535.0
Carrying value of inventories subject to retention of title clauses	**447.8**	544.2
Write-down of inventories to net realisable value	**10.1**	10.9

The key assumptions underpinning the net realisable value of the 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 the used vehicle inventory by £0.2m (2020: £2.4m). If the expected sales prices at the date of sale were to decrease by £500 per vehicle then it would reduce the value of the used vehicle inventory by £4.1m (2020: £4.5m) at the balance sheet date. Whereas if the average time to sell a vehicle is decreased by 30 days then it would increase the value of the used vehicle inventory by £1.3m. Also if the expected sales prices at the date of sale were to increase by £500 per vehicle then it would increase the value of the used vehicle inventory by £3.1m at the balance sheet date.

Cash flow statement information

	2021	2020
	£m	£m
Movement in inventory	**96.0**	230.2
Reclassification from property, plant and equipment (see note 3.2)	**18.9**	-
Inventory changes in business combinations and disposals	**(0.6)**	-
Impact of exchange differences	**0.1**	0.3
Non cash movement in consignment vehicles	**(54.5)**	2.2
Classified as held for sale	**17.8**	17.8
Transfer value of contract hire vehicles from fixed assets to inventory	**30.1**	44.3
Cash flow decrease due to movements in inventory	**107.8**	294.8

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.5 Movement in contract hire vehicle balance

	2021 £m	2020 £m
Depreciation	**38.5**	40.9
Changes in trade and other payables and deferred income	**(30.2)**	(16.5)
Purchases of contract hire vehicles	**(42.4)**	(72.6)
Unwinding of discounts in contract hire residual values	**(2.7)**	(3.1)
	(36.8)	(51.3)

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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.6 Trade and other receivables *continued*

Balance sheet

	2021 £m	2020 £m
Trade receivables	**45.7**	38.4
Allowance for doubtful debts	**(0.3)**	(0.4)
	45.4	38.0
Manufacturer bonus receivables	**17.4**	17.8
Other receivables	**34.7**	36.7
Prepayments	**3.8**	2.1
	101.3	94.6

All amounts are due within one year.

All trade receivables are classified as loans and receivables and held at amortised cost in the current year and prior year.

Total trade receivables held by the Group at 31 December 2021 was £45.4m (2020: £50.9m). This includes no trade receivables that have been classified as held for sale (2020: £8.9m).

The average credit period taken on sales of goods is 29 days (2020: 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 £0.1m (2020: £0.3m).

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

	Trade receivables 2021 £m	**Manufacturer bonus receivables 2021 £m**	**Other receivables 2021 £m**	Trade receivables 2020 £m	Manufacturer bonus receivables 2020 £m	Other receivables 2020 £m
Not past due	**20.6**	**12.5**	**31.3**	25.0	13.7	32.1
Past due 0-30 days	**10.7**	**2.4**	**0.8**	10.4	2.3	2.5
Past due 31-120 days	**12.4**	**2.5**	**2.6**	1.6	1.8	2.1
Past due 120+ days	**2.0**	**-**	**-**	1.4	-	-
	45.7	**17.4**	**34.7**	38.4	17.8	36.7
Provision for impairment	**(0.3)**	**-**	**-**	(0.4)	-	-
	45.4	**17.4**	**34.7**	38.0	17.8	36.7

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:

	2021 £m	2020 £m
Balance at 1 January	**0.4**	0.4
Utilisation	**(0.3)**	(0.3)
Impairment loss recognised	**0.2**	0.3
Balance at 31 December	**0.3**	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 Group's 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.

	2021 £m	2020 £m
Non-current	**15.5**	16.6
Current	**2.1**	2.0
	17.6	18.6

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.

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

	2021 £m	2020 £m
Trade payables	**56.4**	126.9
Stocking loans	**420.6**	462.5
Contract hire buyback commitments	**62.0**	81.0
Consignment vehicle liabilities	**27.2**	81.7
Payments received on account	**26.2**	21.6
Other taxation and social security	**24.7**	36.9
Accruals	**117.5**	84.7
	734.6	895.3
Non-current	**41.9**	60.4
Current	**692.7**	834.9
	734.6	895.3

Trade payables are classified as other financial liabilities. Fair value is deemed to be the same as carrying value.

Details of the stocking loan facilities are presented in the Capital Management section of note 4.2 below.

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 from these estimates. Annual reviews are undertaken to reappraise residual values and to recognise impairment write downs where necessary.

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 2021	15.0	68.7	**83.7**
Created in the year	16.8	25.8	**42.6**
Recognised as income during the year	(10.0)	(37.0)	**(47.0)**
Warranty claims paid	(5.3)	-	**(5.3)**
At 31 December 2021	16.5	57.5	**74.0**
Non-current	7.4	29.4	**36.8**
Current	9.1	28.1	**37.2**
	16.5	57.5	**74.0**
Recognition of opening balance as at 31 December 2020			
Recognised during the year	10.2	32.7	**42.9**
Carried forward at 31 December 2021	4.8	36.0	**40.8**
	15.0	68.7	**83.7**

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 2021 or 31 December 2020 that have an original expected duration of one year or less as allowed by IFRS 15.

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
4.2 Financial instruments and derivatives
4.3 Net financing costs
4.4 Capital and reserves
4.5 Dividends
4.6 Share based compensation
4.7 Leases

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.

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	**95.6**
Finance lease receivables	Amortised cost	**17.6**
Cash and cash equivalents	Amortised cost	**37.6**

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.

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

Adjusted net debt	2021 £m	2020 £m
Cash and cash equivalents	**37.6**	56.0
Non-current interest bearing loans and borrowings	**(87.3)**	(156.4)
	(49.7)	(100.4)

The Group has on adoption of IFRS 16 Leases excluded Finance Lease liabilities from its measure of Adjusted 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.

	Carrying value and fair value 2021 £m	Carrying value and fair value 2020 £m
Bank balances and cash equivalents	**37.6**	56.0

Borrowings

As at 31 December 2021, the Group had a £175m credit facility and a £60m senior note, expiring as set out below:

	Expiry Date	£m
Revolving credit facility	March 2023	**175.0**
Senior note	March 2023	**60.0**
		235.0

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

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 remained to be amortised in future periods. In March 2021, the Revolving Credit Facility was extended again for a further year to March 2023, incurring fees and costs of £1.3m. Total fees and costs of £0.3m remain to be amortised at 31 December 2021.

	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 was 4.85% from the date of extension in March 2021, rising to 6.00% from 1 October 2021 and a further 0.25% each quarter commencing 1 January 2023. The commitment fee is calculated at 40% 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 2021 the ratio was 0.3 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 2021 the ratio was 4.2 times.

Security

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

New facilities

In March 2022, the Group refinanced its £175m RCF and £60m Private Placement, both of which were due to mature in March 2023. The new facilities comprise a 5 year £100m Senior Term Finance Agreement (SFA), maturing March 2027, with the Group's existing Private Placement lender plus a new lender, and a £75m 3+1+1 Revolving Credit Facility (RCF) with four out of the five of the Group's existing bankers, maturing March 2025, with extensions at the option of lenders to March 2026 and then March 2027. The SFA comprises a term loan, with principal repayments at 1% per quarter in years 1 and 2, and at 2.5% per quarter thereafter. The RCF comprises a "bullet" facility i.e. there are no scheduled reductions. Both the SFA and RCF are secured over the assets of the Group (with the exception of the Pension Fund's Central Asset Reserve assets set out at note 5.1) , and rank pari-passu with the Pension Fund. Interest in respect of the RCF is in a range of SONIA + 5.00%-6.00%, and for the SFA at SONIA + 6.00%-7.00%, both dependent on the same leverage ratio. Financial covenants are common to both the RCF and SFA, and comprise leverage, fixed charge cover and minimum underlying EBITDA.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Summary of borrowings

	Carrying value 2021 £m	**Fair value 2021 £m**	Carrying value 2020 £m	Fair value 2020 £m
Non-current:				
Bank borrowings	**27.1**	**27.1**	96.2	96.2
5.75% Senior note 2023	**60.0**	**60.0**	60.0	60.0
Other loan notes	**0.2**	**0.2**	0.2	0.2
Lease liabilities	**195.4**	**195.4**	218.7	218.7
Total non-current	**282.7**	**282.7**	375.1	375.1
Lease liabilities	**26.7**	**26.7**	24.5	24.5
Total current	**26.7**	**26.7**	24.5	24.5
Total borrowings	**309.4**	**309.4**	399.6	399.6

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			
	Long term borrowings £m	Finance Lease £m	Share capital £m	Other reserves £m	Retained earnings £m	**Total £m**
At 1 January 2021	156.4	243.2	69.9	74.0	(17.2)	**526.3**
Cash flows from financing activities						
Payment of lease liabilities	-	(26.9)	-	-	-	**(26.9)**
Repayment of loans	(88.8)	-	-	-	-	**(88.8)**
Proceeds from issue of loans	18.7	-	-	-	-	**18.7**
	(70.1)	(26.9)	-	-	-	**(97.0)**
Other changes						
The effect of changes in foreign exchange rates	(0.5)	(0.2)	-	-	-	**(0.7)**
New leases undertaken - non cash	-	9.2	-	-	-	**9.2**
Reinstated from liabilities held for sale as part of a disposal group - non cash	-	2.5	-	-	-	**2.5**
Disposal of finance leases - non cash	-	(5.8)	-	-	-	**(5.8)**
Liability-related : Lease expenses - non cash	-	0.1	-	-	-	**0.1**
Liability-related : Amortisation of fees and expenses	1.5	-	-	-	-	**1.5**
Equity-related : Total other changes	-	-	-	1.0	97.9	**98.9**
At 31 December 2021	87.3	222.1	69.9	75.0	80.7	**535.0**

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.

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, and from 30 June 2021 by reference to SONIA, for the relevant currency, except for the 5.75% senior note 2023, which is at a fixed rate. 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 2021 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	**37.6**	Amortised cost	Floating GBP	0.00%-1.53%	6 months or less
Borrowings						
Non - current:						
Bank borrowings	Other financial liabilities	**19.7**	Amortised cost	Floating GBP	2.53% - 6.18%	6 months or less
Bank borrowings	Other financial liabilities	**7.4**	Amortised cost	Floating USD	2.66% - 6.26%	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	**195.4**	Amortised cost	Fixed GBP	1.91% - 8.00%	n/a
Total non-current		**282.7**				
Lease liabilities	Other financial liabilities	**26.7**	Amortised cost	Fixed GBP	1.91% - 4.72%	n/a
Total current		**26.7**				
Total borrowings		**309.4**				

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

	2021 £m	2020 £m
Pound sterling	**301.3**	363.0
US dollar	**8.1**	36.6
	309.4	399.6

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.

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 lease liabilities:

	2021 £m	2020 £m
Between 1 and 2 years	**87.1**	96.2
Between 2 and 5 years	**0.2**	60.2
	87.3	156.4

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	27.1	28.0	0.3	0.3	27.4	-	-
Senior note	60.0	64.3	1.7	1.7	60.9	-	-
Loan notes	0.2	0.3	-	-	-	0.3	-
	87.3	92.6	2.0	2.0	88.3	0.3	-
Leases liabilities	222.1	318.8	19.8	18.6	34.8	86.0	159.6
Trade payables	58.3	58.3	58.3	-	-	-	-
Stocking loans	420.6	425.2	280.7	144.5	-	-	-
	788.3	894.9	360.8	165.1	123.1	86.3	159.6

The Group has the following undrawn borrowing facilities:

	2021 £m	2020 £m
Expiring in 1-2 years	**87.9**	78.8

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, due to the relatively low rates in floating interest rates, there is relatively low downside risk in maintaining any fixed rate borrowings at fixed rate. Thus the Group's £60.0m Senior note 2023 has been maintained at fixed rate.

Interest rate risk sensitivity analysis

As some of the Group's borrowings and vehicle stocking credit lines are floating rate instruments they therefore have a sensitivity to changes in market rates of interest. The table below shows the effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end, showing how profit or loss would have varied in the period on the assumption that the instruments at the period end were outstanding for the entire period.

	Profit/(loss) 2021 £m	Profit/(loss) 2020 £m
100 basis points increase	**(3.8)**	(4.5)
Tax effect	**0.7**	0.9
Effect on net assets	**(3.1)**	(3.6)
100 basis points decrease	**1.9**	4.5
Tax effect	**(0.4)**	(0.9)
Effect on net assets	**1.5**	3.6

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 10.0m (2020: USD 50.0m) against its net assets held in overseas subsidiaries.

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.

	2021 $m	2020 $m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	**10.0**	50.0

	£m	£m
Foreign exchange gains/(losses) on translation of borrowings to sterling at balance sheet date	**0.5**	(1.3)
Foreign exchange (losses)/gains on translation of net investments to sterling at balance sheet date	**(0.5)**	1.3
Net exchange gain/(loss) recognised within translation reserve in equity	**-**	-

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 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:

	2021 £m	2020 £m
Manufacturer finance arm	**185.3**	360.8
Third party stock finance	**262.5**	183.4
Bank	**65.0**	64.6
Total inventories	**512.8**	608.8

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 159 includes stock finance facilities.

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 2021 amounted to £73.1m (2020: £147.0m). 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-19 closures, by suspending payments due on their respective facilities.

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 2021 comprises:

	2021 £m	2020 £m
Net debt	**49.7**	100.4
Finance lease liabilities	**222.1**	243.2
Stock finance	**447.8**	544.2
Pension deficit	**23.6**	75.5
	743.2	963.3

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. At 31 December 2021 the adjusted net debt : underlying EBITDA ratio achieved was 0.3: 1, calculated as follows:

	2021 £m	2020 £m
Underlying operating profit	**116.3**	45.9
Depreciation	**70.4**	80.6
Amortisation	**4.2**	3.9
Underlying EBITDA	**190.9**	130.4
Adjusted net debt (being net debt as set out in the alternative performance measures in note 1)	**49.7**	100.4
Adjusted net debt : underlying EBITDA ratio	**0.3**	0.8

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 2021 and 2020 are set out below:

	2021	2020
Underlying profit before tax (£m)	**83.0**	8.2
Underlying earnings per share (p)	**5.0**	0.6
Net debt : underlying EBITDA	**0.3**	0.8

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 was completed during 2021, realising total disposal proceeds of £106m.

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.

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	**2021 £m**	2020 £m
Interest payable on bank borrowings, Senior note and loan notes	**9.4**	8.5
Vehicle stocking plan interest	**9.8**	13.6
Interest payable on finance leases	**12.6**	14.0
Net interest on pension scheme obligations (non-underlying - see note 2.6)	**1.0**	1.1
Less: interest capitalised	**(0.3)**	(0.5)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**32.5**	36.7
Unwinding of discounts in contract hire residual values	**2.7**	3.1
Total finance expense	**35.2**	39.8

Interest of £0.3m has been capitalised during the year on assets under construction at an average rate of 5.75% (2020: £0.5m).

Finance income

Recognised in profit and loss	**2021 £m**	2020 £m
Interest receivable on finance leases	**0.9**	1.0
Total finance income	**0.9**	1.0

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 2020 and 31 December 2021	1,396,944,404	69.9

There were no issues of ordinary shares during the year.

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 (2020: £nil).

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 2021 was £1.3m (2020: £0.8m), being 5.8m (2020: 6.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2020: £0.33). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2021 was £18.1m (2020: £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. Details of the plans are given in the Directors' Remuneration Report on pages 77 to 90.

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves *continued*

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

The Board is not recommending the payment of a final dividend for 2021 (2020: nil).

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 2021	**Number of options millions 2021**	Weighted average exercise price 2020	Number of options millions 2020
Outstanding at beginning of period	**24.0p**	**4.6**	23.1p	5.2
Exercised during the period	**8.8p**	**(0.6)**	-	-
Lapsed during the period	**8.8p**	**(0.2)**	5.0p	(0.6)
Outstanding at the end of the period	**27.0p**	**3.8**	24.0p	4.6
Exercisable at the end of the period	**27.0p**	**3.8**	24.0p	4.6

The options outstanding at 31 December 2021 have an exercise price in the range of 13.50p to 31.82p and a weighted contractual life of 2.1 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 2021 were as follows:

Exercise period	Date of grant	Exercise price per share	At 31 December 2020 Number	Exercised Number	Lapsed Number	**At 31 December 2021 Number**
7 October 2014 to 6 October 2021	6 October 2011	8.82p	758,318	(573,261)	(185,057)	**-**
31 March 2015 to 30 March 2022	30 March 2012	13.50p	1,000,000	-	-	**1,000,000**
19 September 2017 to 19 September 2024	18 September 2014	31.82p	2,829,500	-	-	**2,829,500**
			4,587,818	(573,261)	(185,057)	**3,829,500**

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.

The weighted average share price at the date of exercise for share options exercised in the year was 17.68p (2020: nil).

All options are settled by physical delivery of shares.

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 2021 is 6.4p (2020: 6.4p).

Executive Long Term Incentive Plan ("LTIPs")

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

	Weighted average exercise price 2021	**Number of options millions 2021**	Weighted average exercise price 2020	Number of options millions 2020
Outstanding at the start of the period	**0.00p**	**27.6**	0.00p	-
Granted during the period	**0.00p**	**16.5**	0.00p	27.6
Outstanding at the end of the period	**0.00p**	**44.1**	0.00p	27.6

Movements in the number of options to acquire ordinary shares under the Group's LTIP, together with the outstanding position at 31 December 2021 were as follows:

Exercise period	Date of grant	At 31 December 2020 Number	Granted Number	**At 31 December 2021 Number**
27 October 2023	28 October 2020	27,648,123	-	**27,648,123**
12 July 2024	13 July 2021	-	16,506,004	**16,506,004**
		27,648,123	16,506,004	**44,154,127**

All grants of LTIPs were issued pursuant to the Long Term Incentive Plan. 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 defined performance period, commencing on the grant date and measured at the respective year end, with the remaining 50% based on the achievement of certain qualitative strategic performance metrics aligned to the Company's strategic milestones as set out in the Company's Group Strategy Investor Presentation (available at www.pendragonplc.com). If the performance conditions are not satisfied, none of the LTIP award shares will vest.

Executive bonuses relating to performance in 2020 were 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 2021 is 14.08p (2020: 14.08p).

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

Executive LTIP Scheme	2021	2020
Number of share options granted in year	**16,506,004**	27,648,123
Weighted average share price (pence)	**0.00**	0.00
Weighted average exercise price (pence)	**0.00**	0.00
Weighted average fair value (pence)	**19.09**	14.08
Expected volatility (%)	**48.9%**	58.6%
Expected life (years)	**3.0**	3.0
Risk free rate (%)	**69.3%**	-6.3%
Expected dividend yield (%)	**0.0%**	0.0%

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 associate turnover.

Income statement

The Group recognised a total net expense of £2.9m (2020: £1.2m) as an employee benefit cost in respect of all equity-settled share based payment transactions included within administration costs.

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 IFRS 15, 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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

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 2021 property leases had an average of around 11.5 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	Motor vehicles £m	**Total £m**
Balance at 1 January 2020	158.7	0.5	**159.2**
Additions to right of use assets	8.9	0.4	**9.3**
Depreciation charge	(18.5)	(0.5)	**(19.0)**
Impairment	(3.2)	-	**(3.2)**
Disposals of right of use assets	(0.3)	-	**(0.3)**
Balance at 31 December 2020	145.6	0.4	**146.0**
Balance at 1 January 2021	145.6	0.4	**146.0**
Additions to right of use assets	8.7	0.1	**8.8**
Reinstated from assets held for sale as part of a disposal group	5.0	-	**5.0**
Depreciation charge	(18.1)	(0.4)	**(18.5)**
Impairment	(9.6)	-	**(9.6)**
Disposals of right of use assets	(5.2)	-	**(5.2)**
Balance at 31 December 2021	126.4	0.1	**126.5**

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

Lease liabilities

	Land & buildings £m	Motor vehicles £m	**Total £m**	Included within liabilities associated with the assets held for sale £m
Balance at 1 January 2020	(261.2)	(0.5)	**(261.7)**	(34.8)
Additions to right of use assets	(8.9)	(0.4)	**(9.3)**	-
Interest expense related to lease liabilities	(13.3)	-	**(13.3)**	(0.7)
Interest expense related to lease liabilities capitalised	-	-	**-**	(1.7)
Disposals of lease liabilities	4.3	-	**4.3**	-
Repayment of lease liabilities (including interest element)	36.5	0.4	**36.9**	5.8
Exchange adjustments	-	-	**-**	0.8
Other movements	(0.1)	-	**(0.1)**	-
Balance at 31 December 2020	(242.7)	(0.5)	**(243.2)**	(30.6)
Non-current	(218.7)	-	**(218.7)**	
Current	(24.0)	(0.5)	**(24.5)**	
Balance at 31 December 2020	(242.7)	(0.5)	**(243.2)**	
Balance at 1 January 2021	(242.7)	(0.5)	**(243.2)**	(30.6)
Additions to right of use assets	(8.7)	(0.1)	**(8.8)**	-
Additions to lease receivables	(0.4)	-	**(0.4)**	-
Interest expense related to lease liabilities	(12.5)	-	**(12.5)**	(0.1)
Disposals of lease liabilities on sale of business	-	-	**-**	27.8
Other disposals of lease liabilities	5.8	-	**5.8**	-
Reinstated from liabilities held for sale as part of a disposal group	(2.5)	-	**(2.5)**	2.5
Repayment of lease liabilities (including interest element)	38.9	0.5	**39.4**	0.4
Exchange adjustments	0.2	-	**0.2**	-
Other movements	(0.1)	-	**(0.1)**	-
Balance at 31 December 2021	(222.0)	(0.1)	**(222.1)**	-
Non-current	(195.4)	-	**(195.4)**	
Current	(26.6)	(0.1)	**(26.7)**	
Balance at 31 December 2021	(222.0)	(0.1)	**(222.1)**	

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 69.5% 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 and are subject to caps.

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 contracts end.

Amounts recognised in profit or loss

	2021 £m	2020 £m
Depreciation of right of use assets	**18.5**	19.0
Impairment of right of use assets (non-underlying)	**9.6**	3.2
Interest on lease liabilities	**12.6**	14.0
Loss on sale and leaseback transaction	**-**	2.4
Expense relating to variable lease payments not included in lease liabilities	**0.1**	1.4
Expenses relating to low value leases	**0.1**	0.1
Expenses relating to short term leases	**1.1**	2.3

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

During the previous 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 in 2020. The transaction was 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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

Balance Sheet

Lease receivables

Land and buildings	**2021 £m**	2020 £m
Balance at 1 January	**18.6**	23.0
Additions to lease receivables	**2.7**	0.2
Interest income related to lease receivables	**0.9**	1.0
Disposals of lease liabilities	**(1.5)**	(2.7)
Payment of lease receivables (including interest element)	**(3.1)**	(2.9)
Balance at 31 December	**17.6**	18.6
Non-current	**15.5**	16.6
Current	**2.1**	2.0
	17.6	18.6

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

	2021 £m	2020 £m
Less than one year	**3.0**	3.0
Between one and two years	**3.0**	3.0
Between two and three years	**2.9**	3.0
Between three and four years	**2.2**	2.8
Between four and five years	**2.0**	2.0
More than five years	**9.5**	9.9
Total undiscounted lease receivable	**22.6**	23.7
Unearned finance income	**(5.0)**	(5.1)
	17.6	18.6

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

At the 31 December 2021 balance sheet date, the Group had contracted with tenants for the following future minimum lease payments on leases classified as operating leases.

	2021 Property £m	2020 Property £m
Less than one year	**2.2**	1.1
Between one and two years	**1.9**	0.9
Between two and three years	**1.9**	0.8
Between three and four years	**1.8**	0.7
Between four and five years	**1.8**	0.7
More than five years	**4.5**	3.4
	14.1	7.6

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

Amounts recognised in profit or loss

	2021 £m	2020 £m
Operating lease rentals received	**1.8**	1.2
Interest received on finance lease receivables	**0.9**	1.0
	2.7	2.2

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 2021 to the Legal & General arrangement were £3.0m (2020: £2.4m). 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 2021 were £4.2m (2020: £5.0m). The combined contributions to the Group's Personal Pension arrangement (including the US Motor business) and the Peoples Pension scheme therefore totalled £7.2m in the period (2020: £7.4m).

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.

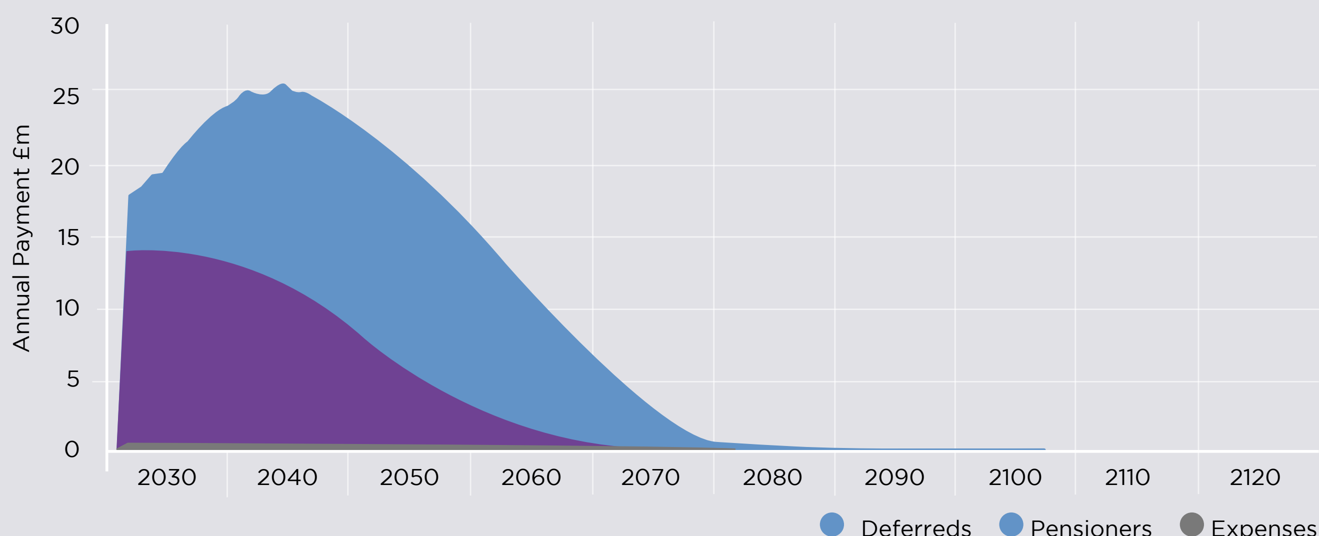
Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2021 there was an outstanding balance of £0.9m (2020: £0.9m)

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:



SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

'Deferred' are those pension scheme members not yet drawing a pension as at 31 December 2021; 'Pensioners' are those in receipt of pension at 31 December 2021.

The actual total cash liabilities shown above are estimated at £763m. The value of these liabilities discounted to present value at 31 December 2021 are £569.2m.

In order to meet those future cashflows, the Pension Scheme has to grow its assets sufficient to settle those liabilities. The risk of the future value of those assets is dependent on the financial return; the liabilities will change dependent on the rate of inflation (as most pensions are inflation adjusted) and longevity (how long the pensioner lives for and therefore in receipt of pension). The pension deficit is the gap between those assets and liabilities and can be calculated in one of two ways, both of which are arithmetically identical: either forecast future assets at the asset growth rate to offset against actual liabilities or discount future liabilities by the asset growth rate and compare with the present value of the assets. The latter method is the one commonly adopted and accounting standards require that the asset growth rate (the discount rate) should be estimated on a similar basis for every Group, to enhance comparability and to assume a relatively low level of risk. The more realistic picture is provided by the actuarial valuation which considers what the prudent estimate of the asset growth rate should be and hence what the gap is that the Group will be required to fund through cash contributions. These actuarial valuations are conducted every three years (the triennial valuation). The last triennial valuation was conducted as at 31 December 2018 giving the following comparison:

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

The triennial valuation of the pension scheme reflecting the position as at 31 December 2018 was agreed by the Trustees on 17 March 2020. The Group has agreed with the trustees that it will aim to eliminate the deficit over a period of 7 years and 7 months from 31 March 2020 by the payment of deficit recovery contributions of £12.5m each year, increasing at 2.25% p.a. These contributions include the expected quarterly distributions from the Central Asset Reserve over the recovery period. The next triennial valuation of the pension scheme will reflect the position as at 31 December 2021.

Central Asset Reserve

Pendragon PLC is a general partner and the Pendragon Group Pension Scheme is a limited partner of the Pendragon Scottish Limited Partnership (the Partnership). The Partnership holds properties with a book value of £45.1m (with a most recent market valuation of £47.1m), 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 £3.1m to the Pendragon Group Pension Scheme through the Partnership (2020: £3.0m) and this will increase by 2.25% on 1 August each year until the leases expire on 31 July 2031. 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.

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 2021 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:

	2021	2020
Inflation - RPI	**3.50%**	3.05%
Inflation - CPI	**3.00%**	2.55%
Discount rate	**1.80%**	1.40%
Mortality table assumption *	**VitaCurves CMI 2020 M (1.25%) /**	VitaCurves CMI 2019 M (1%) /
	VitaCurves CMI 2020 F (1.25%)	VitaCurves CMI 2019 F (1%)

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

	2021 Years	2020 Years
Males aged 45	**22.6**	22.1
Females aged 45	**24.8**	24.2
Males aged 65	**21.3**	21.1
Females aged 65	**23.2**	23.0

No adjustments have been made to mortality assumptions at the year end to reflect the potential effects of Covid-19 as the actual plan experience is not yet available and it is to soon to make a judgement on the impact of the pandemic on future mortality improvements.

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. On balance, it is reasonable to assume that RPI reform is priced into the market implied RPI curve and therefore, as last year, the assumption makes no change to the base derivation of the break-even RPI assumption, other than a general allowance for the inflation risk premium of 0.2% within the inflation curve.

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 difference between the two inflation measures. As last year, the RPI/CPI gap of 0.50% p.a. broadly reflects an average of a long term assumed gap of 1.0% p.a. before 2030 and 0% thereafter, suitably weighted to reflect the scheme's exposure to CPI liabilities.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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 3.8%
Rate of inflation	Increase/decrease by 0.25%	Increase/decrease of 2.1%
Mortality	Increase in life expectancy of 1 year	Increase by 3.8%

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 2021 is 16 years (2020: 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 operates within a 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. 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.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

The fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the schemes liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

Scheme assets and liabilities

	2021 £m	2020 £m
Global equities	**81.0**	84.5
Credit funds	**182.8**	185.2
Private markets	**92.8**	79.6
Liability driven investments	**106.7**	88.9
Diversified growth fund	**52.0**	49.5
Cash	**30.3**	35.9
Fair value of scheme assets	**545.6**	523.6
Present value of funded defined benefit obligations	**(569.2)**	(599.1)
Net liability on the balance sheet	**(23.6)**	(75.5)

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 a financial asset 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.

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	136.9	-	-	30.3	106.6	-
Credit funds	182.8	-	-	-	182.8	-
Equity	-	81.0	-	-	81.0	-
Private markets	-	-	92.8	-	66.5	26.3
DGF	-	-	52.0	-	52.0	-
	319.7	81.0	144.8	30.3	488.9	26.3
Being:						
Indirect - Bonds	289.4	-	-	-	289.4	-
Indirect - Cash	30.3	-	-	30.3	-	-
Indirect - equities	-	81.0	-	-	81.0	-
Indirect - multi-asset	-	-	144.8	-	118.5	26.3
	319.7	81.0	144.8	30.3	488.9	26.3

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 theron, 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 2021 and at 31 December 2020.

The Trust Deed provides Pendragon with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Based on this right, any net surplus in the UK scheme is recognised in full.

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

	2021 £m	2020 £m
Net liability for defined benefit obligations at 1 January	**(75.5)**	(59.0)
Contributions received	**12.8**	12.5
Expense recognised in the income statement	**(1.0)**	(4.4)
Actuarial gains and losses recognised in the statement of other comprehensive income	**40.1**	(24.6)
Net liability for defined benefit obligations at 31 December	**(23.6)**	(75.5)

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

	2021 %	2020 %
Deferred plan participants	**58**	59
Retirees	**42**	41

	2021 £m	2020 £m
Actual return on assets	**28.3**	58.6
Expected contributions in following year	**13.1**	12.8

Total in the income statement

	2021 £m	2020 £m
Net interest on obligation	**1.0**	1.1
Past service cost	**-**	3.3
	1.0	4.4

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

	2021 £m	2020 £m
Operating expenses	**-**	3.3
Finance costs	**1.0**	1.1

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

The expected discount rate as at 31 December 2021 was 1.80%. This compares to the discount rate of 1.40% used in the calculation of the interest income for the period ending 31 December 2020.

Based on the reported deficit of £23.6m at 31 December 2021 and the discount rate assumption of 1.80% the charge in 2022 is expected to be £0.3m.

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. The Trustees and Company have yet to implement GMP equalisation and there is no new evidence. Therefore, the previous GMP equalisation allowance has been retained but adjusted for the passage of time and to reflect the estimated impact of changes in market conditions.

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 was included in the benefit obligations at 31 December 2020 of £3.3m and similarly recorded as a past service cost in the Income Statement in 2020. This approximate allowance for GMP equalisation in historic transfers out of the Plan has been retained but adjusted for the passage of time and to reflect the estimated impact of changes in market conditions.

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

	2021 £m	2020 £m
Cumulative amount at 1 January	**(77.5)**	(52.9)
Recognised during the period	**40.1**	(24.6)
Cumulative amount at 31 December	**(37.4)**	(77.5)

Defined benefit income recognised in statement of other comprehensive income

	2021 £m	2020 £m
Return on plan assets, excluding interest income	**21.0**	50.0
Experience gain on scheme liabilities	**8.7**	1.5
Changes in assumptions underlying the present value of scheme obligations	**10.4**	(76.1)
	40.1	(24.6)

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Changes in the present value of the defined benefit obligation

	2021 £m	2020 £m
Opening present value of defined benefit obligation	**599.1**	531.2
Interest cost	**8.3**	10.7
Past service cost	**-**	3.3
Remeasurements:		
Experience adjustments	**(8.7)**	(1.5)
Actuarial gains due to changes in demographic assumptions	**4.2**	5.2
Actuarial (gains)/losses due to changes in financial assumptions	**(14.6)**	70.9
Benefits paid	**(19.1)**	(20.7)
Closing present value of defined benefit obligation	**569.2**	599.1

Movement in fair value of scheme assets during the period

	2021 £m	2020 £m
Opening fair value of assets	**523.6**	472.2
Interest income	**7.3**	9.6
Return on plan assets, excluding interest income	**21.0**	50.0
Contributions by employer	**12.8**	12.5
Benefits paid	**(19.1)**	(20.7)
End of period	**545.6**	523.6

History of experience adjustments

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Present value of defined benefit obligation	**569.2**	599.1	531.2	486.3	521.8
Fair value of scheme assets	**545.6**	523.6	472.2	418.0	459.0
Deficit in schemes	**23.6**	75.5	59.0	68.3	62.8
Experience adjustments on scheme liabilities:					
Amount	**(19.1)**	74.6	55.6	(37.9)	(7.4)
Percentage of scheme liabilities (%)	**(3.4%)**	12.5%	10.5%	(7.8%)	(1.4%)
Experience adjustments on scheme assets:					
Amount	**21.0**	50.0	54.3	(38.8)	28.4
Percentage of scheme assets (%)	**3.8%**	9.5%	11.5%	(9.3%)	6.2%

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 remaining two businesses in California for net proceeds of £27.0m which resulted in a profit on disposal of £0.7m after the recognition to profit and loss of the cumulative translation differences relating to the US operation. The assets of these businesses were classified as part of a disposal group held for sale. In addition three UK dealerships were sold during the year for net proceeds of £0.6m.

Net assets at the date of disposal:

	US Businesses £m	Other £m	**Total net book value £m**
Assets held for sale	25.3	-	**25.3**
Property, plant and equipment	-	0.4	**0.4**
Inventories	-	0.6	**0.6**
Trade and other payables	-	(0.4)	**(0.4)**
	25.3	0.6	**25.9**
Translation differences taken to profit and loss on termination of operation	1.0	-	**1.0**
Profit on sale of businesses	0.7	-	**0.7**
Total proceeds	27.0	0.6	**27.6**
Proceeds on sale comprise			
Proceeds on sale satisfied by cash and cash equivalents	26.6	0.6	**27.2**
Deferred consideration	0.4	-	**0.4**
	27.0	0.6	**27.6**

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

Deferred consideration on the sale of the US businesses relates to a retention in respect of the successful completion of a store development which is expected to be paid in the first half of 2022.

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.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 6 - OTHER NOTES

6.2 Related party transactions

Subsidiaries

The Group's ultimate parent company is Pendragon PLC. A listing of subsidiaries is shown within the financial statements of the Company on page 197.

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 77 to 90.

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:

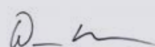
	2021 **£m**	2020 £m
Short term employee benefits	**3.2**	2.2
Post-employment benefits	**0.1**	0.1
Share based payments	**2.0**	1.1
	5.3	3.4

COMPANY BALANCE SHEET

At 31 December 2021

	Notes	**2021 £m**	2020 £m
Fixed assets			
Investments	5	**981.2**	804.0
Loans to subsidiary undertakings		**90.0**	90.0
		1,071.2	894.0
Current assets			
Debtors (amounts due after more than one year : £6.1m)	6	**30.6**	41.2
Cash at bank and in hand		**0.3**	-
		30.9	41.2
Creditors: amounts falling due within one year	7	**(475.7)**	(392.7)
Net current liabilities		**(444.8)**	(351.5)
Total assets less current liabilities		**626.4**	542.5
Creditors: amounts falling due after more than one year	8	**(87.1)**	(156.2)
Retirement benefit obligations		**(23.6)**	(75.4)
Net assets		**515.7**	310.9
Capital and reserves			
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		**369.5**	164.7
Equity shareholders' funds		**515.7**	310.9

Approved by the Board of Directors on 23 March 2022 and signed on its behalf by:



W Berman
Chief Executive

M S Willis
Chief Finance Officer

Registered Company Number: 2304195

The notes on pages 192 to 200 form part of these financial statements.

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	**2021** **£m**	2020 £m
Profit for the year		**167.0**	0.8
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and (losses)		**41.6**	(22.9)
Income tax relating to defined benefit plan remeasurement gains and (losses)		**(6.9)**	5.7
Other comprehensive income for the year, net of tax		**34.7**	(17.2)
Total comprehensive income for the year		**201.7**	(16.4)

The notes on pages 192 to 200 form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	**Total £m**
Balance at 1 January 2021	69.9	56.8	5.6	13.9	164.7	**310.9**
Total comprehensive income for 2021						
Profit for the year	-	-	-	-	167.0	**167.0**
Other comprehensive income for the year, net of tax	-	-	-	-	34.7	**34.7**
Total comprehensive income for the year	-	-	-	-	201.7	**201.7**
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	-	2.9	**2.9**
Income tax relating to share based payments	-	-	-	-	0.2	**0.2**
Total contributions by and distributions to owners	-	-	-	-	3.1	**3.1**
Balance at 31 December 2021	69.9	56.8	5.6	13.9	369.5	**515.7**

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

The notes on pages 192 to 200 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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 UK-adopted international accounting standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements have been prepared on a going concern basis as explained in note 1 of the Group Financial Statements.

Principal risks and uncertainties are outlined in the Group Financial Statements on pages 42 to 52.

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.

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. It is considered that these investments are one CGU. An impairment exists when their recoverable amount is less than the costs held in the accounts. There are a number of factors which could impact the recoverable amount which creates a risk of this recoverable amount being lower than the investment balance held.	✓	✓	5 and 3.1 Group

In preparing these financial statements, management has considered the potential impacts of climate change. This has included reassessing the estimated useful lives of assets and developing assumptions, used in determining estimates, by considered potential impacts of climate risks and the Group's planned response.

(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.

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 unit').

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

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 Pendragon Scottish Limited Partnership 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 2021 is £167.0m (2020: £0.8m).

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 £369.5m (2020: £164.7m) which is stated after deducting the ESOT reserve of £18.2m (2020: £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.

3 Directors

Total emoluments of directors (including pension contributions) amounted to £5.3m (2020: £3.4m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 77 to 90.

The directors are the only employees of the Company.

4 Dividends

The Board is not recommending the payment of a final dividend for 2021 (2020: nil).

5 Investments

	Shares in subsidiary undertakings £m
Cost	
At 31 December 2020 and at 31 December 2021	**981.2**
Impairment	
At 31 December 2020	**(177.2)**
Reversal of impairment	**177.2**
At 31 December 2021	**-**
Carrying amounts	
At 31 December 2020	**804.0**
At 31 December 2021	**981.2**

In assessing the carrying value of investments in subsidiary undertakings, an assessment of the recoverable amount of each investment has been undertaken using the same methodology and assumptions that were used to derive the recoverable amounts of CGUs (which have been allocated to the relevant subsidiary) that was undertaken as part of the Group CGU impairment assessment (note 3.1); 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 assessment.

These recoverable amounts have been assessed during the period in line with IAS 36. The assessment resulted in £177.2m of previous impairment charges being reversed and recognised in the Profit and Loss for the year ended 31 December 2021 (2020: nil) in respect of two of the investment in subsidiary undertakings. The reversal relates to the historical impairments, predominately booked in 2019, for Stratstone Motor Holdings Limited and Pendragon Overseas Limited. Since the previous assessment there have been substantial changes in the Group's performance of the respective CGUs which has led to the impairment reversal. When assessing the carrying value, the value was determined by the higher of its value in use and its fair value less costs to sell, as described in note 3.1. The range of pre-tax discount rates used was 8.1% - 13.1%.

The directors have considered and assessed reasonably possible changes to the key assumptions used in determining the recoverable amounts and have performed sensitivities on these key assumptions. This assessment resulted in the reasonably possible key assumption changes not leading to any impact on the carrying value of investments in subsidiary undertakings for year ended 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

5 Investments *continued*

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:

Bramall Quicks Dealerships Limited
Bramall Quicks Limited
Car Store Limited
Car Store.com Limited
CD Bramall Limited *
Chatfields Limited
Derwent Vehicles Limited
Evans Halshaw Limited
Evans Halshaw.com Limited
National Fleet Solutions Limited
Pendragon Automotive Services Limited *
Pendragon Finance & Insurance Services Limited *
Pendragon Group Pension Trustees Limited *
Pendragon Group Services Limited *
Pendragon Limited Partner Limited *
Pendragon Management Services Limited
Pendragon Overseas Limited *
Pendragon Premier Limited
Pendragon Property Holdings Limited
Pendragon Sabre Limited
Pendragon Stock Finance Limited
Pendragon Vehicle Management Limited
Pinewood Technologies PLC *
Reg Vardy Limited *
Stratstone Limited
Stratstone Motor Holdings Limited *
Stratstone.com Limited
Suresell Limited
Victoria (Bavaria) Limited
Allens (Plymouth) Limited
Alloy Racing Equipment Limited
Andre Baldet Limited
Arena Auto Limited
Automend Limited
Bletchley Motor Company Limited
Bletchley Motor Group Limited
Bramall Contracts Limited
Bridgegate Limited
Brightdart Limited
C.G.S.B Holdings Limited
CD Bramall Dealerships Limited
CD Bramall Motor Group Limited
CD Bramall Pension Trustee Limited
Central Motor Company (Leicester) Limited
Charles Sidney Limited
Chatfields - Martin Walter Limited
Dunham & Haines Limited
Evans Halshaw (Cardiff) Limited
Evans Halshaw (Dormants) Limited *
Evans Halshaw (Midlands) Limited
Evans Halshaw Motor Holdings Limited
Executive Motor Group Limited
G.E. Harper Limited
Godfrey Davis (Trust) Limited
Godfrey Davis Motor Group Limited
Lewcan Limited
Manchester Garages Holdings Limited
Motors Direct Limited
Paramount Cars Limited
Pendragon Motor Group Limited
Petrogate Limited
Petrogate Properties Limited
Pinewood Computers Limited
Plumtree Motor Company Limited
Quicks (1997) Motor Holdings Limited
Quicks Finance Limited
Reg Vardy (AMC) Limited
Reg Vardy (Property Management) Limited
Reg Vardy (TMC) Limited
Reg Vardy (TMH) Limited
Reg Vardy (VMC) Limited **
Skipper of Darlington Limited
Skipper of Wakefield Limited
Stripestar Limited
The Car and Van Store Limited
The Skipper Group Limited
Trust Properties Limited

Incorporated in Great Britain having a registered office at Citypoint, 65 Haymarket Terrace, Edinburgh, Scotland, EH12 5HD:
Pendragon General Partner 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 West, Inc.
Penegon Mission Viejo, Inc.
Penegon Newport Beach, Inc.
Penegon Glendale, Inc.
Lincoln Irvine, Inc.
Penegon South Bay, Inc.
Penegon Santa Monica, Inc.
SouthCounty, Inc.
Bauer Motors, Inc.
Penegon Properties, Inc.
Penegon East, Inc.

Incorporated in Sweden having a registered office at Eversheds Sutherland, Strandvägen, Box 11451, 104 40, Stockholm
Pinewood Technologies Northern Europe AB

* 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

	2021 £m	2020 £m
Amounts due within one year:		
Prepayments	**24.5**	26.1
	24.5	26.1
Amounts due after more than one year:		
Deferred tax (see note 9)	**6.1**	15.1
	6.1	15.1
	30.6	41.2

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

7 Creditors: amounts falling due within one year

	2021 £m	2020 £m
Amounts due to subsidiary undertakings	**454.2**	380.1
Bank loans and overdrafts	**21.5**	12.6
	475.7	392.7

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

8 Creditors: amounts falling due after more than one year

	2021 £m	2020 £m
Bank loans (repayable between one and two years)	**27.1**	96.2
5.75% Senior note 2023	**60.0**	60.0
	87.1	156.2

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

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:

	2021 £m	2020 £m
Deferred tax assets	**6.1**	15.1

The movement in the deferred tax assets for the year is as follows:

	Retirement benefit obligations £m	Other provisions £m	**Total £m**
At 1 January 2020	10.1	0.4	**10.5**
(Charged)/credited to income statement	(1.4)	0.3	**(1.1)**
Credited to equity	5.7	-	**5.7**
At 31 December 2020	14.4	0.7	**15.1**
At 1 January 2021	14.4	0.7	**15.1**
(Charged)/credited to income statement	(2.4)	0.1	**(2.3)**
(Charged)/credited to equity	(6.9)	0.2	**(6.7)**
At 31 December 2021	5.1	1.0	**6.1**

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 2021 are fully disclosed above in note 4.6 of this report.

11 Called up share capital and reserves

	Number	**£m**
Allotted, called up and fully paid shares of 5p each at 31 December 2020 and at 31 December 2021	1,396,944,404	**69.9**

There were no issues of ordinary shares during the year.

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 2021 are fully disclosed above in note 4.6 of this report.

The market value of the investment in the Group's own shares at 31 December 2021 was £1.3m (2020: £0.8m), being 5.8m (2020: 6.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.33 each (2020: £0.33). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2021 was £18.1m (2020: £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. Details of the plans are given in the Directors' Remuneration Report on pages 77 to 90.

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 (2020: nil).

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 transactions 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

Financial Calendar 2022

24 March	date of this Report
24 March	preliminary announcement of 2021 results
21 June	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.

Stock Classification
The company's ordinary shares are traded on the London Stock Exchange. Investment codes for Pendragon's shares are:

London Stock Exchange:	PDG
Bloomberg:	PDG.LN
GlobalTOPIC and Reuters:	PDG.L

Share dealing service
Pendragon's company registrar offers a share dealing service, provided by Link Asset Services (a trading name of Link Market Services). Details appear at www.linksharedeal.com

Shareholder and investor information
Making some of our corporate materials and policies available on our website reduces the length of this Report. This year we have placed certain background information on policy and governance on our website. We also display historic financial reports and have a section on company news, which we regularly update on www.pendragonplc.com

Online services
Shareholders can choose to receive communications and access a variety of share-related services online via the share portal offered by Pendragon's company registrar. This allows shareholders to manage their shareholding electronically and is free of charge. For details, visit www.mypendragonshares.com

Getting company reports online
Reduces the environmental impacts of report distribution. To choose online only reporting, visit the share portal and register for electronic form reporting, or contact our registrar, whose details are:

Registrar and shareholder enquiries
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

shareholderenquiries@linkgroup.co.uk
Tel: 0871 664 0300

5 YEAR GROUP REVIEW

	2021 IFRS 16 £m	2020 IFRS 16 £m	2019 IFRS 16 £m	2018 IAS 17 £m	2017 IAS 17 £m
Revenue	**3,449.9**	2,924.6	4,506.1	4,627.0	4,739.1
Gross profit	**441.3**	353.2	472.7	550.5	552.9
Operating profit/(loss) before other income	**104.9**	16.0	(104.4)	(30.1)	91.5
Profit/(loss) before taxation	**73.3**	(29.6)	(114.1)	(44.4)	65.3
Basic earnings per share	**4.4p**	(1.8p)	(8.4p)	(3.6p)	3.7p
Net assets	**225.6**	126.7	168.9	345.6	425.4
Adjusted Net borrowings (note 1)	**49.7**	100.4	119.7	126.1	124.1

Other financial information

Underlying profit/(loss) before tax	**83.0**	8.2	(16.4)	47.8	60.4
Underlying earnings per share (note 4)	**5.0p**	0.6p	(1.2p)	2.8p	3.3p
Adjusted net debt: underlying EBITDA (note 6)	**0.3**	0.8	1.1	0.9	0.9
Gross margin	**12.8%**	12.1%	10.5%	11.9%	11.7%
Total operating margin (note 2)	**3.0%**	0.5%	-2.3%	-0.7%	1.8%
After tax return on equity (note 3)	**34.9%**	-16.7%	-45.6%	-13.1%	13.4%
Dividends per share (note 5)	**-**	-	-	1.5p	1.6p
Dividend cover (times) (note 7)	**-**	-	-	2.0	2.4
Interest cover (times) (note 8)	**3.1**	0.2	(1.7)	(0.5)	3.5
Gearing (note 9)	**22.0%**	79.2%	70.9%	36.5%	29.2%

Business summary

Number of franchise points	**139**	146	166	186	194

note 1 Adjusted 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.

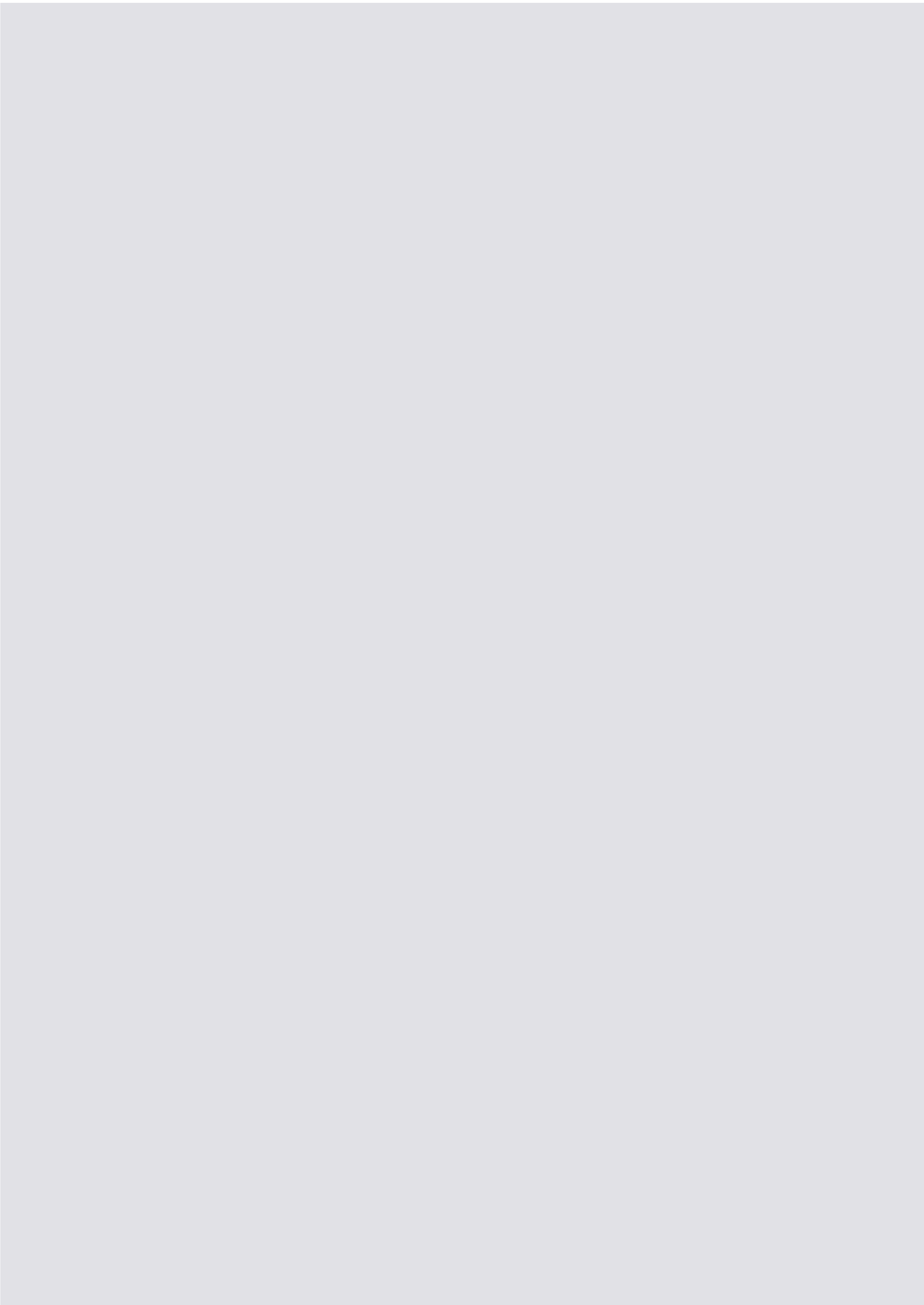
note 5 Dividends per share are based on the interim dividend paid and final dividend proposed for the year.

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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