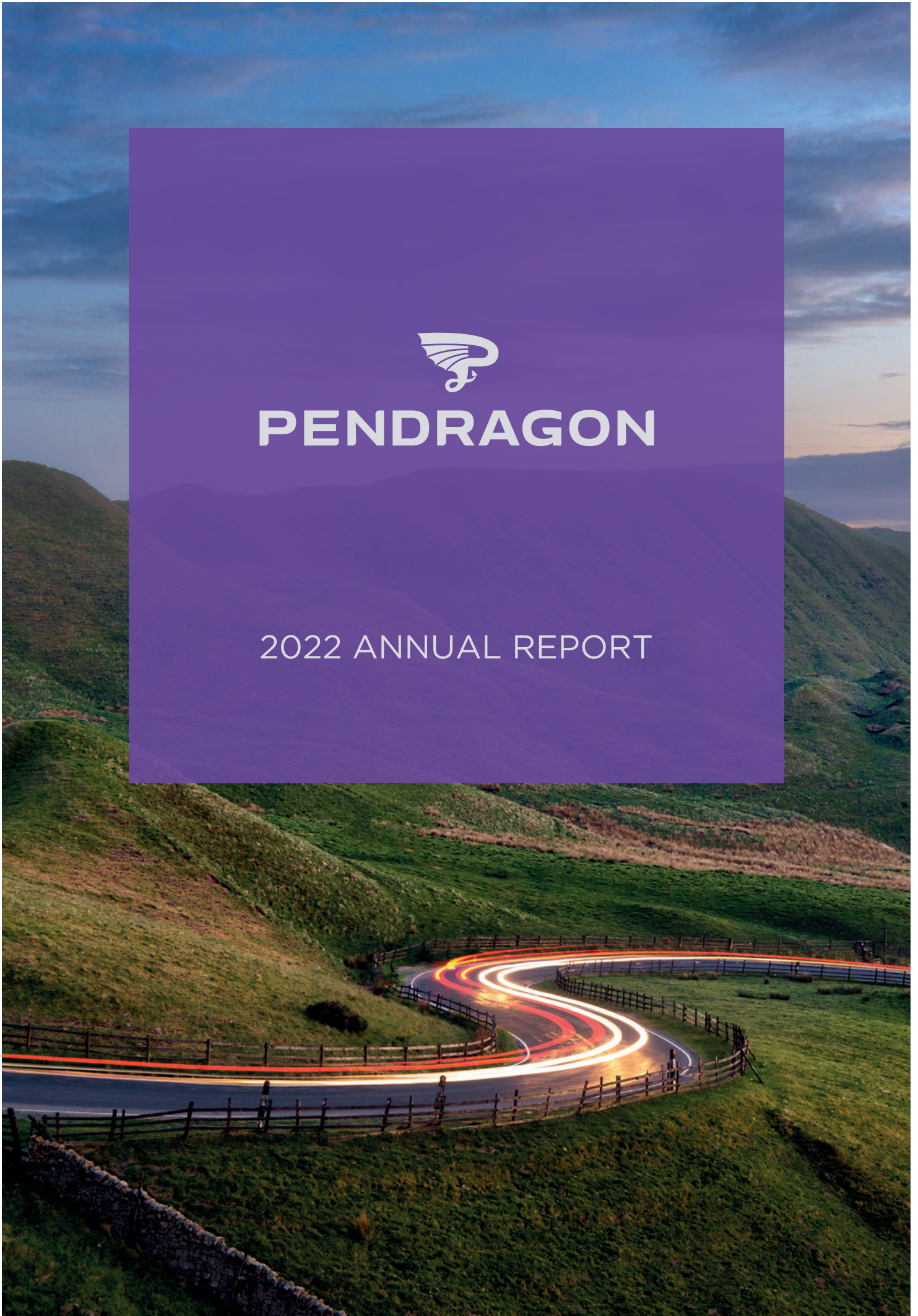




**PENDRAGON**

2022 ANNUAL REPORT



## IN THIS REPORT





## STRATEGIC REVIEW

- 4 Chairman's Statement
- 5 Chief Executive Officer's Review
- 7 Business Segments
- 8 Financial Summary
- 9 Operational and Financial Highlights
- 9 Performance Indicators
- 10 s172 Statement
- 13 Business Profiles
- 19 Life at Pendragon
- 22 Industry Insight

## OPERATIONAL AND FINANCIAL REVIEW

- 25 Business Review
- 33 Financial Review
- 38 Risk Overview and Management
- 49 Viability Statement

## DIRECTORS REPORT

- 51 Environment, Social and Governance Report
- 52 Environmental Report
- 60 Social Report
- 63 Corporate Governance Report
- 66 Board of Directors
- 68 Audit Committee Report
- 74 Nomination Committee Report
- 76 Remuneration Committee Report
- 77 Directors' Remuneration Report
- 96 Directors' Report

## FINANCIAL STATEMENTS

- 100 Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements
- 101 Independent Auditor's Report to the Members of Pendragon PLC
- 112 Consolidated Income Statement
- 113 Consolidated Statement of Comprehensive Income
- 114 Consolidated Statement of Changes in Equity
- 115 Consolidated Balance Sheet
- 116 Consolidated Cash Flow Statement
- 117 Reconciliation of Net Cash Flow to Movement in Adjusted Net Debt
- 118 Notes to the Financial Statements
- 197 Company Balance Sheet
- 198 Company Statement of Other Comprehensive Income
- 199 Company Statement of Changes in Equity
- 200 Notes to the Financial Statements of the Company
- 209 Advisors, Banks and Shareholder Information
- 210 5 Year Group Review

# CHAIRMAN'S STATEMENT

## Ian Filby, Non-Executive Chairman

I am delighted to report a year of good progress for Pendragon as we continue to deliver on our strategy which has resulted in an underlying profit before tax of £57.6m (FY21: £83.0m). This was made possible by the effort and contribution of our associates across all of the UK Motor, Software and Leasing divisions. This result was achieved despite a backdrop of higher interest rates and higher operating costs than expected at the start of 2022, contributing to the reduction from FY21.

Doing the right thing, both in the way our associates carry out their day to day activities, ensuring they remain passionate and enjoy what they do, together with continued strong and effective governance is a key ingredient in delivering success for all our stakeholders. The Board of directors, under my leadership, remains responsible for the long term success of the Company, setting corporate objectives and providing the strategic oversight required as we continuously look for new ways to exceed expectations and innovate, approve and adapt our approaches to the prevailing circumstances.

In October 2022, following a period of engagement and reflection, we successfully relaunched our cultural values, designed to ensure all areas of the business and each and every associate knows what is expected of them, aiming to ensure we are 'driving beyond the possible' at every opportunity presented to us.

As a Group, we will continue to embed our new culture, ensuring that it assists us in our continued focus on the implementation of our strategy to (i) unlock value in UK Motor; (ii) growing and diversifying Pinewood and (iii) disrupting UK used car sales.

I am confident that with our new cultural values and a well developed, adaptable and focussed strategy, and our demonstrable ability to innovate, the Group is well placed to capitalise on its opportunities going forward.

During 2022, the Company received approaches to acquire the Group from two parties, which recognised the real value of the Group, but neither came to fruition for different reasons. The Board remains completely focused on creating and delivering value for its shareholders.

# CHIEF EXECUTIVE OFFICER'S REVIEW

We have made further progress with our strategy to “Transform automotive retail through digital innovation and operational excellence” during an extremely busy year of delivery in 2022, the second full-year of our strategy since its launch in 2020. During the year we completed the relaunch of Car Store, with a market leading omni-channel proposition, developed new relationships with the world’s largest new-energy manufacturer in BYD, delivered 13% user growth in International markets with Pinewood, and also delivered numerous strategic initiatives to drive the performance of our UK Motor division. We are already seeing the benefits of these significant changes, which underpinned a strong financial performance in a year of challenging conditions shaped by supply shortages in both new and used vehicles, inflationary cost pressures and rising interest rates.

The Group also navigated an intense period of corporate activity after disclosing two offers for the Group. This demonstrates belief in the strength of our strategy and the prospects for the Group overall. We remain confident in our market-leading proposition and are well positioned to capitalise on the long-term growth opportunities while managing the short-term challenges that consumer-facing businesses are experiencing. We remain focussed on further opportunities for strategic expansion in order to create shareholder value.



The Group delivered an underlying profit before tax of £57.6m in FY22 (FY21: £83.0m), which, although behind FY21 was ahead of expectations at the start of the year. This performance was delivered through higher-than-expected gross profits as a result of both strategic self-help initiatives and strong new car margins, which together outpaced the higher than expected levels of cost inflation and increases to base interest rates, which together added approximately £10m of additional cost and interest charges. We also further improved the strength of our balance sheet, reducing adjusted net debt by a further £26.4m in the year, and closing the year with net assets of £281m, an improvement of £55m compared to FY21.

During 2022 we invested more than ever before in Pinewood, with development capex of almost £6m being deployed in order to further maximise the benefit that our DMS technology can bring both to our business, and that of our external customers. Many of the developments we have made have powered the performance in our UK Motor Division, with multiple software changes being implemented to support the digitisation and presentation of finance and insurance options to our customers, improvements to the way we value part exchanges online, and also to the “sell-your-car” customer journey. Pinewood’s technology also powers the capability and functionality of our fully transactional CarStore.com web platform. Last year saw significant international expansion too, with Pinewood growing its international user base by 13% to a record of approximately 6,400 users. International users now represent 24% of Pinewood’s total external user base. There continues to be a strong pipeline of opportunities in new markets, with new customers added in Singapore and the Middle East during 2022.



The used car market has evolved rapidly since 2020 presenting permanent changes to the way that consumers search and shop for used cars. In this time, we have successfully adapted our model, and evolved our strategy to respond to these changes. The Group’s focus has evolved from a standalone used car proposition, to our ‘new-used car strategy’. At its core is a focus on an omni-channel business model across our entire used car business, including those cars in our existing franchise locations, ensuring we fully utilise our wider used car inventory. The development of our technological capability, enhanced website functionality and the emergence of a truly omni-channel business model has put us in a strong position to respond to these developments in the used car market.

# CHIEF EXECUTIVE OFFICER'S REVIEW

During 2022 we relaunched Car Store, centred around CarStore.com, which is our primary market-place for all of our used car inventory. This platform now lists approximately 12,000 cars across our brands on one single platform, more than any of the other new automotive retail platforms that have entered the market since 2019. To further support CarStore.com, we launched a new cross-channel marketing campaign during May, including prime-time TV advertising, which aims to raise brand awareness and to highlight the omni-channel credentials of our offer, focussing on 'car buying that revolves around you'. Physical space remains a good opportunity to grow our used car proposition, and we completed the first of our new model Car Store sites in Chesterfield in April, with a second opened in Warrington in December 2022. I am pleased with the new concept of these stores and early performance has been encouraging. Against a backdrop of constrained used car supply, we delivered a strong used car performance in the second half as we saw the benefits of our investment in CarStore.com. This meant we outperformed the used car market by around 600bps in H2.



As well as investing in our used car business during 2022, we have invested heavily into our new car business, which remains a fundamental part of the Group. We have completed a number of major building projects during 2022, including completely remodelled BMW showrooms in Derby and Hull, investment into the Mercedes showroom in Huddersfield, and a new concept investment into the Mayfair Land Rover showroom. Finally, we are well on the way to completing the development of a new build freehold development of our Porsche showroom in Nottingham in 2023, reflecting the latest design of Destination Porsche, as we exit a leased location. We continue to work alongside our manufacturer partners to maximise performance in this important part of the Group. We are also looking at the potential to increase our new car representation and are delighted to be a UK launch partner for BYD, with our first stores opened in March, as well as exploring other potential strategic opportunities.

We also invested significant time and resources into the development of Pendragon's culture during 2022. Led by our Chief People Officer, we completed a comprehensive review of our purpose and values to support our vision of 'Transforming automotive retail through digital innovation and operational excellence', with input from a wide range of teams across the business. The resulting set of values, formed by our teams, are all aimed to support our newly defined Group purpose - 'Driving beyond the possible'. I am confident that this new purpose will further enable the changes we continue to make at pace, throughout the organisation.

Given the mixed economic backdrop and market conditions, I am proud of our progress during the year and believe we are well positioned to move the business forward in 2023. As always, our success depends on the contribution from our associates, and I would again like to thank them for their performance in challenging conditions during 2022.



## OUTLOOK

We finished FY22 with good momentum, and trading has been positive in the first two months of FY23, but we remain mindful of the potential headwinds from challenging macro-economic conditions and the potential for further interest rate rises. We expect the levels of supply in both new and used vehicles to remain below historical levels during FY23, but there are some encouraging signs of improvement in both production and supply of new vehicles. We continue to expect our ongoing initiatives and growth opportunities to more than offset operating cost inflation within the business during FY23. Accordingly, the Board remains confident in the prospects for the Group in the year ahead.

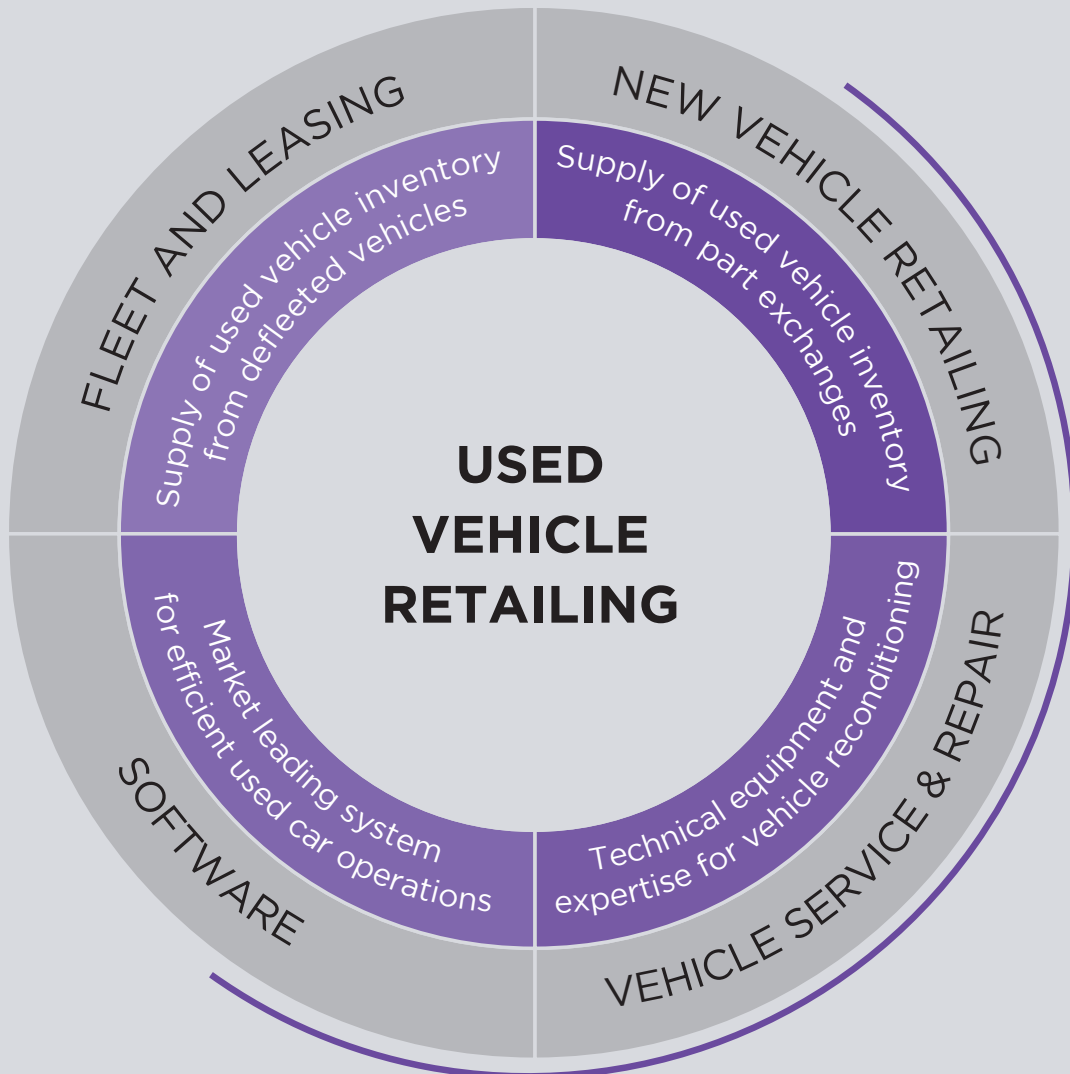
Bill Berman  
Chief Executive

22 March 2023

# BUSINESS SEGMENTS

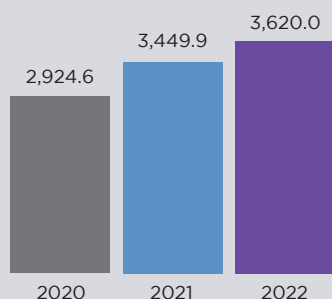
The business is organised into 3 segments, analysed as follows:

<p><b>UK MOTOR</b> Sale and servicing of vehicles in the UK</p>	<p><b>SOFTWARE</b> Software as a Service provision to global automotive business users</p>	<p><b>LEASING</b> Fleet and contract hire provider - and also a source of used vehicle supply</p>
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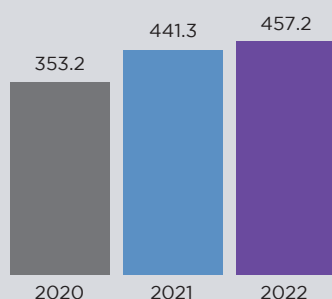


The Group has revised its reporting segments. In January 2022 the Group re-organised its management and reporting structure. The significant changes were that the Franchised UK Motor and Car Store operations were brought under the management of the UK Motor operation. In the 2022 financial statements therefore, the Franchised UK Motor and Car Store segments are no longer reported separately. See note 2.3.

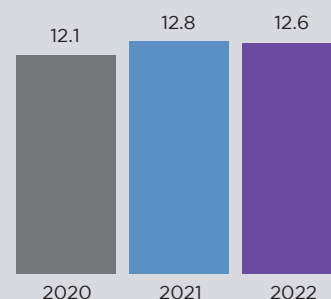
# FINANCIAL SUMMARY



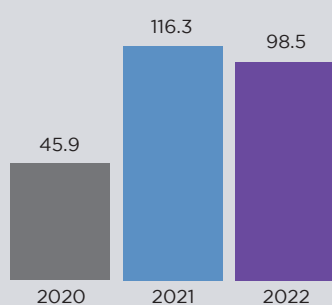
**£3,620.0M**  
REVENUE



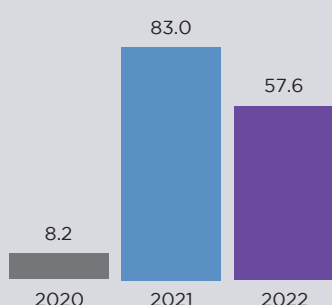
**£457.2M**  
GROSS PROFIT



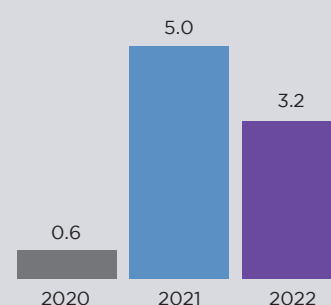
**12.6%**  
GROSS MARGIN



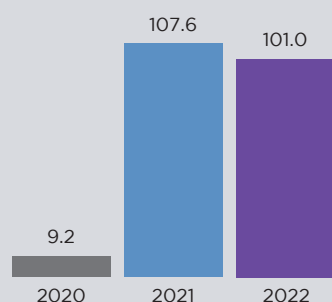
**£98.5M**  
UNDERLYING OPERATING PROFIT\*



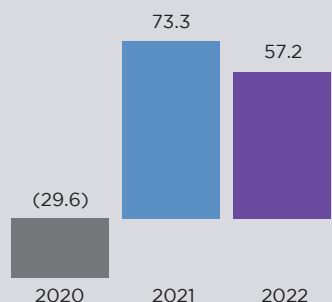
**£57.6M**  
UNDERLYING PROFIT BEFORE TAX\*



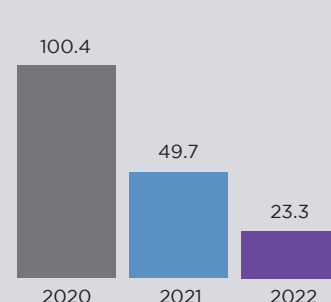
**3.2P**  
UNDERLYING EPS\*



**£101.0M**  
OPERATING PROFIT



**£57.2M**  
PROFIT / (LOSS) BEFORE TAX



**£23.3M**  
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.

\* Alternative Performance Measure



# OPERATIONAL AND FINANCIAL HIGHLIGHTS

## OPERATIONAL AND FINANCIAL HIGHLIGHTS

### Strong financial performance

- Group Revenue up by 4.9% to £3,620.0m (FY21: £3,449.9m). Revenue up 6.7% on a like-for-like basis.
- Gross profit value 3.6% higher at £457.2m, with investment in strategic initiatives delivering increases in both new and aftersales gross profit.
- Underlying cost increases of 10.4% (£33.7m), driven by higher levels of cost inflation, c.£10m of additional marketing costs to support the used car proposition and the non-recurrence of c.£12m of rates relief received in FY21.
- Underlying profit before tax of £57.6m (FY21: £83.0m) was ahead of the Board's expectations at the start of the year. Outperformance delivered despite c.£10m headwind from approximately £4m higher operating expenses, driven by higher levels of inflation, and approximately £6m of higher interest costs driven by rate changes, against original expectations for FY22.
- After non-underlying items the Group reported profit before tax of £57.2m (FY21: £73.3m).
- Strengthened balance sheet, with adjusted net debt reduced by £26.4m from £49.7m in FY21 to £23.3m in FY22.

### Further strategic progress delivered

- Technology releases in Pinewood including integrated used car valuation tools and open banking tools are key enablers for UK Motor performance.
- New processes and products for UK Motor, including enhanced customer journey management and improvements to aftersales diary management, are driving improved productivity and supporting strong margins.
- New omni channel used car platform, CarStore.com has increased digital traffic by 61% year on year post-launch in May 2022.
- CarStore.com now lists approximately 12,000 used cars, more than any of the new automotive retail platforms that have entered the market since 2019.
- Investment into numerous franchise locations, including Porsche, BMW, Mercedes-Benz and Land Rover, completed in FY22 as well as development of a new Car Store in Warrington.
- Pendragon selected as UK launch partner for BYD, the world's largest new energy vehicle manufacturer.

## PERFORMANCE INDICATORS

### KEY FINANCIAL MEASURES

KPI	Definition	2022 Performance	Change
Underlying EPS	Underlying profit after tax divided by weighted average number of shares	3.2p	down 36.0%
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	£57.6m	down 30.6%
Underlying Operating Margin	Underlying operating profit divided by revenue	2.7%	down 0.7%
Leverage ratio	Adjusted net debt : underlying EBITDA is the ratio of our adjusted net debt to underlying EBITDA	0.1	down 66.7%

### KEY STRATEGIC MEASURES

KPI	Definition	2022 Performance	Change
Aftersales Revenue	All aftersales revenues (like-for-like) <sup>1</sup>	£276.1m	up 7.5%
Used Revenue	All used vehicle revenues (like-for-like) <sup>1</sup>	£1,807.7m	up 6.5%
Used GPU	Used gross profit divided used retail units sold	£1,607	down 3.8%
New GPU	New gross profit divided new retail units sold	£2,719	up 42.3%

<sup>1</sup> see section 1 of the notes to the financial statements for Alternative Performance Measure reconciliations and 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 2022, further detail of which is set out below and which are incorporated into the Strategic Report.

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

**HOW WE ENGAGE**

**WHY WE ENGAGE**

**WHAT MATTERS TO THIS GROUP**

**WHAT DID WE DO AS A RESULT**

**SUPPLIERS**

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

Supplier payment terms reported and published

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

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

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

- We continued to work closely with all our suppliers to deliver operational improvement and effective trading through the continuation of the Covid-19 pandemic and the associated impact on supplies;
- 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
<b>ENVIRONMENT</b>			
<p>Over the last 24-30 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.</p> <p>We continue to regularly review our environment policy.</p>	<p>We acknowledge the responsibility we have to protect the environment and to minimise the environmental impact of our activities.</p>	<ul style="list-style-type: none"> <li>• Minimising atmospheric emissions, commercial and industrial waste</li> <li>• Minimising vehicle movements causing nuisance or noise</li> <li>• Minimising industrial noise and energy wastage</li> <li>• Complying with statutory requirements relating to environmental matters</li> <li>• Ensuring environmental priorities are accounted for appropriately in planning and decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Operate an obsolete asset disposal policy</li> <li>• Minimise and where possible, eliminating pollution</li> <li>• We continue to reduce incidences of energy wastage wherever possible, as reported in our Environment, Social and Governance Report at page 56 of this Annual Report</li> <li>• We have successfully reduced our carbon emissions from our commuting activities, see page 56 of this Annual Report</li> <li>• We continue to work with our OEM partners to effect the roll out of PHEV charging points across our dealership network</li> </ul>
<b>SHAREHOLDERS AND POTENTIAL SHAREHOLDERS</b>			
<p>Annual Report and Accounts</p> <p>Corporate website</p> <p>AGM</p> <p>Results announcements and presentation</p> <p>Shareholder and analyst meeting with management, followed by feedback from brokers and financial PR consultants</p> <p>Engagement via the Directors and Company Secretary</p>	<p>We work to ensure our shareholders and their representatives have a good understanding of our strategy and business model</p>	<ul style="list-style-type: none"> <li>• Long term value creation</li> <li>• Fair and equal treatment</li> <li>• Growth opportunity</li> <li>• Financial stability</li> <li>• Transparency</li> <li>• To share in the success of our business</li> <li>• Dividends</li> </ul>	<ul style="list-style-type: none"> <li>• Committed to reducing pension entitlement of executive directors to the workforce average</li> <li>• The chief executive officer and chief finance officer report back to the Board after the investor roadshows</li> <li>• The Group's brokers and financial advisors provide detailed feedback after full and half year announcements and investor roadshows to inform the Board about investor views</li> <li>• The non-executive chairman and senior independent director are available to shareholders and respond on matters relating to their responsibilities where requested</li> <li>• We continue to consult with all major shareholders in relation to our remuneration policy</li> <li>• We will engage with shareholders in the future about when to resume dividends</li> </ul>

# BUSINESS PROFILES

- 14 UK Motor
- 16 Software - Pinewood
- 18 Leasing - Pendragon Vehicle Management



# BUSINESS PROFILES

## UK MOTOR

Sale and servicing of vehicles in the UK.

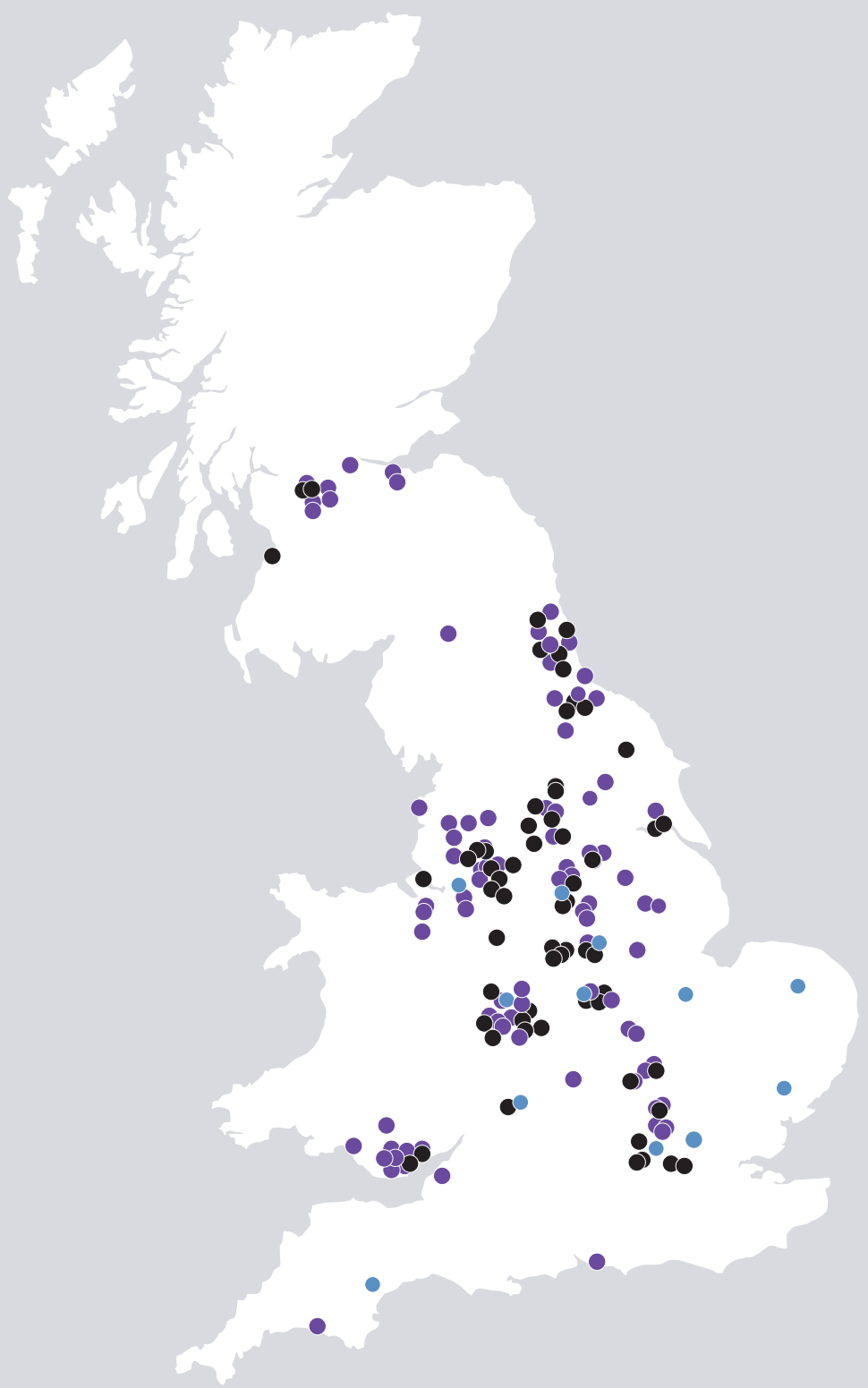
### Operating Highlights

- Revenue up 6.1% to £3,536.2m (FY21: £3,332.7m). Revenue up 7.0% on a like-for-like basis.
- Underlying operating profit down 20.9% to £69.1m (FY21: £87.4m).
- Reported operating profit after non-underlying items of £71.6m (FY21: £82.6m).
- Gross margin of 11.8% (FY21: 11.9%).
  - Used gross margin of 7.9% (FY21: 9.6%) as margins rebased from exceptional levels of H2 FY21.
  - New gross margin of 9.1% (FY21: 7.3%) with constrained supply supporting higher margins.
  - Aftersales gross margin of 50.5% (FY21: 50.5%).
- Used vehicle gross profit per unit remained strong, underpinned by strategic initiatives at £1,607 (FY21: £1,670).
- New vehicle gross profit per unit rose by £808 to a record high of £2,719 (FY21: £1,911).
- New volumes down 6.1%, compared to a market decline of 2%, with supply constraints the driving factor.
- Used volumes down 8.7% on a like-for-like basis as supply constraints also impacted used vehicles. Overall performance broadly in line with market down 8.5%. Strong H2 performance post launch of new CarStore.com proposition, with sales down just 2.2% compared to a market decline of 8.7%.
- Total operating costs up by £36.7m, or 11.8%, driven by non-repeat of government support measures, increased used car brand marketing and higher levels of cost inflation, partially offset by an ongoing focus on cost saving opportunities and utility hedging.



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





**Evans Halshaw 90**

- Ford 35
- Vauxhall 20
- Citroën 11
- Renault 6
- Dacia 6
- Peugeot 4
- Nissan 4
- Kia 2
- Hyundai 2

**Stratstone 43**

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

**Other Retail Points 12**

- Car Stores 10
- EH Used Car Centres 2



# 145 UK RETAIL POINTS



**138K VEHICLES SOLD**



**24.1M**  
WEBSITE  
VISITS

# BUSINESS PROFILES

## SOFTWARE - PINEWOOD

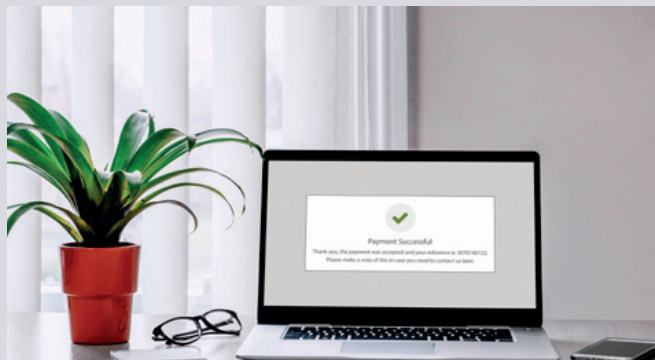
Licencing of Software as a Service to global automotive business users.

### Operating Highlights

- Revenue up 4.1% to £25.4m (FY21: £24.4m).
- Gross profit up 0.9% to £22.7m (FY21: £22.5m).
- Operating profit down 12.0% to £11.0m (FY21: £12.5m), with the reduction driven by increased costs, principally driven by investment in developer resource to support product development and implementation.
- Strong global expansion continuing:
  - Record high international users at 6,400, up 13%.
  - International users now represent 24% of external users.
  - New market entries to Singapore and Middle East.
- System development has both supported Pendragon's strategic agenda as well as opened opportunities to sell developments to external customers:
  - Pinewood technology powering CarStore.com.
  - Enhancement to used car valuation tools.
  - Development of Finance & Insurance tools.
- Continued high levels of customer retention with net user churn of sub 1% in FY22, supported by frequent system updates.



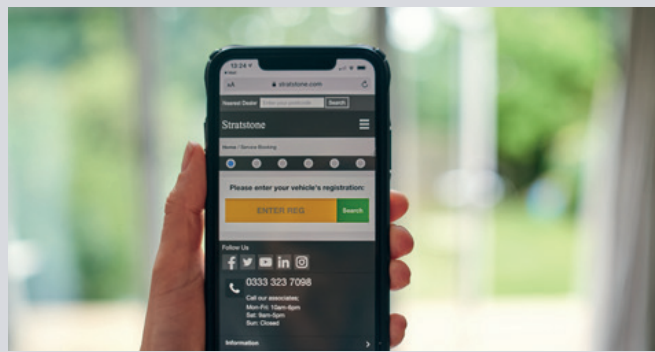
Personalised video to customers



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.”*

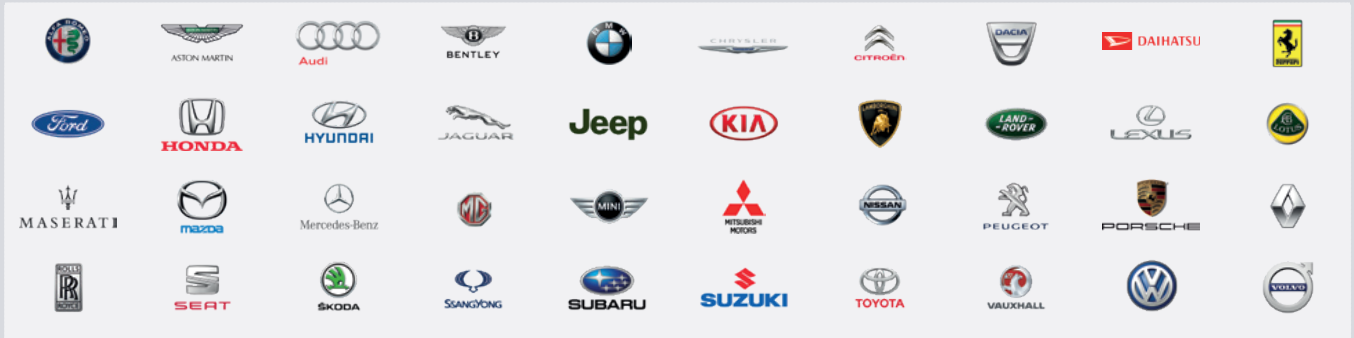
Gold  
Microsoft Partner





**Integration with over 50 manufacturers**

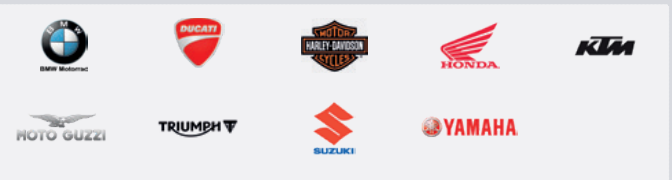
**Cars:**



**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 down 6.9% to £83.7m (FY21: £89.9m).
- Gross profit up 10.9% to £24.4m (FY21: £22.0m), the decline in overall revenue was more than offset by higher residual values achieved on disposal.
- Operating profit up 13.7% to £19.9m (FY21: £17.5m), with operating costs flat at £4.5m.
- Growth opportunity in EV – c.40% of current order bank for electric and hybrid 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

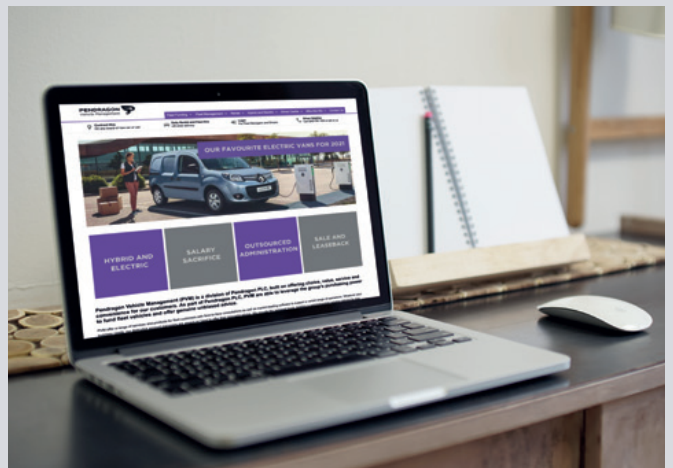


Salary Sacrifice



Contract Purchase

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



**BVRLA**  
MEMBER

**VAN EXCELLENCE**   
LOGISTICS UK MEMBER

# LIFE AT PENDRAGON

Our people are what allow Pendragon to drive beyond the possible, they are the life and soul of our business, and what makes us great. We aim to attract, retain and develop the best and brightest associates.

Pendragon is transforming for tomorrow, simplifying our business to deliver our newly created purpose, adapt to the tough market environments that continue to be unpredictable and deliver on our strategy.

Long term success relies on inspiring and nurturing a range of talent, from all sectors and industries. 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. Together we are unstoppable.

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

- Embedding our group purpose and values to enable an inclusive and progressive culture
- Driving continuous improvement of our associate engagement
- Digitalising our associate journey, people policies, benefits and support where possible.

- Enhancing and empowering career progression and experiences, through understanding and identifying our skills shortages
- Addressing those gaps through modern skills learning initiatives
- Embedding a new way of working by embracing agile principles and the delivery of value driven products to the business

## DEFINING OUR PURPOSE

Much of 2022 was spent defining our company purpose with every level and business unit in our business involved in setting why we are here and why we choose to exist.

Our Purpose is 'Driving Beyond the Possible'. Through our new purpose we are cementing our desire to drive beyond the possible and give the 'Gift of Movement' to all our customers be that through the sales & service of their vehicle or developing the software to enable a seamless digitally enabled buying experience.

Our new purpose is guided by a set of co-created values: Unite as One, Do The Right Thing, Drive Our Innovation and Enjoy The Journey.



# LIFE AT PENDRAGON

## BEGINNING YOUR JOURNEY

We review our recruitment strategies to ensure we are attracting and identifying a diverse range of talent to join and develop within our business. We continually utilise modern attraction strategies to ensure we are reaching a diverse range of candidates in a difficult marketplace. We have revamped and relaunched our company induction which is available to all associates when they begin their journey with us.

## YOUR DEVELOPMENT

We continue to provide comprehensive training to all associates, via our in-house learning and development team and our manufacturer partners. All sales, technical and leadership associates have access to a range of blended learning packages via our manufacturer partners. In 2022, a total of 5,222 associates received training in 2023, delivering 37,321 training hours.

In 2022, A significant focus was placed on reviewing the skills and capabilities required for now and in the future this led to the re-design of core sales and leadership programmes for the business.



We remain committed to investing in early career programmes, 2022 saw the launch of a new sales apprenticeship programme, a customer service apprenticeship programme and a partnership with Manchester College launching their new Automotive T Levels programme. In our Pinewood business, with the onboarding of experienced and entry level associates, 59% were recruited specifically to join either one of the graduate or early careers Schemes, including Apprenticeships, across the retail and development departments. During an exciting period of growth, especially in the international markets, this expresses Pinewood Technologies commitment to invest in those who are kick-starting their careers. Pinewood also continued to offer an undergraduate placement scheme.

## YOUR WORKPLACE & YOUR REWARD

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 further improved in November to ensure our associates continue to feel cared for. We have introduced a new associate benefits platform “Your Reward” to allow our people to have one dedicated space to select a voluntary benefit or increase their contractual



benefits such as pension contribution or medical insurance cover levels. The Your Reward platform includes improved access to our Employee Assistance Programme (EAP) that looks after our associate's wellbeing.

2022 also saw the re-introduction of an all associate engagement survey, Your Voice. The tri-annual survey, delivered digitally across the group, has enabled a way for the organisation to get fast and frequent feedback from our associates. This is acted on at multiple levels within the organisation and helps to inform our people strategy for the group. We saw over 79% of the organisation take part in the last survey and we were delighted to see an increase in the average score for our associates engagement rise from 6.9 to 7.3.

**YOUR INCLUSION & YOUR INFLUENCE:**

At Pendragon we are committed to fostering a more diverse, inclusive and unified culture that is representative of our associates, our customers and the society in which we live.

There are tremendous benefits to an environment where everyone feels valued and included. Diversity of thought and experience will be a key driver of our future success as a business: we cannot underestimate the positive impact that diversity and inclusion can have on how we understand our



customers, drive our innovation and, most importantly, engage and inspire our people. In 2022 we recruited our first Head of Diversity & Inclusion. This was to ensure that appropriate focus was placed on engaging the business and drive an inclusion strategy that shapes a culture of unity, engages our associates to accelerate progress and in turn to create real, positive change.

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. 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 are proud that our associates are positive active members of their local communities, they work to support both local and national initiatives. This year this has included co-ordinating and making donations to foodbanks, supplies for animal rescue centres and Christmas box donations to support local causes and charities. We continued our whole company support for the BBC's Children in Need appeal, the Save the Children Christmas Jumper Day as well as continuing our partnership with Battersea Dogs and Cats Home.



# INDUSTRY INSIGHT

## NEW CAR MARKET

The UK new car market was 1,614k vehicles in FY22 which was a decrease of 2.0% over the prior year, reflecting the continued shortfall in supply as a result of global microchip shortages. The UK new car market is divided into two markets, retail and fleet. The retail market is the direct selling of vehicle units to individual customers and operates at a higher margin

than the fleet market. The retail market is the key market opportunity for the Group and represents 51% 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 49% of the market in the year.

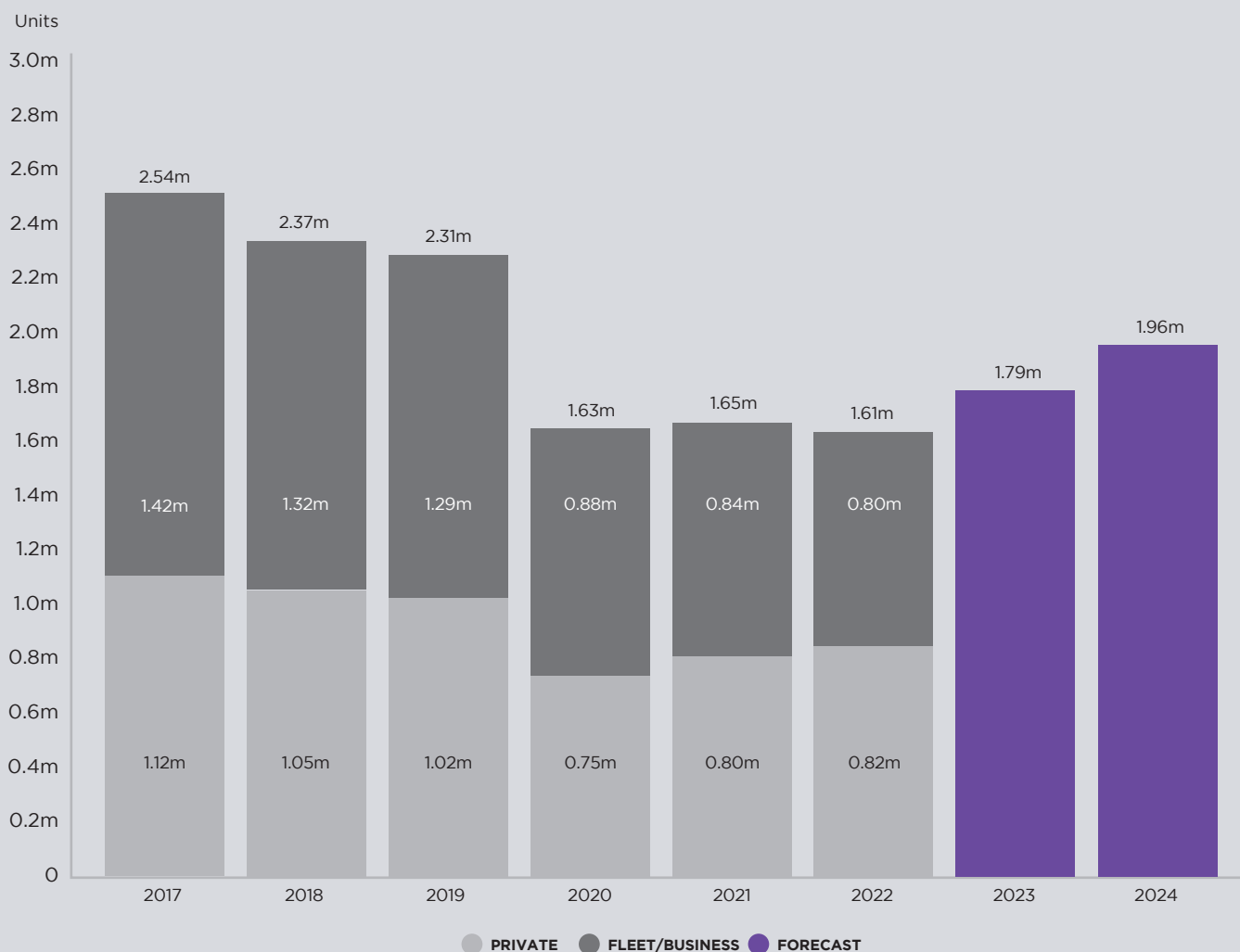
### NEW CAR VEHICLE REGISTRATIONS FOR YEAR ENDED 31 DECEMBER ('000)

	2022	2021	Change %
<b>UK New Registrations</b>	<b>1,614.1</b>	<b>1,647.2</b>	<b>-2.0%</b>
<b>Group Represented* UK New Registrations</b>	<b>920.2</b>	<b>925.1</b>	<b>-0.5%</b>

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

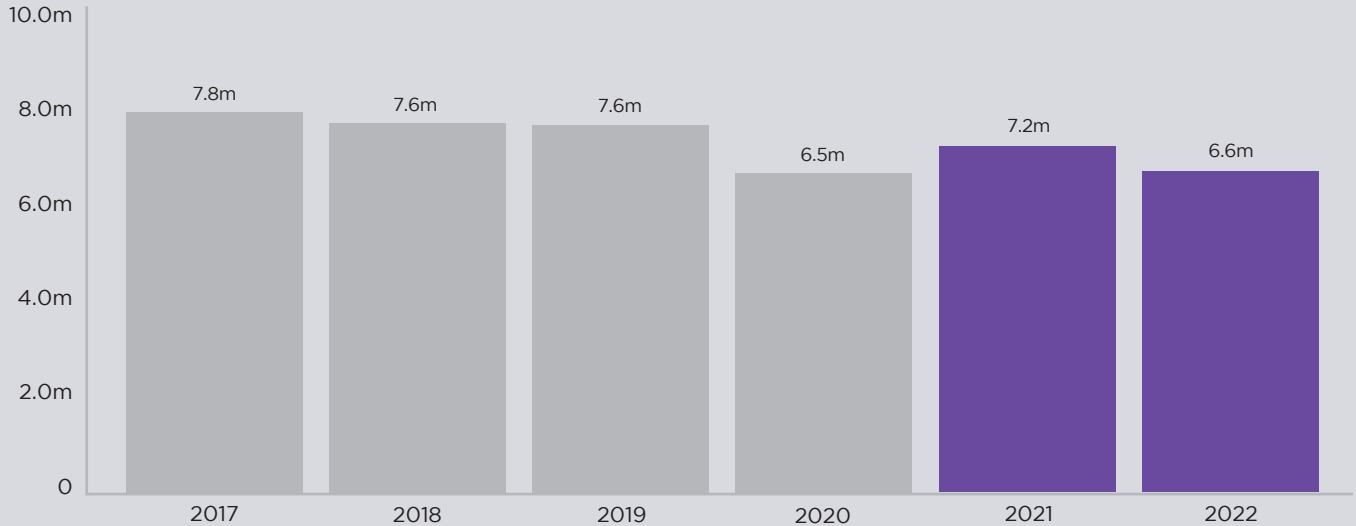
\*Group Represented - defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

### UK NEW CAR MARKET



Source: SMMT

## UK USED CAR MARKET



Source: DVLA Market Data

### USED CAR MARKET

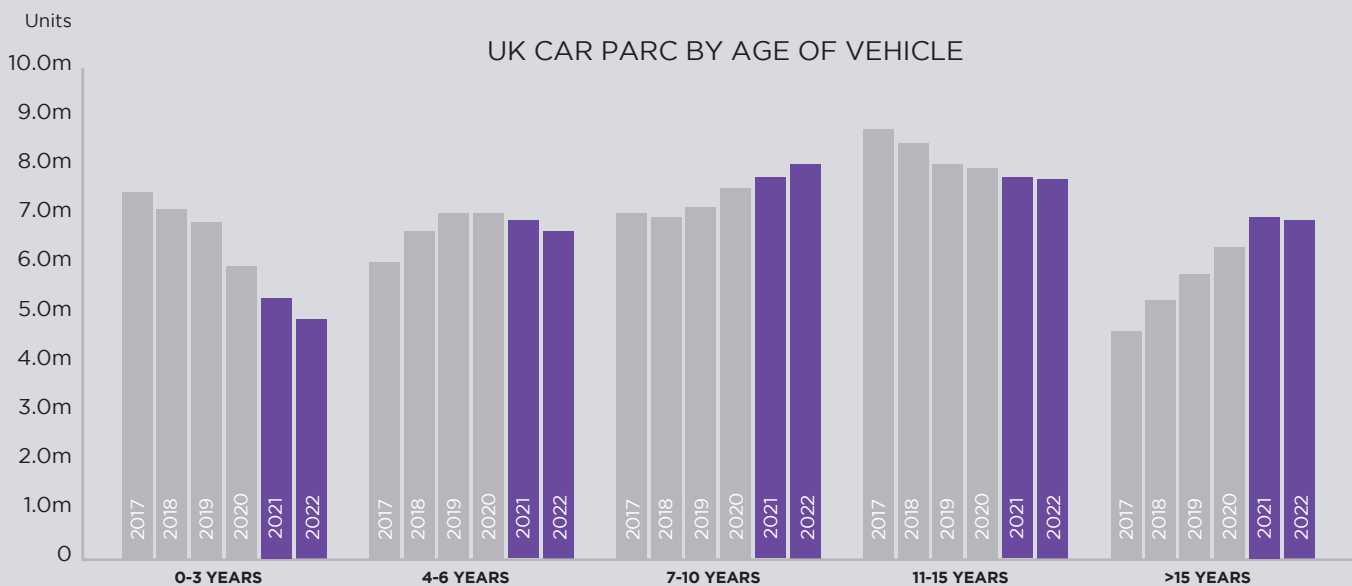
In FY22, there were 6.6m used cars sold in the UK, an decrease of 8.3% on the prior year. This represents a market opportunity that is more than four times the size by volume of the new car market. The used market is more stable than the new vehicle sector, being less affected by fluctuations in the UK economy and providing a more reliable supply chain than the new market.

### AFTERSALES MARKET

The main determinant of the aftersales market is the number

of vehicles on the road, known as the 'car parc'. The car parc in the UK has risen slightly to 35.5m vehicles at the end of FY22, a rise of 0.6% from the end of FY21. The car parc can also be segmented into markets representing different age groups. At the end of FY22, around 13% of the car parc was represented by less than three-year-old cars, around 19% by four to six-year-old cars and 68% 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.

## UK CAR PARC BY AGE OF VEHICLE



Source: GMAP

# OPERATIONAL AND FINANCIAL REVIEW

- 25** Business Review
- 33** Financial Review
- 38** Risk Overview and Management
- 49** Viability Statement





# BUSINESS REVIEW

## SEGMENTAL PERFORMANCE

Units sold	H1 2022	H2 2022	FY22	H1 2021	H2 2021	FY21	Change (%)	LFL Change (%)
<b>USED UNITS</b>								
UK Motor	46,016	43,339	89,355	53,894	44,432	98,326	-9.1%	-8.7%
US Motor	-	-	-	51	-	51	-100.0%	-
<b>Total</b>	<b>46,016</b>	<b>43,339</b>	<b>89,355</b>	<b>53,945</b>	<b>44,432</b>	<b>98,377</b>	<b>-9.2%</b>	<b>-8.7%</b>
<b>NEW UNITS</b>								
UK Motor	24,686	24,087	48,773	30,067	22,218	52,285	-6.7%	-6.1%
US Motor	-	-	-	397	-	397	-100.0%	-
<b>Total</b>	<b>24,686</b>	<b>24,087</b>	<b>48,773</b>	<b>30,464</b>	<b>22,218</b>	<b>52,682</b>	<b>-7.4%</b>	<b>-6.1%</b>

## STRATEGY AND BUSINESS REVIEW

The business is organised into 3 segments, analysed as follows:

- UK Motor – sale and servicing of vehicles in the UK.
- Software – Licencing of Software as a Service to global automotive business users
- Leasing – Fleet and contract hire provider. Source of used vehicle supply

(£m)

	H1 2022	H2 2022	FY22	H1 2021*	H2 2021*	FY21*	Change (%)	LFL Change (%)
<b>REVENUE</b>								
UK Motor	1,802.9	1,733.3	3,536.2	1,739.8	1,592.9	3,332.7	6.1%	7.0%
Software	12.4	13.0	25.4	12.1	12.3	24.4	4.1%	4.1%
Leasing	42.9	40.8	83.7	49.0	40.9	89.9	-6.9%	-6.9%
US Motor	-	-	-	28.3	0.3	28.6	-100%	-
Inter-segment revenue	(12.7)	(12.6)	(25.3)	(13.6)	(12.1)	(25.7)	-1.6%	-1.6%
<b>Revenue</b>	<b>1,845.5</b>	<b>1,774.5</b>	<b>3,620.0</b>	<b>1,815.6</b>	<b>1,634.3</b>	<b>3,449.9</b>	<b>4.9%</b>	<b>6.7%</b>
<b>GROSS PROFIT</b>								
UK Motor	211.1	204.6	415.7	187.6	209.7	397.3	4.6%	5.6%
Software	11.1	11.6	22.7	11.2	11.3	22.5	0.9%	0.9%
Leasing	12.5	11.9	24.4	10.5	11.5	22.0	10.9%	10.9%
US Motor	-	-	-	4.0	-	4.0	-100%	-
Inter-segment gross profit	(2.5)	(3.1)	(5.6)	(2.1)	(2.4)	(4.5)	24.4%	24.4%
<b>Gross Profit</b>	<b>232.2</b>	<b>225.0</b>	<b>457.2</b>	<b>211.2</b>	<b>230.1</b>	<b>441.3</b>	<b>3.6%</b>	<b>5.5%</b>
<b>UNDERLYING OPERATING PROFIT</b>								
UK Motor	37.2	31.9	69.1	37.9	49.5	87.4	-20.9%	-20.8%
Software	5.5	5.5	11.0	6.7	5.8	12.5	-12.0%	-12.0%
Leasing	10.2	9.7	19.9	8.1	9.4	17.5	13.7%	13.7%
US Motor	(0.8)	(0.7)	(1.5)	(0.8)	(0.3)	(1.1)	36.4%	-
<b>Underlying Operating Profit</b>	<b>52.1</b>	<b>46.4</b>	<b>98.5</b>	<b>51.9</b>	<b>64.4</b>	<b>116.3</b>	<b>-15.3%</b>	<b>-14.8%</b>
Gross Margin %	12.6%	12.7%	12.6%	11.6%	14.1%	12.8%	-0.2%	-0.2%
Underlying Operating Margin %	2.8%	2.6%	2.7%	2.9%	3.9%	3.4%	-0.7%	-0.7%
<b>Operating Profit</b>	<b>54.3</b>	<b>46.7</b>	<b>101.0</b>	<b>48.1</b>	<b>59.5</b>	<b>107.6</b>	<b>-6.1%</b>	

\* The Group has revised its reporting segments. In January 2022 the Group re-organised its management and reporting structure. The significant changes were that the Franchised UK Motor and Car Store operations were brought under the management of the UK Motor operation. In the 2022 financial statements therefore, the Franchised UK Motor and Car Store segments are no longer reported separately. See note 2.3.

# BUSINESS REVIEW

## UK MOTOR (£m)

	H1 2022	H2 2022	FY22	H1 2021*	H2 2021*	FY21*	Change (%)
<b>REVENUE</b>							
Used	948.9	859.7	1,808.6	846.1	860.5	1,706.6	6.0%
Aftersales	137.2	138.9	276.1	132.0	131.7	263.7	4.7%
New	716.8	734.7	1,451.5	761.7	600.7	1,362.4	6.5%
<b>Revenue</b>	<b>1,802.9</b>	<b>1,733.3</b>	<b>3,536.2</b>	<b>1,739.8</b>	<b>1,592.9</b>	<b>3,332.7</b>	<b>6.1%</b>
<b>GROSS PROFIT</b>							
Used	77.1	66.5	143.6	73.6	90.6	164.2	-12.5%
Aftersales	70.4	69.1	139.5	65.3	67.9	133.2	4.7%
New	63.6	69.0	132.6	48.7	51.2	99.9	32.7%
<b>Gross Profit</b>	<b>211.1</b>	<b>204.6</b>	<b>415.7</b>	<b>187.6</b>	<b>209.7</b>	<b>397.3</b>	<b>4.6%</b>
Gross margin rate	11.7%	11.8%	11.8%	10.8%	13.2%	11.9%	-0.1%
Underlying Operating Expenses	(173.9)	(172.7)	(346.6)	(149.7)	(160.2)	(309.9)	11.8%
<b>Underlying Operating Profit</b>	<b>37.2</b>	<b>31.9</b>	<b>69.1</b>	<b>37.9</b>	<b>49.5</b>	<b>87.4</b>	<b>-20.9%</b>
<b>Underlying Operating margin rate</b>	<b>2.1%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>2.2%</b>	<b>3.1%</b>	<b>2.6%</b>	<b>-0.6%</b>
Stocking Interest <sup>1</sup>	(5.7)	(9.0)	(14.7)	(4.8)	(5.0)	(9.8)	50.0%
<b>Profit after Stocking Interest</b>	<b>31.5</b>	<b>22.9</b>	<b>54.4</b>	<b>33.1</b>	<b>44.5</b>	<b>77.6</b>	<b>-29.9%</b>
<b>Operating Profit</b>	<b>39.4</b>	<b>32.2</b>	<b>71.6</b>	<b>37.8</b>	<b>44.8</b>	<b>82.6</b>	<b>-13.3%</b>
Total Revenue Change	3.6%	8.8%	6.1%				
Like-for-like Revenue Change	4.2%	10.1%	7.0%				
Used Units Sold	46,016	43,339	89,355	53,894	44,432	98,326	-9.1%
New Units Sold	24,686	24,087	48,773	30,067	22,218	52,285	-6.7%
Used GPU (£) <sup>2</sup>	1,676	1,534	1,607	1,366	2,039	1,670	-3.8%
New GPU (£) <sup>2</sup>	2,576	2,865	2,719	1,620	2,304	1,911	42.3%
Number of Locations	148	145	145	150	149	149	-2.7%
Average Used Selling Price (£) <sup>3</sup>	18,900	18,421	18,667	14,341	17,453	15,753	18.5%
Average New Selling Price (£) <sup>3</sup>	28,552	30,535	29,529	25,064	26,386	25,647	15.1%

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

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

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

\* The Group has revised its reporting segments. In January 2022 the Group re-organised its management and reporting structure. The significant changes were that the Franchised UK Motor and Car Store operations were brought under the management of the UK Motor operation. In the 2022 financial statements therefore, the Franchised UK Motor and Car Store segments are no longer reported separately. See note 2.3.

## UK MOTOR

The UK Motor business operated from 133 franchise points and 12 used cars only retail points which represent a range of volume and premium products offering both sales and service functions.

- Further progress in respect of strategy to improve performance and unlock significant value in the UK Motor division.
- Introduced a number of new digital initiatives, underpinned by Pinewood, to differentiate our omni-channel model.
- CarStore.com – our single market place for all of the Group's used cars.

## Strategy delivery

### Unlock value in the UK Motor division

The Group has made meaningful progress with its strategy to improve performance and unlock significant value in the 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**

We made further good progress with accelerating digital innovation during 2022, introducing a number of new initiatives, as well as seeing the full-year benefit from the improvements made during 2021. Sales+, a layered DMS application embedded within the Pinewood system, has had further releases during FY22 which have enabled the automated inclusion of insurance products, subject to customer qualification, in all customer offers. This addition will support improved sales penetrations with better product presentation to the customer, as well as leaving us well positioned to meet all current and future regulatory requirements. Releases have also enabled real-time modification of the customer Finance & Insurance ("F&I") offer, allowing our teams to amend all aspects of the offer, such as finance type, deposit amount, term of loan, annual mileage and additional insurance products, all of which improve customer flexibility and transparency.

We have also improved the content of our digital Finance and Insurance offering, by introducing the ability to present variable APR's dependant on the balance being financed, together with dynamic lender comparisons to offer the best rate to consumers. Further to this, we have improved our ability to perform used equity mining, to determine the optimal time to approach customers to maximise the equity in their current vehicle to facilitate a replacement vehicle sale. Since the launch of our initiatives to drive F&I, we have seen an improvement of c.700bps in the penetration rate, driving approximately £10m of incremental gross profit. We expect F&I penetration to be more challenging in FY23 as interest rate changes have resulted in higher APR's being passed through to consumers. However, we continue to develop our digital initiatives, utilising Pinewood Technologies, to be able to offer a menu-based approach to customers offering packages representing 'good', 'better' and 'best' options and a range of stand-alone insurance product sales to help mitigate the more challenging market conditions.

We continued to develop our Group-wide vehicle acquisition, management and pricing platform during the second half of FY22, which is focussed on optimising the speed at which we are able to turn vehicle inventory and maximising the margin we can achieve on used vehicles. New functionality allowed us to respond quicker to market-based pricing changes, augmented with our internal indicators utilising our data management tools. We have improved our online and in-store part-exchange and sell-your-car ("SYC") journey to include guaranteed customer valuations. During the year, the Group acquired the 'Sellyourcar.com' domain name and developed a new website and proposition, using our pricing and part-exchange management tools, in order to maximise the volume of cars acquired directly from customers. Typically, SYC and part exchange cars, directly sourced from the customer,

allow us to achieve higher margins of c.£500 per unit, when compared to cars sourced from auction. During FY23 we will further develop this proposition with the ambition to double the number of cars we acquire through the SYC channel from c.7% of sales in 2022 to c.15% in 2023.

### **Drive operational excellence and best practice**

We continue to develop new processes and products to support our used car margin performance. Our programme to target vehicle preparation efficiency progressed well in FY22 with the introduction of process automation to reduce reliance on vehicles being brought into stock manually and speed up the availability to customers. We also improved the allocation of stock across the Group network to get the right cars, to the right location, quicker.

We also delivered improvements in our Aftersales performance with revenue increasing by 4.7% in the year, 7.5% on a like-for-like basis. A number of operational improvements such as a revised technician incentive structure and revised local reporting have underpinned this. In addition, we introduced new functionality offering customers interest-free finance on aftersales work which is performing well, and driving higher penetration into the older vehicle car parc. Our revised guarantee product suite introduced in 2021 which introduced new product options, differential pricing and operational procedures has seen our penetration of extended guarantee sales on eligible vehicles rising from 38% pre-pandemic to 43% in FY22, driving approximately £2m of incremental profit in FY22. During FY23, we will refine the product offering further to present a dynamic pricing model which will adapt the price of the product by make, model and derivative.



# BUSINESS REVIEW

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

Costs increased materially during FY22 (see financial review below), driven by the combination of the withdrawal of government support, our planned investment into marketing and the well-publicised levels of inflation which impacted across the cost-base, and in particular in labour and utility costs. However, the Group continued to seek opportunities to mitigate cash costs where possible in FY22. We completed a major property negotiation with our largest landlord (c.70 properties in total) that resulted in lease extensions at current rent levels at c.30 locations and the return of 12 vacant properties to the landlord, with the remaining sites to be reassessed as their leases expire. This deal will deliver an annual cash saving in excess of £3.5m across rent and rates at the returned sites. Over the past three years the Group has significantly reduced its vacant leased property exposure through a combination of surrenders, assignments, sublets and expiries, delivering over £7.0m in annualised rent savings and a further £3.0m in rates savings.

## **Enhance new car representation – New partnership with BYD**

With our HY results in September we announced that Pendragon would be a launch partner for BYD, the world's largest new energy vehicle manufacturer. We continued to develop our dialogue with BYD during the second-half of FY22 ahead of their launch in 2023. At launch in March, Pendragon initially opened two locations in Milton Keynes and Birmingham, with plans for up to a further six locations to be opened during the remainder of FY23. We will continue to explore strategic options for expansion.

## **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 new one. The overall market for used cars is around seven 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. Brand relaunch of the used car proposition
2. Differentiated value proposition
3. Build flexible acquisition & fulfilment capability and scale physical estate.

## **Brand relaunch & Differentiate value proposition**

Following the significant changes in the used car market in the last few years, we have transformed our used car strategy away from a standalone proposition to a Group-wide omni-channel hybrid proposition. During 2022 we made significant developments to our digital capabilities, enabling us to develop a new-look website on CarStore.com displaying the majority of all group used vehicle stock. This capability has enabled us to list approximately 12,000 used vehicles on a single transactional website. This proposition allows us to take a market-place approach to our Group used inventory, with consistent presentation with revised image standards. CarStore.com is the market leading digital proposition, supported by our extensive store network providing us with a truly omni-channel advantage, and with greater scale than pureplay digital competitors. Our acquisition of the Sellyourcar.com website will provide us with greater opportunities to source used car stock to support our proposition in a market that we anticipate will continue to be constrained for supply during 2023.

In addition, we delivered a full launch of this new proposition supported by a cross-channel marketing campaign. This campaign included new content advertising across prime-time TV slots in order to drive awareness of the repositioned brand. We have seen a strong increase in digital traffic to CarStore.com since the launch of these campaigns, with traffic up 53% year on year, supporting new customer acquisition. We have also seen very strong customer scores on Trustpilot and reputation.com, with Car Store scoring 4.6/5.0 on Trustpilot and 4.7/5.0 on reputation.com. Following the successful launch of the new proposition and advertising campaigns, we saw our used car volumes outperform the wider market by approximately 6%, or approximately 2,750 units in the second half of FY22.

## **Build flexible acquisition & fulfilment capability and scale physical estate**

The first concept store to launch our physical proposition was formally launched in Chesterfield during April and the new store format has been very well received by customers and now acts as a blue print for further expansion. During November we opened our second new format store in Warrington which holds approximately 400 vehicles on site and will further support the digital proposition. In addition, we are scaling our small-format locations, CarStore Direct, with a further 10 new

locations introduced during FY22 across the UK. These new format stores facilitate our Sell-your-car proposition and offer greater choice for click and collect fulfilment by providing convenient, small footprint locations, unlocking potential new local markets for Car Store to enter. We will continue to look for opportunities to expand our physical estate, and are in advanced discussions about a number of locations for full-scale new format stores. We expect to complete at least one addition during FY23.

### Operating Review

The UK Motor division performed well during the year despite the backdrop of ongoing supply chain issues impacting new and used vehicle supply as well as there being various inflationary cost pressures, particularly payroll costs. The overall new car market was down 2.0% in the year, with the new market down 11.9% in H1 but up 10.1% in H2, showing some early signs of new car supply issues easing. The Group has built a strong order bank across its brands, with a strong order bank of over 20,000 orders as at the end of December, which it expects to deliver when supply eases, and in the short-term is focussed on achieving higher margins on the vehicles that are supplied. The shortage in new car supply since 2020 is now also impacting the used car market, with a significant reduction in new vehicles manufactured in this period that would ordinarily flow into the important 'nearly new' sector now not being available.

New Car volumes were down 6.1% on a like-for-like basis (total reported down 6.7%), slightly below the total market decrease of 2.0%, driven by a combination of brand representation and product mix. Our focus on maximising margins through reduced levels of vehicle discounting combined with OEMs focussing on production of higher margin models resulted in new GPUs of £2,719, up 42.3% or £808 compared to 2021.

Used Car volumes were down 8.7% on a like-for-like basis (total reported down 9.1%), with the total market down 8.5%. This performance was driven by a number of different dynamics through the year. During the first-half we were comparing against a strong H1 in 2021, where our online capabilities allowed us to outperform the market during the lock-downs of 2021, resulting in a reduction in sales of 14% against a market down 8.3%. In the second-half, we relaunched the Car Store website as described above, which together with our revised marketing activity resulted in H2 performance of a sales reduction of just 2.2% against the market down 8.7%. Used margins were at record levels during parts of 2021, with used GPUs of £1,670, and margins over £2,000 in H2 2021. As anticipated, margins declined from these unprecedented levels in 2022, but through the operational initiatives detailed above, used GPU margins were maintained at strong levels, with a used GPU

of £1,607 in 2022, still significantly higher than the £1,169 and £712 in 2020 and 2019 respectively, and over £600 higher than the average between 2011 and 2018.

Aftersales revenue also grew in the period, up by 7.5% on a like-for-like basis (total reported up 4.7%), which was driven by the operational improvements detailed above. The aftersales gross margin of 50.5% is in line with 2021 despite the impact of technician pay inflation on cost of sales, resulting in an additional £6.3m of gross profit year on year.



### Financial Review

Revenue increased by 6.1% to £3,536.2m in FY22 (7.0% on a like-for-like basis), as although new and used car volumes were down, the average selling price of vehicles increased. Gross profit grew by 4.6% to £415.7m in FY22 (5.6% on a like-for-like basis). The increase in gross profit was principally driven by improvements in new cars, with volume declines more than offset by significantly stronger GPUs of £2,719 (FY21: £1,911), together with higher levels of aftersales gross margin. These increases were partially offset by the anticipated reduction in used car GPUs and as well as lower volumes as described above.

Underlying operating costs have increased by 11.8% (13.3% on a like-for-like basis). £12.2m of the £36.7m increase in operating expenses was as a result of the non-repeat of government support received in FY21 and c.£10m of the increase was as a result of increased marketing expenditure, primarily on the Car Store re-brand. Other inflationary cost increases, particularly in labour costs and utilities, which combined account for approximately 65% of the Group's total cost base, were also impacted by a higher-than-expected impact of inflation during 2022. These increases have been partially mitigated by a continued focus on cost-saving initiatives.

The division recorded an underlying operating profit of £69.1m (FY21: £87.4m) and a reported operating profit after non-underlying items of £71.6m (FY21: £82.6m).

# BUSINESS REVIEW

## SOFTWARE (£m)

	H1 2022	H2 2022	FY22	H1 2021	H2 2021	FY21	Change (%)
Revenue	12.4	13.0	25.4	12.1	12.3	24.4	4.1%
Gross Profit	11.1	11.6	22.7	11.2	11.3	22.5	0.9%
Gross margin rate	89.5%	89.2%	89.4%	92.6%	91.9%	92.2%	-2.8%
Operating Expenses	(5.6)	(6.1)	(11.7)	(4.5)	(5.5)	(10.0)	17.0%
<b>Operating Profit</b>	<b>5.5</b>	<b>5.5</b>	<b>11.0</b>	<b>6.7</b>	<b>5.8</b>	<b>12.5</b>	<b>-12.0%</b>
<b>Operating margin rate</b>	<b>44.4%</b>	<b>42.3%</b>	<b>43.3%</b>	<b>55.4%</b>	<b>47.2%</b>	<b>51.2%</b>	<b>-7.9%</b>
Total Revenue Change	2.5%	5.7%	4.1%				

A more detailed breakdown of the Pinewood financials for FY22 can be seen below:

## (£m)

	Contribution from Pendragon	Contribution from external customers	Pinewood PLC standalone result	Share of Pendragon Group overheads	Pinewood segment as reported in Pendragon Group accounts
Revenue	6.3	19.1	25.4	-	25.4
Gross Profit	5.6	17.1	22.7	-	22.7
Operating Expenses	(2.1)	(9.3)	(11.4)	(0.3)	(11.7)
<b>Operating Profit</b>	<b>3.5</b>	<b>7.8</b>	<b>11.3</b>	<b>(0.3)</b>	<b>11.0</b>

## SOFTWARE

### Operating Review

- Approximately 90% of DMS revenues are recurring.
- Strong international growth driven by expansion of the direct sales model and new market launches.
- Strong partnerships with strategic OEMs.

### 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 FY22 Pinewood continued to focus on both elements of the ‘grow and diversify’ strategy.

- **Grow:** international growth accelerated in H2 FY22 with an expansion of the direct sales model in the Asia Pacific region and new market launches in Singapore and the Middle East. The UK and Ireland market returned to growth in H2 FY22 with net user additions over the year.
- **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. These

developments included further releases in the Sales+ module, functionality to allow real time modification of the customer F&I offer and the integration of open banking to improve payment options. Pinewood launched a valuation tool in H2 FY22 to help power Car Store’s web capabilities and the overall valuation and pricing platform for Pendragon used cars. In FY23, Pinewood will continue to be a key enabler in the further functionality development of vehicle acquisition, management and pricing platforms. In order to facilitate this development the investment in new functionality of the DMS platform saw development capital rise to £5.7m (FY21: £5.0m), with c.80% of these development costs being capitalised. In addition to the development of the DMS, investments have also been made in platform architecture and security with greatly expanded use of the Microsoft Azure platform.

### Operating Review

Pinewood is a software business that 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 £100 million in the UK. Three DMS providers dominate the UK market, of which Pinewood is one. 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. Around 90% of Pinewood's DMS 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 FY22, overall net user numbers increased by 4% to c.31,700 with the expansion delivered primarily in H2 FY22. Across Pinewood's international markets there was a 13% net increase in user numbers to a record high of c.6,400 users. All international markets grew user numbers in FY22 with Pinewood benefiting from both the expansion of existing customers and new sales. Growth was further supported by successful launches in Singapore and the Middle Eastern market. Pinewood systems now operate in a total of 19 different countries.

In the UK and Ireland market (excluding Pendragon) there was an increase in user numbers in FY22 to c.20,000. At H1 FY22 user numbers had declined slightly, this trend was reversed in the second half of the year. In H2 FY22 the number of new system implementations accelerated, and churn fell from the elevated rates seen during FY21. The full benefit of these user additions will be seen on an annualised basis in the FY23 result.

Pinewood's growth benefits not just from sales to new customers but also from the expansion of its existing customer base. In FY22 external net user churn was less than 1% and in international markets (excluding UK and Ireland) it was negative, as the rate at which existing customers grew users more than offset user reductions.

There has also been good further progress in terms of OEM support at an international level. Pinewood continues to build a strong partnership with Volkswagen AG and Porsche, which has enabled constructive dialogue and, in some cases, initial

user implementations with large international dealer groups in both the European and the Asia Pacific market.

### Financial Review

Total revenues increased by 4.1% to £25.4m compared to FY21. International DMS recurring revenues increased by 27%, reflecting the underlying user growth and expansion of the direct sales model in the European and Asia Pacific markets

UK and Ireland DMS recurring revenues fell slightly in the period, driven by the annualised impact of two exceptional customer exits at the end of the prior year and reduced user numbers in H1 FY22. User growth returned by the end of FY22 leaving Pinewood well placed for growth in its home market heading into FY23.



In addition to recurring revenues, there was a 9% increase in external DMS transactional charges, system training and implementation revenues. This was driven by an increase in system implementations in the UK and Ireland in H2 FY22.

Gross profit increased by 0.9% to £22.7m. There was a reduction in gross margins driven by the expanded use of the Microsoft Azure platform. This transition is a one-off event, and the related cost increase will not recur in future periods.

Operating costs increased by £1.7m or 17.0% compared to FY21. In FY22 the amortisation charge of £4.2m (FY21: £3.7m) made up over a third of operating costs. Alongside rising personnel costs, the higher amortisation charge drove the operating cost increase, both reflecting increased investment in the development of the DMS platform and Pinewood's operational capabilities. Further cost increases arose from higher travel expenditure following the reduction in Covid-19 restrictions, as well as higher energy costs.

As a result of these movements, underlying operating profit was £11.0m, a reduction of 12% compared to FY21.

# BUSINESS REVIEW

## LEASING (£m)

	H1 2022	H2 2022	FY22	H1 2021	H2 2021	FY21	Change (%)
Revenue	42.9	40.8	83.7	49.0	40.9	89.9	-6.9%
Gross Profit	12.5	11.9	24.4	10.5	11.5	22.0	10.9%
Gross margin rate	29.1%	29.2%	29.2%	21.4%	28.1%	24.5%	4.7%
Operating Expenses	(2.3)	(2.2)	(4.5)	(2.4)	(2.1)	(4.5)	-
<b>Operating Profit</b>	<b>10.2</b>	<b>9.7</b>	<b>19.9</b>	<b>8.1</b>	<b>9.4</b>	<b>17.5</b>	<b>13.7%</b>
Operating margin rate	23.8%	23.8%	23.8%	16.5%	23.0%	19.5%	4.3%
Revenue Change	(12.4%)	(0.2%)	(6.9%)				

## 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.

The overall decrease in revenue compared to FY21 was due to a reduction in the exceptionally high level of disposals of de-fleeted vehicles in H1 2022. However, increased demand for used vehicles due to continued supply shortages of new vehicles resulted in higher residual values being achieved on disposal, which led to the increase in gross profit. Total revenue in H2 2022 was 0.2% lower than H2 2021.



PVM's fleet continues to experience a rapid change in the powertrains demanded by customers in the corporate car sector as employers improve their green footprint whilst providing their associates with low CO2 vehicles. This, coupled with manufacturer supply constraints, has resulted in new vehicle delivery lead times increasing significantly compared to lead times prior to the pandemic. PVM has a strong order bank, with over 2,100 customer vehicles on order as at the end of December, which will support growth in the fleet when supply constraints ease.

### Financial Review

Revenue decreased by 6.9%, due to the slightly reduced turnover on disposals. Gross profit increased by 10.9% due to the strong residual values as described above. Operating expenses were in line with last year at £4.5m and operating profit increased by 13.7% to £19.9m (FY21: £17.5m).



# FINANCIAL REVIEW

## UNDERLYING NET FINANCING COSTS

Underlying net financing costs increased by £7.6m to £40.9m. Interest payable on bank borrowings increased from £9.1m to £10.1m, largely driven by increases in the base interest rate. The increase in vehicle stocking plan interest from £9.8m to £14.7m was driven by a combination of higher bank base rates and higher average values per unit in used cars.

The net lease interest increased from £11.7m to £13.6m, principally due to the accounting impact of a lease regear with our largest property partner in which 30 prime leaseholds were extended until 2042 with the Group benefitting from

reductions in rent payable from the agreement to hand-back 12 vacant properties to the landlord in exchange for the lease extensions. The transaction has resulted in an increase in the net lease liability and consequently the net interest charge has risen by £3.0m year on year (though this has been offset by a reduction in the depreciation charge on these properties of £2.7m due to the amortisation period being extended). This increase in the lease interest has been partially offset by a reduction in the lease interest charge as a result of lease terminations made in the previous year and the natural wind down of lease liabilities as they are paid off.

£m	2022	2021	Change (%)
Interest payable on bank borrowings, senior note and loan notes	10.1	9.1	11.0%
Vehicle stocking plan interest	14.7	9.8	50.0%
Net lease interest	13.6	11.7	16.2%
Unwinding of discounts in contract hire residual values	2.5	2.7	-7.4%
<b>Total Underlying Net Financing Costs</b>	<b>40.9</b>	<b>33.3</b>	<b>22.8%</b>



# FINANCIAL REVIEW

## NON-UNDERLYING ITEMS

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. During the year the Group has recognised a net charge of £0.4m of pre-tax non-underlying items compared to a charge of £9.7m in 2021.

An impairment of goodwill charge of £3.6m relates to the impairment of acquisition goodwill on the disposal of the truck brand, DAF, as a part of a sale to a specialist truck operator.

During the year, approaches and subsequent bids were made by two separate external parties to purchase the Company. As a consequence, aborted transaction costs in respect of

professional and advisory fees of £0.4m were incurred, in the management of these processes.

Gains of £7.9m on the sale of business and property, plant and equipment mainly arise from the disposal of certain UK freehold properties.

Pension costs of £0.3m represent the interest charge on pension scheme obligations (FY21: £1.0m).

Refinancing costs of £2.6m relate to the costs of the 2022 Group refinancing exercise, and principally comprised of early repayment charges on the previous private placement loan notes.

£m	H1 2022	H2 2022	2022	2021
Impairment of goodwill	(3.6)	-	(3.6)	-
Impairment of property, plant and equipment	(1.0)	-	(1.0)	-
Impairment of right of use assets	(0.2)	-	(0.2)	(9.6)
Termination and severance costs	(0.2)	-	(0.2)	(1.8)
Aborted transaction related expenses	-	(0.4)	(0.4)	-
Gains on the sale of businesses and property, plant and equipment	7.2	0.7	7.9	2.7
Pension costs	(0.2)	(0.1)	(0.3)	(1.0)
Loss on refinancing	(2.6)	-	(2.6)	-
<b>Total non-underlying items before tax</b>	<b>(0.6)</b>	<b>0.2</b>	<b>(0.4)</b>	<b>(9.7)</b>
Non-underlying items in tax	0.5	0.9	1.4	2.2
<b>Total non-underlying items after tax</b>	<b>(0.1)</b>	<b>1.1</b>	<b>1.0</b>	<b>(7.5)</b>

## CAPITAL ALLOCATION AND DIVIDEND

Adjusted Net Debt\* has improved by £26.4m from an adjusted net debt of £49.7m at 31 December 2021 to adjusted net debt of £23.3m at 31 December 2022. The adjusted net debt to underlying EBITDA ratio\* was 0.1x for the rolling 12 months to FY22. The adjusted net debt to underlying EBITDA ratio has moved from 0.3x at FY 2021, principally as a result of the strong trading performance in the year, combined with the disposal proceeds from the sale of property received.

Whilst the Group is not proposing a final dividend for 2022, following the successful reduction of debt in line with the Group's stated strategy, the Board is reviewing its capital allocation priorities including the potential for return of capital to shareholders either through dividend or share buybacks in due course.

\* These are Alternative Performance Measures (APMs), see page 122 for more detail.



## CASH FLOW

The following table summarises the cash flows and adjusted net debt of the Group for the twelve-month periods ended 31 December 2022 and 31 December 2021 as follows:

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

	2022	2021
<b>Underlying Operating Profit</b>	<b>98.5</b>	<b>116.3</b>
Depreciation and Amortisation	33.5	36.1
Share Based Payments	3.3	2.9
Non-underlying Items	(0.4)	(1.8)
Contribution into defined benefit pension scheme	(13.1)	(12.8)
Working Capital and Contract Hire Vehicle Movements <sup>1</sup>	(5.1)	(41.2)
<b>Cash Generated from Operations</b>	<b>116.7</b>	<b>99.5</b>
Capital Expenditure	(43.7)	(17.7)
Business and Property Disposals	16.6	31.7
<b>Net Capital (Expenditure) / Income<sup>2</sup></b>	<b>(27.1)</b>	<b>14.0</b>
Tax Paid	(1.4)	(7.1)
Interest Paid excluding lease interest <sup>3</sup>	(22.9)	(17.5)
Lease Payments & Receipts <sup>4</sup>	(33.9)	(36.7)
Non-underlying finance cost	(2.6)	-
Other	(2.4)	(1.5)
<b>Decrease in Adjusted Net Debt</b>	<b>26.4</b>	<b>50.7</b>
Opening Adjusted Net Debt	(49.7)	(100.4)
<b>Closing Adjusted Net Debt</b>	<b>(23.3)</b>	<b>(49.7)</b>

<sup>1</sup> 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. <sup>2</sup> being the proceeds from sale of businesses, purchase of property, plant, equipment and intangible assets and proceeds from sale of property, plant, equipment and intangible assets. <sup>3</sup> being bank and stocking interest paid. <sup>4</sup> being receipts of lease receivables and payment of lease liabilities including lease interest paid and received.

### RECONCILIATION TO CONSOLIDATED CASH FLOW STATEMENT (£m)

	2022	2021
<b>Net Cash From Operating Activities</b>	<b>76.1</b>	<b>63.2</b>
Net capital (expenditure) / income	(27.1)	14.0
Receipt of lease receivables	2.0	2.2
<b>Net cash (outflow) / inflow from investing activities</b>	<b>(25.1)</b>	<b>16.2</b>
<b>Financing cash flows as included above</b>		
Payment of lease liabilities	(22.2)	(27.2)
Payment to Employee Benefit Trust (EBT)	(0.4)	-
<b>Financing cash flows not included above relating to loans</b>		
Repayment of loans	(90.5)	(88.8)
Proceeds from issue of loans (net of directly attributable transaction costs)	93.8	18.7
<b>Net cash outflow from financing activities</b>	<b>(19.3)</b>	<b>(97.3)</b>

# FINANCIAL REVIEW

Cash generated from operations was an inflow of £116.7m compared to an inflow of £99.5m in 2021. Although underlying operating profit decreased from £116.3m in 2021 to £98.5m in 2022, the working capital cash outflow of £5.1m was lower than the 2021 working capital cash outflow of £41.2m, resulting in an increase in cash generated from operations. The working capital outflow of £5.1m was driven primarily by the non-funded element of the increase in used inventory.

The net capital expenditure of £27.1m (2021: inflow of £14.0m) comprised capital expenditure of £43.7m partially offset by business and property disposals of £16.6m. Capital expenditure of £43.7m (2021: £17.7m) increased year on year, driven by investments into improved dealership facilities at a number of brands including BMW, Mercedes, Porsche and Jaguar Land Rover as well as investment into our new Car Store developments in Warrington and Chesterfield, together with increased investment into Pinewood's software development.

Business and property disposals were principally driven by disposal of the DAF trucks dealerships for £2.9m and the disposal of a vacant property in St Albans for £10.5m.

Lease payments and receipts reduced by £2.8m to £33.9m, with the decrease primarily resulting from a reduction in the number of leasehold properties as a result of the full-year impact of previously announced lease exits and a further benefit resulting from the impact of a lease regear as explained previously on page 33 and which delivered a c.£2.0m cash benefit in rent and rate savings in 2022 and will deliver a saving in excess of £3.5m on a full-year basis. This was partially offset by the impact of inflationary rent increases.

Non underlying finance costs of £2.6m are the cash costs of the 2022 Group refinancing exercise, and are principally comprised of early repayment charges on the previous private placement loan notes.

## BALANCE SHEET SUMMARY

The following table summarises the balance sheet of the Group at 31 December 2022 and 31 December 2021.

### BALANCE SHEET (£m)

	2022	2021
Property	233.7	217.6
Plant & Equipment	26.8	24.2
Goodwill	144.6	150.3
Intangible Assets	12.4	11.1
Right of Use Assets - property	130.5	126.5
Contract hire vehicle assets	124.9	131.2
Inventories	620.3	512.8
Receivables <sup>1</sup>	132.9	118.9
Net Assets Held for Sale <sup>2</sup>	6.1	10.4
Net Tax Balances <sup>4</sup>	14.9	26.6
<b>Total Assets</b>	<b>1,447.1</b>	<b>1,329.6</b>
Payables <sup>3</sup>	(810.7)	(689.1)
Lease Liabilities	(217.9)	(222.1)
Contract hire vehicle Liabilities	(111.6)	(119.5)
Retirement Benefit Obligations	(2.6)	(23.6)
Adjusted Net Debt <sup>5</sup>	(23.3)	(49.7)
<b>Total Liabilities</b>	<b>(1,166.1)</b>	<b>(1,104.0)</b>
<b>Shareholders' Funds</b>	<b>281.0</b>	<b>225.6</b>

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

<sup>3</sup> being trade and other payables less contract hire liabilities <sup>4</sup> being deferred tax assets, current tax assets and current tax payable

<sup>5</sup> being cash and cash equivalents and interest bearing loans and borrowings



Net assets have increased from £225.6m at 31 December 2021 to £281.0m at 31 December 2022.

At 31 December 2022, the Group had £233.7m (£364.2m including IFRS16 right of use assets) of land and property assets (31 December 2021: £217.6m (£344.1m including IFRS16 right of use assets)). The increase in property principally reflects capital investments in a number of dealership improvement programmes in both OEM and Car Store locations as explained with the cash flow statement, partially offset by disposal of excess property, together with depreciation.

Stock has increased by £107.5m to £620.3m (31 December 2021: £512.8m), which is a result of an increase of c.£44m in the level of new car inventory held at 31 December 2021 prior to delivery, and an increase of c.£63m in used car inventory. The increase in used car inventory is driven by a combination of an increase in the number of cars in stock (c.£22m) and an increase in average value of cars in stock (c.£41m). New car inventory remains significantly below historic records as a result of the ongoing supply shortages, with new car inventory approximately £170m lower than as at 31 December 2020.

The increase in payables of £121.6m to £810.7m (31 December 2021: £689.1m) principally relates to the higher vehicle creditors as a result of the increase in new and used vehicle inventory.

The net liability for defined benefit pension scheme obligations has improved from a £23.6m liability at FY21 to a £2.6m liability at FY22. The improvement of £21.0m comprises of contributions of £13.1m, a net interest expense recognised in

the income statement of £0.3m and a net actuarial gain of £8.2m. 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 £13.1m to the Pension Scheme in the period in line with the Group's funding commitment.

The triennial valuation of the company's pension scheme as at 31 December 2021 was completed during 2022. The valuation concluded that the actuarial funding deficit had reduced from £117m as at 31 December 2018 to £33m as at 31 December 2021. The company and trustees agreed to continue the current level of contributions into the pension scheme (FY22: £13.1m) until the end of 2023, at which point the actuarial deficit is expected to be met. Following this, the company and trustees agreed to move towards a long-term funding target and continue contributions at a reduced level of contribution of £3.5m p.a. until 31 December 2026, at which point the scheme is expected to be fully funded on a long-term funding target basis.

#### 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 40 to 48 is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. A key is included to 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 2022 by the Risk Control Group. There were no new risks identified as a result, though a number of risk impact and mitigation disclosures have been updated as a result, including:

- Risk relating to Technology and Information Systems, and Information and Cyber Security has increased, driven by the threat and sophistication levels of cyber incidents such as ransomware increasing exponentially globally. During 2022 a number of mitigation activities were implemented, including technology investments, policy updates, associate training, and most recently, the onboarding of a security operations centre to further enhance and develop our ability to monitor for, and track cyber security threats to our business. A ransomware event occurred during the year and controls in place at the time of the incident, as well as the response of the security team and specialists through cyber insurance helped contain the incident. A full review has recently been completed involving third-party specialists and further control improvement opportunities will be considered as part of the ongoing security improvement plan for 2023

- Risk relating to Macro-economic, Political & Environmental has increased, driven by UK and Global events including the war in Ukraine resulting in volatility in inflation and interest rates and a UK cost of living crisis. The threat of longer-term impact of higher interest rates on consumer purchasing habits is reflected in our risk description. Financial business plans consider how these external factors may affect areas of our business, including customer spending on big ticket items as well as our operating costs. The impact of reduced supply since the Covid-19 pandemic has resulted in a large amount of pent-up demand in the market, which together with changes in consumer transport habits may underpin the market despite lower consumer disposable income
- Risk relating to Manufacturer Relationships includes the potential impact of emerging Chinese and Asian manufacturer brands producing high quality BEV products in direct competition to our traditional OEM partners products. The overall risk trend is not considered to have increased due to risk mitigation, such as the distribution agreement we have recently agreed with BYD, as well as the likelihood of the overall marketplace becoming more competitive both in terms of product offering and market price positions
- Risk relating to Environmental includes the potential impact of electricity costs reducing customer demand causing used BEV values to fall, impacting negatively the overall cost of ownership. We monitor and track all used vehicle values and sales rates frequently to limit our risk and exposure to any fall in used BEV values

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 65.



## 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.

### 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 on-line risk registers to facilitate an efficient and effective method for update of, review of, and consolidated reporting across our risk profile. Risks are reviewed as a top down and bottom up activity at the Group, Division and functional level. 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 65. The Group continues to follow the principles of the three lines assurance model and 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 and associated resource requirements including any specialist external support 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. During 2022 Internal Audit has provided independent assurance over a number of key risk areas, including health, safety & environmental management, cyber security for the Pinewood entity, associate retention, and financial controls for the Finance Shared Services Centre.



# RISK OVERVIEW AND MANAGEMENT

**Residual Risk Trend:** ↔ Unchanged    ↑ Increasing    ↓ Decreasing


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

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
1	<b>STRATEGY</b> ● ● ●		
	<p>↔ Failure to adopt the right strategy, or</p> <p>Failure of our adopted strategy to deliver the desired outcomes, or</p> <p>Failure to implement our strategy effectively</p> <p>Delay to strategic delivery and investment financial constraints</p>	<ul style="list-style-type: none"> <li>• We miss our profit growth and/or debt management target, alienate key stakeholders and are unable to invest adequately in our business</li> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• Our strategy is informed by significant research and market data</li> <li>• We communicate effectively our adopted strategy to our stakeholders. Our strategic priorities were fully refreshed during 2021 and refined further in 2022 and full details are included on pages 25 to 31 of the Annual Report</li> <li>• We invest appropriately in the technological, physical and human resources to deliver our strategy, closely monitor performance against our objectives, and adjust our actions to meet our strategic goals. Our Director of Strategy and Transformation, together with other dedicated resources, supports the delivery of our strategic initiatives and provides robust governance, including financial tracking</li> <li>• Our sophisticated management information identifies threats to the success of our strategy both during the planning and implementation phases, and informs mitigating actions, both directionally and operationally</li> <li>• We ensure that we monitor our manufacturer and third party customer service measures and take action in the event of low scores</li> <li>• We focus strongly on efficient use of working capital through embedded disciplines, especially in relation to vehicle inventory</li> <li>• We review capital expenditure plans to ensure our ROI objectives are achievable</li> <li>• Our business plan has been fully refreshed in 2022 and has taken into account the latest economic predictions</li> </ul>



NO. PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>2</b>	<b>MANUFACTURER RELATIONSHIPS ●</b>	
<p>↔ Dependence on vehicle manufacturers for the success of our business</p> <p>Failure to maintain sustainable, mutually rewarding relationships with our manufacturers</p>	<ul style="list-style-type: none"> <li>• Failure of, or weaknesses in our vehicle manufacturers' financial condition, reputation, marketing, production and distribution capabilities such as the shortage of semi-conductors along with the current Ukraine invasion limiting production of components, 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' reduced new vehicle supply due to lack of components and manufacturing capability</li> <li>• Failure to adapt to the impact of lower new vehicle registrations on future aftersales revenue streams within our business</li> <li>• Failure to adapt to manufacturer reductions in sale distribution point numbers as volumes fall, either planned or by limits to production, along with the removal of some product lines due to their inability to build profitability</li> <li>• Failure of our vehicle manufacturers to develop within required timelines to meet both regulatory and consumer requirements around BEV and hybrid emission vehicles</li> <li>• Introduction of new Chinese manufacturers into Europe and UK providing competitively priced BEV products in direct competition to our traditional OEM partner products</li> <li>• 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</li> <li>• Failure to positively adapt to OEM consolidation such as the creation of multi brand operations and network rationalisation</li> <li>• Failure to positively adapt to changes manufacturers are introducing or may make to their business models, including the introduction of agency distribution models, ensuring agency agreements are not infringing any regulatory requirements, direct sales to customers, increased involvement in the used vehicle market, and other changes that may affect the traditional dealer franchise model</li> <li>• Failure to positively adapt to changes in Competition regulation, for example via the outcome of the Aftersales block exemption review due in May 2023 which could change current protection impacting qualitative selective AR agreements, or agency introduction</li> </ul>	<ul style="list-style-type: none"> <li>• Our diverse franchise representation avoids over reliance on any single manufacturer</li> <li>• Our close contact with our vehicle manufacturers seeks to ensure our respective goals and strategic decisions are communicated, understood and aligned, to deliver mutually acceptable performance</li> <li>• To compensate lower volumes, margins increased with greater demand than availability</li> <li>• Our appropriately targeted investment in franchise assets and our performance maintains our reputation as a quality representative for our brand manufacturers</li> <li>• Seeking multi brand representation through single sites to mitigate lower aftersales opportunities from lower new vehicle volumes, and greater new volume throughput per store</li> <li>• Build relationships with new OEM partners repurposing current locations, offering dual representation whilst the used and aftersales market builds</li> <li>• Our investment in marketing initiatives and our online presence supplement and enhance our market presence and offering over and above manufacturers' marketing efforts</li> <li>• Our diverse franchise representation ensures new vehicle inventory is supplied from a wide variety of sources</li> <li>• Our model of developing and maintaining revenues from used vehicles, aftersales, and our software and leasing segments reduces our overall reliance on new vehicle franchises</li> <li>• Our ongoing innovation and investment in customer choice as to how they wish to purchase a vehicle makes us an attractive partner to OEMs</li> <li>• Our close contact with our vehicle manufacturers ensures we are able to identify potential supply issues and collaborate to limit any impact on our customers and our business performance</li> </ul>

# RISK OVERVIEW AND MANAGEMENT

NO.	PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
3	<b>COMPETITION</b> ● ● ●		
	<p>Failure to meet competitive challenges to our business model or sector</p>	<ul style="list-style-type: none"> <li>• Customers migrate to alternative providers</li> <li>• Intermediary companies establish a barrier between us and our customers</li> <li>• New forms of competition would have less barriers to competitors entering the market</li> <li>• Revenues and profits could decrease owing to competitor action</li> <li>• Consolidation of existing competitors could provide economies of scale, product range and customer reach that makes our customer offer less competitive</li> <li>• 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</li> <li>• Emerging distributors activities affect our ability to secure sufficient used inventory</li> <li>• New OEM brands entering the market with advanced BEV technology</li> </ul>	<ul style="list-style-type: none"> <li>• Our detailed market and sector monitoring systems assist early identification and effective response to any competitive or intermediary threats</li> <li>• Our scale, expertise and technological capabilities enable rapid and flexible response to market opportunities</li> <li>• Technical equipment costs and OEM connectivity solutions for aftermarket repairs are likely to limit the number of intermediary repairers creating greater retention levels</li> <li>• Reducing dependency on intermediary companies within the new vehicle space, by further investing within our own website capability providing visibility of all new vehicle unsold physical and pipeline inventory</li> <li>• Agency models reduce the risk of new vehicle supply leaking out to intermediaries giving greater protection to the brand distributor</li> <li>• Consolidating OEMs, along with the ability to multiband key market facilities, help to represent more brands through one rooftop, providing greater sales and aftermarket volumes</li> <li>• Emerging specialism, such as battery repair factories within densely represented market regions create future aftermarket opportunities for national distributors such as ourselves who have the ability to adapt facilities and invest</li> <li>• Our well-developed customer relationship management capabilities and ongoing innovation and investment in our online platforms, customer offer and fulfilment tools aim to drive industry-leading service and attract customer loyalty</li> <li>• We continually seek to develop new methods of customer interaction, particularly online. This enables the business to anticipate changing customer needs</li> <li>• Expanding relationships with new emerging brands, along with stronger OEM relationships allow for greater market area representation and coverage for sales and aftersales</li> </ul>

**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
- Increases in electricity costs reduces customer demand causing used BEV values to fall, impacting negatively the overall cost of ownership
- 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
- Our represented OEM partners have the ability to grow within the light commercial vehicle sector offering a blend of hybrid and full electric BEV options to satisfy the growing demand of home and business delivery
- We identify trends in demand through our sophisticated management information and analysis tools and tailor our model accordingly
- We monitor sales and demand of all vehicles by fuel type whilst using our sophisticated management information and analysis tools ensuring our inventory matches consumer demand, and can target supply by territory market depending on set emission rules
- 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. These provisions can be delivered through our national footprint locations, or via online platforms
- 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
- We carefully monitor the future product offerings of our current and future OEM partners, along with emerging brands, ensuring we maintain and grow partnerships with those producing relevant product meeting consumer demands

# RISK OVERVIEW AND MANAGEMENT

NO. PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>5 REGULATORY AND COMPLIANCE</b> ● ● ●		
<p>↔ Failure to comply with legal and other requirements and respond to changes which could have a material effect on our business model, for example, such as our ability to provide Finance &amp; Insurance products to our customers, or adverse changes in trade tariffs</p> <p>Failure to respond to changes in legislation, in particular in relation to environmental, employment, and governance, which could lead to shareholder and other stakeholder dissatisfaction</p>	<ul style="list-style-type: none"> <li>• This could lead to fines, criminal penalties, litigation and an adverse impact on our reputation, financial results, and/or our ability to do business</li> <li>• We may be restricted from continuing certain business activities, such as those regulated by the FCA</li> <li>• Resources are diverted to address urgent remediation, as well as taking proceedings or defending legal or regulatory action</li> <li>• The ability to obtain appropriate inventory is impeded and/or purchase costs rise</li> </ul>	<ul style="list-style-type: none"> <li>• We maintain appropriate expertise to interpret, assess and respond to proposed changes in regulation, enabling us to adapt our model and processes to comply with changes in a seamless manner</li> <li>• Our culture focuses strongly on good compliance, with emphasis on doing the right thing and delivering good performance</li> <li>• We operate a Finance &amp; Insurance Services Regulatory Board with a supporting governance framework and continue to review and invest in systems and processes to minimise the risk of non-compliance to FCA regulations</li> <li>• Our team of compliance specialists design, and we communicate effectively, processes that support our businesses to minimise the risk of non-compliance across a range of areas</li> <li>• In the case of new vehicles, our diverse representation mitigates the risk and for parts we maintain alternative sources of supply where possible</li> <li>• 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 been completed using an independent benchmarking tool. Further information can be found at page 51 within our ESG Report</li> </ul>
<b>6 TECHNOLOGY AND INFORMATION SYSTEMS</b> ● ● ●		
<p>↔ Failure of our IT infrastructure or key systems, including failure to maintain and build performance, capacity and resilience</p> <p>Failure to invest in new technologies and maintain a cohesive and comprehensive technological capability</p>	<ul style="list-style-type: none"> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• We adopt and regularly update robust disaster recovery measures, including within our dealer management systems</li> <li>• We 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</li> <li>• Central control of all Microsoft endpoints is in place. A centralised management process for mobile devices is being rolled out</li> </ul>

NO. PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<b>7 INFORMATION AND CYBER SECURITY</b> ● ● ●		
<p>↑ 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</p>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>The Chief Information Officer has reviewed our cyber security measures through an independent third party</li> <li>An Information Security Improvement Plan is in-flight, which includes identifying opportunities for continual improvement</li> <li>The Information Security Steering Committee oversees change and operational activities relating to information security. Various improvements have been delivered over the last year, including annual security training for all staff, improved asset visibility and management, onboarding a Security Operations Centre to provide centralised monitoring and enhanced incident response capabilities, increased authentication requirements and reduced technical debt, and improved security configurations through migration to cloud hosting. Further improvements are planned for this year, reviewing approaches to privileged access management, ongoing security testing to help identify weaknesses across our estate, and process improvements</li> <li>Our Pinewood business monitors cyber security threats and has systems and processes in place to deal with incidents relating to the services they provide. This is demonstrated through their continued ISO27001 certification</li> <li>We have cyber liability insurance in place, that includes Cyber Incident Response Centre, providing access to expertise to assist during a crisis</li> </ul>
<b>8 DATA SECURITY AND DATA PRIVACY</b> ● ● ●		
<p>↑ Failure to comply with legal or regulatory requirements relating to data security or data privacy in the course of our business activities</p>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>We regularly review our data protection policies, controls, Associate training and the use of third party systems</li> <li>Our Information Technology teams monitor cyber security threats and have systems and processes in place to deal with incidents, and we have recently established a Security Operations Centre to further enhance and develop our ability to monitor for, and track cyber security threats to our business</li> <li>We have cyber liability insurance in place</li> <li>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</li> <li>The Information Security Steering Committee has been operational since March 2020 to oversee change and operational activities relating to information security</li> <li>A Data Protection Governance Forum is in place to govern GDPR risk management activities</li> </ul>

# RISK OVERVIEW AND MANAGEMENT

NO. PRINCIPAL RISKS	IMPACT BEFORE MITIGATION	MITIGATION
<p><b>9</b> <b>RELIANCE ON ESTIMATES</b> ● ●</p> <p>↔ Failure to maintain reliable systems and methods for provision of financial estimates</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Reputational damage and inability to raise funding for the Group's business</li> <li>• Revenue and profits all suffer damage</li> </ul>	<ul style="list-style-type: none"> <li>• We assess actual outturns of previous estimates to test the robustness of adopted assumptions, and adjust the estimating approach accordingly</li> <li>• We support estimates with reliable external research where available</li> </ul>
<p><b>10</b> <b>PEOPLE</b> ● ● ●</p> <p>↑ Failure to attract, motivate, develop and retain the required capability and promote an appropriate culture to deliver our business &amp; people strategy</p>	<ul style="list-style-type: none"> <li>• This could lead to an inability to deliver our business strategy and achieve our focused results.</li> <li>• We could lose market share and adversely affect our customers owing to poor service</li> <li>• Loss of key personnel and skilled workers (e.g. technicians) would impact operational performance, and relationships with key brand partners and suppliers</li> <li>• Colleague engagement deteriorates due to difficulties experienced directly or indirectly by the wellbeing of the workforce</li> <li>• An unprecedented rise in salaries could increase our fixed costs to a level that is unsustainable for the organisation to compete</li> </ul>	<ul style="list-style-type: none"> <li>• We have a Chief People Officer who is responsible for delivering a people strategy</li> <li>• The HR Transformation Steering Group is responsible for overseeing change and all operational activities relating to associates</li> <li>• We are investing in strategic workforce planning in order to be ahead of the competition with regards to future skills needed</li> <li>• We focus on clear learner journeys and career paths to ensure we have the right skills in the organisation</li> <li>• We invest in online means of attraction and recruitment, targeting the right quality candidates</li> <li>• We continually review our performance management framework, to ensure it remains effective and is linked to competencies and career pathways</li> <li>• We continually review and adapt for the market conditions our employment terms, salaries and performance related pay elements at all levels</li> <li>• We adopt and renew responsive succession plans for all key roles. Within our Motor Division we complete a Talent Review twice yearly</li> <li>• We regularly review our policies, controls &amp; associate training. We leverage our scale to afford training opportunities and progression within the Group</li> <li>• We continuously improve our cultural purpose and behaviours to recognise and engage our associates beyond monetary reward</li> </ul>

**NO. PRINCIPAL RISKS**

**IMPACT BEFORE MITIGATION**

**MITIGATION**

11

**MACRO-ECONOMIC AND POLITICAL** ● ● ●



European economic instability and/or UK or Global economic and business conditions deteriorate

UK Governmental spending constraints

Longer term impact of higher interest rates on consumer purchasing habits, and on the cost of servicing debt. Higher inflation has resulted in a current 'cost of living' crisis which has the potential to reduce consumer spending on big-ticket items

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 interest rates, 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
- We carefully control new vehicle inventory to mitigate effects of overstocking and work closely with our OEM partners, accessing support through initiatives such as extended stocking finance
- We have right-sized our cost base, completed a dealership network review and closed loss-making operations, and we continue to pursue opportunities to ensure our business processes are highly efficient
- We invest in and vigorously pursue customer retention initiatives to secure longer term loyalty
- The impact of reduced supply since the Covid-19 pandemic in 2020 has resulted in a large amount of pent-up demand in the market, which together with changes in consumer transport habits may underpin the market despite lower consumer disposable income

12

**FINANCE & TREASURY** ● ● ●



Lack of availability of debt funding

Increasing Pension liabilities arising from our defined benefit scheme

- As set out in more detail in note 4.2 the Group has an amortising Senior Term Facilities Agreement of £97m 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
- Changes in the strength of the employer covenant, 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

- 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 facilities to mature between March 2025 and March 2027
- Diversification of funding sources, monitor daily our funding requirements
- 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	<b>HEALTH, SAFETY &amp; ENVIRONMENTAL</b> ● ● ●		
<p>↔ Failure to provide safe working and retail environments</p> <p>Failure to keep up to date with, and put in place adequate procedures to comply with all HM Government laws, regulation and guidance at both Country and local/regional level</p> <p>Failure to control the environmental hazards present within our operations</p> <p>Failure to keep up to date with Environmental Regulations</p>	<ul style="list-style-type: none"> <li>• This could lead to illness and injury, fatalities, lost working time, civil claims and clean-up costs</li> <li>• Our reputation could be adversely affected and regulatory action could result in prohibition, fines and criminal penalties and closure of businesses</li> <li>• 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</li> </ul>		<ul style="list-style-type: none"> <li>• We work to the Health &amp; Safety Executive's 'Plan, Do, Check, Act' framework for managing risk in the workplace</li> <li>• We allocate clear responsibilities for delivery of safe places to work and shop</li> <li>• In consultation with the business and where appropriate, external specialists we adopt process-driven initiatives to mitigate specific risk areas</li> <li>• We 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</li> <li>• We measure and review our performance against appropriate benchmarks</li> <li>• We allocate local accountability for sites' compliance and provide specialist support to responsible leaders</li> <li>• We monitor site conditions and drive corrective action through audit follow-up</li> <li>• We operate independent routes for the reporting of any concerns (whistle blowing) and have a standard procedure for investigation and escalation of matters of concern</li> </ul>



# VIABILITY STATEMENT

## VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (the 'Code'), taking into account the company's current position and principal risks, the Directors have assessed the viability and prospects of the company over the three-year period to 31 December 2025.

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 and restricted new car supply due to manufacturing constraints. 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 impact of a macro-economic downturn, a market correction in used pricing and shortfalls in both new and used car supply resulting from shortages in microchips impacting manufacturing and any further risk of disruption to supply chains that the ongoing 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 affecting Pendragon PLC can be found within the Annual Report and Accounts on pages 38 to 48. The risk disclosures section of the consolidated financial statements set out the principal risks the Group is exposed to, including strategic, operational, economic, market, environmental, credit, technological, regulatory and team member resource.

Approved by order of the Board



**Mark Willis**

Chief Finance Officer

22 March 2023

The Board considers risks during the year on a 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, in particular, the successful refinancing of both the private placement and revolving credit facility, when the revolving credit facility matures in March 2025. The Board intend to seek the right external advice to ensure the most appropriate debt funding sources are identified as part of any refinancing process. It is possible that the terms of any refinancing may be less favourable for the Group than the current facility.
- The ability to adapt to changing environments outside our direct control such as macro-economic, political and environmental factors, regulation changes, manufacturer and competitor behaviour. The Board has specifically reviewed the potential impacts and available mitigating actions as a result of a downside trading scenario. 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 2022, 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 2025.

# DIRECTORS' REPORTS

- 51** Environmental, Social and Governance Report
- 52** Environmental Report
- 60** Social Report
- 63** Corporate Governance Report
- 66** Board of Directors
- 68** Audit Committee Report
- 74** Nomination Committee Report
- 76** Remuneration Committee Report
- 77** Directors' Remuneration Report
- 96** Directors' Report



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In 2021, the Group 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. The changes we made meant that we were well placed in 2022 in terms of our environmental, social and governance (“ESG”) objectives, in terms of:-

- monitoring where the Group is today and what has changed year on year in terms of our ESG standards and measures;
- 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, and what action we intend to take where we identify our progress has been behind target.

It remains clear that the context in which businesses, including our own, now operate is being both informed and transformed by climate change, nature loss, social unrest around inclusion and working conditions 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.

Despite the progress made in 2021 and last year, we still recognise that in some areas of ESG implementation, we remain at the beginning of our journey of continuous improvement. However, we have now embedded ESG initiatives into our strategic objectives and remuneration incentives, which we believe will further enhance and drive progress.

## ENVIRONMENTAL REPORT

The Group continues to operate 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 includes 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, such that that environmental priorities are considered in planning and decision making, and where possible, the impact of our activities on the environment is reduced or minimised.

In accordance with Listing Rule 9.8.6R(8), we have set out in the TCFD overview table beginning on page 52 below certain climate-related financial disclosures aligned to the four recommendations and the eleven recommended disclosures contained within the TCFD additional guidance (Implementing the Recommendations of the Task Force on Climate Related Financial Disclosures (2021 TCFD Annex)).

Within the TCFD overview table, we have also included disclosures by each of the recommended disclosures, identifying whether we consider such disclosures to be either consistent with the recommendations of the TCFD or, where disclosures have only been partially made or omitted a further description of any steps taken or planned to ensure our disclosures are consistent in the future, including relevant timeframes.



In particular, of the eleven TCFD recommended disclosures, the Company considers that it is consistent with one disclosure (under risk management c), partially consistent with one disclosure (under metrics and targets b) and has omitted disclosure under nine disclosures, as more specifically set out in the TCFD Overview table on pages 52 to 55.

Of the omitted disclosures, further work is underway to enhance the identification, impact and reporting for climate-related risks and opportunities, and how these map over the short, medium and long term. Scoping work over the next 12-18 months will provide further clarity and understanding as to what is required, having not been able to achieve the necessary disclosures at this stage due to our current resource base.

Furthermore, although we have now incorporated a carbon reduction metric into the performance conditions for our long-term incentive plan, we recognise that we still have more to do in terms of implementing the rest of the 2021 TCFD Annex.

# ENVIRONMENTAL REPORT

TCFD OVERVIEW		Disclosure Level: ● Full ● Partial ● Omitted		
Recommendation	Recommended disclosures	Summary of Progress/ Measures planned to ensure future consistency with the recommendation	Reference	Disclosure Level
<b>GOVERNANCE</b>				
<b>Disclose the organisation's governance around climate-related risks and opportunities</b>	a) Describe the Board's oversight of climate related risks and opportunities	<p>The Board is responsible for our climate ambition, embodied in the Group's Environment Policy which is reviewed annually. We have also embedded a specific carbon reduction target metric into our long term incentive plan performance conditions, to further incentivise and drive progress.</p> <p>It is the Company's intention to further revise the Environment Policy within the next 12 months, ensuring that a specific focus on climate-related issues becomes fully embedded in the Policy. Consideration of climate-related issues will also become a standing agenda item of the Board in the context of the consideration of our strategy, including how climate-related issues potentially impact our strategy and financial performance, together with the monthly submission to the Board of our most recent and available metrics appertaining to environmental matters.</p>	<b>Annual Report</b> Environmental, social and governance report page 51	●
	b) Describe management's role in assessing and managing climate-related risks and opportunities	<p>The Group's ESG working group, consisting of members of senior management from across the Group, including the CFO, CPO, CMO and GGC, together with the Risk Control Group (RCG) exercises day to day oversight of climate risks.</p> <p>The ESG will meet at least quarterly in order to review and assess the Company's progress and management of climate related risks. Further to the enhancement of the Board's oversight and ability to consider climate related risk described above, within the next 12 months, changes will be made to the terms of reference of the Company's Audit Committee in order to formalise and strengthen its ability to review and challenge environment and climate related reporting, including a direct line of oversight of the ESG working group: in turn, the ESG will provide reports as to its progress to the Audit Committee.</p>	<b>Annual Report</b> Environmental, social and governance report page 51	●

**TCFD OVERVIEW**

Disclosure Level: ● Full ● Partial ● Omitted

Recommendation	Recommended disclosures	Summary of Progress/ Measures planned to ensure future consistency with the recommendation	Reference	Disclosure Level
<b>STRATEGY</b>				
<p><b>Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material</b></p>	<p>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term</p>	<p>The actual and potential impacts climate change can make on our business, strategy and financial planning are outlined further 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, initially in the new market but, increasingly in the used vehicle market as consumers move to these products. Initiatives to reduce our impact on the environment are detailed further below.</p> <p>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; we engage regularly with both OEMs and consumers to facilitate this, although recognising that as our relationship with key OEMs is as a franchisee, our ability to influence OEMs is limited.</p>	<p><b>Annual Report</b> Risk Management, page 43 Environmental, social and governance report page 51</p>	<p>●</p>
	<p>b) Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning</p>	<p>The Group's strategy includes harnessing the potential of the move to BEV and PEV vehicles, both in sales and aftersales. As outlined above, we will be well positioned and prepared for when the sale of new petrol and diesel vehicles is no longer permitted in 2030. Although we consider the move to BEV and PEV vehicles the most significant climate related opportunity, the ESG, together with the RCG plans to undertake a further detailed review of other specific climate related risks and opportunities facing the group over the next three years.</p>	<p><b>Annual Report</b> Risk Management, page 43 Environmental, social and governance report page 51</p>	<p>●</p>
	<p>c) Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario</p>	<p>We recognise that there is more work to be done in this area; the ESG working group will consider this further as part of its mandate, and, together with the RCG, will commission a resilience review of the organisation's strategy, taking into consideration climate related scenarios over the next three years.</p>		<p>●</p>

# ENVIRONMENTAL REPORT

TCFD OVERVIEW		Disclosure Level: ● Full ● Partial ● Omitted		
Recommendation	Recommended disclosures	Summary of Progress/ Measures planned to ensure future consistency with the recommendation	Reference	Disclosure Level
<b>RISK MANAGEMENT</b>				
<b>Disclose how the organisation identifies, assesses and manages climate related risks</b>	a) Describe the organisation's processes for identifying and assessing climate-related risks	<p>Environmental is included as a principal risk as part of our risk management overview processes. Climate change has been considered as part of the environmental risk and is not considered to be a standalone principal risk. The ESG working group will continue to review, assess and consider any climate related risks which may impact upon our operations, and report to the RCG, and, ultimately the Audit Committee and Board where necessary.</p> <p>In addition, within the next 12 months, the Company will further revise the Environment Policy, ensuring that a specific focus on climate-related issues becomes fully embedded in the Policy. Consideration of climate-related issues will also become a standing agenda item of the Board in the context of the consideration of our strategy, including how climate-related issues potentially impact our strategy and financial performance, together with the monthly submission to the Board of our most recent and available metrics appertaining to environmental matters.</p>	<b>Annual Report</b> Risk Management, page 43	●
	b) Describe the organisation's processes for managing climate related risks.	<p>All areas of the business are subject to regular risk identification, assessment and review. As part of our annual insurance renewal processes, we continue to note sites that are at risk of localised flooding so we can react accordingly.</p> <p>Further to the enhancement of the Board's oversight and ability to consider climate related risk described above, within the next 12 months, changes will be made to the terms of reference of the Company's Audit Committee in order to formalise and strengthen its ability to review and challenge environment and climate related reporting, including a direct line of oversight of the ESG working group: in turn, the ESG will provide reports as to its progress to the Audit Committee.</p>		●
	c) Describe how processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management	<p>Environmental is included as a principal risk as part of our risk management overview processes. Climate change has been considered as part of the environmental risk and is not considered to be a standalone principal risk. The ESG working group will continue to review, assess and consider any climate related risks which may impact upon our operations, and report to the RCG, and, ultimately, the Audit Committee and Board where necessary.</p> <p>The ESG receives sector specific information on environmental and climate related risks from its OEM partners and industry bodies, such as the SMMT. The ESG working group will continue to review, assess and consider any specific climate related risks which may impact upon our operations.</p> <p>In addition, it is proposed that a specific sub-risk designed to identify, manage and assess climate related risks be developed and considered within the organisation's risk management framework</p>	<b>Annual Report</b> Risk Management, page 43	●

**TCFD OVERVIEW**

Disclosure Level: ● Full ● Partial ● Omitted

Recommendation	Recommended disclosures	Summary of Progress/ Measures planned to ensure future consistency with the recommendation	Reference	Disclosure Level
<b>METRICS AND TARGETS</b>				
<p><b>Disclose the metrics and targets used to assess and manage relevant climate-relates risks and such opportunities where such information is material</b></p>	<p>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process</p>	<p>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.</p> <p>We anticipate that both our metrics and targets will developed and enhanced further over the next 12 to 24 months as our ability to collect and collate the necessary data becomes more sophisticated. In relation to climate change, it is now a performance metric of our long term incentive scheme to effect reductions in our CO<sup>2</sup> emissions over successive three year performance periods.</p>	<p><b>Annual Report</b> Environmental, social and governance report page 51</p>	●
	<p>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 (greenhouse gas (GHG) emissions and the related risks</p>	<p>See disclosures at page 56 of this ESG Report. Other than emissions from employee commuting, we do not currently disclose our total Scope 3 (other indirect emissions from extraction and production of purchased materials and fuels for which the Company does not own or control) as further clarity is required as to what is applicable for the Group, and how we capture the relevant dataset without imposing a disproportionate burden on the effective operation of our businesses.</p> <p>In terms Scope 3 emissions, we propose to undertake further scoping work over the next 12-18 months to provide further clarity and understanding as to what is required and, more importantly, achievable within our current resource base.</p>	<p><b>Annual Report</b> Environmental, social and governance report page 51</p>	●
	<p>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets</p>	<p>Whilst we recognise that whilst we have now embedded a specific carbon reduction metric into our long term incentive plan performance conditions, we recognise that there is significantly more work to do to embed other more tangible targets into our process for managing climate related risk; we propose to consider and review potential targets to be used over the next 12-18 months.</p>	<p><b>Annual Report</b> Director's Remuneration Report, page 90 Environmental, social and governance report page 51</p>	●

# ENVIRONMENTAL REPORT

## 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, it remains

the Company's objective to achieve annual reductions in the amount of CO<sub>2</sub> 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 CO <sub>2</sub> emitted from our facilities and driving activities.	We have reduced the tonnes of CO <sub>2</sub> emitted from our facilities by 1,960 tonnes year on year and the tonnage of CO <sub>2</sub> emitted from driving activities by 3,241 tonnes year on year.	<ul style="list-style-type: none"> <li>Increased and ongoing electrification or hybridisation of company car fleet, and selection of most energy efficient vehicles where possible;</li> <li>Continued reduction of carbon emissions from commuting activity through hybrid and remote working and technological solutions</li> <li>Setting shorter and measured routes for customer demonstrator vehicle usage to reduce emissions;</li> <li>Improving the energy efficiency of our facilities informed by the results of mandatory energy assessments of sites in accordance with the ESOS Regulations 2014;</li> <li>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</li> <li>Introducing automatic shut-off valves to compressors and air tools to reduce energy usage and increase efficiency</li> </ul>

## GLOBAL GREENHOUSE GAS EMISSIONS DATA

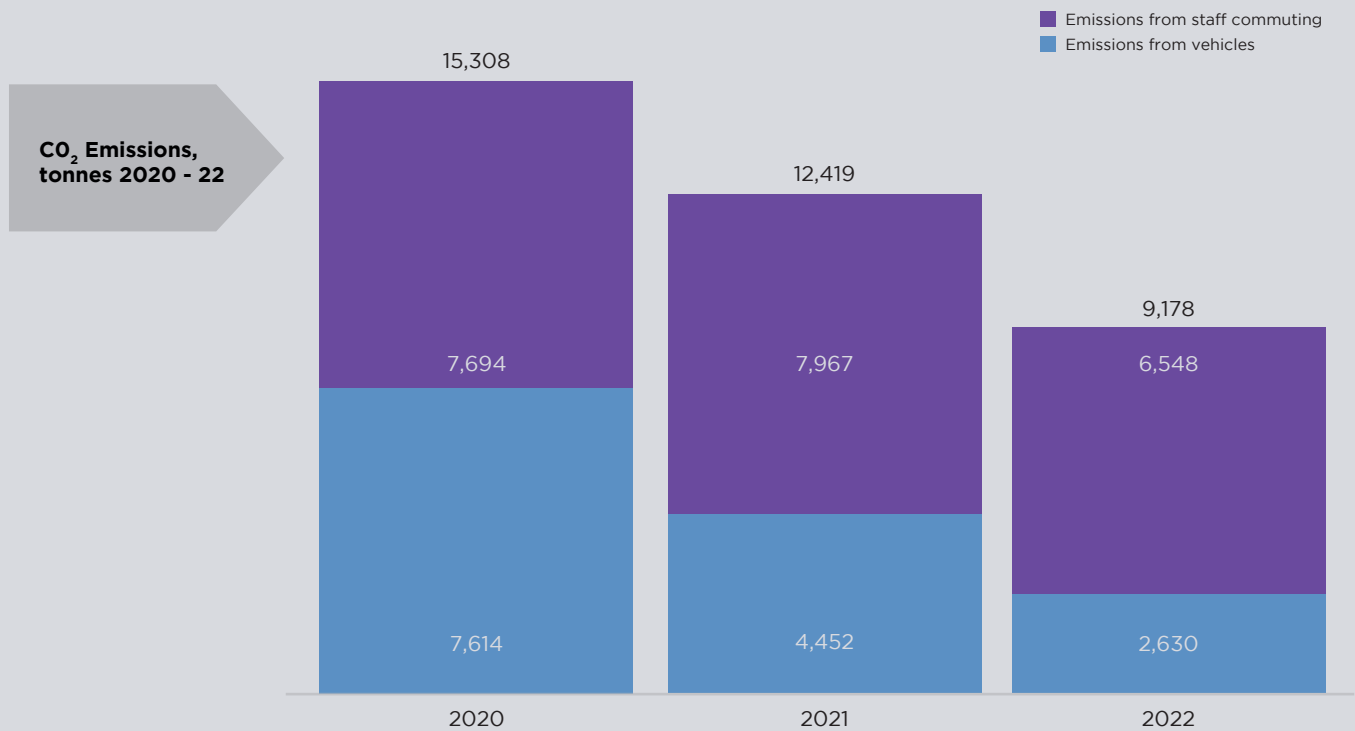
Source	Tonnes of CO <sub>2</sub> e	
	01.01.22 - 31.12.22	01.01.21 - 31.12.21
Scope 1: Direct emissions from activities for which the company own or control - emissions generated by its internal fleet operations (Scope 1/tCO <sub>2</sub> e)	2,630	4,452
Scope 2: Indirect emissions from the use of purchased electricity and gas (Scope 2/ tCO <sub>2</sub> e)	12,169	14,129
Scope 3: emissions generated by employee commuting (Scope 3/ tCO <sub>2</sub> e)	6,548	7,967
<b>TOTAL GROSS SCOPE 1, 2 &amp; 3 EMISSIONS:/ tCO<sub>2</sub>e</b>	<b>21,347</b>	<b>26,548</b>
Energy consumption used to calculate above emissions:/kWh (Scope 2)	65,517,250	73,269,036
Scope 1, 2 & 3 Intensity Ratio (tonnes of CO <sub>2</sub> per £m of revenue)	5.9	7.7

Methodology: (i) Scope 1 and Scope 2 emissions have been reported where the Group has operational control of a property or an asset. This includes emissions from driving activities as detailed in note (ii). (ii) CO<sub>2</sub> emitted from driving activity comprising of internal vehicle movements (scope 1) and employee commuting (scope 3) is the result of analysis of mileage, vehicle and employee commute data over defined three year periods (2019-21 for 2021 data and 2020-2022 for 2022 data) to quantify the total mileage and CO<sub>2</sub> 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 CO<sub>2</sub> emissions per mile (based on the UK average) used to calculate total emissions; (iii) Other than employee commuting, scope 3 emissions are currently not included, as we currently do not have the capability to capture the required additional dataset, and to do so at this stage would require a disproportionate use of resource. (iii) to our methodology to calculate greenhouse gas emissions is to use UK Government GHG Conversion Factors for Company Reporting, published by DEFRA on 20 September 2022



The Company again 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 periods 2019-2021 and 2020-2022. 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 2022 were 9,178 tonnes, of which 2,630 tonnes was from internal fleet operations and 6,548 tonnes from commuting, representing a 26.1% decrease on total 2021 emissions.

Over the period 2020 to 2022, emissions have declined by 40% from 15,308 to 9,178 tonnes, due to a combination of structural changes in the business and improved efficiency in the vehicle fleet and reduction in mileage driven.



# ENVIRONMENTAL REPORT

## LAND USE AND ECOLOGICAL SENSITIVITY

The Group remains conscious as to the impact of its land use and dealership footprint on the environment, and, consequently, where new dealerships or developments are proposed, wherever possible, we continue to prioritise the development of brownfield sites or the repurposing of our existing estate accordingly. For the majority of 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, as required by relevant local authority planning requirements. BREEAM 'Very Good' standards 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 and Warrington completed in 2022 and achieved Grade B EPC ratings. Developments at Glasgow and Motherwell, on brownfield sites ongoing. Completion of rebuild of BMW Hull achieved Grade B EPC rating.	<ul style="list-style-type: none"> <li>In conjunction with the local authority, agreed biodiversity plans.</li> <li>As required by the local authority, assessment of new build sites in accordance with BREEAM 'Very Good' standards.</li> </ul>



## 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, and have improved on this in 2022 with 74.61 metric tonnes of single use plastic being recycled. However, we estimate that this is only a proportion of the total single use plastic used across the Group, and we are now trialling an initiative in our dealerships located in the

north east designed to increase our recycling of single use plastics. If the pilot scheme in the north east is successful, we will implement it across the entire Group. In addition, we are 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 74.61 metric tonnes of single use plastic in 2022, compared to 65.73 metric tonnes of single use plastic in 2021. We recognise this is only a marginal improvement and are reviewing initiatives to both decrease our single use plastics usage and increase our single use plastics recycling.	<ul style="list-style-type: none"> <li>Consider the introduction of new procurement standards requiring Group suppliers to demonstrate initiatives/steps to reduce single use plastic</li> <li>Consider imposing requirements on suppliers to minimise packaging waste as part of new procurement standards</li> <li>Re-communication to businesses in terms of recycling expectations and ethos.</li> <li>Trialling an initiative in the north-east to increase our single use plastics recycling.</li> </ul>



## 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. 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:
<p>Increase volume of units of electric and hybrid vehicles sold. Install 500 electric vehicle charging points by the end of 2025.</p>	<p>Year on year, we have increased sales of new electric and hybrid vehicles by 46% and sales of used electric and hybrid vehicles by 54%. We have now installed 396 electric vehicle charging points across our dealership and property estate, making significant progress against our target of having 500 electric vehicle charging points in place by 2025.</p>	<ul style="list-style-type: none"> <li>• Close liaison with our OEM partners to promote diversification into electric vehicle sales;</li> <li>• Target to install 500 electric vehicle charging points across our dealership and property estate by 2025.</li> </ul>

# SOCIAL REPORT

## OUR PEOPLE

Our associates have a crucial role Driving Beyond the Possible and delivering against our strategy to create value. We aim to be a responsible employer through all that we do, supporting our new value of 'Do The Right Thing'. 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. As one of our key strategic priorities we are committed to advance our current position for our associates. To support the business in achieving this, we have established a dedicated Social Dimension (SD) Working Group that reports directly to the company's ESG senior oversight committee.

The SD working group has undertaken a review of our current position and mapped the opportunities for improvement aligned to the business' People strategies. This has led to the creation of a Social dimension action plan which prioritises areas of focus for 2023 and beyond. We have prioritised our ability to collect and access accurate and robust diversity data to support our progress against the Social dimension framework.

## OUR INCLUSION

We believe that diversity, inclusion and equality of opportunity for all our associates, no matter who they are, to be essential to our future success. People are the heart of our business, and we remain committed to fostering a culture of unity that is representative of the societies in which we live. This year we have actively supported the development of three diversity and inclusion (D&I) associate networks: Pride-dragon (LGBTQIA+), Gender and Faith and Culture networks. Developing associate networks sits at the heart of our D&I strategy, enabling the business to learn alongside our diverse associate communities and co-create a culture of inclusion. It is critical for us that we engage out associates in order to

accelerate progress and in turn to create real, positive change. We aim to ensure that our associates can bring their authentic selves to work and achieve their full potential and our D&I networks are core to this.

Wellbeing is a key part of our People Strategy in 2022 we enabled a programme of activities to support our associates and their families, launching a series of financial and personal wellbeing initiatives. We encouraged and supported our people to recognise Time to Talk Day, National Stress Awareness Day, Men's Health Week and World Menopause Awareness Day.

Throughout all our attraction, recruitment, selection, employment and internal promotion processes, all employment decisions are taken without reference to irrelevant or discriminatory criteria. The company's diversity and equal opportunities policy is available at [www.pendragonplc.com](http://www.pendragonplc.com). As reported last year we continue to have a mandatory learning programme for the business to educate our people with regards to their responsibilities with in terms of diversity and Inclusion. Since its introduction we have achieved 94% completion rate.

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).

## 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 2022			as at 31 December 2021		
	Female	Male	Total	Female	Male	Total
Director	1	6	7	1	7	8
Senior Manager	2	8	10	2	8	10
All employees	1,312	4,022	5,334	1,186	4,068	5,254

## GENDER PAY GAP REPORTING

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

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 REWARD

Looking after our associates is essential and we continuously

This year we have partnered with Benefex to modernise the way we approach and provide our associates access to benefits. By bringing all associate benefits together under a

single platform, we have simplified the pathway meaning our associates have improved visibility of their benefits and improved accessibility through the single platform. Pendragon continues to invest in pension scheme arrangements to support its associates, offering a choice of schemes allowing members to select the most appropriate for their circumstances.

## OUR DEVELOPMENT

Training and development is tailored and targeted to roles or services as part of a blended learning offering integrating online learning with virtual and classroom training. 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 37,321, thousand hours for our associates, an average of 7.15 hours internal learning and development hours per associate. This is in addition to our collaborative working 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.

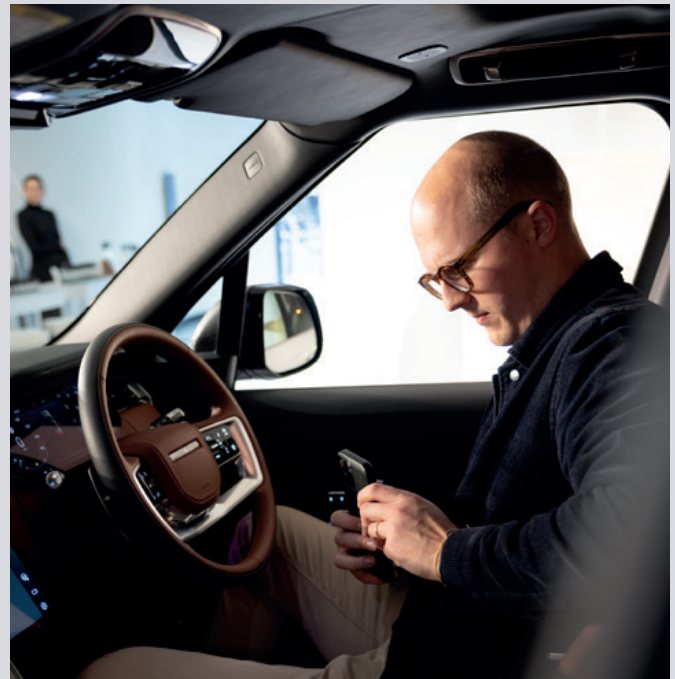


## OUR WORKPLACE

### Engagement

During 2022 the business partnered with the Employee Engagement Survey Platform provider Peakon to create a systematic mechanism to enable our Associates' voice. Associate engagement forms an essential element of our people strategy. Providing our Associates with a clear and open feedback mechanism to share their views and opinions regarding where and how the business is performing well, and where and how it could make improvements is core to our engagement journey. We delivered our first survey in June and achieved 54% participation levels with 6.9 engagement score, improving on both these measures in our November survey achieving participation levels of 79% (+25pp) and an

engagement score of 7.3 (+0.4). Through the Peakon tool we will regularly survey our associates and implement local and group level actions to celebrate what and where our associates tell us we are doing well but importantly to make responses to areas that they feel we could improve.



### Communication & Hybrid Working

We work to meet the challenges presented by our size and nationwide diverse geography through a continuous improvement approach, taking opportunities to innovate through our internal communications to ensure we reach all our associates. We now have an embedded 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. This policy has supported our ability to attract and retain talent particularly in relation to specialist roles within the Group. 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.

# SOCIAL REPORT

## Health and Safety

We take seriously our responsibility to our associates, customers and the public. We aim to ensure that all associates in the course of their roles, and all who work in or visit our facilities or receive our services, so far as is reasonably practicable, experience an environment and practices which are safe and without risk to their health. Our policy is to identify and assess all potential risks and hazards presented by our activities and to provide systems and procedures which allow all associates in their daily work to take responsible decisions in relation to their own and others' health and safety. We publish a clear hierarchy of responsibility to associates and reinforce this through regular monitoring by a variety of means. We promote awareness of potential risks and hazards and the implementation of corresponding preventative or remedial actions through our 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.

## Accidents at Work

Historically, we have assessed our health and safety record against relevant published benchmarks. In 2019, as a result of changes to the Health & Safety Executive sector categorisations, we determined that the natural sector comparator for our Group is Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles. There has been a decrease in RIDDOR<sup>1</sup> reported accidents in 2022 dropping to 18 (34 per 10,000 employees) from 22 (43 per 10,000 employees) in 2021. This figure is also significantly lower than the pre Covid 2019 figure of 26. We continue to target specific hazards and risks for improved results through additional monitoring and promotion of safe working processes. The company's health and safety policy is available at [www.pendragonplc.com](http://www.pendragonplc.com).

## OUR INFLUENCE, 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. We continue to support national charitable campaigns such as BBC's Children in Need appeal and the Save the Children Christmas Jumper Day.

We continue the Car Store partnership with Battersea dogs and cats. Through our Battersea dogs and cats home partnership our associates are trained by experts to ensure we provide the right and best support for our canine loving

customers, and through some of our fundraising activities we look to support the charity to do their amazing work.

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 are proud that our associates are positive active members of their local communities. They work to support both local and national initiatives that as a Group means we are able to make a widespread contribution to our local areas, for example by our associates and businesses organising charity events to support schools, hospitals, children and adult grassroots sports and local foodbanks. The company encourages these activities and we welcome the opportunities they present to engage with the communities our associates live and work in and recognition of charitable causes with whom our associates and their families have connections



## OUR 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 2022, and survey our key suppliers on a frequent basis to ensure continued adherence to our policy.

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

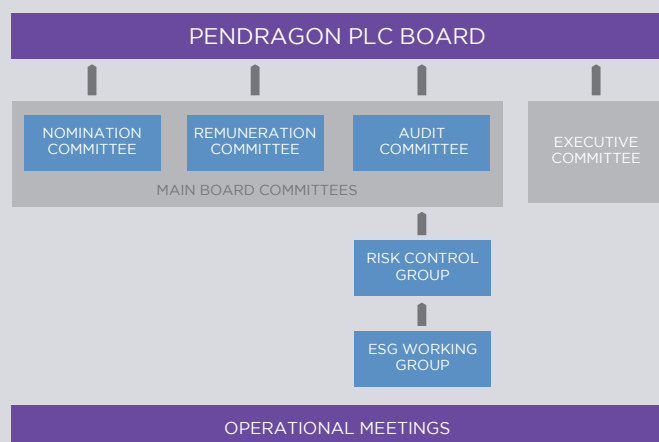
# CORPORATE GOVERNANCE REPORT

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 2022, 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 22nd March 2023, the Board comprises three executive directors and four 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 August 2022. The roles of chief executive officer and non-executive chairman are fully segregated. 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.

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 in 2023, together with directors' brief biographical details appear on pages 65 to 67, and gender balance details are on page 60.

## NON-COMPLIANCE WITH THE CODE

Until January 2023, the chief operating officer received a salary supplement in lieu of a pension contribution which does not currently align with the pension contribution available to the wider workforce, and was therefore not compliant with provision 38 of the Code. However, the chief operating officer's salary supplement in lieu of pension contribution has now been reduced accordingly such that it is now aligned to the pension contribution available to the wider workforce; compliance with provision 38 of the Code has now been achieved.

The Board is actively seeking to recruit an additional non-executive director to assume responsibility for chairing the company's remuneration committee. Once this recruitment is complete, the Board considers that an appropriate combination of executive and non-executive directors will be in place in accordance with the Code.

# CORPORATE GOVERNANCE REPORT

## VOTES AGAINST RESOLUTIONS AT THE 2022 AGM

At the 2022 AGM, the Company received votes of 20 per cent or more against resolution 2 (annual report on director's remuneration for year ended 2021), resolution 3 (re-election of Bill Berman and resolution 4 (re-election of Dietmar Exler). In relation to resolution 2, we listened to the feedback and concerns raised by our shareholders in terms of how our remuneration policy was implemented in 2021, and in light of that feedback, have ensured that the way the policy was implemented in 2022, and the new remuneration policy proposed for approval in 2023 was in accordance with best practice and contained generally market accepted features. In relation to resolutions 3 and 4, we understand that the votes accrued against these resolutions were primarily due to the position taken by one of our main shareholders; for the avoidance of doubt, the majority of our major shareholders remained supportive of the re-election of Mr Berman and Mr Exler.

## NON-EXECUTIVE DIRECTORS AND INDEPENDENCE

The non-executive chairman (who, on appointment to that role, fulfilled the requirement to be independent) has ensured that the Board performs effectively through a well-functioning combination of Board and Committee meetings and other appropriate channels for strategic input and constructive challenge for non-executive directors. The chairman has had meetings with the non-executive directors without the executive directors present, where necessary, to assist Board effectiveness, and, following the 2022 year end, conducted individual meetings with each director to arrive at his and the Board's assessment of the director's respective contributions, training needs and independence. The Board has routinely operated conflict management procedures and has deemed these procedures effective. Through these, and the evaluations which are described below, we have concluded that:-

- the Board's collective skills, experience, knowledge of the company and independence allow it and its committees to discharge their respective duties properly;
- subject to the recruitment of an additional non-executive director, the Board and each of its committees is of the right size and balance to function effectively;
- we have satisfactory plans for orderly succession to Board roles;
- the 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
- During 2022, 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 2022, 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 2023 Board programme. More details on the Board's approach to individual and Board evaluation are on the company's website.

## BOARD ATTENDANCE

Current Directors	Board	Audit	Nomination	Remuneration
William Berman	14/14	N/A	N/A	N/A
Martin Casha	13/14	N/A	N/A	N/A
Dietmar Exler <sup>(1)</sup> (SID)	12/14	3/3	0/1	5/6
Ian Filby <sup>1</sup> (N) <sup>(1)</sup>	13/14	N/A	1/1	6/6
Nikki Flanders <sup>(1)</sup>	12/14	3/3	1/1	6/6
Brian Small <sup>(1)</sup> (A)	12/14	3/3	1/1	6/6
Mark Willis	14/14	N/A	N/A	N/A
Mike Wright <sup>2</sup>	5/5	1/1	N/A	3/3

(1) Considered by the Board to be independent

(SID) Senior Independent Director

(A) Committee chairman

(N) Committee chairman

(R) Committee chairman

1. Acting Remuneration Committee chairman since 01 June 2022.

2. Resigned from the Board as Non-Executive Director and Chair of the Remuneration Committee on 01 June 2022.



## 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 group general counsel & 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 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 2022 appear below and in the Directors' Remuneration Report on pages 77 to 95.

## THE BOARD'S REVIEW OF RISKS AND CONTROLS IN 2022

The accountability framework described on page 39 is designed to ensure comprehensive management of risk across the Group's businesses. A revised, overarching Risk Management Policy was introduced in October 2019, which is reviewed and renewed annually, setting out the principles and approaches by which we implement effective enterprise risk management. The Risk Management Policy remained appropriate in 2022. The RCG, made up of the chief operating officer, chief finance officer, group company secretary, group head of internal audit and, by invitation, other members of the Group's senior operational and financial management, meets regularly to consider the detailed work on risk assessment performed by leaders and key business areas and oversees

the effective implementation of new measures designed to mitigate or meet any specific risks or threats. The chair of the Audit Committee, and a representative of the external auditors attend by invitation. The RCG reports to the Audit Committee on its work. The Board and any of its committees is able to refer specific risks to the RCG for evaluation and for controls to be designed or modified; this occurs in consultation with 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 2022.

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.

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.



# 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.

## 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 a non-executive director and chairman of the Audit Committee at online retailer, Boohoo.com, and a non-executive director and chairman of the Audit Committee of Mothercare Plc. Brian qualified as a chartered accountant with Price Waterhouse in 1981, and with industry experience across a range of retailers, he brings additional financial and strategic perspectives to the Board.

## 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 that of 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 Smith 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.

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

\* Committee chairman

\*\* Acting Committee chairman from 01 June 2022

(SID) Senior Independent Director

(A) Audit Committee

(N) Nomination Committee

(R) Remuneration Committee

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

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

**DIETMAR EXLER**

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

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

**MARTIN CASHA**

Chief Operating Officer

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

**MARK WILLIS**

Chief Finance Officer

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

**Company Secretary**

Richard Maloney

**Registered Office**

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

Registered in England and Wales

**Group motor businesses websites**

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

**Group Support business websites**

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

**Registered number** 2304195

# 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 and 67 and attendance at meetings in the table on page 64.*

## KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

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

Its terms of reference detail its key responsibilities and appear, with relevant background information, on the company's website [www.pendragonplc.com](http://www.pendragonplc.com).

## THE COMMITTEE'S WORK IN 2022

The Audit Committee met three times in 2022 and this report describes its work and conclusions.

## FINANCIAL STATEMENTS REVIEW

The Committee received the auditor's memorandum on the company's 2021 financial statements and the auditor's memorandum on the unaudited 2022 interim results. In each case, it discussed the auditor's findings with the auditor, satisfied itself of the integrity of the financial statements and recommended the financial statements for approval by the Board. Key aspects of those discussions and relevant considerations and conclusions are below.

## AUDIT RISK CONSIDERED BY THE COMMITTEE

The table on page 70 sets out the key audit risks and judgments applied, for the 2022 year end results, which the Committee considered and discussed with the auditor, and the Committee's conclusions.



# AUDIT COMMITTEE REPORT

These are the key risks considered by the committee.

## Audit risk considered by the Committee

### 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.

## Evidence considered and conclusion reached

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.

### 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.

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 remained satisfied with the outcomes applied from both a balance sheet perspective and actuarial perspective.

The Committee concluded that the judgements applied were appropriate.

### 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 as described above. The Committee were satisfied with management's conclusion that the carrying value of the parent company investment is supported and therefore no further impairment is needed.

**These are other areas of focus for the committee.**

#### **Audit risk considered by the Committee**

##### **CGU ASSET VALUATION**

The estimates in relation to asset impairment of the carrying value of goodwill, intangible assets, property, plant and equipment and right use of assets largely related to the achievability of assumptions underlying the calculation of the recoverable amount of the business being tested for impairment, set out in note 5 to the financial statements. Key assumptions used are the FY23 budget, growth rate and discount rate as well as the EBITDA multiples applied or fair value of individual assets.

#### **Evidence considered and conclusion reached**

The Committee considered the risk that goodwill could be materially overstated in the context of the sensitivity analysis, also set out in note 5. The Committee addressed these matters through receiving reports from management outlining the basis for the assumptions used, assessing the range and depth of information underpinning the assumptions and calculations and discussing this with the auditors.

The Committee concluded that the judgements applied were appropriate.

##### **GOING CONCERN**

The company revised both its base case and downside forward looking forecasts for the period to 31 March 2024, comparing assumptions for revenue and margin, and assumptions for working capital in the light of a potential prolonged downturn and recessionary environment, double digit inflation and ongoing supply issues in terms of global semi-conductor chip shortages and supply shortages caused by the war in Ukraine. However, on a positive note, revised credit facilities agreed in March 2022 has given much more certainty over the availability of facilities with the senior notes of £100m in place until 2027 and the £75m revolving credit facility in place until March 2025. The Committee will nevertheless continue to carefully monitor and review cash flow forecasts in the forward looking forecast for a period to 31 March 2024, challenging trading and comparing assumptions for revenue and margin to externally sourced data, assessing assumptions for working capital and challenging management to continue to prepare assumptions for a severe, but plausible downside.

The committee reviewed both the forecasts presented by the Directors, and further scenarios which had been sensitised to reflect severe but plausible downside scenarios. Those forecasts indicate that the Group can continue to operate within the existing facilities. The base and sensitised forecasts indicate that the Group will remain in compliance with the relevant covenants for a period of at least 12 months from the date of approval of these financial statements.

The committee concluded that it remained appropriate to prepare the financial statements on a going concern basis. Further details can be found within the viability statement at page 49 and within the going concern statement on page 118.

# 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. Under current EU legislation on audit firm rotation, the current auditor cannot be reappointed after 2023. Consequently, 2023 will be the final year which KPMG will be reappointed as the company's auditor. In anticipation of rotation to an alternative auditor in 2024, the company, at the request of the Committee, commenced some preliminary work to launch a competitive tender of the external audit service in autumn 2022.

The competitive tender process for audit services will be further progressed throughout 2023, with the objective of concluding the appointment of the new external auditor as soon as practicable, to allow for a smooth and orderly transition. The Committee has concluded 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 or in the consideration of the appointment of an alternative auditor pursuant to the tender process, whether in regard to appointment, fees, evaluation of performance or potential performance, any decision as to competitive tender for audit services, or any other matter.

## 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 136. Having satisfied itself on each item for its review, the Committee reported to the Board that the only non-audit service provided was the review of the half year accounts.

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 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 areas considered relevant to the audit work performed and from the RCG, whose work is described on page 39 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 65.

## REVIEW OF ANTI-BRIBERY CONTROLS AND WHISTLEBLOWING

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



Committee considered reports on known instances of alleged wrongdoing and matters reported on the company's third party operated confidential reporting line and their investigation, reviewed the adequacy of whistleblowing procedures and commissioned follow-up action and improvements in risk-related controls.

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

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 2022.

#### APPROVAL

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



**Brian Small**

Chairman of the Audit Committee  
22 March 2023



# NOMINATION COMMITTEE REPORT

*The Nomination Committee is chaired by Ian Filby, who assumed the role 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 and 67 and attendance at meetings in the table at pages 64 above.*

## KEY RESPONSIBILITIES OF THE NOMINATION COMMITTEE

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

Its terms of reference detail its key responsibilities and appear, with relevant background information, on the company's website [www.pendragonplc.com](http://www.pendragonplc.com).

## THE COMMITTEE'S WORK IN 2022 AND EARLY 2023

The Nomination Committee met once in 2022 and in early 2023 to conclude its ordinary year end business. This report describes its work and conclusions.

## REVIEW OF BOARD COMPOSITION AND BALANCE

In July 2022, the Committee met to review in detail the company's approach to succession planning, considering in detail critical roles and the current health of the succession plan, concluding on the steps to be taken to improve our succession health and to ensure that our talent strategy becomes a critical enabler of our business strategy. The company's approach to succession planning identified what talent is required, identified what talent we currently have and planned how to close the gap between required talent and currently available talent.

In early 2023, the Committee completed its year end work by reviewing the structure of the Board, in relation to its 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. Other than the requirement to recruit an additional non-executive director to fulfil the role of Remuneration Committee chair, 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 the 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. The adequacy of time devoted by the non-executive directors to Board business, and the independence of the non-executive directors was also considered and the Committee concluded that all non-executive directors were able to devote sufficient time to their roles, and all remained independent. In addition to the renewal of the appointment of Brian Small as a non-executive director for a further three years, the Committee further noted that Ms Nikki Flanders and Mr Dietmar Exler should be recommended for reappointment as non-executive directors on further three year terms on conclusion of their current appointments in December 2023.

## 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 Committee is mindful of the proposals outlined in the FCA Policy Paper: Diversity and Inclusion on Company Boards and Executive

Management, and will aim to consider how the company will aim to comply the recommendations where they align with its overall business strategy. At present, 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 agencies committed to reaching and providing access to diverse talent pools to assist with these processes.



# REMUNERATION COMMITTEE REPORT

*The Remuneration Committee is a committee of the Board, and is currently chaired by Ian Filby on an interim basis. It is made up entirely of independent non-executive directors. Their names and qualifications are on pages 66 and 67 and attendance at meetings in the table on page 64.*

## KEY RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

- has delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the chairman, executive directors, the company secretary and the immediately below board level of senior management;
- reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting executive director remuneration;
- ensures that executive directors are provided with appropriate incentives which align their interests with those of shareholders, and encourage enhanced performance in the short and medium term, as well as achievement of the company's longer term strategic goals;
- determines targets for any performance related pay schemes;
- seeks shareholder approval for triannual renewal of remuneration policy and any long-term incentive arrangements

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

## THE COMMITTEE'S WORK IN 2022

The Remuneration Committee met six times in 2022. 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

On behalf of the Remuneration Committee, I am pleased to present the Director's Remuneration Report for the financial year ending 31 December 2022. This report has been prepared by the Remuneration Committee and approved by the Board.

This remuneration report is split into two sections:

- the new Directors' Remuneration Policy; which we propose will apply for financial years 2023-2026; and
- the Annual Report on Remuneration.

The proposed directors' remuneration policy will be subject to a binding vote at the AGM. This new policy, if approved by shareholders, will last for a period of three years from the date of the AGM or until another policy is approved in a general meeting. The Annual Report on Remuneration describes annual remuneration and the amounts paid in respect of 2022 performance, and remains subject to an advisory only shareholder vote at the forthcoming AGM.

As highlighted earlier, in 2022, the Company delivered an underlying profit of £57.6m as a result of the clear execution and implementation of our strategy, and market conditions. As a result, for 2022, bonuses will be paid to the executive directors at 109% of basic salary. No awards vested under the long term incentive plan in 2022.

The Remuneration Committee has continued to closely follow the ongoing debate on executive remuneration, fairness and corporate culture and has worked diligently throughout the year in the development of a new remuneration policy for both Executive Directors and our senior management for the next period of our remuneration policy cycle.

### **New Directors' Remuneration Policy**

At the 2022 AGM the Remuneration Report failed its vote, with a vote in favour of 34.49%. Our understanding is that this was primarily in respect of the 2020 and 2021 LTIP grants, which were granted with a one-year performance period to ensure that we retained our key executives.

The Remuneration Report vote, combined with the fact that the Remuneration Policy was last approved at the 2020 AGM, means that we are required to renew our Directors Remuneration Policy at the 2023 AGM.

These are our key decisions in respect of remuneration, including the proposed changes to the Director's Remuneration Policy. The Committee strongly believes the suggestions set out below are in the best interests of the company and are aligned to corporate governance best practice as well as reflecting the feedback we have received from our shareholders both historically and as part of recent engagement.

### **Base salary (No change to policy)**

Whilst we are making no formal changes to the policy in respect of 2023, there are two items that I wanted to update you on:

1. We are currently proposing no changes to base salary at this stage, but intend to carry out a full review of the current salaries for executives, considering appropriate benchmarking data, and internal and external factors following the appointment of the new Remuneration Committee Chair.
2. It is our intention to move the salary review process for our executive directors from January each year to May. This aligns the process with the wider workforce and will allow us to give greater consideration to the increases we have awarded to the wider workforce when considering executive pay arrangements.

### **Pension (No change to policy)**

1. The current policy is such that for newly appointed executive directors the pension provision will be in line with the wider workforce.
2. This continues to be true for our proposed policy, and we are also taking the opportunity to complete the alignment of our Executive Directors pension arrangements with the wider workforce. Currently each Executive Director is on an individual pension arrangement, and these will now be aligned to one approach.
3. During 2022 we undertook a review of the pension provisions available to our wider workforce and increased the company contribution to 6% for leaders in the business.
4. Our Executive Directors will receive an equivalent pension contribution of 6%, from January 2023 a year later than the change for other leaders in the business.

# DIRECTORS' REMUNERATION REPORT

## **Annual bonus**

1. *In line with our current Policy the annual bonus will have a maximum opportunity of 150% of salary and the on-target opportunity will remain at 100% of salary.*
2. *The threshold opportunity will remain at 25% of salary.*
3. *From a policy perspective, the annual bonus will continue to be measured against stretching company financial performance metrics set and assessed by the Committee on an annual basis. This approach ensures that we retain a financial focus within the business, but allows us to set targets appropriately based on the key objectives of the business each year.*
4. *For 2023 it is our intention to again use Underlying Profit Before Tax as our sole measure for the bonus, reflecting the fact that it is a key strategic measure for Pendragon and fundamental in measuring our ability to deliver for our shareholders.*
5. *We strongly believe that the targets we set, whilst commercially sensitive, are appropriate for the level of opportunity available within the plan at each of the relevant reference points and the level of stretch required to achieve the performance metrics that we have set.*

## **Long Term Incentive Plan**

1. *Under our current policy, the long term incentive plan has a normal maximum opportunity of 150% of salary with an exceptional maximum opportunity of 250% of salary.*
2. *The award will normally be subject to performance conditions measured over three years with an additional 2 year post-vest holding period. As part of the current policy the Committee retained discretion to make awards with a one year performance period and an overall three year vesting period in exceptional circumstances*
3. *It is our understanding that these discretions, which we utilised for the 2020 and 2021 LTIP are the main reason why shareholders voted against our 2022 Remuneration Report.*
4. *As a result, we are proposing to remove this flexibility, and the proposed LTIP will have a maximum opportunity of 150% of salary, with no exceptional maximum. Any awards will also be subject to a three year performance period and two year holding period.*
5. *Under the Policy, at least 70% of each award will be based on financial metrics, and for 2023 specifically the measures will be 70% EPS, 24% strategic financial metrics and 6% on ESG, focusing equally on carbon and diversity. These measures will be suitably stretching to recognise the opportunity available under the plan.*

## **Non-Executive Shareholding requirements (No change to policy)**

1. *In last year's annual report, we committed to reviewing whether it was appropriate to introduce Non-Executive shareholding requirements.*
2. *The Committee considered this during the year, and as our NEDs actively look to purchase shares, we do not feel it is necessary to have a minimum shareholding requirement for non-executives at this time. We will continue to monitor any evolutions in UK best practice to determine if this should change in future.*

*It is the Committee's firm belief that the above proposals represent the best interests of the Company and reflect the key feedback that we heard from shareholders as a result of last year's voting outcome.*

*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*

**Ian Filby**

*Non-Executive Chairman, Pendragon Plc*

## 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 2023 - 2026

The remuneration policy set out in this section of the remuneration report will replace the existing policy which was approved by shareholders at the 2020 AGM and will take effect for all payments made to directors from the date of the 2023 AGM. The Remuneration Committee has taken the opportunity to conduct a detailed review of the policy, both in light of developments in remuneration policy and market practice, and also, following consultation with our major shareholders, to ensure their feedback is reflected into the design of, and any modifications to, the policy going forward. The remuneration principles and overarching aim of our remuneration policy continues to be framed in such a way as to provide and maintain the link between executive pay and strategy, aiming to:

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

to individual directors including any other limits or discretions;

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

Consistent with market practice, the Remuneration Committee will retain full discretion over all elements of variable remuneration, both in terms of annual bonus awards made and long term incentive awards granted and vesting. The extent of this discretion is more particularly described on page 84.

## NEW REMUNERATION POLICY

The new remuneration policy is detailed in this section. This policy will be put to shareholders for approval at the AGM. The policy is intended to apply, subject to shareholder approval, for three years from the 2023 AGM. Where a material change to this policy is considered, the company will consult major shareholders prior to submitting to all shareholders for approval.

The remuneration policy will be displayed on the company's website ([www.pendragonplc.com](http://www.pendragonplc.com)), following the 2023 AGM.

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

# DIRECTORS' REMUNERATION 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 May. The Committee sets base salaries taking into account:

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

Base salaries are paid monthly in arrears.

#### PERFORMANCE METRICS

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

#### PROPOSED CHANGES

Base salary review period set to 1 May to align with the salary review of wider organisation. This was previously 1 January for Executive Directors.



## BENEFITS

### PURPOSE AND LINK TO STRATEGY

Cost-effective, market competitive benefits are provided to ensure executive directors have a reasonable and competitive level of protection.

### 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 (this is particularly relevant for health insurance and death in service cover).

## OPERATION

Life assurance, private health cover, professional subscriptions, (at the executive's option) company cars and fuel, and any other benefits from time to time as the Remuneration Committee deems appropriate. Relocation benefits, including overseas health care cover and tax support may also be provided in certain circumstances, where applicable, if considered appropriate by the Remuneration Committee.

## PERFORMANCE METRICS

Not applicable.

## PROPOSED CHANGES

None

## PENSION

### ELEMENT AND PURPOSE

Provide 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 relevant wider workforce.

## OPERATION

Post-2009 executives: participation in a defined contribution pension scheme or a Pension contribution in line with the relevant wider workforce. Pre-2009 executives: deferred membership of defined benefit pension scheme

## PERFORMANCE METRICS

No performance metrics apply.

## PROPOSED CHANGES

None

# 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% of salary will be payable for threshold performance under each measure with 100% of salary payable for target performance and 150% of salary for maximum performance. The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy and the measures will be dependent on the company's goals over the year under review.

### PROPOSED CHANGES

None

## ALL EMPLOYEE SHARE SCHEME (SHARESAVE)

### PURPOSE AND LINK TO STRATEGY

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

### MAXIMUM OPPORTUNITY

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

### OPERATION

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

### PERFORMANCE METRICS

No performance conditions.

### PROPOSED CHANGES

A Sharesave scheme has not been introduced to date, but if circumstances change this could be reviewed.

## 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.

### OPERATION

The core design of the LTIP will be that awards are subject to performance conditions measured over three years and a service requirement for a further 2 years.

### PERFORMANCE METRICS

Stretching performance conditions will be set by the Committee each year. At least 70% 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 target performance and 150% being achieved for maximum performance. Vesting between target points will be determined on a straight-line basis

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.

### PROPOSED CHANGES

Removal of ability to increase maximum opportunity to 250% of salary in exceptional circumstances. Removal of discretion to implement a one-year performance period. Inclusion of ability to satisfy shares through a either a CSOP, nil cost options or a combination of both.

## 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.

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 2022
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 of the wider workforce and is proposing to effect a phased reduction in the salary supplement in lieu of pension contribution received by the Chief Operating Officer such that, by 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 or former directors that have been disclosed to shareholders in previous remuneration reports (e.g. all historic awards that were granted under any LTIPs that remain outstanding, as detailed in the company's latest Annual Report), and which remain eligible to vest based on their original award terms. Details of any payments to former directors will be set out in the Annual Report on remuneration as they arise. With regard to any promotions to executive director positions, the company will retain the ability to honour payments agreed prior to executives joining the Board, albeit any payments agreed in consideration of being promoted to the Board will be consistent with the policy on new appointments as an executive director detailed in the Remuneration Policy at [www.pendragonplc.com](http://www.pendragonplc.com)

## ILLUSTRATION OF OUR REMUNERATION POLICY FOR 2023

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 2023.

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

The chart illustrates the remuneration that could be paid to each of the executive directors, based on salaries at the start of the financial year 2023.

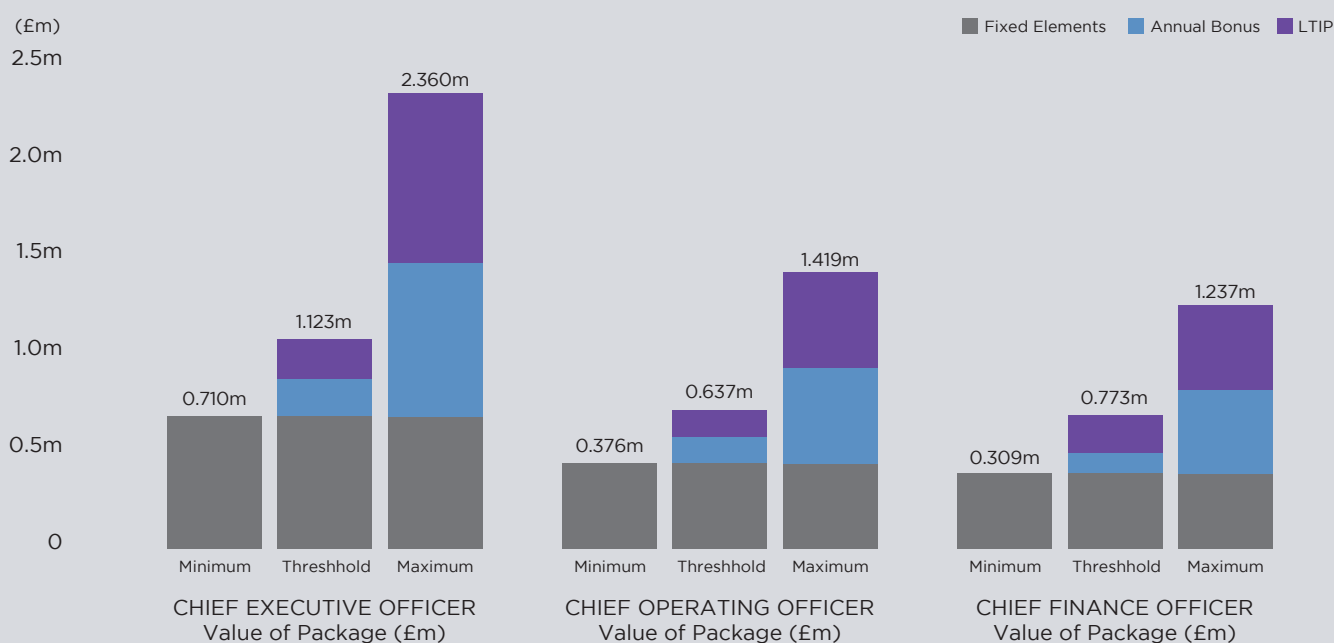


Element	Description	Minimum	On Target	Maximum
Fixed	Fixed (comprises base salary, benefits, pension)	Included	Included	Included
Annual Bonus	Annual bonus	16.66% of the maximum bonus	66.6% of the maximum bonus <sup>1</sup>	100% of the maximum bonus <sup>1</sup>
Long Term Incentive Plan	Long Term Incentive Plan	16.66% of the maximum LTIP	66.6% of maximum LTIP <sup>2</sup>	100% of the maximum LTIP <sup>2</sup>

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

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

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



The value of LTIP for the CEO with a share price gain of 50% is £1,237,500, the value for the COO with a share price gain of 50% is £720,000 and the value for the CFO with a share price gain of 50% is £680,625. Fixed elements take Benefit cost from 2022 and the costs could increase in 2023. Base salary is as at 01.01.23

# DIRECTORS' REMUNERATION REPORT

## POLICY ON NEW APPOINTMENTS AS AN EXECUTIVE DIRECTOR

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

New appointments as executive director	
Reward Element	
Base Salary	Base salary in accordance with policy detailed within the remuneration policy table at page 80
Benefits	Will be provided in accordance with the policy within the remuneration policy table at page 81
LTIP	Eligible to participate in the LTIP, as described in the remuneration policy table at page 83
Pension	Pension contributions for new executive directors will not exceed the rate available to the wider workforce.
Annual Bonus	Eligible to participate in the annual bonus plan in operation as described in the remuneration policy table at page 82
SAYE	Eligible to participate in the SAYE, as described in the remuneration policy table at page 82
Buy Outs	In order to facilitate the external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeit on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions.

## POLICY ON NEW APPOINTMENTS AS NON-EXECUTIVE DIRECTOR

The company's policy on non-executive director remuneration is detailed on page 84. New appointments of non-executive directors will be made consistent with this policy.

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

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

During 2022 the Company introduced an Associate Engagement survey, Your Voice, and collected feedback from the whole workforce on a range of topics, on both a quantitative and qualitative basis. This feedback has been used to shape and influence improvements to reward processes, including the introduction of an annual pay review process in 2023.

The Company continues to ensure associates have regular access to updates and information concerning the financial performance of the Company through various communication channels.

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

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

During 2022 and early 2023, the Remuneration Committee undertook a review of the remuneration policy, taking into account developments in remuneration policy, as well as prevailing market practice and considering the views of our major shareholders. The Acting Remuneration Committee Chairman continues to make himself available to shareholders to discuss specific matters arising from our remuneration policy proposals. The outcome of this exercise forms the basis of the remuneration policy detailed in the future policy table above. The Chairman of the Remuneration Committee aims to maintain regular contact with our major shareholders at key points during the year to ensure we are fully aware of their prevailing thinking on our remuneration policies.

## DIRECTOR'S SERVICE CONTRACTS AND EXIT PAYMENTS

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

## EXECUTIVE DIRECTOR APPOINTMENTS

The service contract of executive director Martin Casha commenced on 20 December 1999.

The service contract of Mark Willis commenced on 08 April 2019, and was also refreshed in December 2019.

The service contract of Bill Berman commenced on 01 October 2019 for the purposes of performing the role of interim executive chairman, and was also refreshed in December 2019. On appointment to the role of chief executive officer on 19 February 2020, Bill Berman was issued with a new service contract.

## EXIT PAYMENTS

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

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

## FEES FROM EXTERNAL DIRECTORSHIPS

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

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

# DIRECTORS' REMUNERATION REPORT

## NON-EXECUTIVE DIRECTORS' APPOINTMENTS

Name	Commencement	Expiry/cessation	Unexpired at date of report (months)
Brian Small	10.12.19	31.12.25	33
Nikki Flanders	13.03.20	31.12.23	9
Dietmar Exler	20.04.20	31.12.23	9
Ian Filby	01.11.21	31.12.24	21

## THE COMMITTEE'S WORK IN 2022

- determined annual bonus awards in respect of 2021 performance
- set and revised the annual bonus plan terms for 2022
- determined performance targets and granted LTIP awards in July 2022
- noted remuneration trends across the Group
- considered the gender pay gap report
- embarked on search for a new Remuneration Committee Chair

## ADVISERS

During 2022, the Committee received external advice from PwC, who received fees of £103,000 in respect of the same. The Group General Counsel also acts as secretary to the Committee. The Group General Counsel and the Chief People Officer also provided additional advice.

## HISTORY OF CHIEF EXECUTIVE REMUNERATION

In terms of the single total figure of remuneration for executive directors in 2022, shareholders should be aware that no long term incentives vested in 2022. For 2021, the data in the LTIP column in the single total figure of remuneration for executive directors table on page 89 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	2022	2021 <sup>1</sup> restated <sup>5</sup>	2020	2019 <sup>2</sup>	2018	2017	2016	2015	2014	2013
Total Remuneration £k (single figure)	<b>1,313</b>	<b>3,561<sup>1</sup></b>	<b>510</b>	464	589	727	1,605	1,775	3,472	2,961
Annual bonus award (% of maximum that could have been paid)	<b>73%</b>	<b>100%</b>	<b>100%<sup>3</sup></b>	0%	0%	30%	87%	100%	100%	100%
Percentage of LTIP vesting <sup>3</sup>	<b>0%</b>	<b>0%<sup>4</sup></b>	<b>0%</b>	0%	0%	0%	100%	56%	100%	100%

1. Of the single total remuneration figure attributable to 2021 of £3,561k, £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 did not receive a cash payment in 2021 of £3,561k: actual payment received in 2021 was £1,545k.

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, following the satisfaction of applicable performance conditions, such that it was determined that 91.6% of the maximum available under the awards would vest.

5. As declared at the 2022, AGM William Berman's expatriate benefit of overseas healthcare and tax support were previously not disclosed and were under reported: this has now been rectified above. (For healthcare £144k in 2021 and £118k in 2022, for tax support £2k in 2022 and £7k in 2021, car allowance was £19k in 2021 and £23k in 2022).



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

	Base Salary £000		Taxable benefits <sup>1</sup> £000		Pension <sup>2</sup> £000		Bonus <sup>3</sup> £000		LTIP <sup>4</sup> £000			Single total figure £000		Total Fixed Remuneration £000		Total Variable Remuneration £000	
	2022	2021	2022	2021 restated	2022	2021	2022	2021	2022	2021 (Oct 2020 Award vests Oct 2023)	2021 (July 2021 Award vests July 2024)	2022	2021 restated	2022	2021 restated	2022	2021
<b>Current Directors</b>																	
William Berman	550	550	143	170	17	-	603	825	0	1,260	756	1,313	3,561	710	720	603	2,841
Martin Casha	320	307	8	7	48	61	351	461	0	422	422	727	1,680	376	375	351	1,305
Mark Willis	303	303	15	14	-	-	332	454	0	694	417	650	1,882	318	317	332	1,565

1. Taxable Benefits include life assurance, private health cover in the UK & abroad if applicable, professional subscriptions, the provision of tax support for expatriate associates and the provision of up to two cars (at the Director's election), one of which is fully expensed. As declared at the 2022 AGM, William Berman's expatriate benefit of overseas healthcare and tax support were previously not disclosed and were under reported; this has now been rectified above. (For healthcare £144k in 2021 and £118k in 2022, for tax support £2k in 2022 and £7k in 2021, car allowance was £19k in 2021 and £23k in 2022).

2. Salary supplement in lieu of pension contribution. 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 now been completed, and, as of 01 January 2023, his salary supplement in lieu of pension contribution is aligned to the employer pension contribution received by the relevant wider workforce.

3. Bonus Award paid in 2023 equivalent to 109.6% of base salary based on 2022 performance achievement.

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. Of the single total remuneration figure attributable to 2021 of £3,542k, £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 did not receive a cash payment in 2021 of £3,542k; actual payment received in 2021 was £1,526k (inclusive of benefits value).

## SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS 2022 (AUDITED INFORMATION)

	Basic Fee £000		Taxable benefits £000		SID/Committee Chair Fee £000		Single total figure £000	
	2022	2021	2022	2021	2022	2021	2022	2021
<b>Current Directors</b>								
Mike Wright <sup>1</sup>	25	50	-	-	5	10	30	60
Dietmar Exler	50	50	-	-	4	4	54	54
Ian Filby	150	25	-	-	-	-	150	25
Nikki Flanders	50	50	-	-	-	-	50	50
Brian Small	50	50	-	-	10	10	60	60

1. Mike Wright stood down from the Board on 01.06.22

### PENSIONS

The Pendragon Pension Plan (Pension Plan) is established for the benefit of the Group's eligible employees. The Pension Plan operates through a trustee company which holds and administers its assets entirely separately from the Group's assets. There is no direct investment in Pendragon PLC

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

# DIRECTORS' REMUNERATION REPORT

## PERFORMANCE RELATED PAY FOR 2022: 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 2022, the maximum annual bonus opportunity was 150% of base salary, only achievable for performance 25% in excess of the Company's target underlying profit based on the FY 2021 Corporate Plan. The 2022 bonus performance metric was set as underlying profit for the full year, determined in accordance with a combination of the Company's 2021 Corporate Plan and Broker Consensus,

this 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 percentage of salary payable at threshold, target and maximum are set out in the table below, together with the actual outturn for 2022. As the committee determined that underlying profit was achieved slightly above the target set, bonus was determined to be payable at 109.6% on a straight line vesting principle.

Target aligned to 2021 Corporate Plan	Percentage of basic salary payable	Underlying Profit Outcome based on A Combination of the 2021 Corporate Plan and Market Consensus	Actual Outturn FY2022 Underlying Profit	% of Maximum Bonus Awarded	Payout: % of basic salary payable
Threshold (equal to 20% below Target)	25%	£43,920,000			
Target (Achieving Mix of 2021 Corporate Plan & Market Consensus)	100%	£54,900,000	£57,600,000	73%	109.6%
Maximum (Equal to 25% above Target)	150%	£68,625,000			

## LONG TERM INCENTIVES VESTING IN 2022

There were no awards vesting in respect of the long-term incentive plan for the period ending 2022.

## LONG TERM INCENTIVE PLAN AWARDS ("LTIP") AWARDED IN 2022

In August 2022, 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. 70% is based on achieving a defined earnings per share target. 5% is based on an ESG metric to achieve a reduction in the Company's overall Carbon Emissions. 25% is based on Strategic

Metrics aligned to the Company's Strategy. Each Strategic Metric has a defined financial metric outlining the achievement required for both target and maximum pay out. All metrics are based over a 3 year performance period, commencing on 01 January 2022 and measured at year end 2024.

The committee discussed the opportunity to introduce a relative TSR metric as part of the 2022 LTIP. Upon receiving advice and benchmarking data from our advisors it was identified that finding a relative group was extremely difficult. The committee was unable to find a relative group that's TSR had moved in the same direction (when measured over a 5 year period) as Pendragon's TSR.

## IMPLEMENTATION OF THE REMUNERATION POLICY IN THE FINANCIAL YEAR ENDING 31 DECEMBER 2023

The Committee envisages that there will be limited changes arising from the implementation of the remuneration policy during financial year ending 31 December 2023. The policy in respect of the executive directors will be applied as follows:

Element of Pay	Implementation of Policy
BASE SALARY	<p>Other than potential adjustments to take account of market conditions and changes in role scope to reflect additional responsibilities undertaken, base salary will continue to be set in accordance with the remuneration policy. We intend to carry out a full review of the current salaries for executives, considering appropriate benchmarking data, and internal and external factors following the appointment of the new Remuneration Committee Chair.</p> <p>Base salaries for 2023:</p> <ul style="list-style-type: none"> <li>• Chief Executive Officer: £550,000</li> <li>• Chief Finance Officer: £302,500</li> <li>• Chief Operating Officer: £347,582</li> </ul>
BENEFITS	No changes are expected to be made to these elements of remuneration within the financial year ending 31 December 2023.
PENSION	<p>Currently each Executive Director is on an individual pension arrangement, and these will now be aligned to one approach.</p> <p>During 2022 we undertook a review of the pension provisions available to our wider workforce and increased the company contribution to 6% for leaders in the business.</p> <p>Our Executive Directors will receive an equivalent pension contribution of 6%, from January 2023 a year later than the change for other leaders in the business.</p> <p>The Chief Operating Officer ceased to be an active member of the Pension Plan in 2006. In accordance with the Code, the company is seeking to align his pension with that of the wider workforce and has effected a phased reduction in the salary supplement in lieu of pension contribution received by the Chief Operating Officer such since 01 January 2023, his salary supplement in lieu of pension contribution is aligned to the employer pension contribution available to the relevant wider workforce.</p>
ANNUAL BONUS	<p>The bonus opportunity for the executive directors remains at a maximum opportunity of 150% of base salary, payable at the maximum level only for significant outperformance against the corporate plan.</p> <p>The targets for the 2023 annual bonus will be disclosed retrospectively in the 2023 Director's Remuneration Report as the Committee deems them to be commercially sensitive.</p> <p>The bonus metric for 2023 will be based on achieving underlying profit before tax against the corporate plan. 25% of after tax bonus earned will be subject to compulsory deferral into the company's shares until such time as the company's share ownership guidelines are met.</p>
LONG TERM INCENTIVE PLAN	<p>The proposed LTIP will have a maximum opportunity of 150% of salary, with no exceptional maximum. Any awards will also be subject to a three year performance and two year holding period.</p> <p>For 2023 specifically the measures will be 70% EPS, 24% strategic, financial metrics and 6% on ESG, focusing equally on carbon and diversity.</p> <p>The committee is currently considering the appropriate financial metrics as performance conditions for the strategic element.</p>
SHAREHOLDING GUIDELINES	<p>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.</p> <p>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).</p>
MALUS AND CLAWBACK	Malus and clawback will continue to operate in respect of the annual bonus and long-term incentive plan, in accordance with the parameters detailed in the remuneration policy.

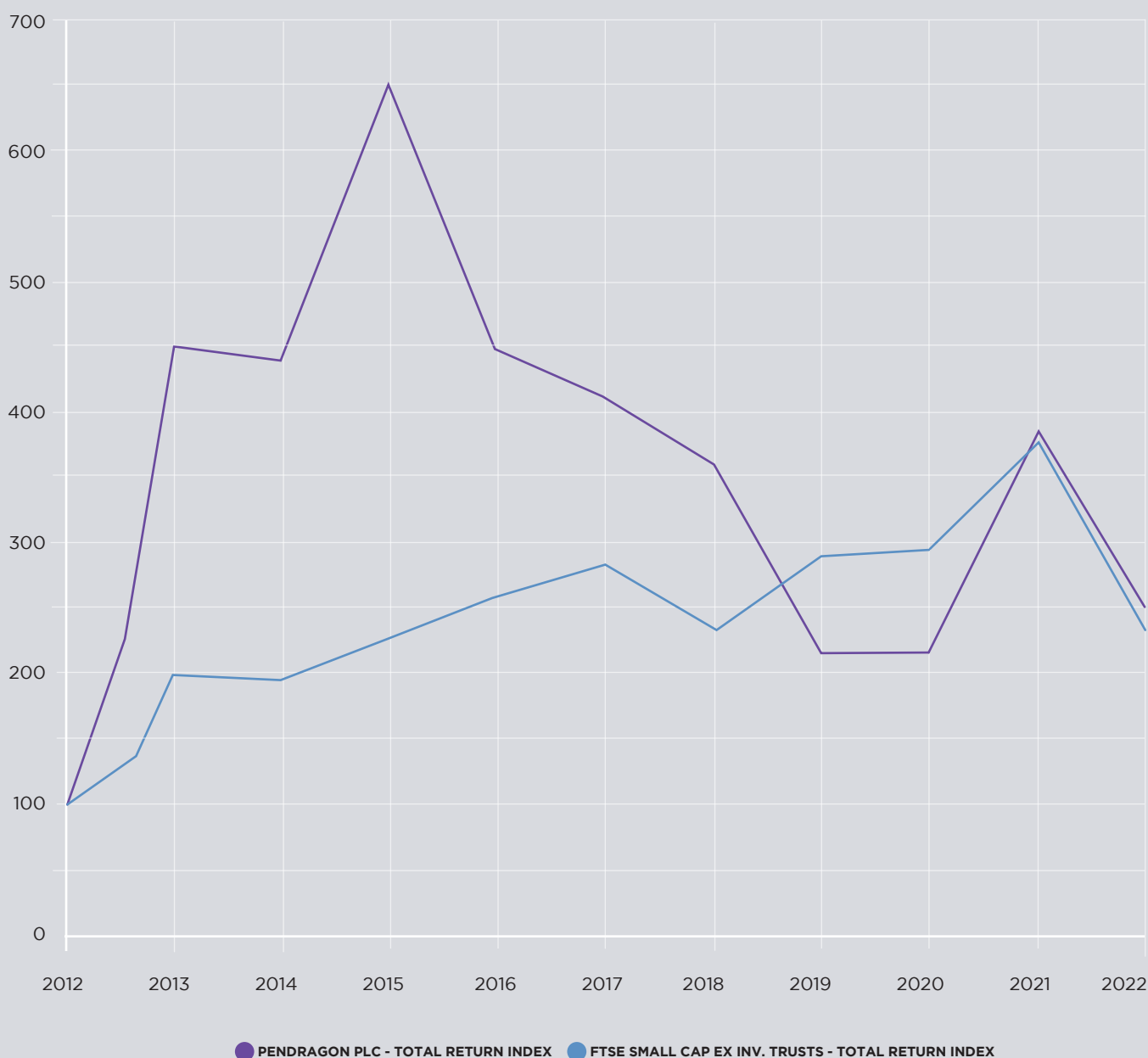
# DIRECTORS' REMUNERATION REPORT

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

The graph below shows the total shareholder return ("TSR")<sup>2</sup> on the company's shares in comparison to the FTSE Small Cap Index (excluding investment companies).<sup>3</sup> TSR has been calculated as the percentage change, during the relevant

period, in the market price of the shares, assuming that any dividends paid are reinvested on the ex-dividend date. The relevant period is the ten years ending 31 December 2019. The notes at the foot of the graph provide more detail of the TSR calculation.

## PENDRAGON PLC TSR 2012 - 2022



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 2022 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends (if any) are reinvested in shares in the company. The price at which dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index, the TSR statistics are normalised to a common start point, which gives the equivalent to investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain TSR growth of the relevant index over the chosen period, the weighted average of TSR for all the companies in the index is calculated. In this case, it is the FTSE Small Cap Index (excluding investment companies) as explained in Note 3. The weighting is by reference to the market capitalisation of each company in the index in proportion to the total market capitalisation of all the companies in the index at the end of the chosen measurement period.  
 3. The FTSE Small CAP index has been selected as it represents the equity market in which the Company was a constituent member for the majority of the relevant seven year period ending 31 December 2022 detailed above.

## DIRECTORS' SHAREHOLDINGS (AUDITED)

The shareholdings of all Directors, including the shareholdings of their connected persons as at 31 December 2022, are set out below. There have been no changes in the Directors' interests from 31 December 2022 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 was considered by the Remuneration Committee during 2022 and as our NEDs actively look to purchase shares, we do not feel it is necessary to have a minimum shareholding requirement for non-executives at this time. We will continue to monitor any evolutions in UK best practice to determine if this should change in future.

## DIRECTORS' SHAREHOLDINGS (AUDITED)

	Number of shares held outright		Awards over nil-cost options			Shareholding requirement (% of base salary)	Shareholding as at 31 December 2022 incl shares not subject to performance requirements (% of base salary)
	As at 31 December 2022	As at 31 December 2021	Vested but not exercised	Unvested and subject to continued employment	Unvested and subject to performance conditions and continued employment		
<b>Executive Directors</b>							
William Berman	1,462,114	Nil	-	12,910,581	3,478,077	200%	501%
Martin Casha	11,098,524	9,559,780	-	5,135,844	2,026,003	100%	974%
Mark Willis	804,163	Nil	-	7,100,785	1,912,942	100%	500%
<b>Non Executive Directors</b>							
Dietmar Exler	210,000	210,000	-	-	-	N/A	N/A
Nikki Flanders	Nil	N/A	-	-	-	N/A	N/A
Brian Small	400,000	400,000	-	-	-	N/A	N/A
Ian Filby	Nil	N/A	-	-	-	N/A	N/A

## PERCENTAGE CHANGE IN CHIEF EXECUTIVE REMUNERATION

The table below illustrates the percentage change in the remuneration awarded to the Directors over the last 3 years and that of the group's employees across its entire UK business.

	Salary/Fees			Benefits			Bonus (Including deferred amount)(% of base salary)		
	2022	2021	2020	2022	2021	2020	2022	2021	2020
<b>Executive Directors</b>									
Chief Executive	0.0%	7.8%	105.6%	-15.9%	-	-	-26.9%	99.8%	100.0%
Chief Operating Officer	4.2%	7.0%	-1.7%	14.3%	-22.2%	0.0%	-23.9%	103.1%	-
Chief Finance Officer	0.0%	3.8%	30.9%	15.4%	30.0%	400.0%	-26.9%	101.8%	-
<b>Non Executive Directors</b>									
Ian Filby	0.0%	-	-	-	-	-	-	-	-
Dietmar Exler	0.0%	42.9%	-	-	-	-	-	-	-
Nikki Flanders	0.0%	38.9%	-	-	-	-	-	-	-
Brian Small	0.0%	-3.8%	1633.3%	-	-	-	-	-	-
All Employees (average)	8.7%	7.0%	8.1%	-27.0%	-33.3%	0.0%	12.1%	39%	-

1. Additional benefits allowance for 2022 inclusive of car allowance for CFO. The high percentage relates to the relatively low figures of £4k for 2021 and £15k for 2022 resulting in this percentage appearing inflated. As declared at the 2021 AGM William Berman's expatriate benefit of overseas healthcare and tax support were previously not disclosed in error and were under reported this has now been rectified in the calculation above.

# 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 associates. The ratios have been calculated based on the single total figure of remuneration for the chief executive officer and the total pay for the associates 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 2022.

Financial year	Method	25th percentile pay ratio (lower quartile)	Median pay ratio (median)	75th percentile pay ratio (upper quartile)
2022	Option B	26:1	25:1	16:1
2021	Option B	30:1	25:1	19:1
2020	Option B	30:1	26:1	20:1

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

## RELATIVE IMPORTANCE OF SPEND ON PAY

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

Team member pay			Distribution to shareholders		
2022 (£m)	2021 (£m)	% change	2022	2021	% change
£241.5m	£210.3m	14.8%	£0m	£0m	-

## SHAREHOLDERS' VOTE ON REMUNERATION AT THE 2022 AGM

2021 Directors' Remuneration Report	Number	Proportion of votes cast
Votes cast in favour	380,612,034	34.49
Votes cast against	722,783,233	65.51
Total votes cast in favour or against	1,103,395,267	100%
Votes withheld	23,063,508	0%

## SHARE PRICE INFORMATION AND PERFORMANCE

Other than those detailed above, there are no share option or long term incentive schemes in which the directors are eligible to participate. The middle market price of Pendragon ordinary shares at 31 December 2022 was 19.2 pence and the range during the year was 17.6 pence to 28.8 pence.

## SHAREHOLDER APPROVED REMUNERATION POLICY

The following table summarises how our shareholder approved remuneration policy fulfills the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

AREA	Implementation
CLARITY	The committee is committed to providing transparent disclosures to shareholders and the workforce about executive remuneration arrangements. The director's remuneration report sets out the detail of such arrangements in a clear and transparent way. Our AGM allows shareholders to ask questions on remuneration arrangements
SIMPLICITY	Our remuneration arrangements for executive directors are simple in nature and understood by all participants, having operated in a similar manner for a number of years. Executive directors receive fixed pay (salary, benefits, pension) and participate in a single short term annual bonus and a single long-term incentive plan (LTIP)
PREDICATABILITY	Payouts under the annual bonus and LTIP schemes are dependent on Company performance over the short and long term and are governed by achievement against set targets. These schemes have strict maximum opportunities, which are outlined in the directors remuneration report.
RISK	The committee has designed incentives that do not encourage inappropriate risk-taking. The committee retain discretion in both the annual bonus and LTIP schemes to adjust payouts where the formulaic outcomes are not considered reflective of underlying performance and individual contribution. Robust withholding and recovery provisions apply to variable incentives.
PROPORTIONALITY	Payouts from variable incentive schemes require strong performance against challenging conditions over the short and longer term. Performance conditions have been selected to support group strategy and consist of both financial and non-financial metrics. The committee retains discretion to override formulaic outcomes in both schemes to ensure they are appropriate and reflective of overall performance.
ALIGNMENT TO CULTURE	Performance measures used in our variable incentive schemes are selected to be consistent with the Company's purpose, values and strategy. The use of annual bonus deferral, LTIP holding periods and our shareholding requirement provide a clear link to the ongoing performance of the group and ensures alignment with shareholders.

## APPROVAL

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

### Ian Filby

Acting Chairman of the Remuneration Committee  
22 March 2023

# DIRECTORS' REPORT

## STRATEGIC REVIEW AND PRESCRIBED REPORTING

Our Strategic Review at pages 25 to 32 contains the information, prescribed by the Companies Act 2006, required to present a fair review of the company's business, a description of the principal risks and uncertainties it faces, and certain of the information on which reports and statements are required by the UK Corporate Governance Code. The Board approved the Strategic Review set out on pages 25 to 32 and the Viability Statement set out on page 49. Additional information on which the directors are required by law to report is set out below and in the following:-

- 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 112 to 196. 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 2022.

## APPOINTMENT AND POWERS OF THE COMPANY'S DIRECTORS

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

purchases of the company's ordinary shares (in practice, exercised only if the directors expect it to result in an increase in earnings per share). Details of movements in the company's share capital are given in note 4.4 to the financial statements.

From time to time, Pendragon provides financial assistance to its independent employee benefits trust to facilitate the market purchase of ordinary shares in the company for use in connection with various of the company's employee incentive schemes. The company did not purchase any shares in this way in 2022.

## 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 and 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 77 to 95. Directors who served during 2022 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 93 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' shareholdings	Number at 31.12.22	Number at 31.12.21
William Berman	1,462,114	nil
Martin Casha	11,098,524	9,559,780
Dietmar Exler	210,000	210,000
Ian Filby	nil	n/a
Nikki Flanders	nil	n/a
Mark Willis	804,163	nil
Brian Small	400,000	400,000

### 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 2022, Pendragon's issued share capital comprised a single class: ordinary shares of 5 pence each. The Articles permit the creation of more than one class of share, but there is currently none other than ordinary shares. Details of the company's share capital are set out in note 4.4 to the accounts. All issued shares are fully paid. The company did not issue any new shares during the period under review. The rights and obligations attaching to the company's ordinary shares are set out in the Articles. The Company is currently authorised to issue up to two-thirds of its current issued share capital pursuant to a resolution passed at its 2022 AGM.

### SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 6 March 2023 the directors had been advised of the following interests in the shares of the company:-

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

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

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

Shareholder	Number of shares	Percentage of voting rights of the issued share capital
Anders Hedin Invest AB	366,424,322	27.59
Schroders	163,016,559	11.69
Briarwood Chase Management	140,127,084	10.03
Odey Asset Management	137,411,576	9.84
Hosking Partners	67,176,942	4.81
Bank of America	44,910,795	3.21
Dimensional Fund Advisors	44,886,911	3.21
Farringdon Capital Management	31,298,235	2.24
Barclays Bank	30,693,280	2.20
Huntington Partners	28,058,810	2.01

# DIRECTORS' REPORT

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 2022, the company's Employee Benefit Trust with Accuro Trustees (Jersey) Limited (the Trustee) held 1,541,801 shares, representing 0.11% of the total issued share capital at that date (2021: 5,846,832; 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 500,000 shares to satisfy such entitlements (2021:573,258). In addition, a further 5,918,024 shares were transferred by the

Trustee in respect of the award of the director's 2020 bonus as deferred shares.

## 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 2022. 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 (2021: £ nil).

## AUDITOR

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

By order of the Board



**Richard Maloney**  
Company Secretary  
22 March 2023

# FINANCIAL STATEMENTS

- |            |   |            |  |
|------------|---|------------|--|
| <b>100</b> | Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements | <b>117</b> | Reconciliation of Net Cash Flow to Movement in Adjusted Net Debt |
| <b>101</b> | Independent Auditor's Report to the Members of Pendragon PLC                                      | <b>118</b> | Notes to the Financial Statements                                |
| <b>112</b> | Consolidated Income Statement   | <b>197</b> | Company Balance Sheet  |
| <b>113</b> | Consolidated Statement of Comprehensive Income  | <b>198</b> | Company Statement of Comprehensive Income                        |
| <b>114</b> | Consolidated Statement of Changes in Equity   | <b>199</b> | Company Statement of Changes in Equity                           |
| <b>115</b> | Consolidated Balance Sheet  | <b>200</b> | Notes to the Financial Statements of the Company                 |
| <b>116</b> | Consolidated Cash Flow Statement  | <b>209</b> | Advisors, Banks and Shareholder Information                      |
|            |   | <b>210</b> | 5 Year Group Review  |



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

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with 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 the Group's 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;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

## **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

22 March 2023

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

## 1. Our opinion is unmodified

We have audited the financial statements of Pendragon plc ("the Company") for the year ended 31 December 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated Cash Flow Statement, and the related notes, including the accounting policies.

### 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 2022 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 26 financial years ended 31 December 2022. 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.

Overview		
<b>Materiality:</b> group financial statements as a whole	£3.45m (2021: £4.0m) 5.0% of normalised group profit before tax (2021: 0.1% of normalised group revenue)*	
<b>Coverage</b>	92% (2021: 90%) of Group profit before tax**	
<b>Key audit matters</b>		<b>vs 2021</b>
<b>Recurring risks</b>	Used vehicle inventory provision	◀ ▶
	Valuation of post retirement benefit obligation	▲
	<b>Parent Company's key audit matter:</b> Carrying value of parent company's investments in subsidiaries and debt due from group entities	◀ ▶

\* In 2021 our materiality was based with reference to a benchmark of Group revenue, normalised by averaging over a five year period. Materiality represented 0.1% of this benchmark. \*\*This is the profit and losses as a percentage of total profits and losses that made up the group profit before tax.

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

## 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, 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.

	The risk	Our response
<p><b>Used vehicle inventory provision (£6.9 million (2021: £8.0 million))</b></p> <p>Refer to page 70 Audit Committee report, page 152 (accounting policy) and page 153 (financial disclosures)</p>	<p><b>Subjective valuation</b></p> <p>The Group holds significant levels of used vehicle inventory. Used vehicle selling prices vary depending upon a number of factors including general economic conditions, the availability of used vehicles and the levels of new vehicle production.</p> <p>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 area of estimation uncertainty. The risk increases as the age of the used vehicle inventory increases.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the provision held against 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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Test of controls:</b> Evaluating the management review controls over the used vehicle inventory valuation process;</li> <li>• <b>Historical comparisons:</b> 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 number of days used inventory is held by the Group. We performed a retrospective review of actual profits and losses made during 2022 in respect of inventory held at 31 December 2021 and considered the implications for the appropriateness of management's provision policy</li> <li>• <b>Independent reperformance:</b> We considered an alternative methodology for assessing the valuation of used inventory, with reference to the fuel type and brand of the vehicles within used vehicle inventory at the year end;</li> <li>• <b>Tests of details:</b> 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. We also assessed the Group's methodology for calculating the provision by comparing net profit per unit achieved at different points during the financial year; and</li> <li>• <b>Assessing transparency:</b> We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the UK used vehicle inventory provision, including the sensitivity disclosures included in note 3.4.</li> </ul> <p><b>Our results:</b> We found the group's estimate of the used vehicle inventory provision to be acceptable (2021 result: acceptable).</p>

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

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

	The risk	Our response
<p><b>Valuation of post retirement benefit obligation (£368.9 million (2021: £569.2million))</b></p> <p>Refer to page 70 Audit Committee report, page 185 (accounting policy) and page 190 (financial disclosures)</p>	<p><b>Subjective valuation</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We performed the tests below 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.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Benchmarking assumptions:</b> 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;</li> <li>• <b>Sensitivity analysis:</b> We performed sensitivity analysis on input assumptions noted above;</li> <li>• <b>Assessing actuaries' credentials:</b> 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;</li> <li>• <b>Tests of details:</b> We evaluated the calculations prepared by management's external actuaries to assess the impact of the assumptions used on the Group Financial Statements;</li> <li>• <b>Assessing transparency:</b> 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, including the sensitivity disclosures included in note 5.1.</li> </ul> <p><b>Our results:</b></p> <p>We found the valuation of the pension obligation to be acceptable (2021 result: acceptable).</p>

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

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

	The risk	Our response
<p><b>Carrying value of parent company's investments in subsidiaries (£981.2 million; 2021: £981.2 million) and debt due from group entities (£90 million; 2021: £90 million)</b></p> <p>Refer to page 70 Audit Committee report, page 202 (accounting policy) and page 204 (financial disclosures)</p>	<p><b>Forecast-based assessment</b></p> <p>The carrying amount of the parent Company's investments in subsidiaries and debt due from group entities are significant and at risk of irrecoverability due to the requirement for future trading profits to recover such balances. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets.</p> <p>The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the carrying value of parent company's investments in subsidiaries and debt due from group entities had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we concluded that reasonably possible changes to the value in use of subsidiaries cash flow assumptions would not be expected to result in material impairment.</p>	<p>We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Tests of detail:</b> Comparing the carrying amount of 100% of investments and debt due from group entities with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount;</li> <li>• <b>Comparing valuations:</b> For the investments, where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on value in use calculations;</li> <li>• <b>Benchmarking assumptions:</b> Challenging the assumptions used in the cash flows included in the budgets based on our knowledge of the Group and the markets in which the subsidiaries operate;</li> <li>• <b>Historical comparisons:</b> Assessing the reasonableness of the budgets by considering the historical accuracy of the previous forecasts;</li> <li>• <b>Assessing transparency:</b> Assessing the adequacy of the parent Company's disclosures in respect of the investment in subsidiaries, including the sensitivity disclosures included in note 5.</li> </ul> <p><b>Our results:</b></p> <p>We found the Company's conclusion that there is no impairment of its investments in subsidiaries and group debtor balance to be acceptable (2021: acceptable).</p>

We continue to perform procedures over going concern. However, following the improved level of performance of the Group and its refinancing in the year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.



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

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### 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 £3.45m (2021: £4m), determined with reference to a benchmark of normalised Group profit before tax (2021: with reference to a normalised benchmark of Group revenue). We normalised profit before tax by adding back adjustments that do not represent the normal, continuing operations of the Group and by averaging over 2 years. We selected 2 years to average profit before tax (2021: revenue averaged over 5 years) to account for the fluctuations in the Group's performance due to changes in market conditions. We adjusted for the items disclosed in Note 2.6, except for termination and severance costs, and net interest on pension scheme obligations.

Materiality for the parent Company financial statements as a whole was set at £2.6m (2021: £1.8m), determined with reference to a benchmark of the parent Company total assets, of which it represents 0.2% (2021: 0.6% of net assets).

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 was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £2.6m (2021: £3.0m) for the Group and £2.0m (2021: £1.4m) for the parent Company. 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 £0.2m (2021: £0.2m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 35 (2021: 38) reporting components, we subjected 11 (2021: 13) to full scope audits for group purposes and 5 (2021: none) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. We subjected 3 (2021: none) components to specified risk-focused audit procedures over revenue, inventory and cost of sales, 1 (2021: none) to specified risk-focused audit procedures over vehicle stocking loans and 1 (2021: none) to specified risk-focused audit procedures over pension assets. The components within the scope of our work accounted for the percentages illustrated on the following page. The remaining 0% (2021: 8%) of total group revenue, 8% (2021: 10%) of the total profits and losses that made up the Group profit before tax and 1% (2021: 7%) of total Group assets is represented by 19 (2021: 25) reporting components, none of which individually represented more than 3% (2021: 3%) of any of total Group revenue, the total profits and losses that made up the Group profit before tax or total group assets.

For these 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 Group team performed procedures on the items excluded from normalised Group profit before tax.

The Group audit team performed all of the audit work in relation to the 16 (2021: 13) components, including the audit of the parent company.

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

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

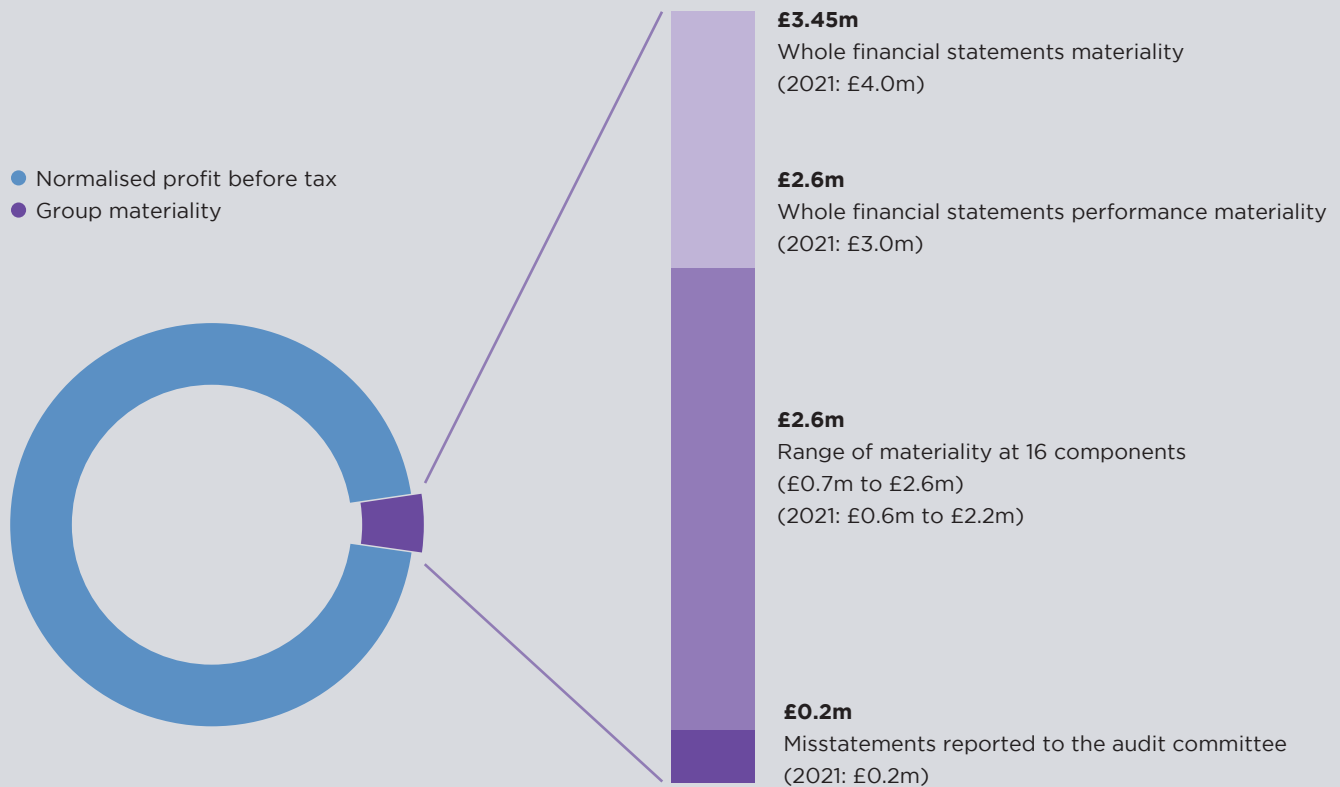
### Normalised group profit before tax

£69.8m  
(2021: normalised revenue of £3,784m)

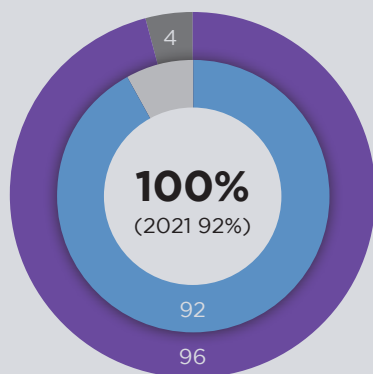
### Group materiality

£3.45m (2021: £4.0m)

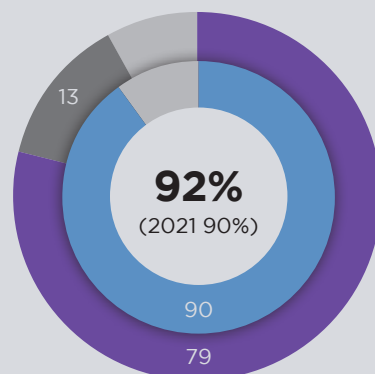
- Normalised profit before tax
- Group materiality



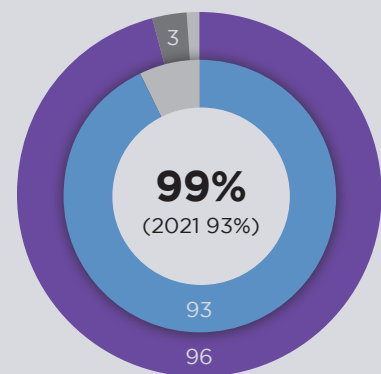
### Group revenue



### Total profits and losses that made up Group profit before tax



### Group total assets



- Full scope for group audit purposes 2022
- Specified risk-focused procedures for group audit purposes 2022
- Full scope for group audit purposes 2021
- Residual components

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

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## 4. Going concern

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

We used our knowledge of the Group, its industry, and the uncertain economic environment to identify the inherent risks to the Group's business model and analysed how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and parent Company's available financial resources and metrics relevant to debt covenants over this period was adverse macroeconomic conditions resulting in lower than expected trading volumes and deterioration in gross profit per unit ("GPU") for vehicles sold.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

### ***Our procedures also included:***

- Agreeing current facilities available to the relevant facility agreements. 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
- Comparing past budgets to actual results to assess the directors' track record of budgeting accurately.
- Discussing 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;
- Comparing the assumptions behind the Group's cash flow forecasts for key variables, such as 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;
- Evaluating 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;
- We considered whether the going concern disclosure in 'Section 1 - Basis of Preparation' section in the notes to the financial statements set out on page 118 gives a full and accurate description of the directors' assessment of going concern, including the identified risks.

### ***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 parent 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 the in the notes to the financial statements set out on page 118 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and parent Company's use of that basis for the going concern period, and we found the going concern disclosure in 'General Information' section in the notes to be acceptable; and
- the related statement under the Listing Rules set out on page 49 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the parent Company will continue in operation.

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

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

### *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 and 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 directors.
- 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, 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 and component management may be in a position to make inappropriate accounting entries; and
- the risk that new vehicle revenue for the year is misstated as a result of revenue being recorded in the wrong period

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries 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.
- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pensions 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.

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

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

### ***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.

### ***Strategic report and directors' report***

Based solely on our work on the other information:

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

### ***Directors' remuneration report***

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

### ***Disclosures of emerging and principal risks and longer-term viability***

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

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

- the directors' confirmation within the viability statement on page 49 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures 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.

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

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

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

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

### **Corporate governance disclosures**

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

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

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of 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 this respect.

## **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.

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

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## 8. Respective responsibilities

### *Directors' responsibilities*

As explained more fully in their statement set out on page 100, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

## 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  
Snow Hill Queensway  
Birmingham  
B4 6GH  
22 March 2023

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2022

	Notes	2022 £m	Continuing operations £m	Discontinued operations* £m	2021 £m
<b>Revenue</b>	2.1	<b>3,620.0</b>	3,421.3	28.6	3,449.9
Cost of sales		<b>(3,162.8)</b>	(2,984.0)	(24.6)	(3,008.6)
<b>Gross profit</b>		<b>457.2</b>	437.3	4.0	441.3
Operating expenses	2.2	<b>(363.9)</b>	(326.5)	(9.9)	(336.4)
<b>Operating profit/(loss) before other income</b>		<b>93.3</b>	110.8	(5.9)	104.9
Other income - gains on the sale of businesses and property, plant and equipment	2.6	<b>7.7</b>	1.8	0.9	2.7
<b>Operating profit/(loss)</b>		<b>101.0</b>	112.6	(5.0)	107.6
<b>Analysed as:</b>					
Underlying operating profit/(loss)		<b>98.5</b>	117.4	(1.1)	116.3
Non-underlying operating profit/(loss)	2.6	<b>2.5</b>	(4.8)	(3.9)	(8.7)
Finance expense	4.3	<b>(44.8)</b>	(34.9)	(0.3)	(35.2)
Finance income	4.3	<b>1.0</b>	0.9	-	0.9
<b>Net finance costs</b>		<b>(43.8)</b>	(34.0)	(0.3)	(34.3)
<b>Analysed as:</b>					
Underlying net finance costs		<b>(40.9)</b>	(33.0)	(0.3)	(33.3)
Non-underlying net finance costs	2.6	<b>(2.9)</b>	(1.0)	-	(1.0)
<b>Profit/(loss) before taxation</b>		<b>57.2</b>	78.6	(5.3)	73.3
<b>Analysed as:</b>					
Underlying profit before taxation		<b>57.6</b>	84.4	(1.4)	83.0
Non-underlying (loss) before taxation	2.6	<b>(0.4)</b>	(5.8)	(3.9)	(9.7)
Income tax (expense)/credit	2.7	<b>(11.7)</b>	(13.1)	1.3	(11.8)
<b>Profit/(loss) for the year</b>		<b>45.5</b>	65.5	(4.0)	61.5
<b>Analysed as:</b>					
Underlying profit/(loss) after taxation		<b>44.5</b>	70.0	(1.0)	69.0
Non-underlying profit/(loss) after taxation	2.6	<b>1.0</b>	(4.5)	(3.0)	(7.5)
<b>Earnings per share</b>					
Basic earnings per share	2.8	<b>3.3p**</b>	4.7p	(0.3p)	4.4p
Diluted earnings per share	2.8	<b>3.1p**</b>	4.6p	(0.3p)	4.3p

\* The discontinued operations in 2021 are in respect of the Group's US business.

\*\* The Basic earnings per share and diluted earnings per share measure for the current year apply to continuing and total operations.

The notes on pages 118 to 196 form part of these financial statements



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 £m	2021 £m
<b>Profit for the year</b>		45.5	<b>61.5</b>
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit and loss:			
Defined benefit plan remeasurement gains and (losses)	5.1	8.2	<b>40.1</b>
Income tax relating to defined benefit plan remeasurement (gains) and losses	2.7	(1.6)	<b>(6.9)</b>
		6.6	<b>33.2</b>
<b>Items that are or may be reclassified to profit and loss:</b>			
Foreign currency translation differences of foreign operations		0.5	-
		0.5	-
Other comprehensive income for the year, net of tax		7.1	<b>33.2</b>
<b>Total comprehensive income for the year</b>		52.6	<b>94.7</b>
Total comprehensive income for the period attributable to equity shareholders of the company arises from:			
Continuing operations		52.6	<b>98.7</b>
Discontinued operations - see note 3.3		-	<b>(4.0)</b>
		52.6	<b>94.7</b>

The notes on pages 118 to 196 form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation differences £m	Retained earnings £m	Total £m
<b>Balance at 1 January 2022</b>	69.9	56.8	5.6	12.6	-	80.7	<b>225.6</b>
<b>Total comprehensive income for 2022</b>							
Profit for the year	-	-	-	-	-	45.5	<b>45.5</b>
Other comprehensive income for the year, net of tax	-	-	-	-	0.5	6.6	<b>7.1</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	0.5	52.1	<b>52.6</b>
Share based payments	-	-	-	-	-	3.3	<b>3.3</b>
Income tax relating to share based payments	-	-	-	-	-	(0.1)	<b>(0.1)</b>
Own shares issued by EBT	-	-	-	-	-	0.1	<b>0.1</b>
Own shares purchased by EBT	-	-	-	-	-	(0.5)	<b>(0.5)</b>
<b>Balance at 31 December 2022</b>	69.9	56.8	5.6	12.6	0.5	135.6	<b>281.0</b>
<b>Balance at 1 January 2021</b>	69.9	56.8	5.6	12.6	(1.0)	(17.2)	<b>126.7</b>
<b>Total comprehensive income for 2021</b>							
Profit for the year	-	-	-	-	-	61.5	<b>61.5</b>
Translation differences taken to profit and loss on termination of operation	-	-	-	-	1.0	-	<b>1.0</b>
Other comprehensive income for the year, net of tax	-	-	-	-	-	33.2	<b>33.2</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	1.0	94.7	<b>95.7</b>
Share based payments	-	-	-	-	-	2.9	<b>2.9</b>
Income tax relating to share based payments	-	-	-	-	-	0.3	<b>0.3</b>
<b>Balance at 31 December 2021</b>	69.9	56.8	5.6	12.6	-	80.7	<b>225.6</b>

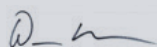
The notes on pages 118 to 196 form part of these financial statements

# CONSOLIDATED BALANCE SHEET

At 31 December 2022

	Notes	2022 £m	Restated see note 1 2021 £m
<b>Non-current assets</b>			
Property, plant and equipment	3.2	515.9	499.5
Goodwill	3.1	144.6	150.3
Other intangible assets	3.1	12.4	11.1
Finance lease receivables		14.8	15.5
Deferred tax assets	2.7	11.6	22.1
<b>Total non-current assets</b>		<b>699.3</b>	698.5
<b>Current assets</b>			
Inventories	3.4	620.3	512.8
Trade and other receivables	3.6	115.7	101.3
Finance lease receivables		2.4	2.1
Current tax assets		3.3	4.5
Cash and cash equivalents	4.2	171.9	200.1
Assets classified as held for sale	3.3	6.1	10.4
<b>Total current assets</b>		<b>919.7</b>	831.2
<b>Total assets</b>		<b>1,619.0</b>	1,529.7
<b>Current liabilities</b>			
Bank overdraft	4.2	(102.5)	(162.5)
Interest bearing loans and borrowings	4.2	(1.7)	-
Lease liabilities	4.7	(20.0)	(26.7)
Trade and other payables	3.7	(812.0)	(692.7)
Deferred income	3.8	(38.2)	(37.2)
<b>Total current liabilities</b>		<b>(974.4)</b>	(919.1)
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	4.2	(91.0)	(87.3)
Lease liabilities	4.7	(197.9)	(195.4)
Trade and other payables	3.7	(35.7)	(41.9)
Deferred income	3.8	(36.4)	(36.8)
Retirement benefit obligations	5.1	(2.6)	(23.6)
<b>Total non-current liabilities</b>		<b>(363.6)</b>	(385.0)
<b>Total liabilities</b>		<b>(1,338.0)</b>	(1,304.1)
<b>Net assets</b>		<b>281.0</b>	225.6
<b>Capital and reserves</b>			
Called up share capital	4.4	69.9	69.9
Share premium account	4.4	56.8	56.8
Capital redemption reserve	4.4	5.6	5.6
Other reserves	4.4	12.6	12.6
Translation reserve	4.4	0.5	-
Retained earnings		135.6	80.7
<b>Total equity attributable to equity shareholders of the Company</b>		<b>281.0</b>	225.6

Approved by the Board of Directors on 22 March 2023 and signed on its behalf by:



**W Berman**  
Chief Executive



**M S Willis**  
Chief Finance Officer

The notes on pages 118 to 196 form part of these financial statements  
Registered Company Number: 02304195

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2022

	Notes	2022 £m	2021 £m
<b>Cash flows from operating activities</b>			
Profit for the year		45.5	61.5
Adjustment for taxation		11.7	11.8
Adjustment for net financing expense		43.8	34.3
		101.0	107.6
Depreciation and amortisation		33.5	36.1
Share based payments		3.3	2.9
Profit on sale of businesses and property, plant and equipment		(7.7)	(2.7)
Impairment of goodwill		3.6	-
Impairment of property, plant and equipment		1.2	9.6
Contribution into defined benefit pension scheme		(13.1)	(12.8)
Changes in inventories	3.4	(119.8)	107.8
Changes in trade and other receivables		(15.2)	(1.1)
Changes in trade and other payables		150.8	(111.1)
Movement in contract hire vehicle balances	3.5	(20.9)	(36.8)
Cash generated from operations		116.7	99.5
Taxation paid		(1.4)	(7.1)
Bank and stocking interest paid		(25.5)	(17.5)
Lease interest paid		(14.7)	(12.6)
Finance lease interest received		1.0	0.9
<b>Net cash from operating activities</b>		<b>76.1</b>	<b>63.2</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of businesses	6.1	3.9	27.2
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	(44.3)	(18.6)
Proceeds from sale of property, plant, equipment and intangible assets	3.1, 3.2	13.3	5.4
Receipt of lease receivables		2.0	2.2
<b>Net cash (used in)/from investing activities</b>		<b>(25.1)</b>	<b>16.2</b>
<b>Cash flows from financing activities</b>			
Payment of lease liabilities		(22.2)	(27.2)
Repayment of loans		(90.5)	(88.8)
Proceeds from issue of loans (net of directly attributable transaction costs)		93.8	18.7
Disposal of shares by EBT		0.1	-
Purchase of shares by EBT		(0.5)	-
<b>Net cash outflow from financing activities</b>		<b>(19.3)</b>	<b>(97.3)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January		37.6	56.0
Effects of exchange rate changes on cash held		0.1	(0.5)
<b>Cash and cash equivalents at 31 December</b>	4.2	<b>69.4</b>	<b>37.6</b>

The notes on pages 118 to 196 form part of these financial statements.

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

	2022 £m	2021 £m
Net increase/(decrease) in cash and cash equivalents	31.7	(17.9)
Repayment of loans	90.5	88.8
Proceeds from issue of loans (net of directly attributable transaction costs)	(93.8)	(18.7)
Non-cash movements	(2.0)	(1.5)
Decrease in adjusted net debt in the year	26.4	50.7
Opening adjusted net debt	(49.7)	(100.4)
<b>Closing adjusted net debt</b>	<b>(23.3)</b>	<b>(49.7)</b>

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. Adjusted net debt is defined in note 4.2.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2022 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 2022 comprise the Group and its subsidiaries and the Group's interest in jointly controlled entities, together referred to as the 'Group'.

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 are prepared in accordance with International Financial Reporting Standards as adopted in the United Kingdom ("adopted IFRS").

The Group has elected to prepare its parent Company financial statements in accordance with FRS 101. These are presented on pages 197 to 208.

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

Notwithstanding net current liabilities of £54.7m as at 31 December 2022 for the Group, the Directors are, at the time of approving the financial statements, satisfied that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of a macro-economic downturn, a market correction in used pricing and shortfalls in both new and used 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 £97m together with cash balances and a requirement for ongoing access to rolling vehicle credit stocking facilities amounting to £582.7m at 31 December 2022 as disclosed in note 4.2. 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 to March 2026 and then March 2027. 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 remained compliant with its banking covenants throughout the year to 31 December 2022.

In the context of the above, the directors have prepared cash flow forecasts for the period to 31 March 2024 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 modelled scenarios as follows:

1. A base cash flow forecast. The 2023 figures in this forecast are based on the Group's 2023 budget, which reflect current run-rates and expected strategic improvements. The 2024 figures in the base cash flow forecast are based on the 2023 budget with a modest growth rate applied to gross profit and operating costs.
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. This considers both a worsening in economic conditions and restricted new car supply due to manufacturing constraints. In this scenario, capital expenditure has been reduced to run-rate expenditure and projects committed to and the directors have assessed that the business would operate with lower staffing levels

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Going concern *Continued*

through the non-replacement of leavers. This scenario demonstrates that the Group would remain well within its facility limits and would retain significant headroom on liquidity covenants. The scenario shows that the Group would also remain within its minimum EBITDA covenant although this is dependant upon the mitigating actions referred to above.

Based on the above, the directors are confident that the Group and Company will have sufficient funds to continue to meet its 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.

### Prior year adjustment

The Group has made adjustments to the presentation of the comparative Balance Sheet. The directors have considered that the overdraft balances of Group entities should be separately presented gross on the Consolidated Balance Sheet, rather than netted off against cash and cash equivalents held either by the same entity, or other Group entities, with the same bank. As a result, the Consolidated Balance Sheet as at 31 December 2021 has been restated as follows.

	2021 as reported £m	restatement £m	2021 restated £m
<b>Current Assets</b>			
Cash and cash equivalents	37.6	162.5	200.1
<b>Current liabilities</b>			
Bank overdraft	-	(162.5)	(162.5)
	37.6	-	37.6

The restatement did not result in any change to reported profit, earnings per share, net assets or cash flows reported in the 2021 financial year.

The impact on the opening Consolidated Balance Sheet as at 31 December 2020 is as follows:

	2020 as reported £m	restatement £m	2020 restated £m
<b>Current Assets</b>			
Cash and cash equivalents	56.0	187.6	243.6
<b>Current liabilities</b>			
Bank overdraft	-	(187.6)	(187.6)
	56.0	-	56.0

The restatement did not result in any change to reported profit, earnings per share, net assets or cash flows reported in the 2020 financial year.

As these individual overdraft accounts are an integral part of the Group's cash management they are still classified as cash and cash equivalents (see note 4.2) in the Consolidated Cash Flow Statement and therefore this reclassification has no effect on total cash flows in the comparative period.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Judgements

The Group applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. 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 £388.6m (2021: £351.4m))	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

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## SECTION 1 - BASIS OF PREPARATION

### **Basis of consolidation**

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

Subsidiaries 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.

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.

### **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. There was no income from government grants during 2022 (2021: £1.6m, being the Coronavirus Job Retention Scheme, is included within payroll expenses). No business rates relief was received in 2022 (2021: £8.7m was received by way of business rates relief by way of waiver of these charges)

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

### Impairment

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

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

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.

IFRS 17 Insurance Contracts is effective for annual periods beginning after 1 January 2023 and is not expected to have a significant impact on the Group's consolidated financial statements.

### 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

	2022 £m	2021 £m
Underlying operating profit	98.5	116.3
Gains on the sale of businesses and property, plant and equipment (see note 2.6)	7.7	2.7
Impairment of goodwill (see note 2.6)	(3.6)	-
Impairment of property, plant and equipment (see note 2.6)	(1.0)	-
Impairment of right of use assets (see note 2.6)	(0.2)	(9.6)
Aborted transaction related expenses (see note 2.6)	(0.4)	-
Termination and severance payments (see note 2.6)	(0.2)	(1.8)
Business closure income (see note 2.6)	0.2	-
Non-underlying operating profit/(loss) items	2.5	(8.7)
<b>Operating profit</b>	<b>101.0</b>	<b>107.6</b>

### Profit before tax reconciliation

	2022 £m	2021 £m
Underlying profit before tax	57.6	83.0
Non-underlying operating profit/(loss) items (see reconciliation above)	2.5	(8.7)
Non-underlying net finance costs (see note 2.6)	(2.9)	(1.0)
Non-underlying operating profit/(loss) and finance costs items	(0.4)	(9.7)
<b>Profit before tax</b>	<b>57.2</b>	<b>73.3</b>

### Profit after tax reconciliation

	2022 £m	2021 £m
Underlying profit after tax	44.5	69.0
Non-underlying operating profit/(loss) and finance costs items (see reconciliation above)	(0.4)	(9.7)
Non-underlying tax (see note 2.6)	1.4	2.2
Non-underlying operating profit/(loss), finance costs and tax items	1.0	(7.5)
<b>Profit after tax</b>	<b>45.5</b>	<b>61.5</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 1 - BASIS OF PREPARATION

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

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

**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 cash/(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.

### 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 - UK Motor

	<b>Group revenue 2022 £m</b>	Disposals revenue 2022 £m	Other non like-for-like revenue 2022 £m	<b>Like-for-like revenue 2022 £m</b>	<b>Group revenue 2021 £m</b>	Disposals revenue 2021 £m	Other non like-for-like revenue 2021 £m	<b>Like-for-like revenue 2021 £m</b>
Aftersales revenue	<b>276.1</b>	-	-	<b>276.1</b>	<b>261.9</b>	(5.1)	-	<b>256.8</b>
Used vehicle revenue	<b>1,808.6</b>	(0.2)	(0.7)	<b>1,807.7</b>	<b>1,708.4</b>	(10.8)	-	<b>1,697.6</b>
New vehicle revenue	<b>1,451.5</b>	-	-	<b>1,451.5</b>	<b>1,362.4</b>	(12.2)	-	<b>1,350.2</b>
Total Revenue	<b>3,536.2</b>	(0.2)	(0.7)	<b>3,535.3</b>	<b>3,332.7</b>	(28.1)	-	<b>3,304.6</b>

### Revenues by Department - US Motor

	<b>Group revenue 2022 £m</b>	Disposals revenue 2022 £m	Other non like-for-like revenue 2022 £m	<b>Like-for-like revenue 2022 £m</b>	<b>Group revenue 2021 £m</b>	Disposals revenue 2021 £m	Other non like-for-like revenue 2021 £m	<b>Like-for-like revenue 2021 £m</b>
Aftersales revenue	-	-	-	-	<b>2.8</b>	(2.8)	-	-
Used vehicle revenue	-	-	-	-	<b>3.0</b>	(3.0)	-	-
New vehicle revenue	-	-	-	-	<b>22.8</b>	(22.8)	-	-
Total Revenue	-	-	-	-	<b>28.6</b>	(28.6)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### Gross profit by Department - UK Motor

	Group gross profit 2022 £m	Disposals gross profit 2022 £m	Other non like-for-like gross profit 2022 £m	Like-for-like gross profit 2022 £m	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
Aftersales gross profit	139.5	0.3	-	139.8	133.2	(2.4)	-	130.8
Used vehicle gross profit	143.6	-	-	143.6	164.2	(0.2)	-	164.0
New vehicle gross profit	132.6	-	-	132.6	99.9	(0.9)	-	99.0
Total Gross profit	415.7	0.3	-	416.0	397.3	(3.5)	-	393.8

### Gross profit by Department - US Motor

	Group gross profit 2022 £m	Disposals gross profit 2022 £m	Other non like-for-like gross profit 2022 £m	Like-for-like gross profit 2022 £m	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
Aftersales gross profit	-	-	-	-	1.6	(1.6)	-	-
Used gross profit	-	-	-	-	0.2	(0.2)	-	-
New vehicle gross profit	-	-	-	-	2.2	(2.2)	-	-
Total Gross profit	-	-	-	-	4.0	(4.0)	-	-

### Underlying operating profit

	Group underlying operating profit/ (loss) 2022 £m	Disposals underlying operating profit 2022 £m	Other non like-for-like underlying operating profit 2022 £m	Like-for-like underlying operating profit 2022 £m	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
UK Motor	69.1	1.0	0.2	70.3	87.4	1.1	-	88.5
Software	11.0	-	-	11.0	12.5	-	-	12.5
Leasing	19.9	-	-	19.9	17.5	-	-	17.5
US Motor	(1.5)	1.5	-	-	(1.1)	1.1	-	-
Total underlying operating profit	98.5	2.5	0.2	101.2	116.3	2.2	-	118.5

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

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

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

### 2.1 Revenue

#### Accounting policy

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

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

#### UK Motor segment and US Motor segment

The UK Motor 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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.1 Revenue *continued*

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
New and used vehicles, parts and accessories	The Group recognises revenue on the sale of motor vehicles and parts revenue when they have been supplied to the customer. The satisfaction of the performance obligation occurs on delivery or collection of the product. Vehicles are usually paid for prior to delivery though selected corporate operators may be granted terms of up to seven days. Parts are either paid for on delivery or within one month, dependant upon whether or not the customer is retail or has trade terms.
Aftersales service and repairs	The Group recognises revenue when the one time service has been completed. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Payment terms are upon completion of the service or within one month, dependant upon whether or not the customer is retail or trade.
Commissions received	The Group receives commissions when it arranges finance and insurance packages for its customers to purchase its products and services, acting as agent on behalf of various finance and insurance companies. Any commission earned is recognised when the customer draws down the finance or commences the insurance policy from the supplier which coincides with the delivery of the product or service. Commissions receivable are paid typically in the month after the finance is drawn down.
Vehicle warranty	The Group offers a warranty product on vehicles supplied with a guarantee period typically ranging from 3 months to 3 years. The Group recognises revenue on warranties on a straight-line basis over the warranty period. The performance obligation of the Group, being the rectification of mechanical faults on vehicles sold, will be the period over which the customer can exercise their rights under the warranty and therefore revenue should be recognised over the period of the warranty. Warranties are paid for prior to the commencement of the policy. The unrecognised income is held within deferred income (see note 3.8). There were no such warranties offered for sale in the US Motor segment.



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.1 Revenue *continued*

#### Leasing

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.1 Revenue *continued*

#### Software

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

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

## SECTION 2 - RESULTS AND TRADING

### 2.1 Revenue *continued*

Disaggregation of revenue

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

	__UK Motor__		__Software__		__Leasing__		discontinued __US Motor__		__Total__	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	<b>2022 £m</b>	2021 £m
<b>Primary geographical markets</b>										
Europe	3,536.2	3,332.7	18.1	18.8	64.7	69.1	-	-	<b>3,619.0</b>	3,420.6
North America	-	-	-	-	-	-	-	28.6	-	28.6
Africa	-	-	0.6	0.5	-	-	-	-	<b>0.6</b>	0.5
Asia	-	-	0.4	0.2	-	-	-	-	<b>0.4</b>	0.2
Revenue from external customers	3,536.2	3,332.7	19.1	19.5	64.7	69.1	-	28.6	<b>3,620.0</b>	3,449.9
<b>Major products/service lines</b>										
Aftersales revenue	276.1	261.9	-	-	-	-	-	2.8	<b>276.1</b>	264.7
Used vehicle revenue	1,808.6	1,708.4	-	-	-	-	-	3.0	<b>1,808.6</b>	1,711.4
New vehicle revenue	1,451.5	1,362.4	-	-	-	-	-	22.8	<b>1,451.5</b>	1,385.2
Software revenue	-	-	19.1	19.5	-	-	-	-	<b>19.1</b>	19.5
Leasing revenue	-	-	-	-	64.7	69.1	-	-	<b>64.7</b>	69.1
Revenue from external customers	3,536.2	3,332.7	19.1	19.5	64.7	69.1	-	28.6	<b>3,620.0</b>	3,449.9
<b>Timing of revenue recognition</b>										
At point in time	3,526.7	3,322.7	1.4	1.9	30.9	32.1	-	28.6	<b>3,559.0</b>	3,385.3
Over time	9.5	10.0	17.7	17.6	33.8	37.0	-	-	<b>61.0</b>	64.6
Revenue from external customers	3,536.2	3,332.7	19.1	19.5	64.7	69.1	-	28.6	<b>3,620.0</b>	3,449.9

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.1 Revenue *continued*

#### Contract liabilities

The Group recognises the following contract liabilities:

	2022 £m	2021 £m
Deposits received from customers	30.4	26.2
Unearned proportion of warranty policies sold	21.2	16.5

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

	2022 £m	2021 £m
Net operating expenses:		
Distribution costs	(185.2)	(171.5)
Administrative expenses	(181.3)	(166.5)
Impairment loss on trade receivables	(0.3)	(0.2)
Rents received	2.9	1.8
	(363.9)	(336.4)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments

The Group has revised its reporting segments. In January 2022 the Group re-organised its management and reporting structure. The significant changes were that the Franchised UK Motor and Car Store operations were brought under the management of the UK Motor operation. This revised segmental structure is reflected in the internal reporting structure as presented to the Chief Operating Decision Maker. In the 2022 financial statements therefore, the Franchised UK Motor and Car Store segments are no longer reported separately.

The results of the Franchised UK Motor and Car Store segments for the comparative period have been aggregated into the new UK Motor Group segment and is re-presented as follows for the period ended 31 December 2021:

#### UK Motor segment restatement

	Franchised UK Motor £m	Car Store £m	UK Motor segment as restated 31 Dec 21 £m
Total gross segment revenue	3,191.2	141.5	<b>3,332.7</b>
Inter-segment revenue	-	-	-
<b>Revenue from external customers</b>	<b>3,191.2</b>	<b>141.5</b>	<b>3,332.7</b>
Operating profit before non-underlying items	85.8	1.6	<b>87.4</b>
Other income and non-underlying items	(4.5)	(0.3)	<b>(4.8)</b>
Operating profit	81.3	1.3	<b>82.6</b>
Finance expense	-	-	-
Finance income	-	-	-
<b>Segmental profit before tax</b>	<b>81.3</b>	<b>1.3</b>	<b>82.6</b>
Other items included in the income statement are as follows:			
Depreciation and impairment	(31.1)	(0.1)	<b>(31.2)</b>
Impairment of property, plant and equipment	(4.3)	(0.3)	<b>(4.6)</b>
Amortisation	(0.4)	-	<b>(0.4)</b>
Share based payments	(2.9)	-	<b>(2.9)</b>
Termination and severance costs	(1.8)	-	<b>(1.8)</b>
Business closure costs	(0.2)	-	<b>(0.2)</b>
Other income - profit on the sale of businesses and property, plant and equipment	1.8	-	<b>1.8</b>

Following the revisions to the Group's operating segments as outlined above there are now four reportable segments, as described below, which are the Group's strategic business units. The segments offer different ranges of products and services and are managed separately because they require their own 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:

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

**UK Motor.** This segment comprises the Group's motor vehicle retail, parts wholesale and fleet operations from its franchised dealer network and the Group's used vehicle retail operation branded Car Store. These encompass the sale of new and used motor cars, motorbikes, trucks and vans, together with associated aftersales activities of service, body repair and parts sales.

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

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

**US Motor.** This segment comprises the Group's retail operation in California in the United States encompassing the sale of new and used motor cars, together with associated aftersales activities of service and parts sales. This segment ceased trading in 2021 following the sale of its remaining stores.

The tables of financial performance presented in the Operational and Financial Review on pages 24 to 37 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 2022

	UK Motor £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	Total £m
Total gross segment revenue	3,536.2	25.4	83.7	-	3,645.3	-	<b>3,645.3</b>
Inter-segment revenue	-	(6.3)	(19.0)	-	(25.3)	-	<b>(25.3)</b>
<b>Revenue from external customers</b>	<b>3,536.2</b>	<b>19.1</b>	<b>64.7</b>	<b>-</b>	<b>3,620.0</b>	<b>-</b>	<b>3,620.0</b>
Operating profit/(loss) before non-underlying items	69.1	11.0	19.9	-	100.0	(1.5)	<b>98.5</b>
Non-underlying items	2.5	-	-	-	2.5	-	<b>2.5</b>
Operating profit/(loss)	71.6	11.0	19.9	-	102.5	(1.5)	<b>101.0</b>
Finance expense	-	-	(2.5)	(42.3)	(44.8)	-	<b>(44.8)</b>
Finance income	-	-	-	1.0	1.0	-	<b>1.0</b>
<b>Segmental profit/(loss) before tax</b>	<b>71.6</b>	<b>11.0</b>	<b>17.4</b>	<b>(41.3)</b>	<b>58.7</b>	<b>(1.5)</b>	<b>57.2</b>

Other items included in the income statement are as follows:

Depreciation and impairment	(28.5)	(0.1)	(36.1)	-	(64.7)	-	<b>(64.7)</b>
Impairment of property, plant and equipment	1.2	-	-	-	1.2	-	<b>1.2</b>
Amortisation	(0.6)	(4.2)	(0.1)	-	(4.9)	-	<b>(4.9)</b>
Share based payments	3.3	-	-	-	3.3	-	<b>3.3</b>
Termination and severance costs	(0.2)	-	-	-	(0.2)	-	<b>(0.2)</b>
Business closure costs	0.2	-	-	-	0.2	-	<b>0.2</b>
Other income - profit on the sale of businesses and property, plant and equipment	7.7	-	-	-	7.7	-	<b>7.7</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

#### Year ended 31 December 2021

	UK Motor £m	Software £m	Leasing £m	Group interest £m	Continuing operations Sub total £m	Discontinued operations US Motor £m	Total £m
Total gross segment revenue	3,332.7	24.4	89.9	-	3,447.0	28.6	<b>3,475.6</b>
Inter-segment revenue	-	(4.9)	(20.8)	-	(25.7)	-	<b>(25.7)</b>
<b>Revenue from external customers</b>	<b>3,332.7</b>	<b>19.5</b>	<b>69.1</b>	<b>-</b>	<b>3,421.3</b>	<b>28.6</b>	<b>3,449.9</b>
Operating profit before non-underlying items	87.4	12.5	17.5	-	117.4	(1.1)	<b>116.3</b>
Non-underlying items	(4.8)	-	-	-	(4.8)	(3.9)	<b>(8.7)</b>
Operating profit	82.6	12.5	17.5	-	112.6	(5.0)	<b>107.6</b>
Finance expense	-	-	(2.7)	(32.2)	(34.9)	(0.3)	<b>(35.2)</b>
Finance income	-	-	-	0.9	0.9	-	<b>0.9</b>
<b>Segmental profit before tax</b>	<b>82.6</b>	<b>12.5</b>	<b>14.8</b>	<b>(31.3)</b>	<b>78.6</b>	<b>(5.3)</b>	<b>73.3</b>

Other items included in the income statement are as follows:

Depreciation and impairment	(31.2)	(0.6)	(38.5)	-	(70.3)	(0.1)	<b>(70.4)</b>
Impairment of property, plant and equipment	(4.6)	-	-	-	(4.6)	(5.0)	<b>(9.6)</b>
Amortisation	(0.4)	(3.7)	(0.1)	-	(4.2)	-	<b>(4.2)</b>
Share based payments	(2.9)	-	-	-	(2.9)	-	<b>(2.9)</b>
Termination and severance costs	(1.8)	-	-	-	(1.8)	-	<b>(1.8)</b>
Business closure costs	(0.2)	-	-	-	(0.2)	0.2	<b>-</b>
Other income - profit on the sale of businesses and property, plant and equipment	1.8	-	-	-	1.8	0.9	<b>2.7</b>

#### Geographical information.

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.4 Staff costs

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

	2022 Number	2021 Number
Sales	1,823	1,811
Aftersales	2,487	2,470
Administration	1,216	1,208
	<b>5,526</b>	5,489

Costs incurred in respect of these employees were:

	2022 £m	2021 £m
Wages and salaries	192.1	182.9
Less - receipts from the Government Coronavirus Job Retention Scheme	-	(1.6)
Social security costs	20.4	17.9
Contributions to defined contribution plans (see note 5.1)	11.7	7.2
Cost recognised for defined benefit plans (see note 5.1)	0.3	1.0
Share based payments (see note 4.6)	3.3	2.9
	<b>227.8</b>	210.3

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 77 to 95.

During the previous year the Group appropriately used government assistance from the Coronavirus Job Retention Scheme and has benefitted from £1.6m of furlough support during 2021, which was 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. No Government grants were received in 2022.

### 2.5 Audit fees

	2022 £000	2021 £000
Auditor's remuneration:		
Fees payable to the company's Auditor for the audit of the company's annual accounts	770.0	513.0
Fees payable to the company's Auditor and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	385.0	300.0
Audit-related assurance services	155.0	140.0
	<b>1,310.0</b>	953.0



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.6 Non-underlying items

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.

	2022 £m	2021 £m
Within operating expenses:		
Impairment of goodwill	(3.6)	-
Impairment of property, plant and equipment	(1.0)	-
Impairment of right of use assets	(0.2)	(9.6)
Termination and severance costs	(0.2)	(1.8)
Aborted transaction related expenses	(0.4)	-
Business closure income	0.2	-
	<b>(5.2)</b>	(11.4)
Within other income - gains on the sale of businesses, property, plant and equipment:		
Gains on the sale of businesses	0.3	0.7
Gains on the sale of property	7.4	2.0
	<b>7.7</b>	2.7
Within net finance expense:		
Costs incurred on refinancing	(2.6)	-
Net interest on pension scheme obligations	(0.3)	(1.0)
	<b>(2.9)</b>	(1.0)
<b>Total non-underlying items before tax</b>	<b>(0.4)</b>	(9.7)
Non-underlying items in tax	1.4	2.2
<b>Total non-underlying items after tax</b>	<b>1.0</b>	(7.5)

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

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £3.6m made during the year (2021: £nil) (see note 3.1). The £3.6m impairment related to the goodwill in respect of the DAF business which was classified for sale when the Group presented its interim results at 30 June 2022, prior to its eventual sale in October 2022.

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 (2021: £nil) and property, plant and equipment of £1.2m (of which £0.2m was in respect of right of use assets) (2021: £9.6m all 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 (2021: £nil).

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

### 2.6 Non-underlying items *continued*

There were termination and severance costs of £0.2m in FY22 (2021: £1.8m of which £1.3m related to the transfer of Finance process from dealerships to a centralised shared service centre as part of the Finance Transformation in the UK). This cost is driven by a combination of a small number of redundancy payments and relocation costs.

During the year approaches and subsequent bids were made by external parties to the purchase the Company. As a consequence professional and advisory fees of £0.4m were incurred in assisting with the due diligence process undertaken by the parties. No internal costs have been allocated against this process as non-underlying in respect of time and resource of Group management.

Following the disposal of the US business in 2021 a release of an over accrued settlement resulted in a credit of £0.2m being recognised in the year.

Other income consists of the profit or loss on disposal of businesses and property, plant and equipment. This comprises a £0.3m gain (2021: £0.7m gain in respect of discontinued operations ) on disposals of motor vehicle dealerships during the year, a £7.4m profit on sale of properties (2021: £2.0m). 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.

During the year, upon the successful completion of the refinancing of the Group in March 2022, a net loss of £2.6m was recorded which comprised of settlement of obligations under the previous arrangement.

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 £0.3m has been recognised during the year (2021: £1.0m).

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 2 - RESULTS AND TRADING

### 2.7 Taxation

#### Accounting policy

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

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

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

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

#### Estimates and judgements

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.7 Taxation *continued*

<b>Taxation - Income statement</b>	<b>2022</b>	2021
	<b>£m</b>	£m
UK corporation tax:		
Current tax on profit for the year	<b>2.6</b>	3.9
Adjustments in respect of prior periods	<b>0.3</b>	-
	<b>2.9</b>	3.9
Overseas taxation:		
Current tax on profit for the year	-	1.1
Adjustments in respect of prior periods	-	(0.9)
	-	0.2
Total current tax	<b>2.9</b>	4.1
Deferred tax expense:		
Origination and reversal of temporary differences	<b>8.3</b>	8.2
Adjustments in respect of prior periods	<b>0.5</b>	(0.5)
Total deferred tax	<b>8.8</b>	7.7
<b>Total income tax expense in the income statement</b>	<b>11.7</b>	11.8
Factors affecting the tax charge for the period:		
The tax assessed is different from the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)		
The differences are explained below:	<b>2022</b>	2021
	<b>£m</b>	£m
Profit before taxation	<b>57.2</b>	73.3
Tax on profit at UK rate of 19.00% (2021: 19.00%)	<b>10.9</b>	13.9
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	<b>0.6</b>	0.5
Permanent differences arising in respect of fixed assets	<b>0.5</b>	0.8
Unrecognised losses	<b>0.3</b>	0.1
Tax rate differential on overseas income	-	(0.1)
Non-underlying items (see below)	<b>(1.4)</b>	(0.4)
Impact of UK corporation tax rate change	-	(1.6)
Adjustments to tax charge in respect of previous periods	<b>0.8</b>	(1.4)
Total income tax expense in the income statement	<b>11.7</b>	11.8
<b>Taxation - Other comprehensive income</b>	<b>2022</b>	2021
	<b>£m</b>	£m
Relating to defined benefit plan remeasurement gains	<b>(1.6)</b>	(6.9)
Other short term temporary differences	<b>(0.1)</b>	0.3
	<b>(1.7)</b>	(6.6)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.7 Taxation *continued*

#### **Tax rate**

The UK tax rate applying throughout 2022 was 19%, this rate is set to increase to 25% on 1 April 2023. The rate change to 25% was substantively enacted on 24 May 2021 and as such in the prior year the portion of the deferred tax assets and liabilities forecast to remain at 31 March 2023 were revalued to 25% which gave a tax credit to the 2021 income statement of £1.6m.

In 2021 the US operations ceased trading following the disposal of the remaining two dealerships. During 2022 the US operations incurred winding-up costs on which no deferred tax asset has been recognised.

#### **Factors affecting the tax charge**

The tax charge is decreased by the release of prior year provisions relating to UK corporation tax returns. The tax charge is increased 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 £1.4m (2021: £2.2m). 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 covered by capital losses or roll-over relief (which constitute utilisation of previously unrecognised deferred tax assets, see below).

#### **Unrecognised deferred tax assets**

There are unutilised tax losses within the Group of £13.8m (2021: £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 £52.5m (2021: £46.7m). 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 cumulative losses of £0.1m. Operations in the USA are now in a winding-down phase following the disposal of the remaining two car dealerships in 2021. No deferred tax asset has been recognised on the US losses of £1.2m. The unrecognised carried forward losses related to operations in Sweden and the USA carry forward indefinitely. The UK capital losses carry forward indefinitely but are subject to restriction on their use when capital gains are realised.

#### **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.

	<b>2022</b>	2021
	<b>£m</b>	£m
Deferred tax assets	<b>11.6</b>	22.1

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.7 Taxation *continued*

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

	At 1 January 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	36.4	(7.7)	(6.6)	22.1

	At 1 January 2022 £m	(Charged) to consolidated income statement £m	(Charged) to other comprehensive income £m	At 31 December 2022 £m
Property, plant and equipment	8.0	(1.7)	-	6.3
Retirement benefit obligations	5.1	(2.5)	(1.6)	1.0
Other short term temporary differences	1.7	(1.2)	(0.1)	0.4
Losses	7.3	(3.4)	-	3.9
Tax assets/(liabilities)	22.1	(8.8)	(1.7)	11.6

The Group remained profitable in 2022 after returning to profit in 2021. During 2022 £3.4m of the deferred tax asset in respect of losses was utilised. The use of losses is restricted to 50% of taxable profits over £5.0m resulting in a spreading of losses across periods where brought forward losses are over £5.0m. The deferred tax asset on losses remaining at 31 December 2022 is £3.9m. This deferred tax asset on losses has been recognised as it is considered probable that the losses will be utilised. In order to support the recognition of the £3.9m 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 2024. A plausible downside case was also modelled which included reduced sales volumes and margins and is the same model used for going-concern analysis; this downside case modelling showed that the deferred tax asset on losses would also be recovered by 2024.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 2 - RESULTS AND TRADING

### 2.8 Earnings per share

#### Accounting policy

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

#### Earnings per share calculation

	2022 Earnings per share pence	2022 Earnings Total £m	2021 Earnings per share pence	2021 Earnings Total £m
Basic earnings per share from continuing operations	3.3	45.5	4.7	65.5
Basic earnings per share from discontinued operations	-	-	(0.3)	(4.0)
Basic earnings per share	3.3	45.5	4.4	61.5
Adjusting items:				
Non-underlying items attributable to the parent from continuing operations	-	0.4	0.4	5.8
Non-underlying items attributable to the parent from discontinued operations	-	-	0.3	3.9
Non-underlying items attributable to the parent (see note 2.6)	-	0.4	0.7	9.7
Tax effect of non-underlying items from continuing operations	(0.1)	(1.4)	(0.3)	(3.1)
Tax effect of non-underlying items from discontinued operations	-	-	0.1	0.9
Tax effect of non-underlying items	(0.1)	(1.4)	(0.2)	(2.2)
Underlying earnings per share from continuing operations (Non-GAAP measure)	3.2	44.5	4.9	68.2
Underlying earnings per share from discontinued operations (Non-GAAP measure)	-	-	0.1	0.8
Underlying earnings per share (Non-GAAP measure)	3.2	44.5	5.0	69.0
Diluted earnings per share from continuing operations	3.1	45.5	4.6	65.5
Diluted earnings per share from discontinued operations	-	-	(0.3)	(4.0)
Diluted earnings per share	3.1	45.5	4.3	61.5
Diluted earnings per share - underlying from continuing operations (Non-GAAP measure)	3.1	44.5	4.8	68.2
Diluted earnings per share - underlying from discontinued operations (Non-GAAP measure)	-	-	0.1	0.8
Diluted earnings per share - underlying (Non-GAAP measure)	3.1	44.5	4.9	69.0

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

	2022 Number	2021 Number
Weighted average number of ordinary shares in issue	1,392.9	1,390.7
Weighted average number of dilutive shares under option	51.8	25.1
Weighted average number of shares in issue taking account of applicable outstanding share options	1,444.7	1,415.8
Non-dilutive shares under option	20.7	28.7

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

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

	Goodwill £m	Development costs £m	Other intangibles £m	Total £m
<b>Cost</b>				
At 1 January 2021	406.8	20.4	4.4	<b>431.6</b>
Additions	-	5.0	0.1	<b>5.1</b>
At 31 December 2021	406.8	25.4	4.5	<b>436.7</b>
At 1 January 2022	406.8	25.4	4.5	<b>436.7</b>
Additions	-	5.7	0.5	<b>6.2</b>
Disposals	(8.2)	-	(0.1)	<b>(8.3)</b>
At 31 December 2022	398.6	31.1	4.9	<b>434.6</b>
<b>Amortisation</b>				
At 1 January 2021	256.5	11.0	3.6	<b>271.1</b>
Amortised during the year	-	3.7	0.5	<b>4.2</b>
At 31 December 2021	256.5	14.7	4.1	<b>275.3</b>
At 1 January 2022	256.5	14.7	4.1	<b>275.3</b>
Amortised during the year	-	4.2	0.7	<b>4.9</b>
Impairment of goodwill on sale of DAF business	3.6	-	-	<b>3.6</b>
Disposals	(6.1)	-	(0.1)	<b>(6.2)</b>
At 31 December 2022	254.0	18.9	4.7	<b>277.6</b>
<b>Carrying amounts</b>				
At 1 January 2021	150.3	9.4	0.8	<b>160.5</b>
At 31 December 2021	150.3	10.7	0.4	<b>161.4</b>
At 31 December 2022	144.6	12.2	0.2	<b>157.0</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

The following have been recognised in the income statement within net operating expenses:	2022 £m	2021 £m
Amortisation of internally generated intangible assets	4.2	3.7
Amortisation of other intangible assets	0.7	0.5
Impairment of goodwill	3.6	-
Research and development costs	1.2	1.0

Goodwill is allocated across multiple cash-generating units which are UK Motor franchise groups, Pinewood and Leasing. This is the lowest level at which cash-generating units are formed. Therefore there is a consistent approach to performing the 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 2023. The 2023 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 2024 to 2027 forecast represents a projection from the 2023 bottom up forecast with new volume growth based on the latest market projections and run-rates applied to determine used volume growth, with associated gross profits calculated from adjusted GPUs. Short term income and costs growth have been applied at 2.0% and 2.5% respectively. These have been applied based on short term market inflation assumptions. The directors have considered the impact of climate change in respect of the impairment testing of goodwill. Climate change is impacting the profile of vehicles the group sells, but is not fundamentally impacting the total cash flows in each CGU and therefore no specific adjustments have been made.

All goodwill CGUs carrying values have been based on their respective value in use.

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% (2021: 2.0%) has been assumed beyond 2027. The growth rate of 2.0% that has been used in the impairment calculations is based on long-term inflation.

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £3.6m made during the year (2021: £nil). The £3.6m impairment related to the goodwill in respect of the DAF business which was classified for sale when the Group presented its interim results at 30 June 2022, prior to its eventual sale in October 2022.

Goodwill by segment	2022 £m	2021 £m
UK Motor	122.3	128.0
Pinewood	0.3	0.3
Leasing	22.0	22.0
	144.6	150.3

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

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. Pinewood and Leasing pre-tax discount rates is 16.7% (2021: 15.2% and 11.3% respectively). Please see the below table for the UK Motor Segment:

UK Motor CGUs	Goodwill Value £m	Current Headroom £m	Pre-tax Discount Rate
Ford	69.8	56.1	13.9%
Vauxhall	35.2	6.8	12.9%
Other UK Motor	17.3	56.1	8.2% - 12.6%
	122.3	119.0	

#### Sensitivity of assumptions

The forecasts used to determine impairment are sensitive to the key assumptions used in preparing those forecasts. Future uncertainty with respect to the markets we operate in could have an effect on sales volumes and margins and the general costs of doing business. The key assumptions used in our forecasts are the vehicle volumes and margins. The sensitivities below indicate the total change in the value in use forecast, keeping other assumptions constant.

The directors and management have considered and assessed reasonably possible changes to the key assumptions. Within a downside scenario, the reasonably possible changes to the key assumptions are a severe downturn to vehicle volumes and margins. This considers both a worsening in economic conditions and restricted new car supply due to manufacturing constraints. This gives sensitivity of an overall reduction in free cashflow of 11.2%.

This downside sensitivity, there was no effect on both the Pinewood and Leasing segment goodwill values, only UK Motor, which gives rise to an impairment charge to the Vauxhall CGU of £7.5m, no other CGU impairment noted. The breakeven point for the Vauxhall CGU would require a reduction in both new and used units of 2.8% into perpetuity or a reduction in both new and used GPU of 1.2% into perpetuity.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.2 Property, plant and equipment *continued*

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

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

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

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	Total £m
<b>Cost</b>					
At 1 January 2021	689.1	85.2	25.7	230.4	<b>1,030.4</b>
Reclassification	-	-	(22.7)	-	<b>(22.7)</b>
Exchange adjustments	0.1	-	-	-	<b>0.1</b>
Additions	17.4	4.4	0.1	42.4	<b>64.3</b>
Business disposals	-	(1.6)	-	-	<b>(1.6)</b>
Other disposals	(19.9)	(1.5)	(0.6)	-	<b>(22.0)</b>
Contract hire vehicles transferred to inventory	-	-	-	(48.0)	<b>(48.0)</b>
Classified as non-current assets held for sale	(10.5)	-	-	-	<b>(10.5)</b>
Reinstated from non-current assets held for sale	7.1	0.1	-	-	<b>7.2</b>
At 31 December 2021	683.3	86.6	2.5	224.8	<b>997.2</b>
At 1 January 2022	683.3	86.6	2.5	224.8	<b>997.2</b>
Additions	47.5	10.3	0.2	46.6	<b>104.6</b>
Business disposals	(0.5)	(1.9)	-	-	<b>(2.4)</b>
Other disposals	(39.0)	(9.9)	(0.3)	-	<b>(49.2)</b>
Contract hire vehicles transferred to inventory	-	-	-	(51.4)	<b>(51.4)</b>
Classified as non-current assets held for sale	(2.8)	-	-	-	<b>(2.8)</b>
Reinstated from non-current assets held for sale	3.8	-	-	-	<b>3.8</b>
At 31 December 2022	692.3	85.1	2.4	220.0	<b>999.8</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.2 Property, plant and equipment *continued*

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Contract hire vehicles £m	Total £m
<b>Depreciation</b>					
At 1 January 2021	320.7	59.0	4.9	73.0	<b>457.6</b>
Reclassification	-	-	(3.8)	-	<b>(3.8)</b>
Exchange adjustments	0.1	-	-	-	<b>0.1</b>
Charge for the year	24.8	6.6	0.5	38.5	<b>70.4</b>
Impairment	9.6	-	-	-	<b>9.6</b>
Business disposals	-	(1.2)	-	-	<b>(1.2)</b>
Other disposals	(14.0)	(0.7)	(0.6)	-	<b>(15.3)</b>
Contract hire vehicles transferred to inventory	-	-	-	(17.9)	<b>(17.9)</b>
Classified as non-current assets held for sale	(2.7)	-	-	-	<b>(2.7)</b>
Reinstated from non-current assets held for sale	0.8	0.1	-	-	<b>0.9</b>
At 31 December 2021	339.3	63.8	1.0	93.6	<b>497.7</b>
At 1 January 2022	339.3	63.8	1.0	93.6	<b>497.7</b>
Charge for the year	21.6	6.9	0.1	36.1	<b>64.7</b>
Impairment	1.0	0.2	-	-	<b>1.2</b>
Business disposals	(0.5)	(1.7)	-	-	<b>(2.2)</b>
Other disposals	(33.9)	(9.3)	(0.3)	-	<b>(43.5)</b>
Contract hire vehicles transferred to inventory	-	-	-	(34.6)	<b>(34.6)</b>
Classified as non-current assets held for sale	(0.9)	-	-	-	<b>(0.9)</b>
Reinstated from non-current assets held for sale	1.5	-	-	-	<b>1.5</b>
At 31 December 2022	328.1	59.9	0.8	95.1	<b>483.9</b>
<b>Carrying amounts</b>					
At 1 January 2021	368.4	26.2	20.8	157.4	<b>572.8</b>
At 31 December 2021	344.0	22.8	1.5	131.2	<b>499.5</b>
At 31 December 2022	364.2	25.2	1.6	124.9	<b>515.9</b>
<b>Assets leased out under operating leases</b>					
Cost at 31 December 2022	30.2	-	-	220.0	<b>250.2</b>
Accumulated depreciation at 31 December 2022	(13.9)	-	-	(95.1)	<b>(109.0)</b>
Accumulated impairment at 31 December 2022	(4.4)	-	-	-	<b>(4.4)</b>
Carrying value of assets leased out under operating leases at 31 December 2022	11.9	-	-	124.9	<b>136.8</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.2 Property, plant and equipment *continued*

Property, plant and equipment includes right-of-use assets of £130.5m (see Note 4.7).

During the year two properties were re-classified as property, plant and equipment following a decision to withdraw them from sale. The properties have been re-instated at the lower of their recoverable amount, or the carrying amount had the assets never been moved to assets held for sale. In this instance the properties were re-instated at their recoverable values having been previously impaired down to those values.

	<b>2022</b>	2021
	<b>£m</b>	£m
Building projects currently under construction for which no depreciation has been charged during the year	<b>7.6</b>	8.7
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment	<b>2.8</b>	7.1
Cumulative interest charges capitalised as construction costs and included in land and buildings	<b>6.0</b>	5.2

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

Depreciation of property, plant and equipment - leased	<b>15.2</b>	18.5
Depreciation of contract hire vehicles - leased	<b>36.1</b>	38.5
Depreciation of property, plant and equipment - owned	<b>13.4</b>	13.4

<b>Cash flow statement information</b>	<b>2022</b>	2021
	<b>£m</b>	£m
Additions to property, plant, equipment and intangible assets:		
Additions to land and buildings	<b>(47.5)</b>	(17.4)
Additions to plant and equipment	<b>(10.3)</b>	(4.4)
Additions to motor vehicles	<b>(0.2)</b>	(0.1)
Additions to intangible assets (see note 3.1)	<b>(6.2)</b>	(5.1)
Total additions	<b>(64.2)</b>	(27.0)
Less additions of property, plant and equipment acquired under leases for which no cash flow arises (excludes fees capitalised of £2.6m (2021: £0.1)) (see note 4.7)	<b>19.9</b>	8.7
Cash flows relating to additions of property, plant and equipment made by the US disposal group disclosed within assets held for sale	-	(0.3)
Cash flows from investing activities in respect of additions to property, plant and equipment	<b>(44.3)</b>	(18.6)

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.3 Assets held for sale and discontinued operations

#### Accounting policy

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

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

#### Discontinued operations

There were no businesses in the Group classified as a discontinued operation in 2022. During the previous period, 2021, the Group sold its two remaining stores in its US Business, which was shown as a discontinued operation within the comparative information in these consolidated financial statements.

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.

	<b>2022</b>	2021
	<b>£m</b>	£m
Net cash used in operating activities	-	(5.4)
Net cash from investing activities	-	27.6
Net cash used in financing activities	-	(31.3)
Net cash decrease generated by discontinued operation	-	(9.1)

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

	<b>2022</b>	2021
	<b>pence</b>	pence
Basic earnings per share from discontinued operation	-	(0.3)
Underlying basic earnings per share from discontinued operation	-	(0.1)
Diluted earnings per share from discontinued operation	-	(0.3)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

#### Balance sheet

The Group holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during 2023. 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 comprise:	<b>2022</b>	2021
	<b>£m</b>	£m
Property, plant and equipment	<b>6.1</b>	10.4

#### Income statement

The following items have been credited/(charged) to the income statement during the year:	Income statement category	<b>2022</b>	2021
		<b>£m</b>	£m
Profit on sale of assets classified as held for sale	Other income - gains on the sale of businesses and property, plant and equipment	<b>8.0</b>	1.7

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £0.1m would have been recognised (2021: £0.4m).

### 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.



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.4 Inventories *continued*

#### Balance sheet

	<b>2022</b>	2021
	<b>£m</b>	£m
New and used vehicles	<b>559.7</b>	461.2
Consignment vehicles	<b>35.3</b>	27.2
Vehicle parts and other inventories	<b>25.3</b>	24.4
	<b>620.3</b>	512.8
	<b>2022</b>	2021
	<b>£m</b>	£m
Inventories recognised as an expense during the year	<b>3,126.2</b>	2,972.0
Carrying value of inventories subject to retention of title clauses	<b>462.1</b>	447.8
Write-down of inventories to net realisable value (included within cost of sales)	<b>8.1</b>	10.1

Included within the write-down of inventories to net realisable value is the write-down of used vehicle inventory of £6.9m (2021: £8.0m). The key assumptions underpinning the write-down of 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. Sensitivities have been performed on the key assumptions; (i) a 30 day sensitivity has been used for the time to sell each vehicle as this is a plausible scenario and (ii) a £500 sensitivity has been used for the expected sales price at the date of sale as in the region of £500 variations in GPUs have been seen in previous reporting periods.

If the average time to sell a vehicle is increased by 30 days then it would increase the write-down of the used vehicle inventory by £2.5m (2021: £0.2m). If the expected sales prices at the date of sale were to decrease by £500 per vehicle, then it would increase the value of the write-down of used vehicle inventory by £3.7m (2021: £4.1m) at the balance sheet date. Whereas if the average time to sell a vehicle is decreased by 30 days then it would decrease the value of the write-down of used vehicle inventory by £2.3m (2021: £1.3m). Also if the expected sales prices at the date of sale were to increase by £500 per vehicle then it would decrease the value of the write-down of used vehicle inventory by £2.4m (2021: £3.1m) at the balance sheet date.

#### Cash flow statement information

	<b>2022</b>	2021
	<b>£m</b>	£m
Movement in inventory	<b>(107.5)</b>	96.0
Reclassification from property, plant and equipment (see note 3.2)	-	18.9
Inventory changes in business combinations and disposals	<b>(37.2)</b>	(0.6)
Impact of exchange differences	-	0.1
Non cash movement in consignment vehicles	<b>8.1</b>	(54.5)
Classified as held for sale	-	17.8
Transfer value of contract hire vehicles from fixed assets to inventory	<b>16.8</b>	30.1
Cash flow (decrease)/increase due to movements in inventory	<b>(119.8)</b>	107.8

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.5 Movement in contract hire vehicle balance

	2022 £m	2021 £m
Depreciation	36.1	38.5
Changes in trade and other payables and deferred income	(7.9)	(30.2)
Purchases of contract hire vehicles	(46.6)	(42.4)
Unwinding of discounts in contract hire residual values	(2.5)	(2.7)
	(20.9)	(36.8)

### 3.6 Trade and other receivables

#### Accounting policy

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

Impairment losses are measured in accordance with IFRS 9, which is based on an 'expected credit loss' (ECL) model. The impairment model applies to financial assets measured at amortised cost.

The calculation of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group considers a trade or other receivable to be in default when the borrower is unlikely to pay its credit obligations to the Group in full after all reasonable actions have been taken to recover the debt.

#### Credit risk management

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.6 Trade and other receivables *continued*

#### Balance sheet

	<b>2022</b>	2021
	<b>£m</b>	£m
Trade receivables	<b>58.9</b>	45.7
Allowance for doubtful debts	<b>(0.3)</b>	(0.3)
	<b>58.6</b>	45.4
Manufacturer bonus receivables	<b>23.3</b>	17.4
Other receivables	<b>24.3</b>	34.7
Prepayments	<b>9.5</b>	3.8
	<b>115.7</b>	101.3

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 2022 was £58.6m (2021: £45.4m).

The average credit period taken on sales of goods is 29 days (2021: 29 days). No interest is charged on trade receivables. The Group makes an impairment provision based on the expected credit losses it deems likely to incur. The calculation is based on an average of previous default experiences which is assessed against the risk of the current total in light of current economic expectations. An expense has been recognised in respect of impairment losses during the year of £0.3m (2021: £0.1m).

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

	<b>Trade</b>	<b>Manufacturer</b>	<b>Other</b>	Trade	Manufacturer	Other
	<b>receivables</b>	<b>bonus</b>	<b>receivables</b>	receivables	bonus	receivables
	<b>2022</b>	<b>2022</b>	<b>2022</b>	2021	2021	2021
	<b>£m</b>	<b>£m</b>	<b>£m</b>	£m	£m	£m
Not past due	<b>27.6</b>	<b>22.8</b>	<b>23.4</b>	20.6	12.5	31.3
Past due 0-30 days	<b>19.8</b>	<b>0.2</b>	<b>0.6</b>	10.7	2.4	0.8
Past due 31-120 days	<b>8.5</b>	<b>0.3</b>	<b>0.3</b>	12.4	2.5	2.6
Past due 120+ days	<b>3.0</b>	-	-	2.0	-	-
	<b>58.9</b>	<b>23.3</b>	<b>24.3</b>	45.7	17.4	34.7
Provision for impairment	<b>(0.3)</b>	-	-	(0.3)	-	-
	<b>58.6</b>	<b>23.3</b>	<b>24.3</b>	45.4	17.4	34.7

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.6 Trade and other receivables *continued*

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

	<b>2022</b>	2021
	<b>£m</b>	£m
Balance at 1 January	<b>0.3</b>	0.4
Utilisation	<b>(0.3)</b>	(0.3)
Impairment loss recognised	<b>0.3</b>	0.2
Balance at 31 December	<b>0.3</b>	0.3

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.

	<b>2022</b>	2021
	<b>£m</b>	£m
Non-current	<b>14.8</b>	15.5
Current	<b>2.4</b>	2.1
	<b>17.2</b>	17.6

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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.7 Trade and other payables

#### Accounting policy

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

#### Balance sheet

	2022 £m	2021 £m
Trade payables	71.8	56.4
Vehicle stocking loans	547.4	420.6
Contract hire buyback commitments	58.2	62.0
Consignment vehicle liabilities	35.3	27.2
Payments received on account	30.4	26.2
Other taxation and social security	2.9	24.7
Accruals	101.8	117.5
	<b>847.7</b>	734.6
Non-current	35.7	41.9
Current	812.0	692.7
	<b>847.7</b>	734.6

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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.8 Deferred income

#### Warranty policies sold

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

#### Contract hire

Vehicles supplied to a leasing group for contract hire purposes where the Group undertakes to repurchase the vehicle at a predetermined date are accounted for in accordance with IFRS 16 Leases, where the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing group are allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term.

	Warranty policies £m	Contract hire £m	Total £m
At 1 January 2022	16.5	57.5	<b>74.0</b>
Created in the year	19.0	29.7	<b>48.7</b>
Recognised as income during the year	(9.5)	(33.8)	<b>(43.3)</b>
Warranty claims paid	(4.8)	-	<b>(4.8)</b>
At 31 December 2022	21.2	53.4	<b>74.6</b>
Non-current	8.7	27.7	<b>36.4</b>
Current	12.5	25.7	<b>38.2</b>
	21.2	53.4	<b>74.6</b>
Recognition of opening balance as at 31 December 2021			
Recognised during the year	9.1	28.1	<b>37.2</b>
Carried forward at 31 December 2022	7.4	29.4	<b>36.8</b>
	16.5	57.5	<b>74.0</b>

The deferred income balance at 31 December for warranty policies and contract hire is the aggregate transaction price allocated to performance obligations that are unsatisfied or partly satisfied at the reporting date. No information is provided about remaining performance obligations at 31 December 2022 or 31 December 2021 that have an original expected duration of one year or less as allowed by IFRS 15.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

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

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

### 4.1 Accounting policies

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

#### Financial assets

IFRS 9 classifies assets according to the business model for their realisation, as determined by the expected contractual cashflows. This classification determines the accounting treatment, and the classification under IFRS 9 is by reference to the accounting treatment i.e. amortised cost, fair value through other comprehensive income or fair value through profit and loss.

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

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.1 Accounting policies *continued*

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

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

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

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

#### Credit-impaired financial assets

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

#### Write-offs

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

#### Impairment of financial assets

IFRS 9 adopts an expected credit loss approach (ECL). The IFRS 9 approach does not require a credit event (an actual loss or a debt past a number of days due) to occur but is based on changes in expectations of credit losses. IFRS 9 also requires that impairment of financial assets be shown as a separate line item in either the statement of comprehensive income or the income statement.

#### Financial assets

	IFRS 9 classification	£m
Trade and other receivables	Amortised cost	106.2
Finance lease receivables	Amortised cost	17.2
Cash and cash equivalents	Amortised cost	69.4

**Trade and other receivables** - see note 3.6

#### Cash and cash equivalents

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



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.1 Accounting policies *continued*

#### Loans and borrowings

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

**Trade and other payables** - see note 3.7

#### Hedging Instruments

The Group no longer holds any hedging instruments to hedge currency risks arising from its activities. There are no material Group operations conducted in currencies other than GBP.

### 4.2 Financial instruments and derivatives

<b>Adjusted net debt</b>	<b>2022</b>	2021
	<b>£m</b>	£m
Cash and cash equivalents	<b>69.4</b>	37.6
Current interest bearing loans and borrowings	<b>(1.7)</b>	-
Non-current interest bearing loans and borrowings	<b>(91.0)</b>	(87.3)
	<b>(23.3)</b>	(49.7)

The Group has since adoption of IFRS 16 Leases excluded Lease liabilities from its measure of Adjusted Net Debt. Full details of lease liabilities are presented in note 4.7. The Group also exclude Vehicle stocking loans from its measure of Adjusted Net Debt which are presented as current liabilities in note 3.7.

#### Cash and cash equivalents

	<b>Carrying value and fair value 2022</b>	Restated - see note 1 Carrying value and fair value 2021
	<b>£m</b>	£m
Bank balances and cash equivalents	<b>69.4</b>	37.6
	<b>2022</b>	2021
	<b>£m</b>	£m
Cash and cash equivalents in the Balance Sheet	<b>171.9</b>	200.1
Bank overdrafts repayable on demand and used for cash management in the Balance Sheet	<b>(102.5)</b>	(162.5)
Cash and cash equivalents in the statement of cash flows	<b>69.4</b>	37.6

Bank overdrafts reflect the aggregated overdrawn balances of Group companies (even if those companies have other positive cash balances).

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### Borrowings

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.

As at 31 December 2022, total facility commitments and expiry are as set out below:

	Expiry Date	£m
RCF	March 2025	75.0
SFA	March 2027	97.0
		<b>172.0</b>

At 31 December 2022 the following margins and fees were in place:

	Current margin	Commitment (non-utilisation) fee
RCF	5.00%	2.25%
SFA	6.00%	n/a

The leverage covenant is calculated as 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 2.00 times. At 31 December 2022 the ratio was 0.2 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 payments for rent, scheduled amortisation under the SFA and pension contributions. This ratio must exceed 1.60 times. At 31 December 2022 the ratio was 2.7 times.

The minimum underlying EBITDA covenant is calculated as for the leverage covenant ratio i.e. 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 must exceed £75.0m at 31 December 2022 and was £124.9m.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### Summary of borrowings

	Carrying value 2022 £m	Fair value 2022 £m	Carrying value 2021 £m	Fair value 2021 £m
Non-current:				
Bank borrowings (RCF)	-	-	27.1	27.1
SFA	<b>90.8</b>	<b>90.8</b>	-	-
5.75% Senior note 2023	-	-	60.0	60.0
Other loan notes	<b>0.2</b>	<b>0.2</b>	0.2	0.2
Lease liabilities	<b>197.9</b>	<b>197.9</b>	195.4	195.4
Total non-current	<b>288.9</b>	<b>288.9</b>	282.7	282.7
SFA	<b>1.7</b>	<b>1.7</b>	-	-
Bank overdraft*	<b>102.5</b>	<b>102.5</b>	162.5	162.5
Lease liabilities	<b>20.0</b>	<b>20.0</b>	26.7	26.7
Total current	<b>124.2</b>	<b>124.2</b>	189.2	189.2
Total borrowings	<b>413.1</b>	<b>413.1</b>	471.9	471.9

\* 2021 restated - see note 1

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

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

	Borrowings		Equity			Total £m
	Long term borrowings £m	Finance Lease £m	Share capital £m	Other reserves £m	Retained earnings £m	
At 1 January 2022	87.3	222.1	69.9	75.0	80.7	<b>535.0</b>
<b>Cash flows from financing activities</b>						
Payment of lease liabilities	-	(22.2)	-	-	-	<b>(22.2)</b>
Repayment of loans	(90.5)	-	-	-	-	<b>(90.5)</b>
Proceeds from issue of loans (net of directly attributable transaction costs)	93.8	-	-	-	-	<b>93.8</b>
	3.3	(22.2)	-	-	-	<b>(18.9)</b>
<b>Other changes</b>						
The effect of changes in foreign exchange rates	0.1	0.1	-	-	-	<b>0.2</b>
New leases undertaken - non cash	-	35.3	-	-	-	<b>35.3</b>
Disposal of finance leases - non cash	-	(17.6)	-	-	-	<b>(17.6)</b>
Liability-related : Lease expenses - non cash	-	0.2	-	-	-	<b>0.2</b>
Liability-related : Amortisation of fees and expenses	2.0	-	-	-	-	<b>2.0</b>
Equity-related : Total other changes	-	-	-	0.5	54.9	<b>55.4</b>
At 31 December 2022	92.7	217.9	69.9	75.5	135.6	<b>591.6</b>

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

#### Fair value hierarchy

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

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

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

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

The RCF and SFA have been measured by a Level 2 valuation method.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The effective interest rates for all borrowings are all based by reference to SONIA. 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 2022 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	<b>69.4</b>	Amortised cost	Floating GBP	0.45%-4.50%	6 months or less
<b>Borrowings</b>						
Non - current:						
RCF	Other financial liabilities	-	Amortised cost	Floating GBP	N/A - not drawn	6 months or less
SFA	Other financial liabilities	<b>90.8</b>	Amortised cost	Floating USD	6.75% - 8.94%	6 months or less
Other loan notes	Other financial liabilities	<b>0.2</b>	Amortised cost	Fixed GBP	12.50%	n/a
Lease liabilities	Other financial liabilities	<b>197.9</b>	Amortised cost	Fixed GBP	1.91% - 8.00%	n/a
Total non-current		<b>288.9</b>				
RCF	Other financial liabilities	-	Amortised cost	Floating USD	N/A - not drawn	6 months or less
SFA	Other financial liabilities	<b>1.7</b>	Amortised cost	Floating USD	6.75% - 8.94%	6 months or less
Bank overdraft *	Other financial liabilities	<b>102.5</b>	Amortised cost	Floating GBP	0%	6 months or less
Lease liabilities	Other financial liabilities	<b>20.0</b>	Amortised cost	Fixed GBP	1.91% - 8.00%	n/a
Total current		<b>124.2</b>				
Total borrowings		<b>413.1</b>				

\* 2021 restated - see note 1

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

	2022 £m	2021 £m
Pound sterling	<b>413.1</b>	463.8
US dollar	-	8.1
	<b>413.1</b>	471.9

\* 2021 restated - see note 1

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### 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.

##### Treasury policy and procedures

Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity and interest rate exposure. Management of these areas is the responsibility of the Group's central treasury function. The Board does not permit the speculative use of derivatives..

##### Funding and liquidity management

The Group is financed primarily by its SFA, RCF, vehicle stocking credit lines and operating cash flow. The RCF and SFA are committed facilities which mature within appropriate timescales and are maintained at levels in excess of planned requirements. .

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:

	2022 £m	2021 £m
Between 1 and 2 years	7.3	87.1
Between 2 and 5 years	83.7	0.2
	91.0	87.3

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

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, together with contractual repayment dates for the amortising SFA. 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
RCF	-	-	-	-	-	-	-
SFA	92.5	126.0	5.4	5.3	15.9	99.4	-
Loan notes	0.2	0.4	-	-	-	0.4	-
	92.7	126.4	5.4	5.3	15.9	99.8	-
Bank overdraft	102.5	102.5	102.5	-	-	-	-
Leases liabilities	217.9	371.3	17.9	16.4	32.2	76.5	228.3
Trade payables	71.7	71.7	71.7	-	-	-	-
Vehicle stocking loans	582.7	598.4	336.9	261.5	-	-	-
	1,067.5	1,270.3	534.4	283.2	48.1	176.3	228.3

The Group has the following undrawn borrowing facilities:

	2022 £m	2021 £m
Expiring in 1-2 years	-	87.9
Expiring in 2-5 years	70.0	-
	70.0	87.9

The above reflects that £5m has been drawn on the RCF by way of bank guarantees to third parties, but such amounts do not constitute borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### Interest rate risk management

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not actively manage cash flow interest rate risk as the Board believes that the retail sector in which the Group operates provides a natural hedge against interest rate movements. Consequently, it is normal Group policy to borrow on a floating rate basis and all fair value interest rate risk arising from fixed rate borrowings entered into by the Group are usually managed by swaps into floating rate. However, due to the relatively low historical rates in floating interest rates, there was relatively low downside risk in maintaining the Group's £60.0m Senior note 2023 at fixed rate. On refinancing in March 2022, all loans were at floating rate, which were maintained in line with the Group's normal policy.

#### Interest rate risk sensitivity analysis

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

	<b>Profit/(loss)</b> <b>2022</b> <b>£m</b>	Profit/(loss) 2021 £m
100 basis points increase	<b>(5.5)</b>	(3.8)
Tax effect	<b>1.0</b>	0.7
Effect on net assets	<b>(4.5)</b>	(3.1)
100 basis points decrease	<b>5.5</b>	1.9
Tax effect	<b>(1.0)</b>	(0.4)
Effect on net assets	<b>4.5</b>	1.5

#### 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 very little US assets remaining at the year end following the disposal all US business interests in prior years, no material hedging requirement remains so the Group now has no USD borrowings (2021: USD 10.0m) against its net assets held in overseas subsidiaries.



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### Hedges of net investments in overseas operations

A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

Included within bank borrowings are balances denominated in US dollars which are designated as a hedge of the net investment in the Group's US subsidiaries. Foreign exchange differences on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange differences in respect of the net investments being hedged.

	<b>2022</b>	2021
	<b>\$m</b>	\$m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	-	10.0
	<b>£m</b>	£m
Foreign exchange gains/(losses) on translation of borrowings to sterling at balance sheet date	-	0.5
Foreign exchange (losses)/gains on translation of net investments to sterling at balance sheet date	<b>0.5</b>	(0.5)
Net exchange gain/(loss) recognised within translation reserve in equity	<b>0.5</b>	-

#### Capital management

The Group views its financial capital resources as primarily comprising share capital, loans (RCF and SFA), vehicle stocking credit lines and operating cashflow.

Core debt is essentially funded by the Group's SFA. 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 is the provision of vehicle stocking credit lines, provided by the vehicle manufacturers' funding arms and other third party providers. The Group's funding of its vehicle inventories is set out below:

	<b>2022</b>	2021
	<b>£m</b>	£m
New and used vehicles	<b>559.7</b>	461.2
Consignment vehicles	<b>35.3</b>	27.2
	<b>595.0</b>	488.4
	<b>2022</b>	2021
	<b>£m</b>	£m
Manufacturer finance arm	<b>286.0</b>	224.7
Third party stock finance	<b>296.7</b>	262.5
Total inventories	<b>582.7</b>	487.2

Inventories are stated net of any Value Added Tax (VAT) whilst the related creditor is a gross amount. The creditor may also be higher than the inventory value due to timing of the vehicle sale and payment of the related liability.

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 167 includes stock finance facilities.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The third party stock facilities have prescribed limits and can be used to fund virtually any vehicle. Any undrawn amount is therefore directly relatable to the ability of the Group to increase inventory and fund it accordingly. Undrawn third party stock finance facilities at 31 December 2022 amounted to £65.9m (2021: £73.1m). 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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The Group is also responsible for funding the pension deficit. The total financial resources required by the Group to fund itself at 31 December 2022 comprises:

	2022 £m	2021 £m
Net debt	23.3	49.7
Finance lease liabilities	217.9	222.1
Stock finance	582.7	447.8
Pension deficit	2.6	23.6
	<b>826.5</b>	743.2

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group and to service its debt requirements through generating cash flow. At 31 December 2022 the adjusted net debt : underlying EBITDA ratio achieved was 0.1 : 1, calculated as follows:

	2022 £m	2021 £m
Underlying operating profit	98.5	116.3
Depreciation	64.7	70.4
Amortisation	4.9	4.2
Underlying EBITDA	168.1	190.9
Adjusted net debt (being net debt as set out in the alternative performance measures in note 1)	23.3	49.7
Adjusted net debt : underlying EBITDA ratio	0.1	0.3

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 2022 and 2021 are set out below:

	2022	2021
Underlying profit before tax (£m)	57.6	83.0
Underlying earnings per share (p)	3.2	5.0
Net debt : underlying EBITDA	0.1	0.3

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 Group has previously engaged in share buyback programmes though none are currently operating. The Group may also issue shares or purchase them in the market to satisfy share incentives issued to employees of the Group. The Group encourages employees to be shareholders of the Group, providing selective share option and LTIP schemes from time to time.

Certain of the Group's subsidiaries are required to maintain issued share capital at levels to support capital adequacy under Financial Conduct Authority (FCA) requirements. The Group ensures these requirements are met by injections of equity to the subsidiaries in question, when required.

Other than specifically set out above, there were no changes to capital management in the year.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.3 Net financing costs

#### Accounting policy

Finance income comprises interest income on funds invested, return on net pension scheme assets and gains on hedging instruments that are recognised in profit and loss. Interest income is recognised as it accrues in profit and loss, using the effective rate method.

Finance expense comprises interest expense on borrowings, unwinding of the discount on provisions, interest on net pension scheme obligations and losses on hedging instruments recognised in profit and loss. All borrowing costs are recognised in profit and loss using the effective interest method.

Gross finance costs directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets until such a time as the assets are substantially ready for their intended use or sale.

#### Finance expense

Recognised in profit and loss	2022 £m	2021 £m
Interest payable on bank borrowings, SFA, Senior note and loan notes	10.8	9.4
Vehicle stocking plan interest	14.7	9.8
Interest payable on leases	14.7	12.6
Costs incurred on refinancing (non-underlying - see note 2.6)	2.6	-
Net interest on pension scheme obligations (non-underlying - see note 2.6)	0.3	1.0
Less: interest capitalised	(0.8)	(0.3)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	42.3	32.5
Unwinding of discounts in contract hire residual values	2.5	2.7
Total finance expense	44.8	35.2

Interest of £0.8m has been capitalised during the year on assets under construction at an average rate of 7.47% (2021: £0.3m).

#### Finance income

Recognised in profit and loss	2022 £m	2021 £m
Interest receivable on finance leases	1.0	0.9
Total finance income	1.0	0.9

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.4 Capital and reserves

#### Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2021 and 31 December 2022	1,396,944,405	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 (2021: £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 2022 was £0.3m (2021: £1.3m), being 1.5m (2021: 5.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.24 each (2021: £0.33). 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 95.

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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 2022 (2021: nil).

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation

#### Accounting policy

The Group operates a number of employee share option schemes and an executive share ownership plan 'exsop' awarded in 2010. The fair value at the date at which the share options are granted is recognised in the income statement on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

#### Executive share options

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2022	Number of options millions 2022	Weighted average exercise price 2021	Number of options millions 2021
Outstanding at beginning of period	24.0p	3.8	24.0p	4.6
Exercised during the period	13.5p	(0.5)	8.8p	(0.6)
Lapsed during the period	13.5p	(0.5)	8.8p	(0.2)
Outstanding at the end of the period	31.8p	2.8	24.0p	3.8
Exercisable at the end of the period	31.8p	2.8	27.0p	3.8

The options outstanding at 31 December 2022 have an exercise price of 31.82p and a weighted contractual life of 1.7 years. All share options are settled in equity.

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2022 were as follows:

Exercise period	Date of grant	Exercise price per share	At 31 December 2021 Number	Exercised Number	Lapsed Number	At 31 December 2022 Number
31 March 2015 to 30 March 2022	30 March 2012	13.50p	1,000,000	(500,000)	(500,000)	-
19 September 2017 to 19 September 2024	18 September 2014	31.82p	2,829,500	-	-	2,829,500
			3,829,500	(500,000)	(500,000)	2,829,500

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 27.50p (2021: 17.68p).

All options are settled by physical delivery of shares.



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation *continued*

The fair value of the services received in return for share options is measured by reference to the fair value of the options granted. The estimate of the fair value of the services received in respect of share option schemes is measured using the Black-Scholes option pricing model. The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2022 is 7.7p (2021: 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 2022	Number of options millions 2022	Weighted average exercise price 2021	Number of options millions 2021
Outstanding at the start of the period	0.00p	44.1	0.00p	27.6
Granted during the period	0.00p	12.3	0.00p	16.5
Outstanding at the end of the period	0.00p	56.4	0.00p	44.1

Movements in the number of options to acquire ordinary shares under the Group’s LTIP, together with the outstanding position at 31 December 2022 were as follows:

Exercise period	Date of grant	At 31 December 2021 Number	Granted Number	At 31 December 2022 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
13 August 2025	14 August 2022	-	19,562,808	19,562,808
		44,154,127	19,562,808	63,716,935

All grants of LTIPs were issued pursuant to the Long Term Incentive Plan. Vesting of the 2020 and 2021 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](http://www.pendragonplc.com)). For both the 2020 and 2021 LTIP, the Remuneration Committee concluded that the performance conditions had been satisfied in full in terms of the EPS metric, and the Company had delivered significantly on stretching strategic targets for 2021, such that both plans would vest at 91.6% in October 2023 and July 2024 respectively.

For awards made in August 2022, the performance metrics applicable were (i) achieving a defined earnings per share target over a three year performance period, commencing on 01 January 2022 and measured at year end 2024, namely achieving a target EPS derived from a mix of the most recently available analyst/broker consensus published at or around the time of making the award and our business plan of 4.0p at target by year end 2024 (70% weighting); (ii) achieving an overall reduction in carbon emissions of 5% at target by 2024 (5% weighting); (iii) deliver a year end 2024 gross profit of £180m in used cars at target (15% weighting) and (iv) deliver revenue of £30m by year end 2024 in Pinewood at target (10% weighting).

If the performance conditions are not satisfied, none of the LTIP award shares will vest.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation *continued*

Executive bonuses relating to performance in 2020 were granted in the form of deferred share awards that have vested 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 2022 is 14.08p (2021: 14.08p).

<b>Executive LTIP Scheme</b>	<b>2022</b>	2021
Number of share options granted in year	<b>19,562,808</b>	16,506,004
Weighted average share price (pence)	<b>0.00</b>	0.00
Weighted average exercise price (pence)	<b>0.00</b>	0.00
Weighted average fair value (pence)	<b>23.72</b>	19.09
Expected volatility (%)	<b>50.6%</b>	48.9%
Expected life (years)	<b>3.0</b>	3.0
Risk free rate (%)	<b>358.3%</b>	69.3%
Expected dividend yield (%)	<b>0.0%</b>	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 £3.3m (2021: £2.9m) as an employee benefit cost in respect of all equity-settled share based payment transactions included within administration costs.

# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Leases

#### Accounting policies

##### Leases as a Lessee

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

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

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

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

Sale and leaseback transactions. When a transfer of an asset is made and it is deemed a sale in accordance with 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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 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 2022 property leases had an average of around 12.4 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.

<b>Right of Use Assets</b>	Land & buildings £m	Motor vehicles £m	<b>Total £m</b>
<b>Balance at 1 January 2021</b>	145.6	0.4	<b>146.0</b>
Additions to right of use assets	8.7	0.1	<b>8.8</b>
Reinstated from assets held for sale as part of a disposal group	5.0	-	<b>5.0</b>
Depreciation charge	(18.1)	(0.4)	<b>(18.5)</b>
Impairment	(9.6)	-	<b>(9.6)</b>
Disposals of right of use assets	(5.2)	-	<b>(5.2)</b>
<b>Balance at 31 December 2021</b>	126.4	0.1	<b>126.5</b>
<b>Balance at 1 January 2022</b>	126.4	0.1	<b>126.5</b>
Additions to right of use assets	22.5	-	<b>22.5</b>
Depreciation charge	(15.1)	(0.1)	<b>(15.2)</b>
Impairment	(0.2)	-	<b>(0.2)</b>
Disposals of right of use assets	(3.1)	-	<b>(3.1)</b>
<b>Balance at 31 December 2022</b>	130.5	-	<b>130.5</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Leases *continued*

#### Lease liabilities

	Land & buildings £m	Motor vehicles £m	Total £m	Included within liabilities associated with the assets held for sale £m
<b>Balance at 1 January 2021</b>	(242.7)	(0.5)	<b>(243.2)</b>	(30.6)
Additions to right of use assets	(8.7)	(0.1)	<b>(8.8)</b>	-
Additions to lease receivables	(0.4)	-	<b>(0.4)</b>	-
Interest expense related to lease liabilities	(12.5)	-	<b>(12.5)</b>	(0.1)
Disposals of lease liabilities on sale of business	-	-	-	27.8
Other disposals of lease liabilities	5.8	-	<b>5.8</b>	-
Reinstated from liabilities held for sale as part of a disposal group	(2.5)	-	<b>(2.5)</b>	2.5
Repayment of lease liabilities (including interest element)	38.9	0.5	<b>39.4</b>	0.4
Exchange adjustments	0.2	-	<b>0.2</b>	-
Other movements	(0.1)	-	<b>(0.1)</b>	-
<b>Balance at 31 December 2021</b>	(222.0)	(0.1)	<b>(222.1)</b>	-
Non-current	(195.4)	-	<b>(195.4)</b>	
Current	(26.6)	(0.1)	<b>(26.7)</b>	
<b>Balance at 31 December 2021</b>	(222.0)	(0.1)	<b>(222.1)</b>	
<b>Balance at 1 January 2022</b>	(222.0)	(0.1)	<b>(222.1)</b>	
Additions to right of use assets	(34.9)	-	<b>(34.9)</b>	
Additions to lease receivables	(0.4)	-	<b>(0.4)</b>	
Interest expense related to lease liabilities	(14.7)	-	<b>(14.7)</b>	
Disposals of lease liabilities	17.6	-	<b>17.6</b>	
Repayment of lease liabilities (including interest element)	36.8	0.1	<b>36.9</b>	
Exchange adjustments	(0.1)	-	<b>(0.1)</b>	
Other movements	(0.2)	-	<b>(0.2)</b>	
<b>Balance at 31 December 2022</b>	(217.9)	-	<b>(217.9)</b>	
Non-current	(197.9)	-	<b>(197.9)</b>	
Current	(20.0)	-	<b>(20.0)</b>	
<b>Balance at 31 December 2022</b>	(217.9)	-	<b>(217.9)</b>	

During the year a lease regear was undertaken with our largest property partner in which 30 prime leaseholds were extended until 2042 with the Group benefitting from reductions in rent payable from the agreement to hand-back 12 vacant properties to the landlord in exchange for the lease extensions. The extensions were deemed lease modifications in light of the increased duration with all other terms of the leases remaining unchanged. An updated discount rate appropriate to these modified leases was applied in determining the increased liability and right of use asset. The 12 leases terminated had a lease liability of £16.8m in respect of right of use assets of £0.7m and finance lease receivables of £1.1m, giving an overall net liability at the time of the transaction of £15.0m, which, because the extensions were considered to subsidise the terminations, has been recognised as a lease incentive and as such a reduction in the value of the 30 extended right of use assets. In respect

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Leases *continued*

of the tables above this transaction resulted in additions to right of use assets of £16.5m (after deduction of the £15.0m lease incentive and including £2.6m of additional costs incurred), disposals of right of use assets of £0.7m, disposals of finance lease receivables of £1.1m, disposals of lease liabilities of £16.8m and an addition of a lease liability of £28.9m.

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 69.0% (2021: 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. Remeasurement adjustments in respect of these increases are included in additions to right of use assets and lease liabilities in the tables above.

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

	2022 £m	2021 £m
Depreciation of right of use assets	15.2	18.5
Impairment of right of use assets (non-underlying)	0.2	9.6
Gains on the disposal, termination and assignment of leases (non-underlying) (included in Other income - gains on the sale of businesses and property, plant and equipment)	0.6	1.5
Interest on lease liabilities	14.7	12.6
Expense relating to variable lease payments not included in lease liabilities	0.1	0.1
Expenses relating to low value leases	0.7	0.1
Expenses relating to short term leases	6.5	1.1

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

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Leases *continued*

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.

#### Balance Sheet

##### Lease receivables

	2022 £m	2021 £m
<b>Land and buildings</b>		
<b>Balance at 1 January</b>	<b>17.6</b>	18.6
Additions to lease receivables	<b>2.6</b>	2.7
Interest income related to lease receivables	<b>1.0</b>	0.9
Disposals of lease liabilities	<b>(1.0)</b>	(1.5)
Payment of lease receivables (including interest element)	<b>(3.0)</b>	(3.1)
<b>Balance at 31 December</b>	<b>17.2</b>	17.6
Non-current	<b>14.8</b>	15.5
Current	<b>2.4</b>	2.1
	<b>17.2</b>	17.6

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

	2022 £m	2021 £m
Less than one year	<b>3.3</b>	3.0
Between one and two years	<b>3.1</b>	3.0
Between two and three years	<b>2.5</b>	2.9
Between three and four years	<b>2.3</b>	2.2
Between four and five years	<b>2.3</b>	2.0
More than five years	<b>8.0</b>	9.5
Total undiscounted lease receivable	<b>21.5</b>	22.6
Unearned finance income	<b>(4.3)</b>	(5.0)
	<b>17.2</b>	17.6

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.7 Leases *continued*

At the 31 December 2022 balance sheet date, the Group had contracted with tenants for the following future minimum lease payments on leases classified as operating leases.

	2022 Property £m	2021 Property £m
Less than one year	2.4	2.2
Between one and two years	2.3	1.9
Between two and three years	2.2	1.9
Between three and four years	1.8	1.8
Between four and five years	1.1	1.8
More than five years	2.8	4.5
	<b>12.6</b>	14.1

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

#### Amounts recognised in profit or loss

	2022 £m	2021 £m
Operating lease rentals received	2.9	1.8
Interest received on finance lease receivables	1.0	0.9
	<b>3.9</b>	2.7



# NOTES TO THE FINANCIAL STATEMENTS

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## SECTION 5 - PENSION SCHEMES

This section explains the pension scheme obligations of the Group.

### 5.1 Pension obligations

#### Accounting policy

The Group operated a number of defined benefit and defined contribution plans during the year. The assets of the defined benefit plan and one defined contribution plan are held in independent trustee administered funds. The Group also operates a Group Personal Pension Plan which is a defined contribution plan where the assets are held by the insurance Group under a contract with each individual.

Defined contribution plans - A defined contribution plan is one under which the Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. Therefore, no assets or liabilities of these plans are recorded in these financial statements. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due.

Defined benefit plans - Pension accounting costs for defined benefit plans are assessed by determining the pension obligation using the projected unit credit method after including a net return on the plan assets. Under this method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing historical accrued benefits. The Group recognises all actuarial gains and losses arising from defined benefit plans in the statement of other comprehensive income immediately.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Under IAS 19 Employee Benefits, the Group recognises an interest expense or income which is calculated on the net defined benefit liability or asset respectively by applying the discount rate to the net defined benefit liability or asset.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest) are immediately recognised directly in the statement of other comprehensive income. Actuarial gains and losses are the differences between actual and interest income during the year, experience losses on scheme liabilities and the impact of any changes in assumptions. Details of the last independent statutory actuarial valuation and assumptions are set out below.

#### Pension arrangements

The Group operated six defined benefit pension schemes (one of which had a defined contribution section) which closed to new members and accrual of future benefits on 30 September 2006 and a defined contribution scheme which was closed to new contributions from April 2006. All affected employees were offered membership of a defined contribution pension arrangement with Friends Provident. A Group Personal Pension arrangement with Legal & General replaced the Friends Provident arrangement from 1 January 2010. Total contributions paid by the Group in 2021 to the Legal & General arrangement were £4.7m (2021: £3.0m). 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 2022 were £6.0m (2021: £4.2m). The combined contributions to the Group's Personal Pension arrangement and the Peoples Pension scheme therefore totalled £10.7m in the period (2021: £7.2m).

# 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.

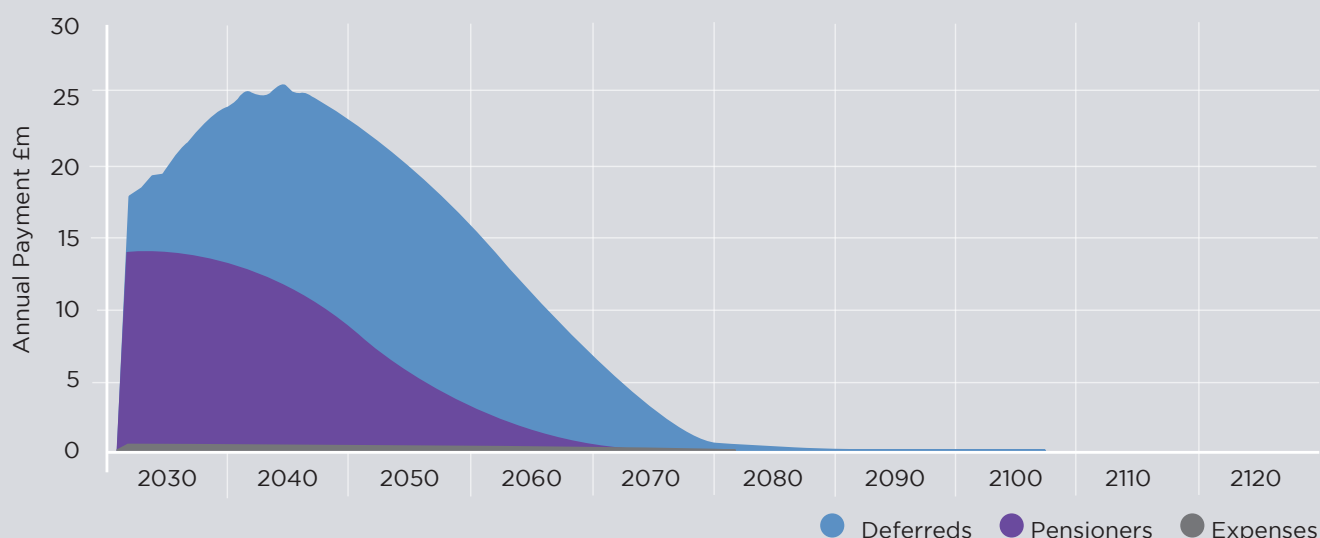
Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2022 there was an outstanding balance of £0.9m (2021: £0.9m)

#### Funding

The Pendragon Group Pension Scheme is fully funded by the Group's subsidiaries. The funding requirements are based on the Scheme's actuarial measurement framework set out in the funding policies of the Scheme. Employees are not required to contribute to the plans.

#### Explanation of the Pension Deficit

The liability to pay future pensions is a liability to settle a stream of future cashflows. These future cashflows have the following profile:



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

'Deferred' are those pension scheme members not yet drawing a pension as at 31 December 2022; 'Pensioners' are those in receipt of pension at 31 December 2022.

The actual total cash liabilities shown above are estimated at £766m. The value of these liabilities discounted to present value at 31 December 2022 are £368.9m.

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 2021 giving the following comparison:

As at 31 December 2021	IAS 19 (Accounts) £m	Actuarial valuation £m
Assets	545.6	545.6
Liabilities	(569.2)	(578.7)
Pension deficit	(23.6)	(33.1)
		At each term p.a.
Discount rate used	1.80%	Nominal Gilt Yield + 0.75%
RPI inflation	3.50%	Gilt inflation curve
CPI inflation	3.00%	Gilt inflation curve less 0.70% to 2020, no adjustment thereafter

The triennial valuation of the pension scheme reflecting the position as at 31 December 2021 was agreed by the Trustees on 2 November 2022. The Group has agreed with the trustees that it will aim to eliminate the deficit over a period of 2 years from December 2021 until December 2023 by the payment of deficit recovery contributions of £13.06m each year, increasing at 2.25% p.a. These contributions include the expected quarterly distributions from the Central Asset Reserve (CAR) over the recovery period. Recognising that both the Trustee and the Group aim to achieve full funding on a long term funding target, contributions will continue beyond 31 December 2023, but only in respect of the quarterly distributions from the CAR. On this basis, contributions will reduce to £3.45m p.a. from 1 January 2024, increasing at a rate of 2.25% p.a, and will be paid until 31 December 2026. The next triennial valuation of the pension scheme will reflect the position as at 31 December 2024.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

#### 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 £3.2m to the Pendragon Group Pension Scheme through the Partnership (2021: £3.1m) 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.

#### IAS 19 assumptions

The assumptions used by the actuary in performing the triennial valuation at 31 December 2021 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 2022 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:

	2022	2021
Inflation - RPI	3.25%	3.50%
Inflation - CPI	2.85%	3.00%
Discount rate	5.00%	1.80%
Mortality table assumption *	111% of the standard tables S3PMA/ S3PFA_M, Year of birth, no age rat- ing projected using CMI_2021 (1.25%)	VitaCurves CMI 2020 M/F (1.25%)

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

	2022 Years	2021 Years
Males aged 45	22.7	22.6
Females aged 45	24.7	24.8
Males aged 65	21.4	21.3
Females aged 65	23.2	23.2

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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

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. The RPI/CPI gap of 0.40% p.a. (2021: 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.

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 1.00%	Decrease of 10.9%/increase of 13.2%
Rate of inflation	Increase/decrease by 0.25%	Increase of 1.2%/decrease of 1.5%
Mortality	Increase in life expectancy of 1 year	Increase by 2.9%

The sensitivities shown above are approximate. The discount rate sensitivity has been set at 1.00% for 2022 to reflect current market uncertainty. 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 2022 is 14 years (2021: 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, and a strategy to "de-risk" assets when certain pre-defined benchmarks are met: in this way the Scheme disinvests from assets with more risk into assets with lower risk.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

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

<b>Scheme assets and liabilities</b>	<b>2022</b>	2021
	<b>£m</b>	£m
Global equities	<b>31.0</b>	81.0
Credit funds	<b>134.9</b>	182.8
Private markets	<b>69.0</b>	92.8
Liability driven investments	<b>86.3</b>	106.7
Diversified growth fund	<b>20.7</b>	52.0
Cash	<b>24.4</b>	30.3
Fair value of scheme assets	<b>366.3</b>	545.6
Present value of funded defined benefit obligations	<b>(368.9)</b>	(569.2)
Net liability on the balance sheet	<b>(2.6)</b>	(23.6)

In addition to the assets and liabilities set out above there are a small number of insurance policies (with a value of £4.4m at the last triennial valuation date of 31 December 2021) purchased to pay annuities to 70 pensioners. These policies represent both an asset and liability of the scheme and therefore have no impact on the net deficit position.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

#### Currency risk

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

#### Interest rate risk and other price risk

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

#### Fair value determination

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

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

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

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

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

	Interest rate risk £m	Other price risk £m	Other £m	Level 1 £m	Level 2 £m	Level 3 £m
LDI and cash	110.7	-	-	24.4	86.3	-
Credit funds	134.9	-	-	-	134.9	-
Equity		31.0	-	-	31.0	-
Private markets		-	69.0	-	45.6	23.4
DGF		-	20.7	-	20.7	-
	245.6	31.0	89.7	24.4	318.5	23.4
Being:						
Indirect - Bonds	221.2	-	-	-	221.2	-
Indirect - Cash	24.4	-	-	24.4	-	-
Indirect - equities	-	31.0	-	-	31.0	-
Indirect - multi-asset	-	-	89.7	-	66.3	23.4
	245.6	31.0	89.7	24.4	318.5	23.4

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

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

It is the policy of the Trustee and the Group to review the investment strategy at the time of each funding valuation and keep this under review. The Trustee investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the scheme's Statement of Investment Principles.

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

The Group has reviewed implications of the guidance provided by IFRIC 14 and have concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2022 and at 31 December 2021.

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

	2022 £m	2021 £m
Net liability for defined benefit obligations at 1 January	(23.6)	(75.5)
Contributions received	13.1	12.8
Expense recognised in the income statement	(0.3)	(1.0)
Actuarial gains and losses recognised in the statement of other comprehensive income	8.2	40.1
Net liability for defined benefit obligations at 31 December	(2.6)	(23.6)

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

	2022 %	2021 %
Deferred plan participants	51	58
Retirees	49	42

	2022 £m	2021 £m
Actual return on assets	28.3	28.3
Expected contributions in following year	13.1	13.1

#### Total in the income statement

	2022 £m	2021 £m
Net interest on obligation	0.3	1.0

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

	2022 £m	2021 £m
Finance costs	0.3	1.0



# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

The expected discount rate as at 31 December 2022 was 5.00%. This compares to the discount rate of 1.80% used in the calculation of the interest income for the period ending 31 December 2021.

Based on the reported deficit of £2.6m at 31 December 2022 and the discount rate assumption of 5.00% the charge in 2023 is expected to be £0.1m.

#### 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

	2022 £m	2021 £m
Cumulative amount at 1 January	(37.4)	(77.5)
Recognised during the period	8.2	40.1
Cumulative amount at 31 December	(29.2)	(37.4)

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

	2022 £m	2021 £m
Return on plan assets, excluding interest income	(184.1)	21.0
Experience gain on scheme liabilities	(25.6)	8.7
Changes in assumptions underlying the present value of scheme obligations	217.9	10.4
	8.2	40.1

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

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

	2022 £m	2021 £m
Opening present value of defined benefit obligation	569.2	599.1
Interest cost	10.1	8.3
Remeasurements:		
Experience adjustments	25.6	(8.7)
Actuarial gains due to changes in demographic assumptions	(1.3)	4.2
Actuarial (gains) due to changes in financial assumptions	(216.6)	(14.6)
Benefits paid	(18.1)	(19.1)
Closing present value of defined benefit obligation	368.9	569.2

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

	2022 £m	2021 £m
Opening fair value of assets	545.6	523.6
Interest income	9.8	7.3
Return on plan assets, excluding interest income	(184.1)	21.0
Contributions by employer	13.1	12.8
Benefits paid	(18.1)	(19.1)
End of period	366.3	545.6

#### History of experience adjustments

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Present value of defined benefit obligation	368.9	569.2	599.1	531.2	486.3
Fair value of scheme assets	366.3	545.6	523.6	472.2	418.0
Deficit in schemes	2.6	23.6	75.5	59.0	68.3
Experience adjustments on scheme liabilities:					
Amount	(192.3)	(19.1)	74.6	55.6	(37.9)
Percentage of scheme liabilities (%)	(52.1%)	(3.4%)	12.5%	10.5%	(7.8%)
Experience adjustments on scheme assets:					
Amount	(184.1)	21.0	50.0	54.3	(38.8)
Percentage of scheme assets (%)	(50.3%)	3.8%	9.5%	11.5%	(9.3%)

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 6 - OTHER NOTES

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

6.1 Business 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 motor cycle and trucks businesses for net proceeds of £3.2m which resulted in a profit on disposal of £0.3m.

Net assets at the date of disposal:

	<b>Total net book value £m</b>
Assets held for sale	-
Goodwill	2.1
Property, plant and equipment	0.2
Inventories	37.2
Trade and other receivables	0.1
Trade and other payables	(36.7)
	<b>2.9</b>
Profit on sale of businesses	<b>0.3</b>
Total proceeds	<b>3.2</b>
Proceeds on sale comprise	
Proceeds on sale satisfied by cash and cash equivalents	<b>3.2</b>
Deferred consideration	<b>0.7</b>
	<b>3.9</b>

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

Goodwill in respect of the DAF business was impaired by £3.6m when it was classified for sale.

Deferred consideration received during the year relates to the sale of the US businesses where a retention was held pending the successful completion of a store development in progress at the time of the sale.

During the previous year the Group disposed of two US and three UK dealerships for proceeds of £27.6m and realising a profit of £0.7m 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 Group on page 205.

#### 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 95.

Directors of the Group and their immediate relatives control 1.000% of the ordinary shares of the Group.

During the year key management personnel compensation was as follows:

	2022 £m	2021 £m
Short term employee benefits	3.0	3.2
Post-employment benefits	0.1	0.1
Share based payments	1.9	2.0
	5.0	5.3

### 6.3 Contingent liabilities

One of the Group's subsidiary companies, Pinewood Technologies PLC ("Pinewood"), is currently in dispute with one of its former software resellers, Pinewood Technologies Asia Pacific Limited ("PAP").

PAP historically contributed c.£0.2m of profit p.a. to the overall Pinewood performance. PAP owes Pinewood approximately £0.5m (including daily interest and other charges), which relates to unpaid invoices arising from the reseller agreements. Subsequent to the non-payment of this debt, PAP has claimed that Pinewood is in breach of the reseller agreements and has made a claim against Pinewood. It is not practicable to estimate any potential financial effect of this claim because it is at a level that Pinewood considers to be entirely disproportionate to the scale of the business. This claim includes a claim for 'loss of profits' which is specifically excluded from the reseller agreement.

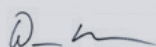
Notwithstanding the size of the claim, Pinewood considers PAP's claim to be entirely misconceived and lacking merit such that no provision needs to be made for it on that basis. Pinewood has also applied for summary judgment to dismiss PAP's claim and on Pinewood's claim for payment of the outstanding debt.

# COMPANY BALANCE SHEET


At 31 December 2022

	Notes	2022 £m	2021 £m
<b>Fixed assets</b>			
Investments	5	981.2	981.2
Loans to subsidiary undertakings		90.0	90.0
		<b>1,071.2</b>	1,071.2
<b>Current assets</b>			
Debtors (amounts due after more than one year : £23.0m)	6	24.7	30.6
Cash at bank and in hand		0.5	0.3
		<b>25.2</b>	30.9
Creditors: amounts falling due within one year	7	(491.4)	(475.7)
		<b>(466.2)</b>	(444.8)
<b>Net current liabilities</b>			
Total assets less current liabilities		<b>605.0</b>	626.4
Creditors: amounts falling due after more than one year	8	(90.8)	(87.1)
Retirement benefit obligations		(2.6)	(23.6)
		<b>511.6</b>	515.7
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	11	69.9	69.9
Share premium account		56.8	56.8
Capital redemption reserve	11	5.6	5.6
Other reserves	11	13.9	13.9
Profit and loss account		365.4	369.5
		<b>511.6</b>	515.7
<b>Equity shareholders' funds</b>			

Approved by the Board of Directors on 22 March 2023 and signed on its behalf by:



**W Berman**  
Chief Executive



**M S Willis**  
Chief Finance Officer

Registered Company Number: 2304195

The notes on pages 200 to 208 form part of these financial statements.

# COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 £m	2021 £m
<b>(Loss)/profit for the year</b>	<b>(15.0)</b>	167.0
<b>Other comprehensive income</b>		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains and (losses)	<b>9.7</b>	41.6
Income tax relating to defined benefit plan remeasurement gains and (losses)	<b>(1.6)</b>	(6.9)
<b>Other comprehensive income for the year, net of tax</b>	<b>8.1</b>	34.7
<b>Total comprehensive (expense)/income for the year</b>	<b>(6.9)</b>	201.7

The notes on pages 200 to 208 form part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	<b>Total £m</b>
<b>Balance at 1 January 2022</b>	69.9	56.8	5.6	13.9	369.5	<b>515.7</b>
Total comprehensive income for 2022						
Loss for the year	-	-	-	-	(15.0)	<b>(15.0)</b>
Other comprehensive income for the year, net of tax	-	-	-	-	8.1	<b>8.1</b>
Total comprehensive expense for the year	-	-	-	-	(6.9)	<b>(6.9)</b>
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	-	3.3	<b>3.3</b>
Income tax relating to share based payments	-	-	-	-	(0.1)	<b>(0.1)</b>
Own shares issued by EBT	-	-	-	-	0.1	<b>0.1</b>
Own shares purchased by EBT	-	-	-	-	(0.5)	<b>(0.5)</b>
Total contributions by and distributions to owners	-	-	-	-	2.8	<b>2.8</b>
Balance at 31 December 2022	69.9	56.8	5.6	13.9	365.4	<b>511.6</b>
<b>Balance at 1 January 2021</b>						
	69.9	56.8	5.6	13.9	164.7	<b>310.9</b>
Total comprehensive income for 2021						
Profit for the year	-	-	-	-	167.0	<b>167.0</b>
Other comprehensive income for the year, net of tax	-	-	-	-	34.7	<b>34.7</b>
Total comprehensive income for the year	-	-	-	-	201.7	<b>201.7</b>
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	-	2.9	<b>2.9</b>
Income tax relating to share based payments	-	-	-	-	0.2	<b>0.2</b>
Total contributions by and distributions to owners	-	-	-	-	3.1	<b>3.1</b>
Balance at 31 December 2021	69.9	56.8	5.6	13.9	369.5	<b>515.7</b>

The notes on pages 200 to 208 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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## 1 Accounting Policies

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

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply 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 38 to 48.

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.
- Disclosures of transactions with a management entity that provides key management personnel services to the company;
- Certain disclosures required by IAS 36 Impairments of Assets in respect of the impairment of assets.

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

### Judgements

The Company applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. There are however no such key accounting judgements applied in these financial statements.

### Accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.



# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 1 Accounting Policies *continued*

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long-term:

Key estimate area	Key assumption	Potential impact within the next financial year	Potential impact in the longer term	Note reference
Retirement benefit obligations	The main assumptions in determining the Company's Retirement Benefit Obligations are: discount rate, mortality and rate of inflation. Full detail is included in the pension note in the Consolidated Financial Statements in note 5.1.	✓	✓	5.1 Group
Investment impairment	The balances of investment in subsidiary companies and loans to subsidiary companies are held at cost less any impairment. An impairment exists when their recoverable amount is less than the costs held in the accounts. There are a number of factors which could impact the recoverable amount which creates a risk of this recoverable amount being lower than the investment balance held.	✓	✓	5 and 3.1 Group

**(b) Deferred taxation** Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

- (i) tax payable on the future remittance of the past earnings of subsidiaries is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute all past earnings exists;
- (ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

### **(c) Impairment excluding deferred tax assets**

Financial assets (including trade and other debtors)

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

Non-financial assets

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

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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## 1 Accounting Policies *continued*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating 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

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## 1 Accounting Policies *continued*

In accordance with IFRIC 14 surpluses in schemes are recognised as assets only if they represent unconditional economic benefits available to the Company in the future. Provision is made for future unrecognisable surpluses that will arise as a result of regulatory funding requirements. Movements in unrecognised surpluses are included in the statement of recognised income and expense. If the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is an obligation for the Company to pay deficit funding, this is also recognised.

Under the provisions of FRS 101 Pendragon PLC is designated as the principal employer of the Pendragon Group Pension Scheme and as such applies the full provisions of IAS 19 Employee benefits (2011). In line with IAS 19 Employee benefits (2011), the Company has recognised a pension prepayment with respect to an extraordinary contribution made during 31 December 2011 as this does not meet the definition of a planned asset and therefore the amount is held in pension prepayment and will be unwound over the period in which Pendragon Scottish Limited Partnership Limited makes contributions to the pension scheme.

Information relating to pension obligations can be found in the Consolidated Financial Statements in note 5.1.

**(g) Dividends** Dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

**(h) Own shares held by ESOP trust** Transactions of the group-sponsored ESOP trust are included in the Company financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

**(i) Contingent liabilities** Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## 2 Profit and loss account of the company and distributable reserves

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented. The loss after taxation attributable to the Company dealt with in its own accounts for the year ended 31 December 2022 is £15.0m (2021: profit £167.0m).

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 £365.4m (2021: £369.5m) which is stated after deducting the ESOT reserve of £18.5m (2021: £18.1m). The Group's subsidiary companies which earn distributable profits themselves are expected to make distributions each year up to the Parent Company in due course to ensure a regular flow of income to the Company such that surplus cash generated can continue to be returned to our external shareholders.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 3 Directors

Total emoluments of directors (including pension contributions) amounted to £5.0m (2021: £5.3m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 77 to 95.

The directors are the only employees of the Company.

## 4 Dividends

The Board is not recommending the payment of a final dividend for 2022 (2021: nil).

## 5 Investments

	<b>Shares in subsidiary undertakings £m</b>
<b>Cost</b>	
At 31 December 2021 and at 31 December 2022	<b>981.2</b>
<b>Impairment</b>	
At 31 December 2021 and at 31 December 2022	-
<b>Carrying amounts</b>	
At 31 December 2021 and at 31 December 2022	<b>981.2</b>

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 nil provision for impairment for the year ended 31 Decemeber 2022 (2021: impairment charges reversal of £177.2m) to the investment in subsidiary undertakings. 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 9.1% - 16.7%.

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 2022.

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

**Incorporated in 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

	2022 £m	2021 £m
Amounts due within one year:		
Prepayments	1.7	24.5
	<b>1.7</b>	<b>24.5</b>
Amounts due after more than one year:		
Prepayments	21.1	-
Deferred tax (see note 9)	1.9	6.1
	<b>23.0</b>	<b>6.1</b>
	<b>24.7</b>	<b>30.6</b>

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

## 7 Creditors: amounts falling due within one year

	2022 £m	2021 £m
Amounts due to subsidiary undertakings	489.2	454.2
Senior Term Finance Agreement	1.7	-
Bank loans and overdrafts	0.5	21.5
	<b>491.4</b>	<b>475.7</b>

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

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

	2022 £m	2021 £m
Bank loans (repayable between one and two years)	-	27.1
5.75% Senior notes 2023	-	60.0
Senior Term Finance Agreement	90.8	-
	<b>90.8</b>	<b>87.1</b>

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

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 9 Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. There are no offset amounts as follows:

	<b>2022</b>	2021
	<b>£m</b>	£m
Deferred tax assets	<b>1.9</b>	6.1

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

	Retirement benefit obligations £m	Other provisions £m	<b>Total £m</b>
At 1 January 2021	14.4	0.7	<b>15.1</b>
(Charged)/credited to income statement	(2.4)	0.1	<b>(2.3)</b>
(Charged)/credited to equity	(6.9)	0.2	<b>(6.7)</b>
At 31 December 2021	5.1	1.0	<b>6.1</b>
At 1 January 2022	5.1	1.0	<b>6.1</b>
(Charged) to income statement	(2.5)	-	<b>(2.5)</b>
(Charged) to equity	(1.6)	(0.1)	<b>(1.7)</b>
At 31 December 2022	1.0	0.9	<b>1.9</b>

Deferred tax asset is shown within debtors (see note 6).

## 10 Share based payments

Details of share schemes in place for the Group of which the Company participates as at 31 December 2022 are fully disclosed above in note 4.6 of this report.

## 11 Called up share capital and reserves

	Number	<b>£m</b>
Allotted, called up and fully paid shares of 5p each at 31 December 2021 and at 31 December 2022	1,396,944,405	<b>69.9</b>

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.

Transactions of the Group-sponsored EBT are included in the Company's financial statements. In particular, the trust's purchases of shares in the Company, which are classified as own shares, are debited directly to equity through retained earnings. When own shares are sold or reissued the resulting surplus or deficit on the transaction is also recognised within retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

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The market value of the investment in the Group's own shares at 31 December 2022 was £0.3m (2021: £1.3m), being 1.5m (2021: 5.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.24 each (2021: £0.33). 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 95.

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 (2021: 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

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## Financial Calendar 2023

22 March	date of this Report
22 March	preliminary announcement of 2022 results

## Auditor

KPMG LLP

## Banks

Barclays Bank PLC  
Lloyds TSB Bank plc  
Royal Bank of Scotland plc  
Allied Irish Banks plc  
HSBC Bank plc

## Stockbrokers

Joh. Berenberg, Gossler & Co. KG  
Jefferies International Limited

## Solicitors

CMS Cameron McKenna Nabarro Olswang LLP  
Geldards LLP  
Eversheds LLP

## How to find Pendragon PLC's offices

Visit Contacts on the company's website  
[www.pendragonplc.com](http://www.pendragonplc.com).

## Stock Classification

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

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

## Share dealing service

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

## Shareholder and investor information

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

## Online services

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

## Getting company reports online

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

## Registrar and shareholder enquiries

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

[shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk)  
Tel: 0871 664 0300

# 5 YEAR GROUP REVIEW

	<b>2022</b> <b>IFRS 16</b> <b>£m</b>	2021 IFRS 16 £m	2020 IFRS 16 £m	2019 IFRS 16 £m	2018 IAS 17 £m
Revenue	<b>3,620.0</b>	3,449.9	2,924.6	4,506.1	4,627.0
Gross profit	<b>457.2</b>	441.3	353.2	472.7	550.5
Operating profit/(loss) before other income	<b>93.3</b>	104.9	16.0	(104.4)	(30.1)
Profit/(loss) before taxation	<b>57.2</b>	73.3	(29.6)	(114.1)	(44.4)
Basic earnings per share	<b>3.3p</b>	4.4p	(1.8p)	(8.4p)	(3.6p)
Net assets	<b>281.0</b>	225.6	126.7	168.9	345.6
Adjusted Net borrowings (note 1)	<b>23.3</b>	49.7	100.4	119.7	126.1

## Other financial information

Underlying profit/(loss) before tax	<b>57.6</b>	83.0	8.2	(16.4)	47.8
Underlying earnings per share (note 4)	<b>3.2p</b>	5.0p	0.6p	(1.2p)	2.8p
Adjusted net debt: underlying EBITDA (note 6)	<b>0.1</b>	0.3	0.8	1.1	0.9
Gross margin	<b>12.6%</b>	12.8%	12.1%	10.5%	11.9%
Total operating margin (note 2)	<b>2.6%</b>	3.0%	0.5%	-2.3%	-0.7%
After tax return on equity (note 3)	<b>18.0%</b>	34.9%	-16.7%	-45.6%	-13.1%
Dividends per share (note 5)	-	-	-	-	1.5p
Dividend cover (times) (note 7)	-	-	-	-	2.0
Interest cover (times) (note 8)	<b>2.3</b>	3.1	0.2	(1.7)	(0.5)
Gearing (note 9)	<b>8.3%</b>	22.0%	79.2%	70.9%	36.5%

## Business summary

Number of franchise points	<b>131</b>	138	146	166	186
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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.

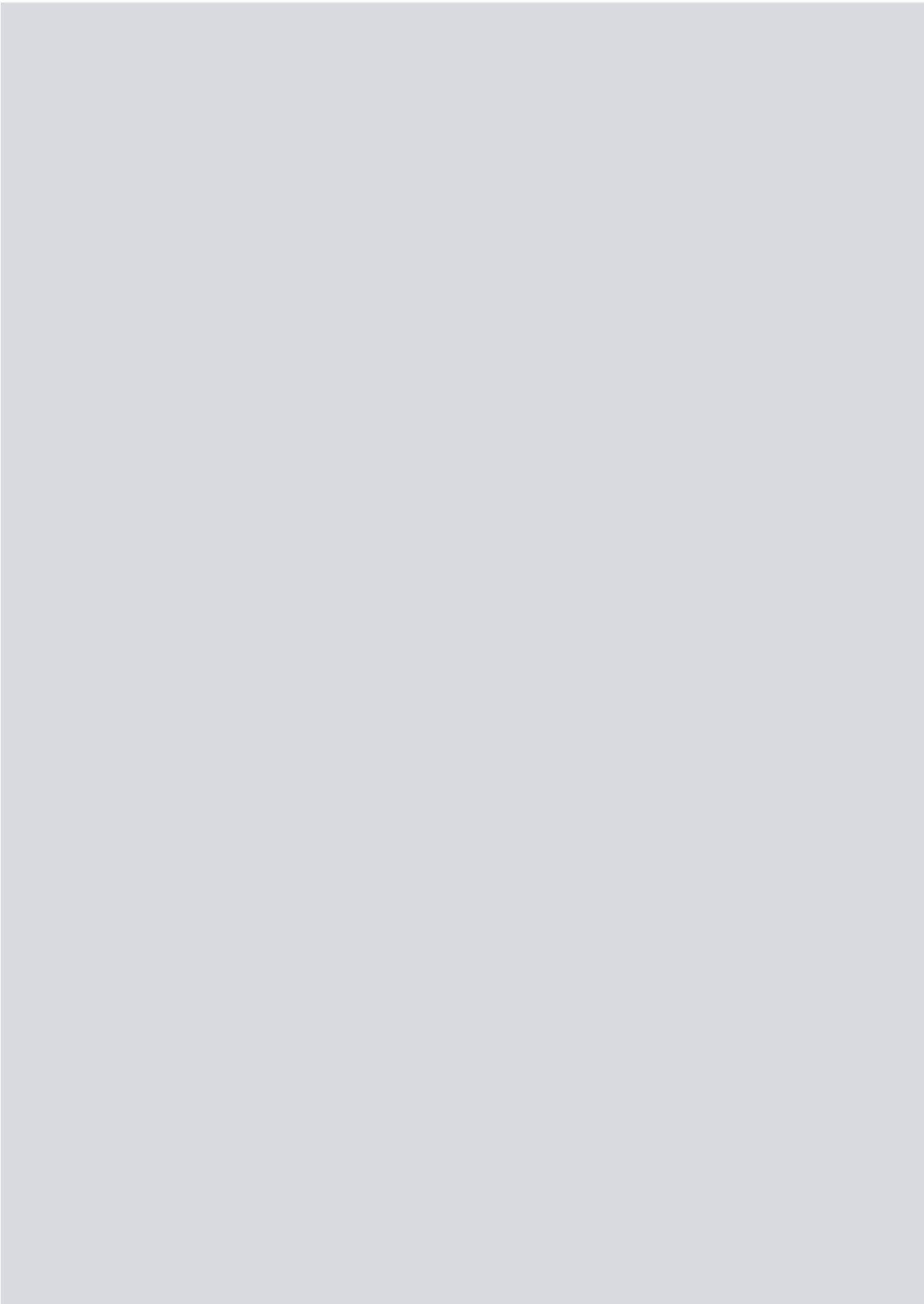
note 5 Dividends per share are based on the interim dividend paid and final dividend proposed for the year.

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.





**ADDRESS | Pendragon PLC** Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottingham NG15 ODR

**TELEPHONE |** 01623 725200 **E-MAIL |** [enquiries@pendragon.uk.com](mailto:enquiries@pendragon.uk.com)

**WEBSITE |** [www.pendragonplc.com](http://www.pendragonplc.com)

**DESIGN | Creative Services** Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottingham NG15 ODR