



PENDRAGON

REMUNERATION POLICY.

This section of the Pendragon website informs you about our remuneration policy and practices. We keep it up to date with our current remuneration policies, which are ordinarily approved on a three-year cycle. Our current remuneration policy was approved by our shareholders at the 2020 AGM and under current law, will be subject to re-approval/renewal by our shareholders at the 2023 AGM. Information specific to executive remuneration for specific reporting periods is set out in the company’s published Annual Report. Consistent with market practice, the Remuneration Committee retains full discretion over all elements of variable remuneration, both in terms of annual bonus awards made, the specific measures, targets and weightings applied to performance measures, and the choice of performance measures used and long-term incentive awards granted and vesting.

TABLE SUMMARISING FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

BASE SALARY

PURPOSE AND LINK TO STRATEGY

Provide competitive remuneration that will attract and retain executives of the calibre required to take forward the company’s strategy.

MAXIMUM OPPORTUNITY

Salary levels are eligible for increases during the three-year period that the remuneration policy operates. During this time, salaries may be increased each year.

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

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

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

OPERATION

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

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

Base salaries are paid monthly in arrears.

PERFORMANCE METRICS

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

BENEFITS
PURPOSE AND LINK TO STRATEGY

Cost-effective, market competitive benefits are provided to assist Executive Directors in the performance of their roles.

MAXIMUM OPPORTUNITY

Benefit levels are set to be competitive relative to companies of a comparable size. The cost of some of these benefits is not pre-determined and may vary from year to year based on the overall cost to the company of securing these benefits for a population of employees (particularly health insurance and death in service cover).

OPERATION

Life assurance, private health cover, professional subscriptions, home telephone costs and (at executive's option) company cars.

PERFORMANCE METRICS

Not applicable.

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

PENSION

PURPOSE AND LINK TO STRATEGY

Provide cost-effective long-term retirement benefits that will form part of a remuneration package that will attract and retain executives who are able to take forward the company's strategy.

MAXIMUM OPPORTUNITY

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

The COO currently receives a pension contribution of 20% of salary which is the maximum under the Policy. However, following previous reductions on 1 June 2020 and 01 January 2021, the following further reductions are planned over the next three years:-

- Current 20% of salary;
- 01 January 2022 – 15% of salary;
- 01 January 2023 – 10% of salary;
- 01 January 2024 – in line with wider workforce which will become 5% of salary;

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

OPERATION

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

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

PERFORMANCE METRICS

No performance metrics apply.

ANNUAL BONUS

PURPOSE AND LINK TO STRATEGY

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

MAXIMUM OPPORTUNITY

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

OPERATION

Annual bonuses are earned over the year and are paid annually in arrears after the end of the financial year to which they relate, based on performance against targets over the year. A minimum of 25% of after-tax bonus earned is subject to compulsory deferral into the company's shares until such time as the company's share ownership guidelines are met. In such situations where bonus is deferred into shares, an executive director may be entitled to receive dividend payments on such shares.

PERFORMANCE METRICS

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

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

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.

OPERATION

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

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

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

MAXIMUM OPPORTUNITY

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

PERFORMANCE METRICS

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

ALL EMPLOYEE SHARE SCHEME (SHARESAVE)

PURPOSE AND LINK TO STRATEGY

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

MAXIMUM OPPORTUNITY

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

OPERATION

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

PERFORMANCE METRICS

No performance conditions.

LONG TERM INCENTIVE PLAN

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

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

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

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 2020
Chairman fee	£150,000	None
Basic fee:	£50,000	£10,000
Supplementary fees:		None
Senior Independent Director	£4,000	None
Audit Committee Chairman	£10,000	None
Remuneration Committee Chairman	£5,000	None
Nomination Committee Chairman	Nil	

REMUNERATION POLICY AND BUSINESS STRATEGY

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 business strategy, aiming to:-

- ensure remuneration arrangements are clear and transparent, promoting effective engagement with shareholders and our employees;
- ensure remuneration structures avoid complexity, with an easy-to-understand rationale and operation;
- avoid reputational and other risks arising from excessive rewards, 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.

ANNUAL BONUS AND LONG-TERM INCENTIVE PLAN (LTIP): REMUNERATION COMMITTEE DISCRETIONS

The Committee will operate the annual bonus plan and LTIP in accordance with their respective rules and in accordance with the Listing Rules, where relevant. Consistent with market practice, the Committee retains discretion in a number of respects with regard to the operation and administration of these plans. These include the following (albeit with quantum and performance targets restricted to the descriptions detailed in the future policy table above):-

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or payment;
- the determination of vesting and/or meeting targets with the ability to override the formulaic outcome in light of overall business proposals
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group;
- determination of good/bad leaver cases for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, share buybacks and special dividends); and
- the annual review of performance measures and weighting, and targets for the annual bonus plan and LTIP from year to year or on award.

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (such as a material divestment of Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

The company retains the authority to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports (e.g. all historic awards that were granted under any LTIPs that remain outstanding, as detailed in the company's latest Annual Report), and which remain eligible to vest based on their original award terms. Details of any payments to former directors will be set out in the Annual Report on remuneration as they arise. With regard to any promotions to executive director positions, the company will retain the ability to honour payments agreed prior to executives joining the Board, albeit any payments agreed in consideration of being promoted to the Board will be consistent with the policy on new appointments as an executive director detailed below.

POLICY ON NEW APPOINTMENTS AS AN EXECUTIVE OR NON-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 detailed above.
Benefits	Will be provided in accordance with the policy within the remuneration policy detailed above.
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 detailed above.
LTIP	Eligible to participate in the LTIP, as described in the remuneration policy detailed above.
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.

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

HOW EMPLOYEES' PAY IS TAKEN INTO ACCOUNT IN EXECUTIVE REMUNERATION

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

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

the company aims to regularly consult with its employees in order to take into account employee's views on proposed changes to our below board compensation and reward packages, including consideration of changes to bonus structures, pension arrangements and leave entitlements, as well as general in-work benefits. Having taken into consideration employee's views, proposals to change below board compensation structures are reviewed by a working party consisting of the executive directors and Chief People Officer and subsequently by the Remuneration Committee in order to ensure that employee views and interests are fully considered prior to any changes being made. In addition to the above, the Company is also proposing the re-introduction of an all employee sharesave scheme, when economic conditions allow, to encourage employee involvement in the Company's performance through share ownership. The Company continues to ensure employees 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 late 2019 and early 2020, the Remuneration Committee undertook a review of remuneration policy, taking into account developments in remuneration policy, as well as prevailing market practice and considering the views of our major shareholders. The Remuneration Committee Chairman continues to make himself available to shareholders to discuss our specific matters arising from our remuneration policy proposals. The outcome of this exercise forms the basis of the remuneration policy detailed in the future policy table above, and which forms the basis of our remuneration policy for the period 2020-2023. The Chairman of the Remuneration Committee aims to maintain regular contact with our major shareholders at key points during the year to ensure we are fully aware of their prevailing thinking on our remuneration policies.

SERVICE CONTRACTS AND EXIT PAYMENTS

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

NAME	COMMENCEMENT	EXPIRY/CESSATION
Brian Small	02.05.18	31.12.21
Mike Wright	10.12.19	31.12.22
Nikki Flanders	13.03.20	31.12.23
Dietmar Exler	20.04.20	31.12.23

The service contract of executive director Martin Casha commenced on 20 December 1999, and was refreshed in December 2019. The service contract of Mark Willis commenced on 08 April 2019, and was also refreshed in December 2019. The service contract of Bill Berman commenced on 01 October 2019 for the purposes of performing the role of interim executive chairman, and was also refreshed in December 2019. On appointment to the role of Chief Executive Officer on 19 February 2020, Bill Berman was issued with a new service contract. Each executive service contract may be terminated by the company giving one year's notice. The company would expect any future executive director appointments to contain the same terms as to notice periods. Executive director appointment terms do not contain any entitlement to any predetermined compensation or severance payments in the event of cessation in office or employment as a consequence of a takeover. Service contracts and letters of appointment are kept for inspection at the company's registered office. With regard to circumstances under which current executive directors might leave service, the possible payments that may be anticipated are described in the table overleaf:-

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

FEES FROM EXTERNAL DIRECTORSHIPS

None of the executive directors holds office as a non-executive director of other companies. Accordingly, the company does not have a formal policy on whether or not an executive director may keep fees gained from holding an external non-executive directorship or similar. This would be decided on a case-by-case basis.