Pendragon | PLC

# 2015 ANNUAL REPORT

# CONTENTS

## THE UK'S LEADING AUTOMOTIVE ONLINE RETAILER

Pendragon's principal market activities are the retailing of used and new vehicles and the service and repair of vehicles (aftersales).

In the UK we have 200 franchise points operating under the brands of 'Stratstone' for the premium vehicle segment and 'Evans Halshaw' for the volume vehicle segment. We also have a vehicle operation in California, with nine franchise points.

We have a number of complementary businesses within the Group which are: 'Pinewood' for dealership management systems, 'Leasing' for fleet and contract hire vehicles and 'Quickco' for wholesale vehicle parts.

## AT A GLANCE

**283,000** NEW & USED UNIT SALES

**200** FRANCHISE POINTS

**20.6m** ANNUAL WEBSITE HITS

**£79.0m** PROFIT BEFORE TAX

**23** WORLDWIDE BRANDS

**11%** USED GROWTH

**9,653** EMPLOYEES

**£4.5bn** TURNOVER

**>1MILLION** AFTERSALES TRANSACTIONS

### STRATEGIC REVIEW



### GOVERNANCE



### FINANCIALS

2

# LOCATIONS

Ford
**40**

Vauxhall
**32**

Citroën
**16**

Renault
**6**

Dacia
**6**

Peugeot
**6**

Nissan
**5**

Kia
**3**

Hyundai
**2**

SEAT
**1**

Honda
**1**

Land Rover
**13**

Jaguar
**11**

Aston Martin
**8**

Mercedes-Benz
**8**

BMW
**7**

MINI
**7**

Smart
**6**

Porsche
**4**

Chatfields
**4**

Harley-Davidson
**2**

Triumph
**1**

Ferrari
**1**

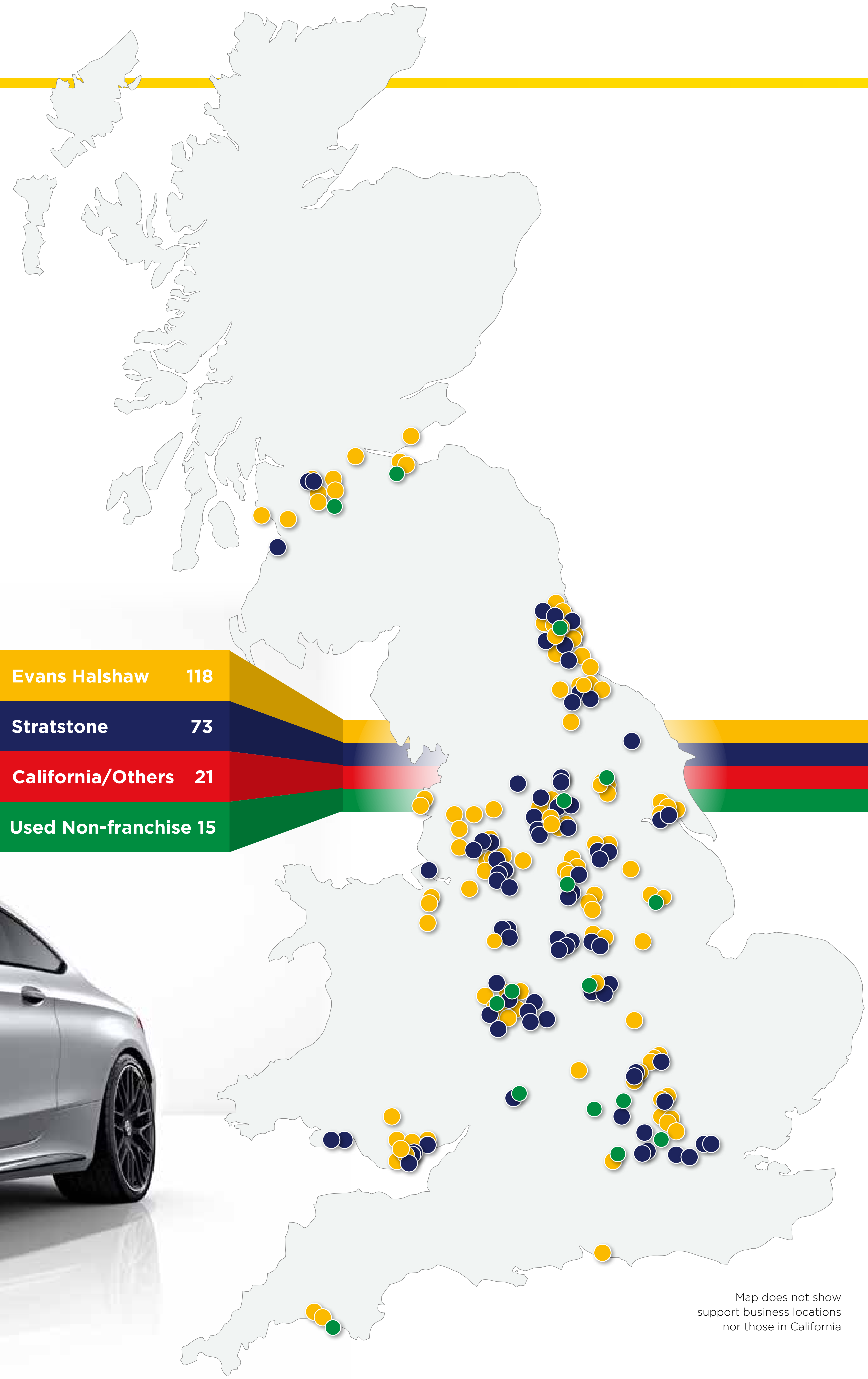
Morgan
**1**

Jaguar
**4**

Land Rover
**4**

Aston Martin
**1**

Used Non-Franchise
**15**

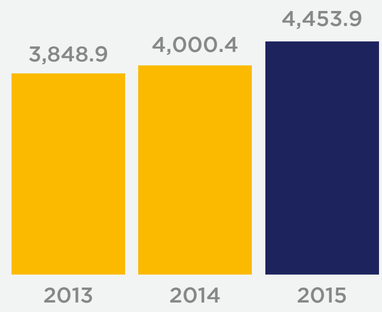



Map does not show support business locations nor those in California

# OUR OPERATIONAL AND FINANCIAL HIGHLIGHTS

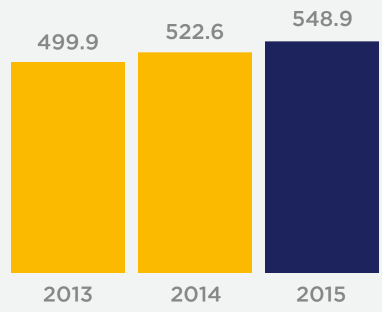
## UNDERLYING REVENUE

**£4,453.9m**



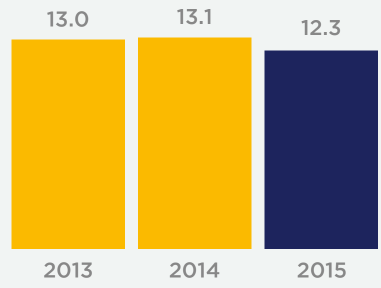

## UNDERLYING GROSS PROFIT

**£548.9m**



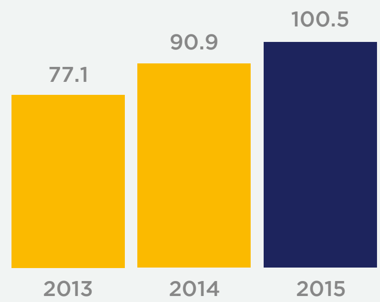

## GROSS MARGIN

**12.3%**




## UNDERLYING OPERATING PROFIT

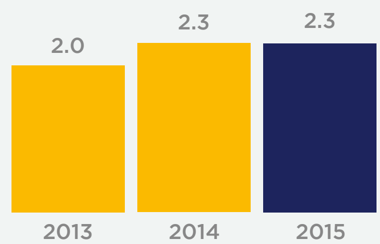
**£100.5m**




## 3 YEAR FINANCIAL HISTORY

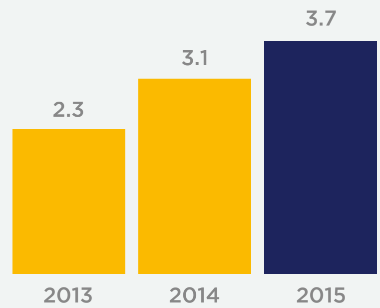
## UNDERLYING OPERATING MARGIN

**2.3%**



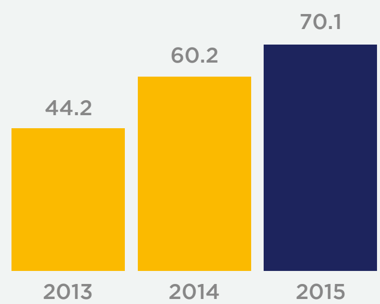

## UNDERLYING EPS

**3.7p**



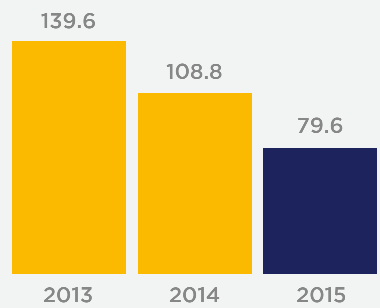

## UNDERLYING PROFIT BEFORE TAX

**£70.1m**

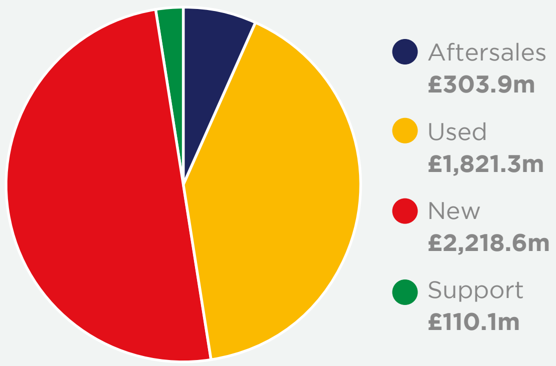



## NET DEBT

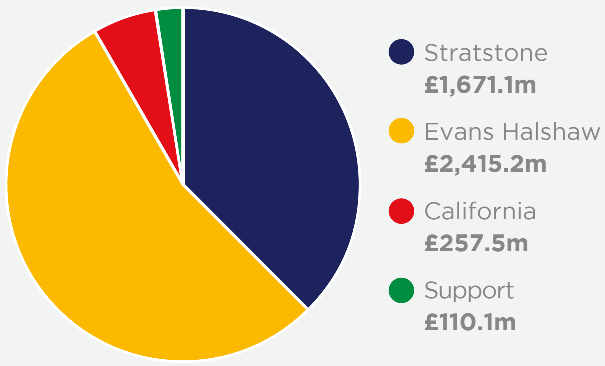
**£79.6m**



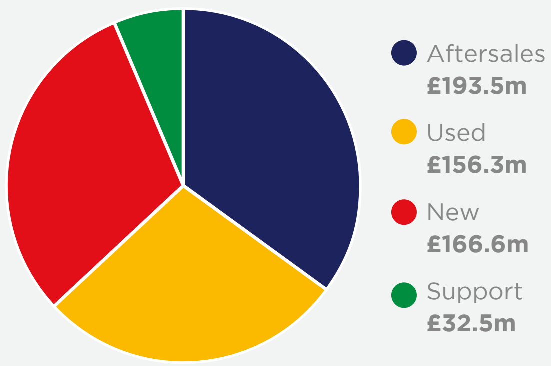
## REVENUE BY SECTOR



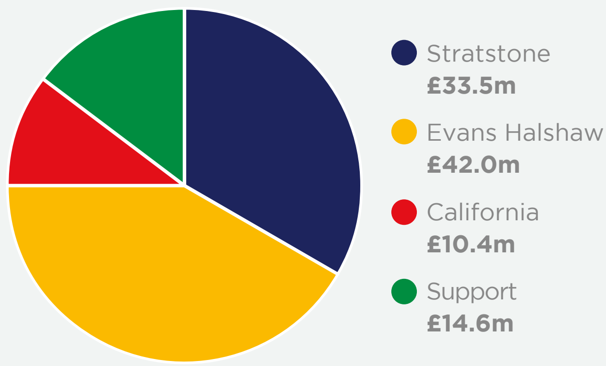

## UNDERLYING REVENUE BY SEGMENT



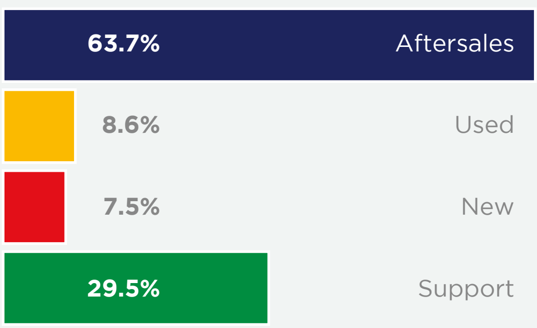

## GROSS PROFIT BY SECTOR



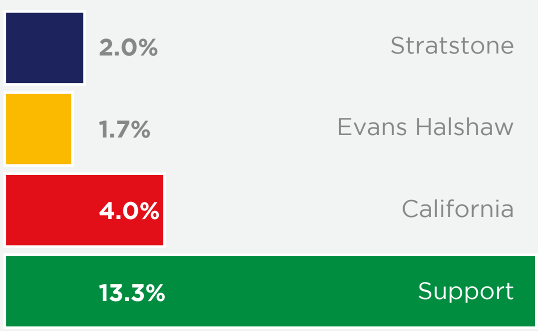

## UNDERLYING OPERATING PROFIT BY SEGMENT




## GROSS PROFIT MARGIN BY SECTOR




## UNDERLYING OPERATING MARGIN BY SEGMENT




New Astra

# CHAIRMAN'S HIGHLIGHTS

*"The UK's leading automotive online retailer increases underlying earnings by 19% and continues to deliver against its strategy"*

**Mel Egglenton, Chairman**

### Financial Highlights

- Underlying profit before tax up £9.9 million (+16.4%), from £60.2 million to £70.1 million.
- Strong operating leverage continues, with gross profit up 5.0% and underlying operating profit up 10.6%.
- Underlying earnings per share up 0.6p (+19.4%), from 3.1p to 3.7p.
- Refinancing agreed on improved terms.
- Final dividend proposed of 0.7p per share, reflecting profit progression, an increase of 44.4% on the full year dividend.

### Strategic Highlights

- The Group's clear strategy continues to deliver consistent year on year profit growth.
- Our strategy is focused on our four 'pillars' of Choice, Value, Service and Convenience supported by our people.
- Launched 'Move Me Closer', the UK's first click and collect service, in February 2015.
- Encouraging progress from our 'Sell Your Car' service, providing value to the consumer and additional used vehicle supply to the business.
- Enhanced architectures of websites for Stratstone.com, Evanshalshaw.com, Quickco.co.uk and Pendragonvehiclemanagment.co.uk. Web visits to Evanshalshaw.com and Stratstone.com increased by 5.4 million (+35.5%), from 15.2 million to 20.6 million.
- Nine retail points added as we complement our online offering with a national footprint.

### Operational Highlights

- Another record breaking year in used vehicles with like for like gross profit up £15.0 million (+10.9%).
- Market tailwinds and our initiatives have led to like for like aftersales gross profit increasing by £9.7 million (+5.4%).
- New vehicle market growth, as predicted, is beginning to ease with like for like gross profit increasing by £17.5 million (+12.1%). During the year we invested £53.1 million in our retail facilities.
- Our underlying costs to gross profit ratio has improved from 82.8% to 81.7%.
- Underlying operating margin maintained at 2.3%.

### Outlook

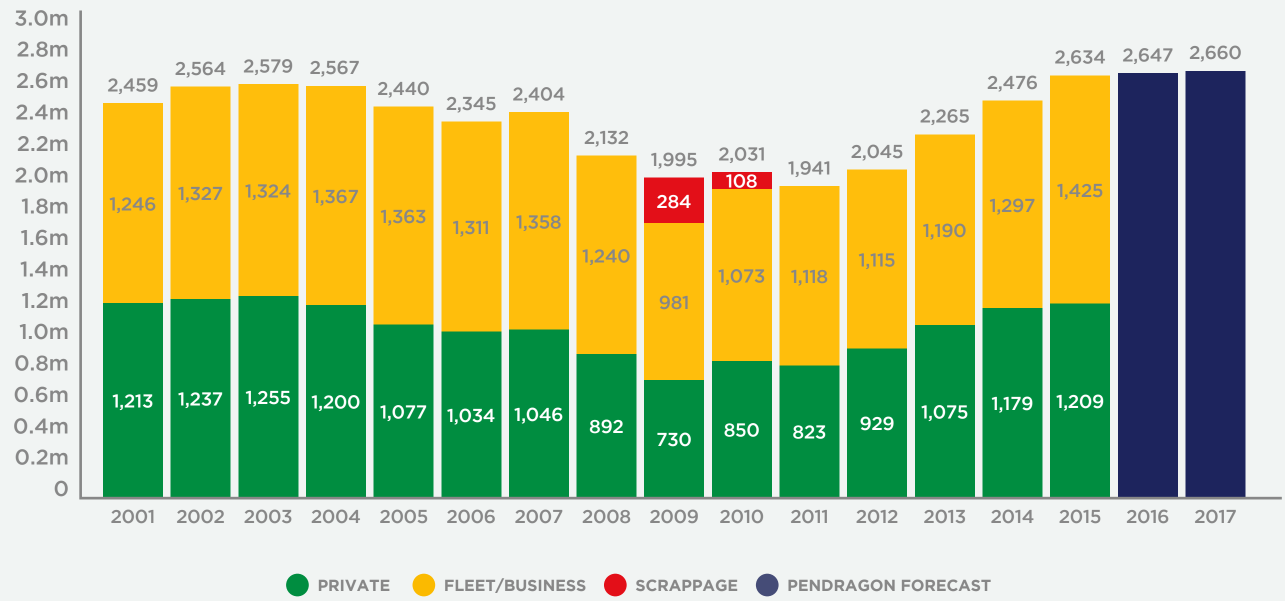
We are delighted with this strong set of results and have nearly doubled underlying profit within three years. On a like for like basis, each of the sectors of aftersales, used and new have grown significantly as a result of both strong internal performance and favourable market conditions. We are particularly pleased with our used car performance in Evanshalshaw.com which has grown significantly in the period. This outperformance demonstrates the success of our strategy to offer Choice, Value, Service and Convenience to our customers.

We believe the new vehicle market will be stable in the coming year but are still expecting to see growth in the key market areas of aftersales and used. We continue to be excited by our 'Sell Your Car' and 'Move Me Closer' initiatives. In the medium term, we will roll out additional footprint in the UK, particularly by adding sites in areas where we have no representation, to provide further convenience to our customers. The Group is well positioned for another strong year in 2016 and is expected to perform in line with expectations.

**Mel Egglenton**
Chairman

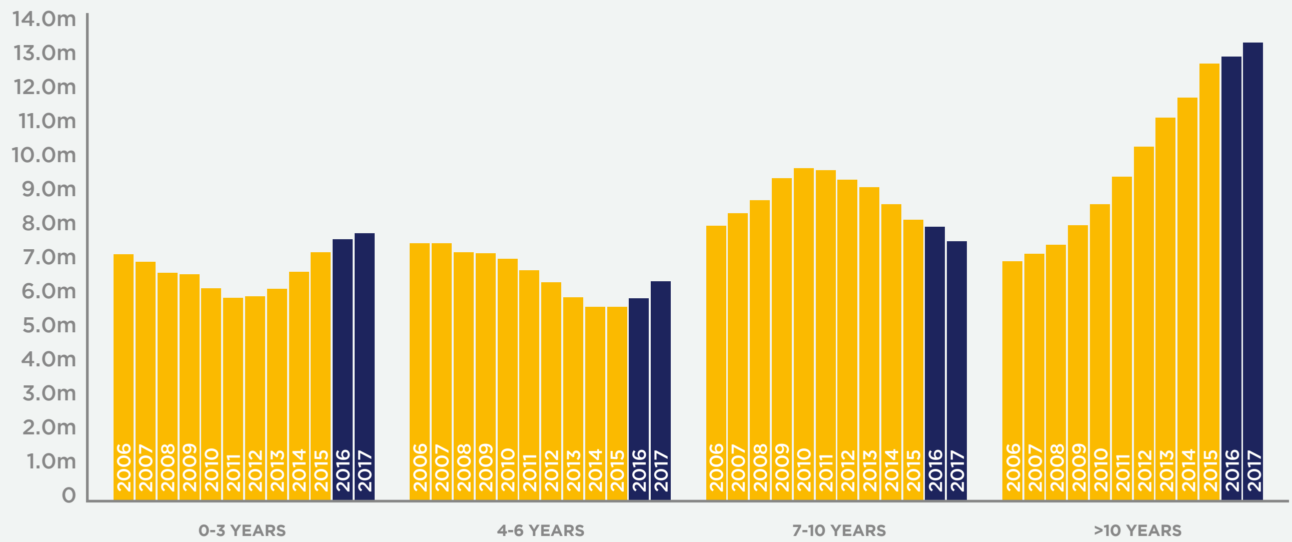
# INDUSTRY INSIGHT

## UK NEW CAR MARKET



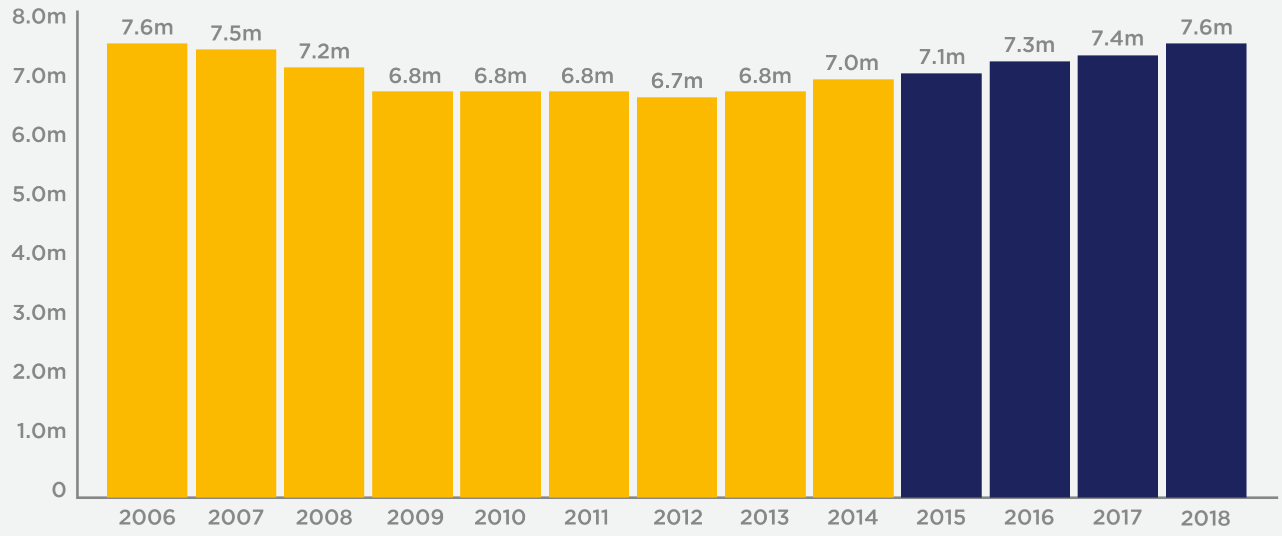

Source: SMMT (2001 to 2015) and Pendragon (2016 to 2017)

## UK CAR PARC BY AGE OF VEHICLE




Source: IHS Automotive (2006 to 2015) and Pendragon (2016 to 2017)

## UK USED CAR MARKET




Source: Experian (2006 to 2014) and Pendragon (2015 to 2018)

## NEW SECTOR

The new vehicle sector consists of the first registration of cars and commercial vehicles. In 2015, the UK new car market, the second largest market in Europe, increased by 6.3% over the prior year, with 2.634 million registrations (2014: 2.476 million).

The UK new car market is primarily divided into retail and fleet markets. The retail market is the direct selling of vehicle units to individual consumers and operates at a higher margin than the fleet market. The fleet market represents selling of multiple vehicles to businesses, and is predominantly transacted at a lower margin and consumes higher levels of working capital than retail. The retail market is the key market opportunity for the Group and represents just under half of the total UK market.

The following table summarises the UK new car vehicle market, separating the retail and fleet components for the twelve month periods ended 31 December 2015 and 31 December 2014:

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

| | 2015 | 2014 | Change | Change % |
|---|---|---|---|---|
| UK Retail Market | 1,208.8 | 1,179.5 | 29.3 | +2.5% |
| UK Fleet Market | 1,424.7 | 1,296.9 | 127.8 | +9.9% |
| **UK New Market** | **2,633.5** | **2,476.4** | **157.1** | **+6.3%** |
| Group Represented* UK Retail Market | 815.8 | 795.3 | 20.5 | +2.6% |
| Group Represented* UK Fleet Market | 996.3 | 900.6 | 95.7 | +10.6% |
| **Group Represented* UK New Market** | **1,812.1** | **1,695.9** | **116.2** | **+6.9%** |

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

# INDUSTRY INSIGHT

The Society of Motor Manufacturers and Traders expects the UK market to be 2.629 million new cars in 2016.

The UK commercial vehicle market, consisting of light commercial vehicles and trucks, had a market size of 424 thousand units in 2015, an increase of 16.7% over the prior year. Following a decline in the truck market of 26.2% in 2014, this reversed, with growth of 25.5% in 2015; and light commercial vehicles grew by 15.6% in 2015.

The Group has a small and successful representation in California. The USA new vehicle market was 17.3 million in 2015, an increase of 5.5% over 2014 and the highest vehicle market since 2006. The National Automobile Dealers' Association expects the USA market to be 17.7 million vehicles in 2016, an increase of 2.3%.

## NEW INDUSTRY INSIGHT

In our last interim management statement we indicated that the 2015 UK new car market would exceed 2.6 million units and we had previously commented that the total new car market would run at its natural level of between 2.5 million to 2.6 million units. Whilst the 2015 new car market was actually at the upper end of this natural level, we maintain our view that the market will be relatively stable in the near term. Increases can be expected in the long term due to increases in car ownership and population growth. We are maintaining our view that the 2016 new car market will be stable. Approximately 75% of all UK retail cars retailed in the UK are now sold with finance agreements in place.

*We believe the UK used car market will see growth of around 2% per annum over the next three years.*

## USED SECTOR

The used vehicle sector comprises the selling of vehicles by one party to another for all vehicles except newly registered vehicles. We had previously expected the market to grow by around 1.6% in 2015. In the first three quarters of 2015, the used car market was 5.526 million, with growth of 1.9% on the prior year. Around half of these transactions are conducted by franchised dealers and the balance by independent dealers and private individuals.

## USED INDUSTRY INSIGHT

We have previously modelled the impact of the new market volumes on the used car market and continue to believe we will see growth of around 2% per annum over the next three years. When we segment the used market by age of vehicle, our analysis of the next three years shows that the supply of vehicles that are less than six years


*The aftersales servicing and repair business will benefit from increased new and used car activity.*

old will continue to grow more rapidly than those over six years old. We have been tracking our used volume vehicle performance to the used vehicle market for those cars aged between one and eight years old, which represents our key market segment. Since 2009, through implementation of our used car initiatives and strategies, we have more than doubled our market share from 2.5% to 5.3%.

## AFTERSALES SECTOR

Aftersales encompasses the servicing, maintenance and repair of motor vehicles, including bodyshop repairs, and the retailing of parts and other motor related accessories. The main determinant of the aftersales market is the number of vehicles on the road, known as the 'vehicle parc'. The vehicle parc in the UK has risen to 34 million vehicles (cars only), having been typically around 32 to 33 million vehicles in the prior three years. The car parc can also be segmented into markets representing different age groups. Typically, around 21% of the car parc is represented by less than three year old cars, around 17% is represented by four to six year old cars and 62% is greater than seven year old cars.

The size of each of these age groups within the car parc is determined by the number of new cars entering the parc and the number exiting the parc. The demand for servicing and repair activity is less impacted than other sectors by adverse economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

## AFTERSALES INDUSTRY INSIGHT

The aftersales servicing and repair business will benefit from increased new and used car activity. As a result of the increased new vehicle supply, we have seen growth in the less than three year old car parc of around 9% and expect this to grow by around 5% in 2016. Interestingly, in 2015, within the four to six year old vehicle parc, there was no growth following a number of years of decline. We expect this segment of the vehicle parc to grow by 4% in 2016. Overall, we expect at least for the next three years to see good continuing growth in the vehicle parc for cars up to six years old.

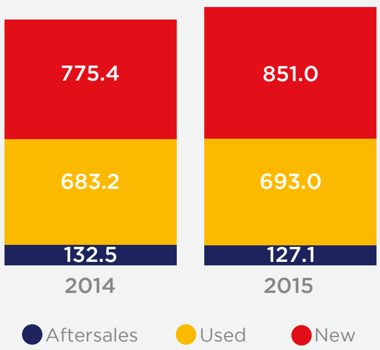
# OUR BUSINESS

## STRATSTONE.COM

**STRATSTONE** is one of the UK's leading premium motor car retailers, with 73 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Jaguar, Land Rover, Mercedes-Benz, MINI, Morgan, Porsche and Smart as well as three motorcycle franchises. This segment also contains our retail and service outlets for DAF commercial vehicles under the Chatfields brand name.

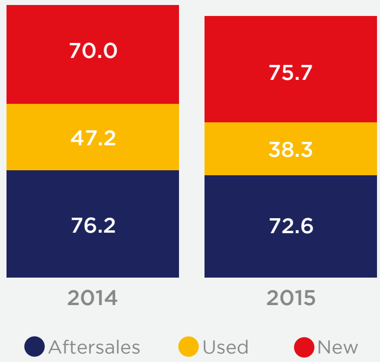
### REVENUE

**£1,591.1m** **£1,671.1m**




### GROSS PROFIT

**£193.4m** **£186.6m**




### OPERATING PROFIT

| 2014 | 2015 |
|---|---|
| £35.5m | £33.5m |

### OPERATING MARGIN

| 2014 | 2015 |
|---|---|
| 2.2% | 2.0% |

### GROSS MARGIN

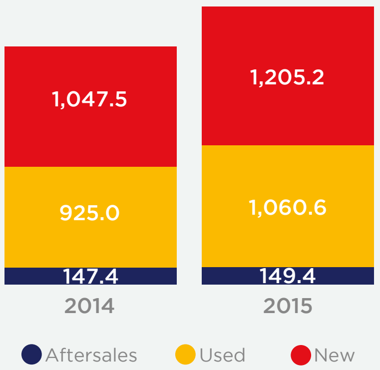
| 2014 | 2015 |
|---|---|
| 12.2% | 11.2% |

## EVANSHALSHAW.COM

**EVANS HALSHAW** is the UK's leading volume motor car retailer, with 118 franchise points. Evans Halshaw holds franchises to retail and service Citroen, Dacia, Ford, Honda, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall.

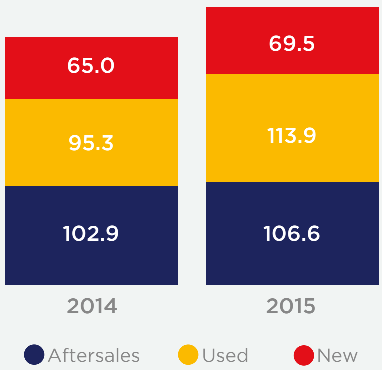
### REVENUE

**£2,119.9m** **£2,415.2m**




### GROSS PROFIT

**£263.2m** **£290.0m**




### OPERATING PROFIT

| 2014 | 2015 |
|---|---|
| £30.4m | £42.0m |

### OPERATING MARGIN

| 2014 | 2015 |
|---|---|
| 1.4% | 1.7% |

### GROSS MARGIN

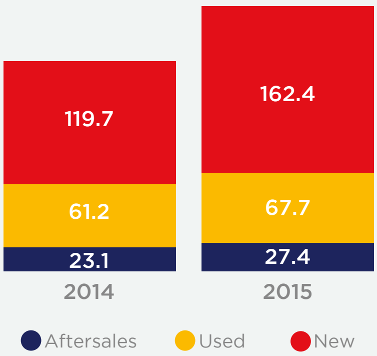
| 2014 | 2015 |
|---|---|
| 12.4% | 12.0% |

# CALIFORNIA

**CALIFORNIA** represents the premium brands of Aston Martin, Land Rover and Jaguar, with nine franchise points in Southern California.

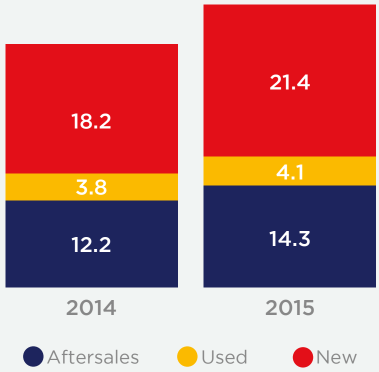
## REVENUE

| | |
|---|---|
| £204.0m | £257.5m |




## GROSS PROFIT

| | |
|---|---|
| £34.2m | £39.8m |




## OPERATING PROFIT

| 2014 | 2015 |
|---|---|
| £8.6m | £10.4m |

## OPERATING MARGIN

| 2014 | 2015 |
|---|---|
| 4.2% | 4.0% |

## GROSS MARGIN

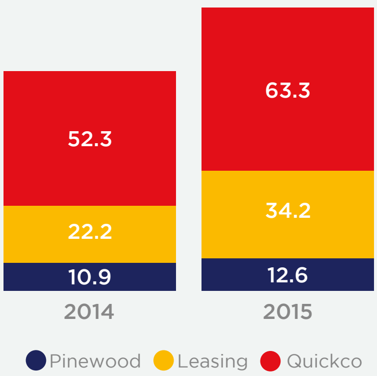
| 2014 | 2015 |
|---|---|
| 16.8% | 15.5% |

# SUPPORT BUSINESS

**SUPPORT BUSINESSES** complement the Group's dealership activites by offering leasing for fleet and contract hire, dealer management systems from Pinewood and a wholesale vehicle parts distribution business with Quickco.

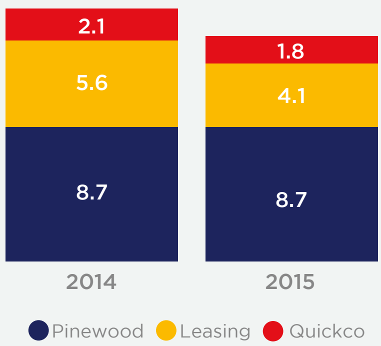
## REVENUE

| | |
|---|---|
| £85.4m | £110.1m |




## OPERATING PROFIT

| | |
|---|---|
| £16.4m | £14.6m |




## QUICKCO OPERATING MARGIN

| 2014 | 2015 |
|---|---|
| 4.0% | 2.8% |

## LEASING OPERATING MARGIN

| 2014 | 2015 |
|---|---|
| 25.2% | 12.0% |

## PINEWOOD OPERATING MARGIN

| 2014 | 2015 |
|---|---|
| 79.8% | 69.0% |

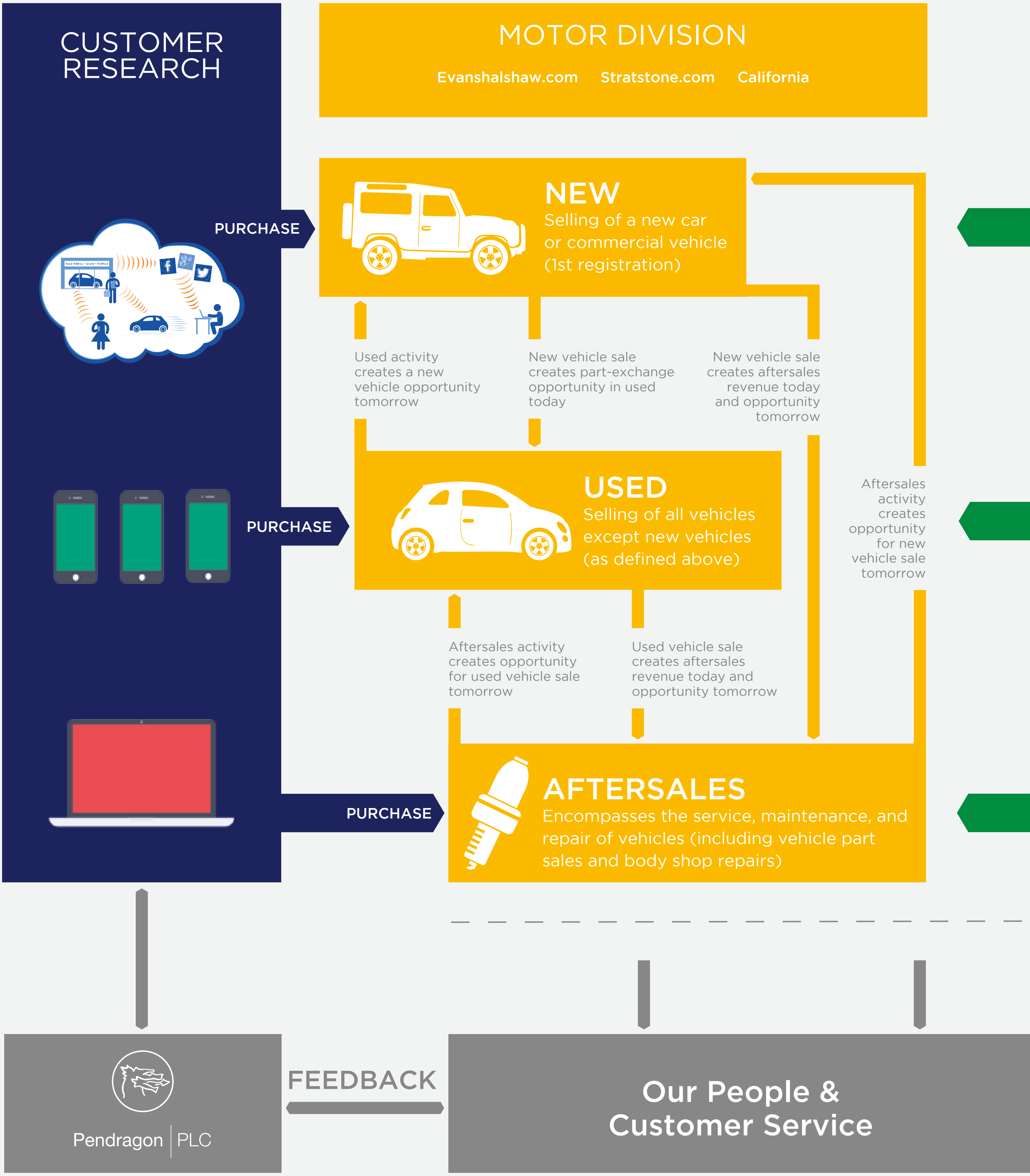
# OUR BUSINESS

*We achieved strong growth and set new records as we continue to deliver our winning strategy of offering Choice, Value, Service and Convenience to our customers.  We are particularly pleased with our Evanshalshaw.com performance, where like for like used vehicle gross profit improved by over 20 percent. This outstanding performance is due to our focused strategy, strong processes and the evolution of our brands, helped by the launch of 'Move Me Closer' and 'Sell Your Car'.  We are looking forward to growing the business further from organic activity and selective acquisitions. We continue to benefit from new car products, particularly in the Stratstone.com vehicle ranges.  We thank our people for being committed to the evolution of the Group and for helping deliver another outstanding set of results.  Our prospects for 2016 are in line with current expectations.*

**Trevor Finn, Chief Executive Officer**

# BUSINESS MODEL

## OUR BRANDS



## SUPPORT BUSINESS

**Pinewood.co.uk**
**Pendragonvehiclemanagement.co.uk**
**Quickco.co.uk**

## PINEWOOD

Our IT provider, providing dealer management systems, operating largely in the UK

## LEASING

Contract hire and leasing, providing new, used and aftersales activity for the Group

## QUICKCO

Provides vehicle parts for our used and aftersales sectors

# STRATEGY AND VIABILITY STATEMENT

## STRATEGY

Our strategy is to grow profitability in used, aftersales and new and we represent this by our four strategic pillars. These strategic pillars are: Choice, Value, Service and Convenience and are supported by the 'Our People' foundation.

## CHOICE

Our 'Choice' pillar is our strategy to ensure that our consumers can access the largest and best choice of vehicles and servicing in the UK. Visits to Stratstone.com and Evanshalshaw.com increased by 35.5% over the prior year, to 20.6 million visitors, offering the choice of over 21,000 vehicles to consumers online. Overall, we have nearly doubled the number of web visits in three years from around 10.9 million in 2012 to over 20.6 million in 2015, which is truly exceptional growth of the brands. This channel is becoming a key aspect of our business to ensure our consumers are fully aware of the choice we have available and the convenience of transacting with us.

We have been operating our 'Sell Your Car' initiative for a over a year. This enables the consumer to choose to sell their car direct to us at Evanshalshaw.com (www.evanshalshaw.com/sell-your-car/). We guarantee to pay more than 'webuyanycar.com'. This initiative is enabling us to provide a greater selection of choice and value to consumers and to turn stock more quickly, given that the vehicles we buy from these customers arrive directly at our vehicle preparation and retailing premises.

In February 2015, we launched 'Move Me Closer' which enables the consumer to reserve a vehicle direct from their electronic device and choose to have it physically delivered to their nearest store location (www.evanshalshaw.com/move-me-closer/). Through this service, consumers can research and view online over 21,000 vehicles then inspect the vehicle they reserved at a physical location convenient to them.
We continue to be encouraged by the results of our Sell Your Car and Move Me Closer initiatives.

## VALUE

Our 'Value' pillar ensures that, for every single purchase, our consumers enjoy the benefit of our every day low prices, achieved by our frequently researched local and national prices. We have been operating our value pricing methodology since 2008, enabling us to provide price transparency to our customers. Our used car sales are backed by our Price Guarantee.

## SERVICE

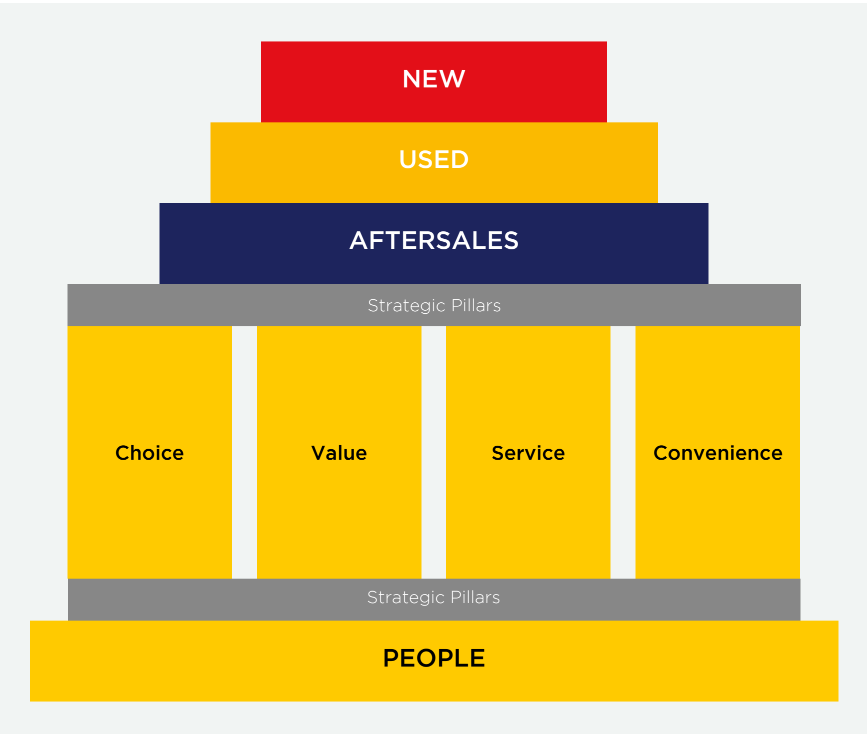
Our 'Service' pillar is ensuring that our consumers can transact easily with our business, with outstanding customer service. We monitor our customer satisfaction scores closely and regard as a key measure of our success the proportion of customers who have given us a four or five star rating for vehicle sales and aftersales service. We are pleased to report that on this measure our performance has progressed from 83.4% at 31 December 2013 to 85.3% at 31 December 2014 to 85.5% at 31 December 2015. We continue to put the customer first in all we do.

## CONVENIENCE

Our business has the largest motor retail footprint and scale in the UK. For both vehicle selection and purchasing, and for aftersales services, customers can visit our stores at locations convenient to them. We have commenced an investment programme to acquire and open stores in the key market areas in the UK where we do not yet have a significant presence. This investment will bring us even closer to existing and potential customers, by further enhancing the offering of Choice, Convenience of contact and Service and our unique used vehicle proposition.

We have added nine more Evans Halshaw sites towards our plan of 40 additional sites.

Our 'Sell Your Car' initiative is now available at 42 retail locations in the UK, bringing us closer to more consumers and providing an inflow of used cars for the business sourced directly from consumers.



## OUR PEOPLE

Our people are key to the underlying success of our business. We are fortunate to have a committed and dedicated team member base who are helping us deliver our strategy and achieve our planned business growth. During 2016 we plan further investment in our people to enhance attraction to the business and mitigate attrition. This will be undertaken alongside our implementation of the National Living Wage. Adaptability, dedication and willingness to learn underlie our team members' valuable contribution to this growth. We wish to thank our team members, who continue to be part of the journey at Pendragon PLC, and who enjoy growing with our forward-looking organisation.

## OUR BOARD

Mr Paul Hampden Smith will retire from the Board of Pendragon on 22 May 2016. Mr Hampden Smith is an independent non-executive director and Chairman of the Audit Committee of Pendragon.

## VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014 (the "Code"), the directors have assessed the viability of the Company over the three year period to the 31 December 2018.

The directors believe this period to be appropriate as:

(i) The Group's detailed plan encompasses this period.

(ii) We typically, at inception, look to attain a revolving credit facility for at least four years.

The three-year strategic review considers the Group's profit and loss, cash flows, debt and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring. The three-year review also makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required.

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.

In addition, further discussion of the principal risks and material uncertainties affecting Pendragon PLC can be found within the Annual report and Accounts on pages 26 to 29. The risk disclosures section of the consolidated financial statements set out the principal risks the Group is exposed to, including market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers risks during the year on triannual basis through the Risk Control Group and annually at a Board meeting with ad hoc reporting as required.

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

- The ability to adopt and implement an appropriate strategy which is mitigated by our management information and market data, appropriate investment, monitoring of our performance and focus on financial discipline
- The availability of debt funding which is mitigated by maintaining adequate committed, diversified funding sources
- 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.

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 2015, 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 well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2018.

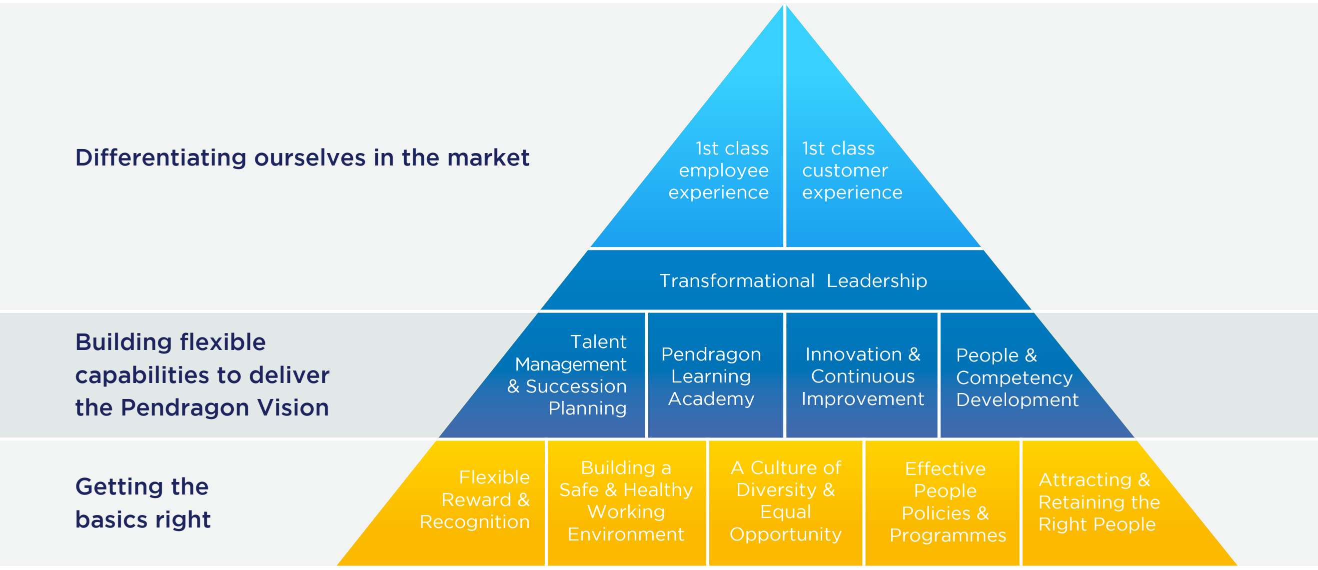
# OUR PEOPLE

## PEOPLE AND STRATEGY

Underpinning our strategy is our "people foundation". During 2015, we have further enhanced this people element, adding more support to our team, by increasing their access to tools and systems that help them deliver our overall strategy of Choice, Value, Service and Convenience.

We continue to focus on our team members and how we equip them to engage with our customers. Our HR, learning and development functions have continued to build capacity, through facilities, systems and e-learning solutions, to ensure we attract the right people to join our businesses, plan their training, encourage their ambition, support their leaders and enable them to achieve.

The following pages illustrate our achievements in 2015 and outline our plans for the coming year.




## MILESTONES & ACHIEVEMENTS

In 2015 we were once again awarded Investors In People (IIP) accreditation. Our average scores across the Group increased by 10% against the IIP benchmarks, significantly more sites exceeded the benchmark, and, for the first time, sites were rated as Silver and Bronze standard. IIP recognised that our 'People Foundation' is driving a positive shift in culture, leadership capability, team member performance and customer satisfaction.

We continued to invest in our training academy and, in the Autumn, completed the second phase of development, to provide an expanded learning facility with additional conference rooms.

We continued to drive our talent programmes by increasing our graduate intake, launching our sales apprenticeship programme and two new 'Unlocking Your Potential' talent development programmes. These programmes are providing skilled people for roles across the Group and developing the careers of hundreds of our talented team members.

In July 2015 we introduced plans to achieve our ambition that all new team members spend their first day at our Academy. This started with our sales and service team member inductions, with 444 new team members benefiting from the experience by the year end. We believe this approach has contributed to increased stability of our team, by increasing the retention of team members in their first six months with us from 53% to 83%. It has also had a direct impact on sales performance, with measurable improvements in the productivity of new starters joining since July, compared with prior periods.

In another first for the Group, we achieved a quality benchmark for our leadership development, first introduced in December 2014. All our leadership programmes have been accredited by the Chartered Management Institute, the UK's only chartered professional body for leadership.

BMW Leeds

Mercedes-AMG Glasgow

Vauxhall Wakefield

Ford Old Trafford

MINI Leeds


Our coaching programme, introduced in 2014, made further positive impacts in 2015. In Q4 we further developed our 'observed sales' process for regulated team members, which entailed over 19,000 tests being taken by individuals, followed by refreshed coaching observations from their leaders, resulting in improved feedback and action plans to support our team members in continually improving the service we deliver to our customers.

As regards systems supporting our "people foundation", we were very busy, launching both our new learning management, performance management, payroll and HR systems. We will introduce more functionality and further embed these in 2016.

Community engagement has been a key part of our 2015 activity. As an active member of the charitable organisation 'Business in the Community' we continued our partnership with All Saints Academy in Mansfield, a school local to us and the Pendragon corporate office. The Head Teacher commented: "We are so proud and pleased to work in partnership with Pendragon. The work that you do to support our pupils is incredible and makes a huge difference to their aspirations and employability". We also take an active role in promoting apprenticeships through the East Midlands Apprenticeship Ambassador Network.

# OUR PEOPLE

## 2015 IN NUMBERS

- Total number of team members based in the UK increased by 0.7% in 2015 to 9,110 at 31 December 2015
- 25% of our team members are female
- We recognised 819 long service milestones in 2015. 381 team members reached the 5 year mark, 220 reached 10 years, 122 reached 15 years and 96 reached 20 years' service.
- 2015 saw 152,216 unique visitors to our resourcing website: www.jobsatpendragon.co.uk. We had over 471,686 page views on our jobs web site which helped us fill 4,034 vacancies in 2015. This was a 75% increase on the number of vacancies filled from 2014.
- We have filled over 34% of our vacancies through internal hires, representing 1383 team members moving or being promoted within the group (2014: 500)
- We recruited 55 more graduates to our sales graduate scheme (2014: 42) an increase of 31%
- We delivered 4,836 training days for our team members in 2015. (2014: 4775)
- 231 team members have been assessed as part of our 'Unlocking Your Potential' talent programmes. 182 have successfully gained a place, and, as at year end, the promotion rate for those who have completed programmes is 45% for aspiring dealer principals and 67% for aspiring business managers.
- We increased our eLearning and online content significantly in 2015. Our team members completed over 114,000 eLearning modules, pieces of online content and online tests.
- We recognised over 2,000 team members through our new recognition scheme, 'The Extra Mile'. As well as celebrating our monthly winners, we also invited 800 team members to regional recognition lunches held quarterly throughout the UK. Almost 400 team members attended the annual Evans Halshaw and Stratstone recognition awards in January 2015.
- Our new sales apprenticeship scheme saw 61 new apprentices join us in 2015. Together with our technical, service and administration apprentices, this meant we had 368 apprentices on schemes across the group in 2015.
- 165 team members were added to the Training & Loyalty Award Scheme during 2015. This scheme sets out to recognise with a cash award team members who undertake vocational training (including apprenticeships) and remain loyal to the group for a designated period of time
- 14 team members received Training & Loyalty Award payments in 2015
- Our Learning and Development team created 28 new courses for our team members in 2015, ranging from health and safety and induction to sales, service and leadership development.

## TARGETS FOR 2016

To build on the success of 2015 here are some of our key plans for 2016:

A major focus for the year is to enhance our performance management culture. We are introducing a new policy, together with a process and training programme for all leaders across the group. This will build on our leaders' coaching capability to drive sustainable performance and effective people processes.

Further embedding our people systems through 2016 will help us improve their efficiency and effectiveness.

We will continue to improve our customer experience and business performance through further new learning programmes for our team members.

Our talent programmes will continue to grow as we work in partnership with our apprenticeship providers, colleges and universities to explore new talent pipelines and prepare our business for the move to the apprenticeship levy in 2017.

Engagement and retention will be two key people metrics for us in 2016. The launch of our new engagement survey and the introduction of retention targets for all leaders will help drive these

We will continue to grow our community presence and develop our resourcing processes and platform to attract talent toward our group.

Our Training Academy will provide commercial services in 2016.

The fast-paced nature of our industry will continue to produce change; we will support the business in helping all our people to adapt and continue to thrive.

# INVESTMENT IN OUR FUTURE

Through the summer of 2015 we started work on the second phase of developing our training academy. The custom built academy was converted from an existing dealership in January 2014. The success of the programmes run from the Academy saw the demand soon outgrow the facility and we have increased the capacity by a further five training rooms and large breakout area. The space has been cleverly designed to incorporate a conference facility, created by opening up three of the rooms when required. The high spec finish has really impressed our team members and all seven rooms are in use most days with internal training sessions, meetings and conferences.

The work was completed in the Autumn and the Academy team hosted an open evening for local businesses in

December to advertise the facility for external use. The first external booking is in February 2016 and the team expect many more, if the space is available.

We are continuing to invest to upgrade the parking and showroom areas in 2016 to further increase capacity at the site. The many success stories, milestones and numbers over the last few pages tell us we are seeing a great return on this investment in our people.

# WHAT OUR PEOPLE SAY

***"The team at the Pendragon Training Academy are professional and serious about helping people improve their skills."***

Delegate from our 'Unlocking Your Potential' Leadership Development Programme

***"I have used many of the skills learnt on the coaching programme and refreshed my approach with customers and my team members."***

Delegate from our 'Coaching for Business Success" Programme

***"I'm always happy to recommend the training to anyone, as it really helps you to succeed in your role."***

Delegate from our Service Development Programme

***"It was a most inspirational and thought provoking workshop".***

Delegate from our 'Leaders as Communicators' Workshop

***"Customer Focus; really makes you think about things in someone else's shoes, and helps you understand how to express yourself effectively with customers."***

Delegate from our 'Customer Focus' Workshop

***"I feel enthused, knowing that when I attend other courses at the training academy, it will be a great learning experience."***

Delegate from our 'Unlocking Your Potential' Leadership Development Programme

***"A first class training facility, the facilitators have the ability to get course delegates challenging their existing certainties and old ways of thinking in a revelatory rather than confrontational manner, which makes for a great business training session."***

Delegate from our Leadership Development Programme

***"Pendragon really care about their people and what they learn."***

Delegate from our 'Talent Development' Programme

***"This has changed how I will support my new team members, trainees and apprentices for the better."***

Delegate from our 'Mentoring' Workshop

***"Day 2 of Dealer Principal training at the Pendragon PLC Training Academy today... really enjoying getting stuck in to a really interesting and worthwhile course. Nice to work for a company so keen to invest in their talent internally. #no1team."***

Delegate post on LinkedIn

# KEY PERFORMANCE INDICATORS

| | KPI | Definition | Performance |
|---|---|---|---|
| Financial KPIs | Adjusted EPS | Underlying profit after tax divided by weighted average number of shares | FY15 – Adjusted EPS of 3.7p<br>FY14 – Adjusted EPS of 3.1p<br>Improvement of 19% year on year |
| Financial KPIs | Underlying PBT | Underlying profit before tax excludes items that have non-trading attributes due to their size, nature or incidence | FY15 – Underlying PBT £70.1m<br>FY14 – Underlying PBT £60.2m<br>Improvement of 16% year on year |
| Financial KPIs | Operating Margin | Underlying operating profit divided by underlying revenue | FY15 – Operating margin 2.3%<br>FY14 – Operating margin 2.3%<br>Operating margin stable |
| Financial KPIs | Net Debt | Net Debt : underlying EBITDA is the ratio of our net debt to underlying EBITDA | FY15 – Ratio 0.5<br>FY14 – Ratio 0.8<br>The Group has reduced net debt by £29.2m and increased underlying EBITDA by £6.8m. |
| Strategic/Operational KPIs | Aftersales Retail Labour Sales | Retail labour sales is activity direct to consumers for the servicing and repair of motor vehicles (like for like) | FY15 – Retail growth 2.6%<br>FY14 – Retail growth 2.6%<br>Retail labour sales growth maintained |
| Strategic/Operational KPIs | Used Revenue | All used revenues (like for like) | FY15 – Used revenue £1,742.7m<br>FY14 – Used revenue £1,529.9m<br>Improvement of 14% year on year |
| Strategic/Operational KPIs | New Market Share | Retail new unit volume divided by retail registrations for the brands we represent (like for like) | FY15 – New retail share 6.3%<br>FY14 – New retail share 6.4%<br>Retail market share maintained |
| Strategic/Operational KPIs | Online Growth | Website visits to Evanshalshaw.com and Stratstone.com | FY15 – 20.6m visitors<br>FY14 – 15.2m visitors<br>Improvement of 36% year on year |
| Strategic/Operational KPIs | Customer Service | Customer service is measured via email survey responses from aftersales, used and new rating from 1 to 5 stars (5: excellent) | FY15 – 4/5 Star – 86%<br>FY14 – 4/5 Star – 85%<br>Improvement of 1% year on year |

| Risk Factor Link | Business Model Impact: Aftersales | Used | New | Support |
|---|---|---|---|---|
| ALL | ✓ | ✓ | ✓ | ✓ |
| ALL | ✓ | ✓ | ✓ | ✓ |
| 3 4 7 8 | ✓ | ✓ | ✓ | ✓ |
| 1 6 | ✓ | ✓ | ✓ | ✓ |
| 1 2 3 5 10 | ✓ | | | |
| 1 2 3 4 5 10 | | ✓ | | |
| 1 2 3 4 5 10 | | | ✓ | |
| 1 8 | ✓ | ✓ | ✓ | ✓ |
| 1 7 8 10 | ✓ | ✓ | ✓ | ✓ |

# 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 table on pages 27 to 29 is an overview of the principal risks faced by the Group, with corresponding controls and mitigating factors. The specified risks are not intended to represent an exhaustive list of all potential risks and uncertainties. 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 pages 38 and 39.

## 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, including the consolidation process, and the mitigation of business and operational risks. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

### Financial Reporting

The executive directors oversee the preparation of the Group's annual corporate plan; the Board reviews and approves it and monitors actual performance against it on a monthly basis. Where appropriate, during the year, revised forecasts are prepared and presented for Board review and approval. To ensure that information to be consolidated into the Group's financial statements is in compliance with relevant accounting policies, internal reporting data is comprehensively reviewed. Reviews of the appropriateness of group accounting policies take place at least twice a year, under the scrutiny of the Audit Committee, which considers reports on this from the Group's auditor, the application of IFRS and the reliability of the Group's system of control of financial information. No material changes have occurred in 2015 which have or are likely to have a material effect on the Group's internal controls over financial reporting. Controls are designed to ensure that the Group's financial reporting presents a true and fair reflection of the Group's financial position. The Board has concluded that, as at 31 December 2015, the Group's systems of control over financial reporting were effective.

### Operational and Other Risks

Operational management is charged by the Board with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis and is supported by the Risk Control Group (RCG), a committee formed of three executive directors and Group heads of information technology and internal audit. The approach to risk control and the work of the RCG are described on pages 38 and 39.

| NO. | PRINCIPAL RISKS | IMPACT BEFORE MITIGATION | MITIGATION |
|---|---|---|---|
| | **STRATEGY AND BUSINESS RELATIONSHIPS** | | |
| 1 | Our Strategy:<br>Failure to adopt the right strategy<br>or,<br>Failure of our adopted strategy to deliver the desired outcomes<br>or,<br>Failure to implement our strategy effectively | We miss our profit growth and/or debt management target, alienate key stakeholders and are unable to invest adequately in our business<br><br>We receive complaints or poor customer satisfaction scores which damage our reputation and 'service' strategic pillar | • Our strategy is informed by significant research and market data<br>• We communicate effectively our adopted strategy to our stakeholders<br>• 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<br>• 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<br>• We ensure that we monitor our manufacturer and third party customer service measures and take action in the event of low scores<br>• We focus strongly on efficient use of working capital through embedded disciplines, especially in relation to vehicle inventory<br>• We review capital expenditure plans to ensure our ROI objectives are achievable |
| 2 | Our Manufacturer Relationships:<br>Dependence on vehicle manufacturers for the success of our business | Failure of, or weaknesses in, our vehicle manufacturers' financial condition, reputation, marketing, production and distribution capabilities, and lack of alignment with manufacturers' remuneration systems for dealers impairs our investments and prevents us achieving our profit goals<br><br>Failure to maintain good relations with our franchisors impairs our ability to generate good quality earnings | • Our diverse franchise representation avoids overreliance on any single manufacturer<br>• Our close contact with our vehicle manufacturers seeks to ensure our respective goals are communicated, understood and aligned, to deliver mutually acceptable performance<br>• Our appropriately targeted investment in franchise assets and our performance maintains our reputation as a quality representative for our brand manufacturers<br>• Our investment in marketing initiatives and our online presence supplement and enhance our market presence and offering over and above manufacturers' marketing efforts<br>• Our strategy to develop and maintain revenues from used vehicles and aftersales reduces our overall reliance on new vehicle franchises |

# RISK OVERVIEW AND MANAGEMENT

| NO. | PRINCIPAL RISKS | IMPACT BEFORE MITIGATION | MITIGATION |
|---|---|---|---|
| 3 | Our Competitors: Failure to meet competitive challenges to our business model or sector | Customers migrate to alternative providers<br>Intermediary companies establish a barrier between us and our customers<br>Revenues and profits fall owing to competitor action | • Our detailed market and sector monitoring systems assist effective response to identify early and assist effective response to any competitive or intermediary threats<br>• Our scale, expertise and technological capabilities enable rapid and flexible response to market opportunities<br>• Our well-developed customer relationship management capabilities and online customer satisfaction tools aim to drive industry-leading service and attract customer loyalty |
| | **MACRO-ECONOMIC, POLITICAL AND ENVIRONMENTAL** | | |
| 4 | European economic instability impacting the UK, in particular impacting used vehicle prices<br>UK economic and business conditions deteriorate<br>UK Governmental spending constraints | Vehicle manufacturers oversupply into UK market or alterations to supply terms, damages margins and vehicle values<br>Fewer purchasers of vehicles<br>Lower demand for vehicle servicing | • We carefully control new vehicle inventory to mitigate effects of overstocking<br>• 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<br>• We invest in and vigorously pursue customer retention initiatives to secure longer-term loyalty |
| | **ENVIRONMENTAL** | | |
| 5 | Progression towards greener technologies, autonomous driving, and /or pay-per-use, rather than owning a vehicle<br>UK taxes change to penalise road use, fuel type, vehicle use and to increase VAT | Customers choose greener vehicles we cannot supply<br>Overall vehicle parc reduces<br>Vehicle purchase and use declines, adversely affecting revenue opportunities | • We represent vehicle brands which are responding effectively to the greener technology agenda<br>• We identify trends in demand through our sophisticated management information and analysis tools and tailor our model accordingly<br>• 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<br>• 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 |
| | **FINANCE AND TREASURY** | | |
| 6 | Availability of debt funding<br>Pension liabilities | Unable to meet debt obligations<br>Unsustainable demand of funding occupational pensions schemes | • Our business model produces strong free cash flow generation<br>• We maintain adequate committed facilities to meet forecast debt funding requirements<br>• Diversification of funding sources, monitor daily our funding requirements<br>• Asset backed pension deficit reduction plan reduces cash contributions<br>• Regular review by our pension trustees of investment strategy and liability reduction, taking professional advice |

| NO. | PRINCIPAL RISKS | IMPACT BEFORE MITIGATION | MITIGATION |
|---|---|---|---|
| | **LEGAL AND REGULATORY** | | |
| 7 | Significant litigation<br><br>Regulator action against or otherwise impacting the Group | Resources are diverted to taking proceedings or defending legal or regulatory action, at the expense of business efficiency and profit<br><br>Reputation is damaged by regulatory censure or punitive action<br><br>Fines and penalties reduce profits | • We maintain the right level of legal expertise to interpret, assess and respond to proposed changes in regulation, enabling us to adapt our model and processes to comply with changes in a seamless manner<br>• Our culture focuses strongly on good compliance delivering good performance<br>• Our team of compliance specialists design, and we communicate effectively, processes that support our businesses to minimise the risk of non-compliance |
| | **TECHNOLOGY, INFORMATION SYSTEMS AND ESTIMATES** | | |
| 8 | Failure of systems | Data loss interrupts business, incurs cost of recreating records, causes loss of or impairment to financial and operational control and loss of business opportunities<br><br>Customer confidence is impaired | • We adopt and regularly update robust business continuity measures, including within our dealer management systems<br>• Our geographic diversity allows prompt deployment of key functions to alternative locations |
| 9 | Reliance on the use of significant estimates which prove to be incorrect | Revenue, profits and reputation all suffer damage<br><br>Group's financial statements will be wrong, affecting property valuations, future warranty costs, vehicle values where we have committed to purchase at a pre-set price, and the discounted cashflows used to test impairment of goodwill<br><br>Reputational damage and inability to raise funding for the Group's business | • We assess actual outturns of previous estimates to test the robustness of adopted assumptions, and adjust the estimating approach accordingly<br>• We support estimates with reliable external research where available |
| | **TEAM MEMBERS AND THE ENVIRONMENT WE WORK IN** | | |
| 10 | Failure to attract, develop, motivate and retain good quality team members and leaders<br><br>Failure to provide safe working and retail environments<br><br>Failure to control environmental hazards | Poor decision making and inability to deliver our strategy and meet our business objectives<br><br>Lack of innovation in our business<br><br>Loss of custom owing to poor quality customer experience delivered by demotivated or untrained team members<br><br>Illness and injury, lost working time and civil claims<br><br>Reputational damage and clean-up costs, leading to loss of custom and revenues<br><br>Regulatory censure, suspension of business, convictions and fines; reputational damage, leading to loss of custom and revenues | • We invest in online means of attraction and recruitment, targeting the right quality candidates<br>• We set clear competencies and career goals to prevent mishires<br>• We continually review and adapt for the market conditions our employment terms, salaries and performance related pay elements at all levels<br>• We adopt and renew responsive succession plans for all key roles<br>• We leverage our scale to afford training opportunities and progression within the Group<br>• We work to the Health & Safety Executive's "Plan, Do, Check, Act" framework for managing risk in the workplace and our retail spaces<br>• We allocate clear responsibilities for delivery of safe places to work and shop<br>• We adopt process-driven initiatives to mitigate specific risk areas<br>• We measure and review our performance against appropriate benchmarks<br>• We allocate local accountability for sites' compliance and provide specialist support to responsible leaders<br>• We monitor site conditions and drive corrective action through audit follow-up |

# OPERATIONAL REVIEW

## SEGMENTAL RESULTS

The Group has three segments which, combined, we refer to as the Motor Segment and three segments which, combined, we refer to as the Support Segment. The Motor Segment consists of: Stratstone, Evans Halshaw and California. In 2015, we have rebranded our Quicks businesses as Evans Halshaw and accordingly we have moved the Quicks segment into the Evans Halshaw segment. A reconciliation of this change can be found on page 85. The Support Segment consists of: Pinewood, Leasing and Quickco. The following table shows the revenue, gross profit, operating costs and operating profit by segment for our Motor Segment for the twelve month periods ended 31 December 2015 and 31 December 2014:

**MOTOR SEGMENT RESULTS FOR YEAR ENDED 31 DECEMBER (£m)**

| | Stratstone | | Evans Halshaw | | California | | Motor Segment | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **REVENUE** | | | | | | | | |
| Aftersales | 127.1 | 132.5 | 149.4 | 147.4 | 27.4 | 23.1 | 303.9 | 303.0 |
| Used | 693.0 | 683.2 | 1,060.6 | 925.0 | 67.7 | 61.2 | 1,821.3 | 1,669.4 |
| New | 851.0 | 775.4 | 1,205.2 | 1,047.5 | 162.4 | 119.7 | 2,218.6 | 1,942.6 |
| **Revenue** | **1,671.1** | **1,591.1** | **2,415.2** | **2,119.9** | **257.5** | **204.0** | **4,343.8** | **3,915.0** |
| **GROSS PROFIT** | | | | | | | | |
| Aftersales | 72.6 | 76.2 | 106.6 | 102.9 | 14.3 | 12.2 | 193.5 | 191.3 |
| Used | 38.3 | 47.2 | 113.9 | 95.3 | 4.1 | 3.8 | 156.3 | 146.3 |
| New | 75.7 | 70.0 | 69.5 | 65.0 | 21.4 | 18.2 | 166.6 | 153.2 |
| **Gross Profit** | **186.6** | **193.4** | **290.0** | **263.2** | **39.8** | **34.2** | **516.4** | **490.8** |
| **Operating Costs** | **(153.1)** | **(157.9)** | **(248.0)** | **(232.8)** | **(29.4)** | **(25.6)** | **(430.5)** | **(416.3)** |
| **Operating Profit** | **33.5** | **35.5** | **42.0** | **30.4** | **10.4** | **8.6** | **85.9** | **74.5** |
| **METRICS** | | | | | | | | |
| Gross Margin (%) | 11.2% | 12.2% | 12.0% | 12.4% | 15.5% | 16.8% | 11.9% | 12.5% |
| Units Sold ('000) | 53.4 | 54.9 | 224.0 | 207.5 | 5.5 | 4.8 | 282.9 | 267.2 |

## STRATSTONE
## Stratstone.com

Our Stratstone business is one of the UK's leading premium motor car retailers, with 73 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Jaguar, Land Rover, Mercedes-Benz, MINI, Morgan, Porsche and Smart vehicles as well as three motor-cycle franchises. This segment also contains our retail and service outlets for DAF commercial vehicles, under our Chatfields brand name.

Stratstone.com had a very strong year in the aftersales and new departments. Within the aftersales department, profit increased by £2.9 million (+4.3%) on a like for like basis. The new department improved like for like gross profit by 14.3% as a result of strong retail growth performances in Aston Martin, BMW, Land Rover, Mercedes-Benz, Porsche and DAF trucks. Used revenue was up by 10.0% on a like for like basis in the period, albeit at a lower margin, resulting in a fall in used profitability. We have now fully implemented and rolled out high definition video within used vehicles and within our aftersales activities. We will be selectively rolling out the successful Evans Halshaw used car initiatives within Stratstone.com.

## EVANS HALSHAW
## Evanshalshaw.com

Our Evans Halshaw business is the UK's leading volume motor car retailer, with 118 franchise points. Evans Halshaw holds franchises to retail and service Citroen, Dacia, Ford, Honda, Hyundai, Kia, Nissan, Peugeot, Renault, SEAT and Vauxhall vehicles.

Evanshalshaw.com has significantly increased like for like operating profit, by £11.6 million (+34.3%), with outstanding growth in the used vehicle department. On a like for like basis, used sales increased by 16.8% in the period and used gross profitability increased by 21.7%. Used continues to be a strategic area of focus for our business and we are delighted with the performance from Evanshalshaw.com. We are benefiting from our market leading initiatives and a recovery in the used market.

Aftersales like for like gross profit increased by £4.7 million (+4.7%) as result of strong market conditions and our own initiatives. We believe our innovation and responsiveness to consumers' needs in this area gives us a competitive advantage. We increased our like for like new vehicle gross profit in the period by £5.3 million as a result of growing new vehicle volumes.

Our Quicks segment was set up to test and deploy new strategies and now has been integrated into the Evans Halshaw segment in the period.

## CALIFORNIA

Our unique retail businesses in California continue to deliver outstanding results from nine franchise points, representing the Aston Martin, Jaguar and Land Rover brands. Despite exceptional prior year comparatives, the California business continues to grow. Operating profit was ahead of the prior year by £1.8 million. Encouragingly, aftersales gross profit was a key performance improver, up £2.1 million, and should continue into 2016. Within the new vehicle sector, Land Rover product continues to impress Californian customers and new vehicle gross profit increased by £3.2 million in the period. We continue to explore opportunities to add to our existing US operations.

## SUPPORT BUSINESSES

Our Support businesses provide a broad range of services, both to the Group and to external customers. These specialist businesses consist of Pinewood for dealer management systems, Leasing for fleet and contract hire vehicles and Quickco for wholesale vehicle parts.

The following table shows the revenue and operating profit for our Support Segment and the Group results, for each of the twelve month periods ended 31 December 2015 and 31 December 2014:

**UNDERLYING SUPPORT SEGMENT RESULTS FOR YEAR ENDED 31 DECEMBER (£m)**

| | Pinewood | | Leasing | | Quickco | | SUPPORT SEGMENT | | GROUP RESULTS† | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenue | 12.6 | 10.9 | 34.2 | 22.2 | 63.3 | 52.3 | 110.1 | 85.4 | 4,453.9 | 4,000.4 |
| **Operating Profit** | **8.7** | **8.7** | **4.1** | **5.6** | **1.8** | **2.1** | **14.6** | **16.4** | **100.5** | **90.9** |
| Operating Margin (%) | 69.0% | 79.8% | 12.0% | 25.2% | 2.8% | 4.0% | 13.3% | 19.2% | 2.3% | 2.3% |

†Group comprises the total of the support segment and the motor segment

# FINANCIAL REVIEW

| PENDRAGON PLC RESULTS | | | | | | |
|---|---|---|---|---|---|---|
| 12 Months ended 31 December £m | UNDERLYING* | | | TOTAL | | |
| | 2015 | 2014 | YOY Change % | 2015 | 2014 | YOY Change % |
| **Revenue** | 4,453.9 | 4,000.4 | +11.3% | 4,453.9 | 4,000.4 | +11.3% |
| Gross Profit | 548.9 | 522.6 | +5.0% | 548.9 | 522.6 | +5.0% |
| Operating Expenses | (448.4) | (432.8) | +3.6% | (452.5) | (432.8) | +4.6% |
| Other Income | - | 1.1 | - | 25.3 | 7.4 | +241.9% |
| **Operating Profit** | **100.5** | **90.9** | **+10.6%** | **121.7** | **97.2** | **+25.2%** |
| Interest | (30.4) | (30.7) | -1.0% | (42.7) | (32.6) | +31.0% |
| **Profit Before Taxation** | **70.1** | **60.2** | **+16.4%** | **79.0** | **64.6** | **+22.3%** |
| Tax Expense | (17.0) | (15.3) | +11.1% | (6.1) | (14.8) | -58.8% |
| **Profit for the Period** | **53.1** | **44.9** | **+18.3%** | **72.9** | **49.8** | **+46.4%** |
| Gross Margin (%) | 12.3% | 13.1% | -0.8% | 12.3% | 13.1% | -0.8% |
| Operating Margin (%) | 2.3% | 2.3% | 0.0% | 2.7% | 2.4% | +0.3% |
| Earnings Per Share (p) | 3.7p | 3.1p | +19.4% | 5.0p | 3.5p | +42.9% |
| Dividend Per Share (p) | 1.3p | 0.9p | +44.4% | 1.3p | 0.9p | +44.4% |

* Underlying results, where stated, exclude items that have non-trading attributes due to their size, nature or incidence

**NOTE:** Within this document, like for like results include only current trading businesses which have a 12 month comparative history. All percentages shown are the calculated value from the table shown and may vary from the actual numbers due to rounding. Year on year percentage variances for margins show the absolute percentage movement only. All commentary is versus the prior period, unless stated.

## INCOME STATEMENT HIGHLIGHTS

Revenue increased by £453.5 million, up 11.3% on the prior year, mainly due to increased contributions from the used and new vehicles departments. On a like for like basis, revenue increased by £590.8 million (+15.8%). We improved used revenues by 13.9%, new revenues by 18.4% and aftersales revenues by 5.9% on a like for like basis.

*Underlying profit before tax up £10.1m, up 16.4% on the prior year.*

Underlying gross profit increased by £26.3 million (+5.0%) in the period and on a like for like basis by £42.8 million (+8.7%) over the prior year. We achieved another record performance in our used vehicle sector, with gross profit up £15.0 million (+10.9%) on a like for like basis. We are particularly pleased with our performance from Evanshalshaw.com which has increased used gross profit by £19.8 million in the period (+21.7%) on a like for like basis. The new sector has increased gross profit by £17.5 million (+12.1%) on a like for like basis as we benefit from new products, particularly in the Stratstone.com vehicle ranges. Aftersales gross profit has grown by £9.7 million (+5.4%) on a like for like basis as a result of national new car sales growth and growth in used vehicle sales increasing the vehicle parc. In the period, Group underlying gross margin reduced by 80 basis points, primarily as a result of the dilutive effect of increased new and used vehicle sales.

Operating costs increased on a like for like basis by £33.0 million (+8.3%), of which the majority relate to variable costs (+11.9%) and the remainder to indirect costs. We have invested in television and internet advertising as part of the launch of 'Sell Your Car' and 'Move Me Closer', which we continue to roll out in Evans Halshaw. This has been a factor in helping generate a 35.5% increase in web visits and record used vehicle performance. Overall, our costs increased at a slower rate than our gross profit, improving the ratio of underlying operating expenses to gross profit from 82.8% to 81.7%.

Underlying operating profit increased by £9.6 million in the period and by £9.8 million on a like for like basis. Underlying interest costs decreased by £0.3 million in the period, largely as a result of savings in the underlying bank interest offset by stocking interest as we invested in used vehicle stock. Our underlying operating profit margin of 2.3% is in line with the prior year.

## BALANCE SHEET AND CASH FLOW

The Group has a strong balance sheet and low debt level and is in a strong position to reinvest at the appropriate return on investment. The following table summarises the cash flows and net debt of the Group for the twelve month periods ended 31 December 2015 and 31 December 2014 as follows:

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

| | Year Ended 31 December 2015 | Year Ended 31 December 2014 |
|---|---|---|
| **Underlying Operating Profit Before Other Income** | **100.5** | **89.8** |
| Depreciation and Amortisation | 25.3 | 27.0 |
| Non-underlying Items | (3.2) | - |
| Share Based Payments | 2.0 | 1.5 |
| Working Capital and Contract Hire Vehicle Movements | 1.0 | (11.9) |
| **Operating Cash Flow** | **125.6** | **106.4** |
| Tax Paid | (22.3) | (8.3) |
| Underlying Net Interest Paid | (28.8) | (29.0) |
| Replacement Capital Expenditure | (33.6) | (21.8) |
| Acquisitions and Investments | (26.8) | (20.8) |
| Disposals | 25.5 | 12.6 |
| Dividends | (17.4) | (8.6) |
| Proceeds from Sale of Investments | 23.8 | - |
| Share Repurchases | (7.8) | (4.7) |
| Other | (9.0) | 5.0 |
| **Reduction In Net Debt** | **29.2** | **30.8** |
| **Closing Net Debt** | **79.6** | **108.8** |

The Group's net debt was £79.6 million at 31 December 2015, a reduction of £29.2 million from 31 December 2014.

As a consequence of this lower debt level and strong EBITDA performance, the debt : underlying EBITDA ratio has reduced from 0.8 at 31 December 2014 to 0.5 at 31 December 2015 and remains below our target range of 1.0 to 1.5. This reflects the appropriate balance of capital efficiency and growth potential. We have a strong balance sheet, good cashflow generation, new financing facilities described below and realisations from low performing assets, which provide the ability for investment for the future.

## REFINANCING

The Group has completed an improved unsecured refinancing of our facilities which encompasses two aspects. Firstly, a new revolving five year credit facility of £240 million, expiring in March 2021 and secondly, a new seven year £60 million private placement, expiring in March 2023. As result of this new facility and placement, the Group will be calling its existing £175 million bond in March 2016. The Group is pleased to have achieved this long-term financing on favourable terms, providing an enhanced platform for further growth of our business.

## PROPERTY AND INVESTMENT, ACQUISITIONS AND DISPOSALS

Our property portfolio is an important aspect of our business. The Group's holdings include both leasehold and freehold properties from which our business operates. In addition, through strategic investment choices, including some franchise closures, we hold for sale a number of vacant property assets. At 31 December 2015, the Group had £172.7 million of land and property assets (2014: £164.4 million) and property assets for sale of £16.2 million (2014: £11.6 million). Business disposals resulted in a profit on disposal of £10.9 million and property disposals resulted in a profit of £0.6 million.

In the period, the Group disposed of its £10.0 million 6% investment in King Arthur Properties S.a.r.L for £23.8 million consisting of dividends and repayment of share capital, which realised a profit of £13.8 million.

# FINANCIAL REVIEW

## PENSIONS

The net liability for defined benefit pension scheme obligations has decreased from £66.4 million at 31 December 2014 to £43.4 million at 31 December 2015. This reduction in obligations of £23.0 million is largely due to reduction in the present value of funded defined benefit obligations. The funding level of the scheme has improved from 86.6% at 31 December 2014 to 90.1% at 31 December 2015. This 3.5% improvement in funding level compares with an improvement of 1.5% in FTSE 350 company funding levels to 88.2%. The next triennial valuation of the pension scheme will reflect the position as at 31 December 2015 and is scheduled to be completed by 31 March 2017 at the latest.

## DIVIDEND

The Group is proposing a final dividend of 0.7p per share in respect of 2015, bringing the full year dividend to 1.3p per share. The Board is delighted to recommend this dividend increase, which will maintain our dividend cover at a similar level to the prior year's. We intend to maintain a progressive dividend approach in the future.

The proposed final dividend will be paid on 24 May 2016 for those shares recorded on 22 April 2016.

## SHARES REPURCHASED

During the year the Group repurchased £7.8 million of shares (2014: £4.7 million) in respect of LTIP and options.

## CAPITAL ALLOCATION

We have demonstrated a strong record of cashflow generation and capital management, with a reduction in net debt of £167.2 million in the last four years. We have adopted a target of maintaining our debt : underlying EBITDA ratio between 1.0 and 1.5 times. Since our interim report of last year, this ratio has been below 1 times (currently 0.54 times). We continue to expect strong cashflow generation and we have maintained a progressive dividend.

We are also working to expand our UK footprint by investing in 40 additional sites with 9 sites opened to date. This investment will take place over the coming five year period and is expected to amount to approximately £100 million in investment (assuming all additional sites are freehold). We will also continue to seek investment opportunities that exceed our cost of capital, to add to our existing US operations.

## NON-UNDERLYING ITEMS

Non-underlying items for the twelve month periods ended 31 December 2015 and 31 December 2014:

| NON-UNDERLYING ITEMS (£m) | Year Ended 31 December 2015 | Year Ended 31 December 2014 |
|---|---|---|
| Gain on Disposals Net of Property Impairments | 10.6 | 3.2 |
| Gain on Disposals of Investments | 13.8 | - |
| Dividends Received | - | 3.1 |
| Pensions | (2.3) | (1.9) |
| VAT Provisions | (3.2) | - |
| Refinancing Charges | (10.0) | - |
| **TOTAL** | **8.9** | **4.4** |

In the period, property and business disposal profits, net of impairments and associated property and business disposal costs, generated a non-underlying profit of £10.6 million (2014: £3.2 million). The Group sold eight franchise points in the period, yielding proceeds of £21.2 million

In the period, the Group disposed of its £10.0 million 6% investment in King Arthur Properties S.a.r.L for £23.8 million consisting of dividends and repayment of share capital, which realised a profit of £13.8 million.

Non-underlying pension costs relate to pension obligations in respect of defined benefit schemes closed to future accrual, shown as non-underlying due to the non-trading nature of this amount.

During the year, our industry has received claims from HMRC for back-dated VAT in relation to Motability vehicles. We have made a provision in respect of this issue but will be vigorously defending our position.

The Group has non-underlying finance charges of £10.0 million, of which £2.2 million relates to an acceleration of the write-off of the amortising issue costs of our £175 million bond and £7.8 million is with respect to the impact of the fair value adjustment of the bond at 31 December 2015, as we expect to call the bond in March 2016 as part of our improved refinancing in 2016.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# BOARD OF DIRECTORS

**Mel Egglenton**
**Non-executive Chairman (N*) (R)**
Mel joined Pendragon on 1 December 2010 and became Chairman on 23 May 2013. He spent his earlier career with KPMG, becoming their Midlands regional chairman and UK senior independent partner. Mel is senior independent director of Hansteen Holdings PLC, audit committee chairman and remuneration committee chairman of Irwin Mitchell Holdings Limited and is also a non-executive director of, and adviser to one private company.

**Paul Hampden Smith**
**Non-executive Director (A*) (F) (N) (R)**
Paul joined Pendragon on 23 May 2013. He is a chartered accountant and the former finance director of Travis Perkins PLC. He is a non-executive director of Grafton Group PLC and audit committee chairman of Bellway PLC and Clipper Logistics PLC.

**Gillian Kent**
**Non-executive Director (A) (N) (R)**
Gillian joined Pendragon on 23 May 2013. Formerly Managing Director of MSN, UK, her expertise is in building markets and brands for online consumer products and web-based applications.

**Jeremy King**
**Non-executive Director (A) (F) (N) (R*)**
Jeremy joined Pendragon on 25 November 2014. Formerly a partner with PwC in its East Midlands and London regions, he is a chartered accountant.

**Chris Chambers**
**Non-executive Director (A) (N) (R) (SID)**
Chris joined Pendragon on 28 January 2013. He is a banker with particular expertise in retail and property. He became the senior independent director on 25 November 2014.

**Trevor Finn**
**Chief Executive**
Having spent a career in the retail motor industry, starting as an apprentice mechanic, Trevor became chief executive of Pendragon in 1989, when the company first listed on the London Stock Exchange.

**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.

**Tim Holden**
**Finance Director**
Tim is a chartered accountant and joined Pendragon from KPMG in June 2008, as group financial controller. He became Finance Director in December 2009.

**Hilary Sykes**
**Corporate Services Director**
Hilary is a solicitor and joined Pendragon as company secretary in 1994 after several years as a corporate lawyer with Geldards LLP. She became a director in April 1999.

Key to memberships, roles and re-election status
- * Committee chairman
- (A) Audit Committee
- (N) Nomination Committee
- (R) Remuneration Committee
- (F) Audit committee member with recent and relevant financial experience
- (SID) senior independent director

More detailed professional biographies of the directors are on the company's website.

**Secretary**
Hilary Sykes

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Loxley House,
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Telephone 01623 725200
Registered in England and Wales

**Registered number**
2304195

**Website**
www.pendragonplc.com

**Group motor businesses websites**
www.evanshalshaw.com
www.stratstone.com
www.chatfields.co.uk
www.hornburg.com

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

# CORPORATE GOVERNANCE REPORT

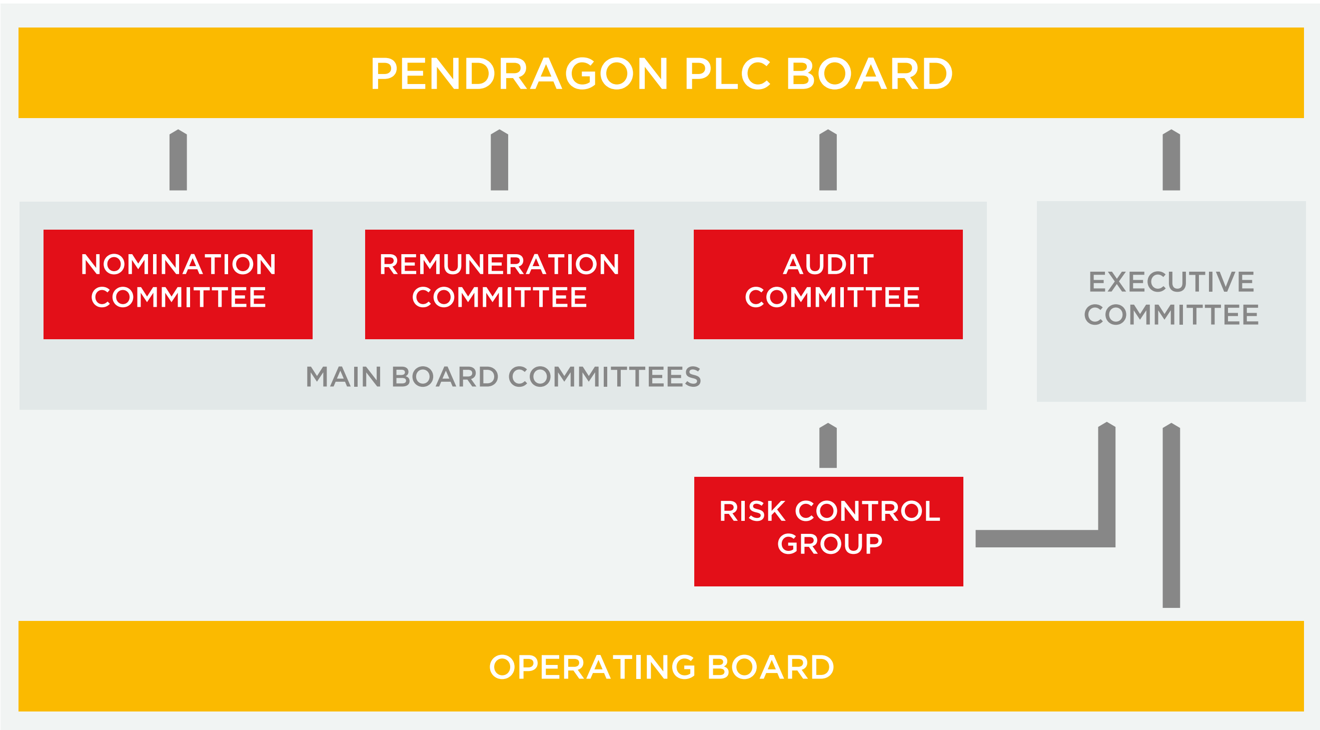
The UK Corporate Governance Code (Code) applies to the company and is available on the FRC website at www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf). Throughout 2015, the company complied in full with the applicable provisions of the Code. The corporate governance statement as required by Disclosure and Transparency Rule 7.2.1 is set out below.

## OUR BOARD

The Board sets our company's strategy and ensures we have in place the financial and human resources we need to meet our objectives. We take collective responsibility for Pendragon's long term success. The Executive directors, led by the Chief Executive, are responsible for running the company and our Group to effect that strategy, and work within prescribed delegated authority, such as capital expenditure limits. The executives direct and monitor business performance through regular operational meetings with their respective leadership teams and set and regularly review the effectiveness of key operating controls, reporting to the Board on these and any variances. The Board as a whole reviews management performance.

Although the Board delegates to the Chief Executive and Finance Director responsibility for briefing key stakeholders, major shareholders and the investor community, the Chairman holds himself available to engage with shareholders, and the senior independent director is ready to perform a similar role, where appropriate. Information from engagement with shareholders is shared with the entire Board and taken into account in financial planning and strategy.

The Board has three committees: Audit, Nomination and Remuneration, each made up entirely of non-executive directors. The Risk Control Group (RCG) is a committee of the executive directors and Group heads of information technology and internal audit. 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.



# CORPORATE GOVERNANCE REPORT

## LEADERSHIP AND BOARD COMPOSITION

As at 16 February 2016, the Board is made up of four executive directors and five non-executive directors, one of whom is Chairman. The respective responsibilities of the Board, the Chairman and the Chief Executive are clearly defined by the Board in formal responsibilities documents, which the Board reviewed and readopted in 2015. The Board is 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 operating effectively. Following the two retirements and one appointment of independent non-executive directors occurring in 2014, no changes to Board membership occurred in 2015. Following the entry of the company to the FTSE 350 on 15 January 2016, the Board ensures that, at the AGM, all directors retire and offer themselves for re-election. Directors' brief biographical details are on page 36 and gender balance details are on page 41.

## HOW THE BOARD MANAGES RISK

The Board and our committees each operate to a set meeting agenda which ensures that all relevant risks are identified and addressed by appropriate controls. We review management information which helps us to prescribe operating controls and monitor performance against our strategy and business plans. The non-executive directors have particular responsibility for monitoring financial and performance reporting, to ensure that progress is being made towards our agreed goals. The Board's responsibilities also include assessing the effectiveness of internal controls and the management of risk. Specific areas of risk assessment and control fall within the remit of committees of the Board; details of their work in 2015 appear below and in the Directors' Remuneration Report on pages 48 to 62.

## THE BOARD'S REVIEW OF RISK AND CONTROLS IN 2015

During the year, the Board considered all strategic matters, received key performance information on operating, financial and compliance matters and reviewed the results of corresponding controls and risk management. We received from the Audit Committee and from the RCG timely information and reports on all relevant aspects of risk and corresponding controls. We reviewed all our key company policies and ensured all matters of internal control received adequate Board scrutiny and debate. At Board meetings, and informally via the Chairman, all directors had the opportunity to raise matters of particular concern to them. There were no unresolved concerns in 2015. We concluded that all appropriate controls are in place and functioning effectively. The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to its business and the proper assessment and mitigation of those risks. Based on the Audit Committee's and the RCG's work, the Board has performed a high level risk assessment, to ensure that (i) the principal risks and uncertainties facing the Group's business have been identified and assessed, taking into account any adaptations made to the Group's business strategies, and (ii) that appropriate mitigation is in place.

Our company policies on managing financial risk and application of hedging are set out in note 4.2 to the financial statements. The principal risks and uncertainties we have identified are on pages 27 to 29 and our viability statement is on page 19.

## WORK OF THE RISK CONTROL GROUP

The accountability framework described on page 26 is designed to ensure comprehensive management of risk across the Group's businesses. The Risk Control Group (RCG), made up of the Chief Operating Officer, Finance Director, Corporate Services Director, and Group heads of information technology and internal audit, performs detailed work on risk assessment and oversees the effective implementation of new measures designed to mitigate or meet any specific risks or threats. The Chair of the Audit Committee and a representative of the external auditor attend by invitation. It reports to the Audit Committee on its work. The Board and any of its committees is able to refer specific risks to the RCG for evaluation and for controls to be designed or modified; this occurs in consultation with operational management. The executive directors are responsible for communicating and implementing mitigating controls and operating suitable systems of check. The RCG met three times in 2015. In addition to reviewing and refining the Group's corporate risk register, for Board review and adoption, the RCG commissioned work on the review of the Group's data protection processes and controls, adaptations to business continuity plans and refinements to the company's processes for employee transactions with Group businesses. Following its review of the Group's systems of internal control, the RCG has reported to the Audit Committee that it has not identified any weakness in controls which would have a material effect on the Group's business. The Audit Committee has reviewed and accepted the processes adopted by the RCG in this respect and accepted its conclusions.

## 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 though a well-functioning combination of Board and committee meetings and other appropriate channels for strategic input and constructive challenge from non-executive directors. The Chairman has held meetings with the non-executive directors without the executive directors present, where necessary to assist Board effectiveness, and, following the 2015 year end, conducted individual meetings with each director to arrive at his and the Board's assessment of the directors' respective contributions, training needs and independence. Led by the senior non-executive director, the directors have assessed the Chairman's effectiveness in his role. 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;
- 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 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 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.

# CORPORATE GOVERNANCE REPORT

## BOARD INDUCTION AND EVALUATION

The Chairman has ensured that Mr Jeremy King, appointed as a non-executive director in November 2014, received an appropriate induction to the Group's businesses and his Board and committee duties. During 2015, the Board received informal briefings from company executives to familiarise directors with strategic developments and key aspects of the Group's business. Board members attended a European franchised dealer groups' forum in Brussels and made individual site visits to UK operating businesses. Formal presentations to the Board by senior group executives focussed on matters of strategic importance. The Board and its committees conducted formal evaluations of their effectiveness in 2015, facilitated by the Chairman, addressing questions based closely on the Code, applicable good governance topics and drawn from best corporate practice. The results were reviewed by the Chairman, the committee chairmen and the Board as a whole and the Chairman has factored suggested improvements into our 2016 Board programme. More details on the Board's approach to individual and Board evaluation are on the company's website.

## RE-ELECTION OF DIRECTORS

Having joined the FTSE 350 on 15 January 2016, the company adheres to the Code requirement that all directors retire and offer themselves for re-election at the 2016 AGM. The Board has concluded that each director is effective in, and demonstrates the requisite commitment to, the role and, in the case of the independent non-executive directors, sets out in the notice of AGM the reasons for this conclusion. The principles and operation of directors' election and re-election are described on page 64 and on the company's website at www.pendragonplc.com.

## INFORMATION AND SUPPORT

To ensure our decisions are fully informed and debated, the Chairman ensures our Board's business agenda is set timely to allow appropriately detailed information to be circulated to all directors before meetings. The company secretary facilitates the flow of information within the Board, attends all Board meetings and is responsible for advising the Board and its committees, through their respective chairmen, on corporate governance and matters of procedure. All directors have access to support from the company secretary on matters of procedure, law and governance and in relation to their own induction and professional development as Board members. All directors are entitled to take independent advice at the company's expense, and to have the company and other Board members provide the information required to enable them to make informed judgements and discharge their duties effectively.

## COMMUNICATION

We aim to meet the challenges presented by our size and geography through innovation in internal communications. Internal website messaging, video and face to face presentations as well as electronic newsletters and social media content keep team members up-to-date with the company's strategy and performance. Team members' views on our performance and services are actively gathered via targeted electronic surveys. Regular briefings for all team members, held at each location, provide a forum for sharing both company and local information. At all levels, communications aim particularly to recognise the achievements of individual team members and celebrate outstanding personal and business performance, through peer recognition and widely publicised awards. Each year we increase the breadth and variety of incentive and recognition programmes aligned to the Group's business objectives.

| Director | Board | Audit | Nomination º | Remuneration |
|---|---|---|---|---|
| Mel Egglenton (B) (N) | 7/7 | N/A | 2/2 | 2/2 |
| Chris Chambers (I) | 7/7 | 3/3 | 2/2 | 2/2 |
| Paul Hampden Smith (I) (A) | 7/7 | 3/3 | 2/2 | 2/2 |
| Gillian Kent (I) | 7/7 | 3/3 | 2/2 | 2/2 |
| Jeremy King (I) (R) | 7/7 | N/A | N/A | 2/2 |
| David Joyce^ | 2/2 | 1/1 | 1/1 | 1/1 |
| Trevor Finn | 7/7 | N/A | N/A | N/A |
| Martin Casha | 7/7 | N/A | N/A | N/A |
| Tim Holden | 7/7 | N/A | N/A | N/A |
| Hilary Sykes (S) | 7/7 | N/A | N/A | N/A |

(I) Considered by the Board to be independent; the Chairman is required to fulfil this criterion at appointment but not thereafter. (B) Chairman of the Board.
(A) Committee chairman (N) Committee chairman (R) Committee chairman. ^Retired as a non-executive director on 8 May 2015, having served in excess of nine years.
(S) Also secretary to Board and to Audit and Nomination committees. Shows the number of meetings attended out of the total a director was eligible to attend
º Where the Nomination committee is undertaking a specific recruitment, continuing directors only are eligible to attend.

## DIVERSITY AND EQUALITY OF OPPORTUNITY

We are an equal opportunity employer, committed to ensuring that our workplaces are free from unfair discrimination, within the framework of the law. We aim to ensure that our team members achieve their full potential and that, throughout all our attraction, recruitment, selection, employment and internal promotion processes, all employment decisions are taken without reference to irrelevant or discriminatory criteria. The company's diversity and equal opportunities policy is available at www.pendragonplc.com

## GENDER BALANCE

We describe our approach to Board composition diversity in the Nomination Committee's report on page 46.

## HEALTH AND SAFETY

We take seriously our responsibility to our team members, customers and the public. We aim to ensure that all team members in the course of their roles, and all who work in or visit our facilities or receive our services, so far as is reasonably practicable, experience an environment and practices which are safe and without risk to their health. Our policy is to identify and assess all potential risks and hazards presented by our activities and to provide systems and procedures which allow all team members in their daily work to take responsible decisions in relation to their own and others' health and safety. We publish a clear hierarchy of responsibility to team members and reinforce this through regular monitoring by a variety of means. We promote awareness of potential risks and hazards and the implementation of corresponding preventative or remedial actions through our on-line health and safety systems, operations manuals and regular communications on topical issues. In late 2015 we implemented a refreshed health and safety management system, providing our UK leadership and team members with greater access to information, guidance and control measures.

## ACCIDENTS AT WORK

We assess our safety record against relevant published benchmarks and target specific hazards for improved results through additional monitoring and processes promoting safe working. The nearest bench-mark for our operations is accidents per employee data published by the Health and Safety Executive[1]. For the 12 months to October 2015, these reveal reported performance of the UK motor retail and repair industry as 0.00023 RIDDOR accidents per employee;[2] the Group's corresponding ratio is 0.00034 per employee[3], representing 28 RIDDOR reported accidents occurring in 2015 (2014: 25[4]). The company introduced a more detailed reporting system for accidents in 2015, which has increased accuracy of reporting and classification of accidents reported. The company's health and safety policy is available at www.pendragonplc.com .

## COMMUNITY

We are predominantly a retail operator, with a tangible presence in the many communities our businesses serve. During 2015, our monthly fundraising events supported a range of national charities, including the British Heart Foundation, Help for Heroes, Macmillan Cancer Support, Cancer Research, Comic Relief and Children in Need. Our Academy and retail businesses also generate community involvement through local engagement, contributing to their local areas in a variety of ways. Individuals and businesses organise charity events to support schools, hospitals and local children's and medical charities as well as the Group wide monthly nominated charity. The company supports and encourages these activities and we welcome the opportunities they present for team-building within our businesses, engagement with the communities they serve and recognition of charitable causes with whom our team members and their families have connections.

**Number of group employees by category**

| | At 31 December 2014 | | | **At 31 December 2015** | | |
|---|---|---|---|---|---|---|
| | Female | Male | Total | Female | Male | **Total** |
| Director | 2 | 8 | 10 | 2 | 7 | **9** |
| Senior manager | 0 | 6 | 6 | 0 | 5 | **5** |
| All employees | 2,173 | 6,869 | 9,042 | 2,261 | 6,849 | **9,110** |

1. Reported injuries to employees and the self-employed in Great Britain, by detailed industry and severity of injury" data published annually by the Health and Safety Executive. The relevant industry segment is "Wholesale and retail trade and repair of motor vehicles and motor cycles"
2. Provisional data; source: Health and Safety Executive http://www.hse.gov.uk/statistics/tables/index.htm#riddor reported under "Reported injuries to employees and the self-employed in Great Britain, by detailed industry and severity of injury"; RIDDOR is the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.
3. Data reported here excludes the Group's US business, but reflects all Pendragon UK operations including the Support Businesses, the average number of employees in such businesses for 2015 being 9,058.
4. The 2014 RIDDOR reported accidents number has been re-stated to reflect late-reported 2014 accidents.

# CORPORATE SOCIAL RESPONSIBILITY

## RESPONSIBLE SOURCING

All our Group's sites are situated within the UK or US and at each of them we operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present any risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way, free from the exploitation of labour. In 2015, ahead of the statutory requirement, we adopted and published our Anti-Slavery and Human Trafficking Policy, available to view on our website.

## ENVIRONMENT AND GHG REPORTING

Although not generally regarded as a high environmental impact sector, motor retailing and its associated after sales service activities carries with it a range of responsibilities relating to protection of the environment. Our policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground; and to manage responsibly the by-products of our activities, such as noise, waste packaging and substances and vehicle movements. During the year, we have continued to be registered with and have complied with our obligations under the Department for Environment, Food and Rural Affairs' (DEFRA) carbon reduction commitment scheme. The company's statement of environment policy is available at www.pendragonplc.com

## GREENHOUSE GAS EMISSIONS

This section includes our mandatory reporting of greenhouse gas emissions for the period 1 January 2015 to 31 December 2015, pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Our methodology to calculate our greenhouse gas emissions is based on the 'Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance' (June 2013) issued by DEFRA using DEFRA's 2015 conversion factors. In some cases, we have extrapolated total emissions by utilising available data from part of the reporting period, and extending it to apply to the full reporting period.

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

## REDUCING CARBON AND WASTE

During the year, we have continued to assess and monitor our energy use and, where practicable, to implement measures designed to reduce our activities' environmental impact, which, over time, we anticipate will help reduce our carbon footprint. During the year, the Group complied with the ESOS Regulations 2014 to undertake a mandatory energy assessment of our sites. We will use the results of this assessment to identify further energy saving opportunities. To conserve energy, we continue, where practicable, to install LED lights at our sites, limit the duration of periods when full lighting is used on our sites out of hours, keep external doors closed when not in use, and fit insulators to limit the escape of heat. We continue to seek to limit our paper consumption and waste, through increasingly paperless communications and systems.

| **Global greenhouse gas emissions data** | | |
|---|---|---|
| Source: | Tonnes of $co_2$ | |
| | 01.01.15 – 31.12.15 | 01.01.14 – 31.12.14 |
| $CO_2$ emitted from facilities | 19,764 | 18,863 |
| $CO_2$ emitted from driving activities | 10,794 | 10,723 |
| **Intensity ratio (tonnes of $CO_2$ per £m revenue)** | **6.9** | **7.4** |

# AUDIT COMMITTEE

*The Audit Committee is a committee of the Board, chaired by Paul Hampden Smith, made up entirely of independent non-executive directors.*

Their names and qualifications are on page 36 and attendance at meetings in the table on page 40.

**Key Responsibilities of the Audit Committee**

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

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

## THE COMMITTEE'S WORK IN 2015

The Audit Committee met three times in 2015 and this report describes its work and conclusions.

## FINANCIAL STATEMENTS REVIEW

The Committee received the auditor's memorandum on the company's 2014 financial statements and the auditor's memorandum on the unaudited 2015 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 follow.

## AUDIT RISK CONSIDERED BY THE COMMITTEE

The table on page 44 sets out the key audit risks and judgments applied, for the 2015 year results, which the Committee considered and discussed with the auditor, and the Committee's conclusions.

| AUDIT RISK CONSIDERED BY THE COMMITTEE | EVIDENCE CONSIDERED AND CONCLUSION REACHED |
|---|---|
| **Goodwill**<br>The judgements in relation to asset impairment of the carrying value of goodwill largely related to the achievability of the assumptions underlying the calculation of the value in use of the business being tested for impairment, set out in note 3.1 to the financial statements. These primarily consist of the Group's forecasts from 2016 to 2019, which underpin the valuation process. | The Committee considered the risk that goodwill could be materially overstated in the context of the sensitivity analysis, also set out in note 3.1. The Committee addressed these matters through reviewing the basis for the assumptions used, assessing the range and depth of information underpinning the assumptions and calculations and discussing this with the auditors.<br><br>The Committee concluded that the judgements applied were appropriate. |
| **Vehicle inventory valuation**<br>This is the risk that the value of inventory set out in note 3.5 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. | The Committee received a report from management which set out factors relevant to an assessment of used inventory valuation, including the level of inventory held across the business, the ageing of the inventory, the stock turn of the inventory and an analysis of market factors including the parc of used vehicles, the used vehicle market sales rate and historic movements in used vehicle prices.<br><br>The Committee discussed the report from management with the auditors together with all audit findings. The Committee was satisfied that a comprehensive assessment of inventory valuation had been undertaken and concluded that the judgements applied were appropriate. |
| **Pension scheme liabilities**<br><br>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 5.1 to the financial statements. There is a risk that the value of the pension scheme liabilities could be materially under or over stated in the context of the sensitivity analysis in that note. | 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 the company's pension scheme actuary. The Committee discussed with the auditor the assumptions applied, in particular the findings of the auditor's own pension specialist.<br><br>The Committee concluded that the judgements applied were appropriate. |

## EXTERNAL AUDITOR APPOINTMENT AND PERFORMANCE EVALUATION

The Committee paid particular attention to auditor effectiveness and independence of the audit, during the year since the engagement partner, appointed in 2011, approached completion of his fifth annual audit of the group's financial statement. The Committee arrived at its recommendation to the Board on the auditor's appointment by:

- applying exclusively objective criteria;
- evaluating the ability of the audit firm to demonstrate its independence;
- assessing the effectiveness of the audit firm in the performance of its audit duties; and
- assessing the audit firm's adherence to applicable professional standards.

The Committee chairman oversaw the company's evaluation of the auditor's performance, using questionnaires covering all aspects of the company and auditor relationship and reviewed the results with the Committee members, the company's management. The Committee noted that the current auditor, KPMG had issued to the company all requisite assurances of its independence. KPMG is also applying rotation, so that the audit engagement partner serving in 2015, after concluding his fifth annual audit, will be replaced by another KPMG partner with effect from 28 April 2016. The Committee chairman interviewed individuals proposed as audit engagement partner and made a recommendation, which was adopted by the Committee. 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.

## POLICY ON AUDIT TENDERING

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

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

The Committee also took into account that under the current EU legislation on audit firm rotation the current auditor could not be reappointed after 2023. In practice, in the absence of any other matters triggering an audit tender, the Committee expects to tender for a new audit firm after KPMG's incoming audit partner has completed five years of service, in 2020.

## 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 (and its predecessor as auditor, KPMG Audit Plc) for work performed during the year is set out in note 2.5 to the financial statements on page 90. Having satisfied itself on each item for its review, the Committee reported to the Board that:-

- the company's existing policy continues to be appropriate, has been adhered to throughout the year, and is operating effectively to provide the necessary safeguards to independence of the external auditor;
- there are no facts or circumstances relating to the award or performance of non-audit work that affect the independence of KPMG LLP as auditor or justify putting out audit work to competitive tender at this time;
- no contract for non-audit services has been awarded to KPMG LLP in any circumstance of perceived or potential conflict of interest or non-compliance with the company's policy; and
- the fees KPMG LLP have earned from non-audit services provided during the year are not, either by reason of their amount or otherwise, such as might impair its independence as auditor.

The 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. KPMG LLP gave formal assurance to the company of its ability as auditor to place reliance on the work of the internal audit team, and the Committee concluded that the scope and quality of the internal audit work done reflects an effective, well-functioning team.

## REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee reviewed the effectiveness of the company's system of internal control and financial risk management. It received reports from the auditor on each of these areas and from the RCG (whose work is described on page 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 38.

## 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 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.

# NOMINATION COMMITTEE

*The Nomination Committee is chaired by Mel Egglenton, and made up entirely of independent non-executive directors.*

Their names and qualifications are on page 36 and attendance at meetings in the table on page 40.

**Key Responsibilities of the Nomination Committee**

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

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

## THE COMMITTEE'S WORK IN 2015

The Nomination Committee met twice in 2015. This report describes its work and conclusions.

## REVIEW OF BOARD COMPOSITION AND BALANCE

As reported in last year's report, board composition has been refreshed by the appointment of Jeremy King as an independent non-executive director in November 2014. In May 2015 Jeremy King succeeded David Joyce as chairman of the Remuneration Committee. He has undergone a thorough induction into that role and confirmed that he is satisfied with the completeness of both that and his overall induction as a non-executive director. Having concluded in 2014 that a cohort of five, made up of the Chairman and four independent, non-executive directors is sufficient for the Board and its committees to function effectively, the Chairman conducted a review of the workings of the Board as part of the annual evaluation, details of which are set out below. He and the Committee concluded that the Board, in its current size and composition, continues to carry out its functions effectively and that there is no need to add to the number of independent non-executive directors.

## EVALUATION

The annual evaluations of the Board and its members were conducted by the Board and are described on page 40. As part of that process, the Committee conducted an evaluation of its own performance. The senior independent director conducted the evaluation of the Chairman and reported on it to the remaining Committee members.

The Committee noted the impending expiry of the three-year appointment terms of four non-executive directors, including the chairman. Taking into account the individual evaluations of the directors concerned, the Committee recommended to the Board that, upon expiry of their current appointment, each of Chris Chambers, Mel Egglenton, Paul Hampden Smith and Gillian Kent be reappointed on similar terms. Paul Hampden Smith has indicated his wish to retire from the Board upon the expiry of his current appointment on 22 May 2015. The Nomination Committee will follow its usual, formal processes for the recruitment to Board positions, using executive search consultants and complying with the company's diversity and equal opportunities policy. Details of the dates and terms of appointment of each non-executive director are set out on page 55.

## 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, the Committee instructs executive search consultants in a manner consistent with this policy. There was no requirement for executive search for Board recruitment purposes in the year. The company has not adopted a gender balance target for its Board. It is satisfied with the balance of male / female representation on the Board. If the shareholders re-elect all directors, following the 2016 AGM, the gender balance will be M: 7 / F: 2 (2015 M: 7 / F : 2).

# REMUNERATION COMMITTEE

*The Remuneration Committee is a committee of the Board, chaired by Jeremy King, made up entirely of independent non-executive directors.*

Their names and qualifications are on page 36 and attendance at meetings in the table on page 40.

**Key Responsibilities of the Remuneration Committee**

- determines and agrees with the Board the framework for remuneration of executive directors
- 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 any long term incentive arrangements
- determines the remuneration of the Chairman

The terms of reference of the Remuneration Committee are available at www.pendragonplc.com

## THE COMMITTEE'S WORK IN 2015

The Remuneration Committee met twice in 2015. The Directors' Remuneration Report, beginning at page 48, describes its work and conclusions.

# Remuneration Committee Chairman's Letter to Shareholders

Dear Shareholder

I am pleased to introduce my first Directors' Remuneration Report as chairman of the Committee, having taken over the role from David Joyce in May 2015.

Our current remuneration policy received a 99% vote in support from our shareholders at our 2014 AGM, and continues to inform our approach to the reward of our executive and non-executive directors. As in previous years, our objective remains to ensure that we succeed in aligning the interests of our executive directors with those of our major shareholders and investors. I intend to maintain this approach during my chairmanship of the Committee.

**Remuneration Policy**

As no changes are proposed to our remuneration policy for the year ahead, the company's remuneration policy is not subject to shareholder approval this year. However, during the course of the coming year, the Committee will closely follow developments in remuneration policy and prevailing market practice, as part of our preparation for the renewal of our remuneration policy at the 2017 Annual General Meeting. Our current, full remuneration policy is available on the company's website, at www.pendragonplc.com, and is summarised in the policy table on page 50.

The Remuneration Committee continues to ensure that our remuneration policy remains aligned with our strategic objectives of maximising returns from the three key sectors of aftersales, used, and new, as well as continuing to provide first class customer service. To this end, we will maintain the bias in our remuneration policy towards long term incentives, supported through the operation of interlinked share ownership and part-deferral requirements within the annual bonus plan.

**2015 Outturn**

As highlighted earlier in this annual report, 2015 has been another successful year for the company, with year on year underlying profit growth of 16.4%, a further reduction in net debt of 26.8% and further progress on maximising returns within our three key sectors. As a result, for the year under review, bonuses were paid to the executive directors at the maximum level available, which is 100% of salary.

In addition, upon conclusion of the three year performance period, long term incentives awarded in 2013 vested, as a result of exceeding the cumulative EPS target by 28%. Uniquely, the 2013 long term incentive was subject to an annual cap on variable pay, introduced in 2013 and applying for one year only, which restricted the costs of variable pay to 25% of the growth in profit in any given year. This cap results in the scaling back of the long term incentive award granted in 2013, which matures in 2016, such that only 56% of the face value of the 2013 LTIP is capable of vesting. Full details of remuneration decisions for 2015 are set out in the directors' annual remuneration report on pages 49 to 62.

At last year's AGM, 87.41% of shareholders voted in favour of the 2014 Directors' Remuneration Report. Details of the votes cast are set out on page 62. I very much hope you will support the 2015 Directors' Remuneration Report at our forthcoming meeting by voting in favour of the resolution to be put to shareholders at that meeting.

Yours sincerely

**Jeremy King**
Chairman of the Remuneration Committee

## REMUNERATION DISCLOSURE

This report complies with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (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.

The report as a whole has been prepared by the Remuneration Committee and approved by the Board. The report is in two sections:-

- A summary of the remuneration policy report (pages 49 to 55). This contains details of the remuneration policy approved at the 2014 AGM and is for information only.
- Annual report on remuneration. This describes annual remuneration and the relevant amounts paid in respect of 2015 performance, and is subject to an advisory vote of our shareholders.

# REMUNERATION POLICY REPORT

This year there are no changes to the remuneration policy that was approved by our shareholders in 2014. The full, shareholder-approved policy is available on the company's website and sets out our policy on director's remuneration, recruitment, loss of office, termination of employment and change of control. Within the confines of the remuneration policy report approved by shareholders at the 2014 AGM, the Remuneration Committee retains discretion over all elements of variable remuneration, both in terms of annual bonus awards made and vesting, and long term incentive awards granted and vesting. The extent of these discretions was detailed in the 2013 Annual Report and is also on our website at www.pendragonplc.com.

## REMUNERATION POLICY

The table sets out the individual elements of remuneration provided to the executive directors. It is a summary and does not replace or override the full, shareholder approved policy.

| FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS | | |
|---|---|---|
| ELEMENT, PURPOSE AND LINK TO BUSINESS STRATEGY | OPERATION | MAXIMUM OPPORTUNITY |
| **BASE SALARY** | | |
| To provide competitive remuneration that will attract and retain executives of the calibre required to take forward the company's strategy. | **Performance Metrics**<br>The Committee considers salaries at the appropriate Committee meeting each year taking due account of the factors noted in operation of the salary policy.<br><br>**Operation**<br>Reviewed annually, effective from 1 January. The Committee sets base salaries taking into account:<br>• the performance and experience of the individual concerned;<br>• any change in responsibilities;<br>• rates of pay in comparably sized companies;<br>• rates of pay within the company's group. | Salary levels are eligible for increases during the three-year period that the Remuneration Policy operates (policy effective from 30 April 2014).<br><br>During this time, salaries may be increased each year. Salary increases are usually determined after taking due account of market conditions and any increases awarded to the wider workforce.<br><br>Significant changes in role scope may require further adjustments to bring salary into line with new responsibilities.<br><br>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. |
| **PENSION** | | |
| To 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. | **Performance Metrics**<br>Not applicable.<br><br>**Operation**<br>Post-2009 executives: participation in a defined contribution pension scheme.<br>Pre-2009 executives: deferred membership of defined benefit pension scheme. | Post-2009 executives: contribution of 10% of base salary.<br>Pre-2009 executives: 26% of salary cash supplement in lieu of pension contribution. |
| **BENEFITS** | | |
| To provide cost-effective, market competitive benefits. | **Performance Metrics**<br>Not applicable.<br><br>**Operation**<br>Life assurance, private health cover, professional subscriptions, home telephone costs and (at executive's option) company cars. | 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). |

| FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS | | |
|---|---|---|
| ELEMENT, PURPOSE AND LINK TO BUSINESS STRATEGY | OPERATION | MAXIMUM OPPORTUNITY |
| **ANNUAL BONUS** | | |
| Incentivises achievement of annual objectives which support the short term goals of the company, as reflected in the annual business plan. | **Performance Metrics**<br>Annual bonus is earned based on performance against stretching company financial performance measures as set and assessed by the Committee. At present, financial measures used are adjusted profit and year-end net debt. A sliding scale of targets is set for each measure, with 12.5% of salary for each element being payable for achieving the relevant threshold hurdle.<br><br>**Target Setting**<br>Adjusted profit and debt targets are set in the context of the company's overall business plan. Further conditions for the payment of each element of annual bonus:<br>• On the profit metric, the company must have achieved not less than the adjusted profit of the previous year;<br>• On the debt metric, year end net debt must be less than that of the previous financial year.<br><br>**Operation**<br>25% of bonus earned is subject to compulsory deferral into the company's shares until such time as the company's share ownership guidelines are met.<br>In such situations where bonus is deferred into shares, an executive director may be entitled to receive dividend payments on such shares.<br><br>**Discretion and Clawback**<br>The Committee retains discretion to refine the choice of performance metrics each year in light of developments in the company's strategy. In the event of a significant or material change, the Committee would engage in dialogue with shareholders and, if necessary, seek a renewed shareholder approval by ordinary resolution.<br>Clawback provisions will permit the company to reclaim payments in exceptional circumstances of misstatement or misconduct. These will be kept under review, in the light of prevailing Financial Reporting Council guidance. | Maximum available bonus is equivalent to 100% of base salary.<br>No award is made for flat or negative growth.<br>Maximum bonus is available only for material outperformance of the company's annual business plan. |

# DIRECTORS' REMUNERATION REPORT

| FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS | | |
|---|---|---|
| ELEMENT, PURPOSE AND LINK TO BUSINESS STRATEGY | OPERATION | MAXIMUM OPPORTUNITY |
| **LONG TERM INCENTIVE PLAN** | | |
| Incentivise executives to achieve EPS growth over a three year period. EPS growth is the measure most appropriate to the company's strategy. | **Performance Metrics**<br><br>Awards vest at the end of a three year performance period, based on achievement of stretching underlying EPS targets.<br><br>**Target Setting**<br><br>The underlying EPS targets operate subject to a positive total shareholder return (TSR) underpin.<br><br>Threshold performance attracts vesting of 25% of the award with 100% of awards being achieved for maximum performance. There is straight line vesting between performance points.<br><br>**Operation**<br><br>Awards are subject to performance conditions measured over three years and a service requirement. Awards made in 2014 and 2015 were subject to a guaranteed minimum holding period of six months on vesting. Details of the current requirements in relation to holding periods for LTIP awards is detailed on page 59.<br><br>**Discretion and Clawback**<br><br>The Committee retains a discretion to refine the choice of performance metrics in each year in light of developments in the company's strategy. In the event of a significant or material change, the Committee would engage in dialogue with shareholders and, if necessary, seek a renewed shareholder approval by ordinary resolution.<br><br>Clawback provisions will permit the company to reverse conditional share awards or claim proportionate payments in exceptional circumstances of misconduct or misstatement. These will be reviewed in due course, in the light of prevailing Financial Reporting Council guidance. | Fully paid shares equivalent to a maximum of 150% of the executive's base salary, subject to strict vesting conditions.<br><br>Entitlement to a dividend may exist on vested LTIP awards. |

**Notes accompanying the Remuneration Policy Table: explanations of why certain performance measures were selected and how targets are set.**
**1. Base salary:** base salaries are set by reference to the relative market data for the role, internal relativities and the individual's skills, experience and current salary. If a salary is initially set below the market rate, a phased re-alignment may be made over time. **2. Pensions:** Trevor Finn, Martin Casha and Hilary Sykes ceased to be active members of the Pension Plan in 2006. Tim Holden participates in the defined contribution section of the Pendragon Group Pension Scheme, to which the company makes a contribution of 10% of his basic salary. **3. Benefits:** benefit levels are set to be competitive relative to companies of a comparable size. **4. Annual bonus:** targets of underlying (adjusted) profit (50%) and year end net debt (50%) were selected as these measures correlate to measures used in the company's overall business plan. The split between net debt and profit, and the performance measures attributable to them is determined by the Remuneration Committee, who seek external guidance on the appropriateness of any performance targets set relative to the market. **5. Long term incentive plan:** performance shares are awarded up to a maximum of 150% of base salary. LTIP awards only vest at the maximum of 150% of salary if significantly challenging EPS targets are attained. The Remuneration Committee selected EPS as this remains the key internal measure of long term financial performance, as well as being well understood by the executives and our investors as providing a clear incentive to deliver the company's long term growth prospects. An underpin of creating absolute shareholder return has been adopted as this further aligns the interests of executives with those of shareholders. The vesting schedule outlines vesting percentage in relation to EPS performance targets, which were set after taking into account internal scenario analysis, current market expectations and the current trading environment. **6. Annual Bonus and LTIP Policy:** Remuneration Committee Discretions: The Committee operates the annual bonus plan and LTIP in accordance with certain retained discretions with regard to the operation and administration of these plans, as approved at the 2014 AGM. The extent of the Remuneration Committee's discretion is set out at www.pendragonplc.com in our Remuneration Policy.

## POLICY ON EXECUTIVE DIRECTOR SHARE OWNERSHIP

The policy approved by shareholders in 2014 remains unchanged and is available on www.pendragonplc.com. The share ownership requirements included in our policy are summarised on page 59 of the Annual Report on Remuneration.

## ILLUSTRATION OF OUR REMUNERATION POLICY FOR 2016

The tables below illustrate the operation of the remuneration policy and provide estimates of the potential future remuneration that executives directors would receive, in the scenarios shown, in accordance with the directors' remuneration policy for 2016.

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.

**Performance scenarios**

| | Below expectations | In line with expectations | Exceeds expectations |
|---|---|---|---|
| | Only the fixed pay[1] elements of the package are earned. No annual bonus; No LTIP vesting. | Fixed pay[1] ; and bonus at the threshold payment level (giving a maximum of 25% of the bonus opportunity); and vesting at the threshold level of the LTIP (threshold being set at 25% of the maximum opportunity). | Fixed pay[1] ; and maximum bonus (100% of the total bonus opportunity); and maximum LTIP vesting (100% vesting). |
| TOTAL: (as a % of base salary excluding benefits and pensions) | 100% (minimum) | 162.5% (Intermediate) | 350% (Maximum) |

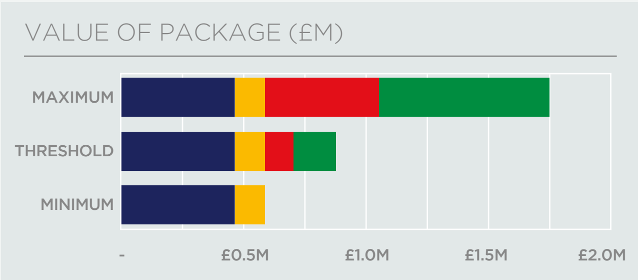
1 Fixed pay comprises base salaries, benefits and pension.

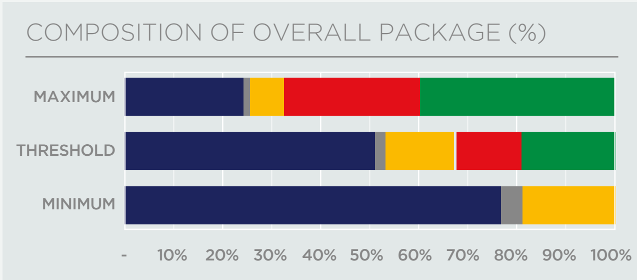
# DIRECTORS' REMUNERATION REPORT

## ESTIMATES OF TOTAL POTENTIAL REMUNERATION FROM 2015 REMUNERATION PACKAGES

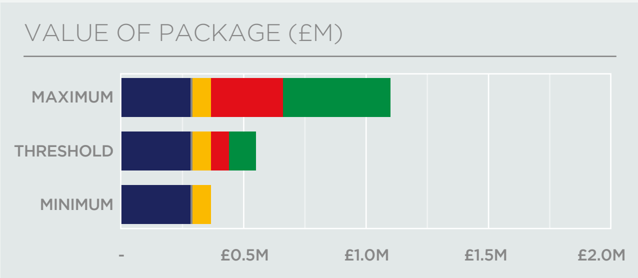
The charts below provide estimates of the potential future remuneration for each executive director in respect of the remuneration opportunity granted to them in 2015 and 2016. Potential outcomes based on different performance scenarios are provided for each executive director.

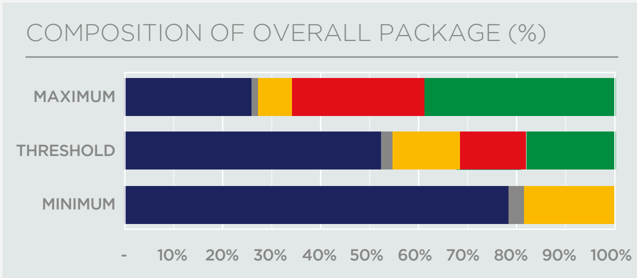

### TREVOR FINN



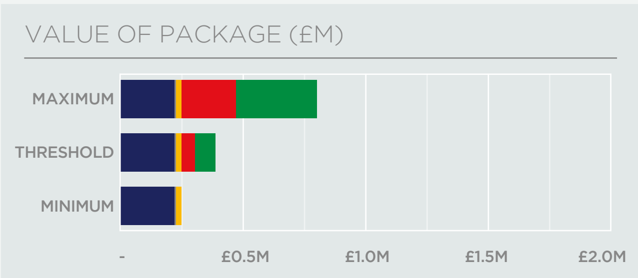



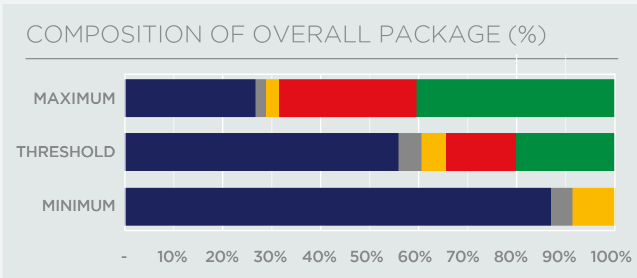

### MARTIN CASHA



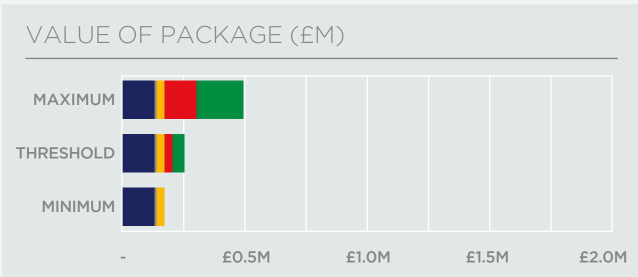



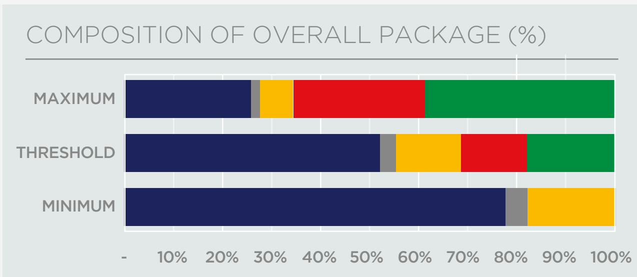

### TIM HOLDEN




### HILARY SYKES




SALARY BENEFITS PENSIONS BONUS LTIP

**NOTES:** Salary: base salary as at 31 January 2016. Benefits: estimate based on benefits received during 2015. Pension: based on pensions for 2015. Bonus: 2016 threshold and maximum awards in accordance with plan rules. Nil payment for minimum performance. LTIP: estimated value at threshold and maximum vesting based on proposed 2016 performance measures. Nil payout for minimum performance. The scenarios above do not include any share price growth or dividend assumptions.

We list below the areas of policy the company has adopted in the shareholder approved remuneration policy (available to view on the company's website).

| | |
|---|---|
| **New appointments as executive director** including each component of remuneration | All these policy areas have been reviewed in 2015 and remain unchanged from the policy approved by shareholders in 2014, |
| **New appointments as non-executive director** | |
| **Non-executive remuneration** | |
| **How employees' pay is taken account in executive remuneration** | |
| **Directors' service contracts and exit payments** | |
| **Treatment of fees earned from external directorships** | |

## NON-EXECUTIVE DIRECTORS' APPOINTMENTS

| Name | Commencement | Expiry/cessation | Unexpired at date of report (months) |
|---|---|---|---|
| Mel Egglenton | 01.01.16 | 31.12.18 | 34 |
| Chris Chambers | 28.01.16 | 31.12.18 | 34 |
| Paul Hampden Smith | 23.05.13 | 22.05.16* | 3 |
| Gillian Kent | 23.05.13 | 22.05.16 | 3 |
| Jeremy King | 25.11.14 | 24.11.17 | 21 |

*Paul Hampden Smith will retire from the Board on expiry of his current appointment (assuming he is re-elected on routine retirement at the AGM).

# ANNUAL REPORT ON REMUNERATION

**The Committee's work for 2015**

- determined annual bonus awards in respect of 2014 performance
- set the annual bonus plan terms for 2015
- set 2015 long-term incentive award levels, the associated performance targets and granted the awards
- tested the performance targets for the company's 2013 Long Term Incentive Award vesting
- set 2016 executive director salary levels
- noted remuneration trends across the Group

## ADVISERS

During 2015, the Chief Executive, Trevor Finn provided advice to the Committee but not in respect of his own pay. In addition, external advice was provided by New Bridge Street (a trading name of Aon Corporation) who are appointed advisers to the Committee, and Pinsent Masons LLP, the company's share incentive scheme legal advisors. Pinsent Masons and New Bridge Street are considered to be independent. In 2015, fees of £25,000 were paid to New Bridge Street and fees of £180 were paid to Pinsent Masons, neither of whom provided any other services to the Group.

## SINGLE TOTAL FIGURE (AUDITED INFORMATION)

| | Salary or fees[1] £000 | | Taxable benefits[2] £000 | | Pension[3] £000 | | Bonus[4] £000 | | Long term incentive plan[5,6] £000 | | Single total figure £000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| **Executive Directors** | | | | | | | | | | | | |
| Trevor Finn | **464** | 464 | **4** | 6 | **121** | 121 | **464** | 464 | **722** | 2,417 | **1,775** | 3,472 |
| Martin Casha | **292** | 278 | **8** | 9 | **81** | 72 | **292** | 278 | **413** | 1,343 | **1,086** | 1,980 |
| Tim Holden | **221** | 221 | **7** | 11 | **22** | 22 | **221** | 221 | **312** | 952 | **783** | 1,427 |
| Hilary Sykes | **129** | 129 | **9** | 7 | **33** | 33 | **129** | 129 | **201** | 679 | **501** | 977 |
| **Non-executive Directors** | | | | | | | | | | | | |
| Mel Egglenton | **150** | 150 | **-** | - | **-** | - | **-** | - | **-** | - | **150** | 150 |
| Chris Chambers | **44** | 40 | **-** | - | **-** | - | **-** | - | **-** | - | **44** | 40 |
| Paul Hampden Smith | **50** | 50 | **-** | - | **-** | - | **-** | - | **-** | - | **50** | 50 |
| Gillian Kent | **40** | 40 | **-** | - | **-** | - | **-** | - | **-** | - | **40** | 40 |
| Jeremy King | **43** | 4[7] | **-** | - | **-** | - | **-** | - | **-** | - | **43** | 4 |
| David Joyce | **16**[8] | 45 | **-** | - | **-** | - | **-** | - | **-** | - | **16** | 45 |

1. In the case of non-executive directors, fees include committee chair fees in addition to the basic non-executive director fee of £40,000, as detailed in the Policy on Non-Executive Directors' Remuneration available at www.pendragonplc.com. 2. Benefits in kind include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and provision of up to two cars (at the director's election), one of which is fully expensed. 3. Salary supplement in lieu of employer pension contribution, or in the case of Tim Holden, company contribution to defined contribution pension scheme of 10% of basic salary (£22,083 in 2015, £22,083 in 2014). Trevor Finn, Martin Casha and Hilary Sykes ceased to be active members of the Pendragon defined benefit Pension Plan in 2006. Whereas Martin Casha and Hilary Sykes remain as deferred members, entitled to a deferred pension calculated up to the date of their leaving the pension plan, Trevor Finn elected to take early retirement benefits from 8 February 2008 and is therefore a pensioner member. Hilary Sykes elected to transfer her pension benefits to a personal arrangement on 14 September 2015. Actual payment to Martin Casha is higher than 26% of salary for 2015 due to a payroll administrative adjustment. 4. Bonus Award for 2015 and 2014 total equivalent to 100% of base salary – see page 50 for more detail. 5. The performance conditions for the LTIP awarded in 2013 have been achieved in full, and consequently these will vest on 31.03.16. However, the 2013 long term incentive remained subject to an annual cap on variable pay, introduced in 2013 and applying for one year only, which restricted the costs of variable pay to 25% of the growth in profit in any given year. The application of this cap results in the scaling back of the long term incentive award granted in 2013, such that only 56% of the face value of the 2013 LTIP is capable of vesting. The sterling value of the LTIP awards shown above is based on the number of shares vesting multiplied by the three month average market value share price for the period to 31.12.2015, which was £0.43924, and is therefore an estimate of the potential monetary value of the LTIP awards. The exact monetary value of these LTIP awards will be determined by the prevailing share price at date of vesting. 6. The sterling value of the LTIP awards vesting in 2015 is based on the actual price these shares were sold at, which was £0.3921 on 06.03.15. 7. Jeremy King was appointed to the Board on 25.11.14. Accordingly, his fees for 2014 are for the period 25.11.14 to 31.12.14. 8. David Joyce stood down from the Board on 08.05.15. Accordingly, his fees are for the period 01.01.15 to 08.05.15.

## 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. Trevor Finn, Martin Casha and Hilary Sykes ceased to be active members of the Pension Plan in 2006. Tim Holden participates in the Pendragon Group Pension Scheme, a defined contribution pension scheme, to which the Company makes a contribution of 10% (£22,083 in 2015) of his basic salary, for his benefit. The non-executive directors are not eligible to participate in the Pension Plan.

**Directors' pension entitlements (audited information)**

| | **Total accrued pension entitlement at 31.12.2015 £000** | Total accrued pension entitlement at 31.12.2014 £000 | Normal retirement date |
|---|---|---|---|
| Martin Casha | **169** | 167 | 28.04.2025 |

## PERFORMANCE RELATED PAY FOR 2015: ANNUAL BONUS

Given their commercial sensitivity, we do not publish the details of targets in advance. However, the Committee considers the targets to be measurable and appropriately stretching. For 2015, the maximum available annual bonus opportunity was 100% of base salary, only achievable for performance in excess of the company's strategic plan. Payouts are achievable for demanding performance, measured against underlying (adjusted) profit (50%) and year-end net debt (50%). This structure for bonus opportunity for 2015 reflects both the investor feedback received and the competitive market in which the company currently operates. Details of the percentages of salary payable at threshold, target and maximum are set out in the table below.

| **Available** | | | **Actual outturn 2015** | | | |
|---|---|---|---|---|---|---|
| **Performance measure** | **Underlying profit** | **Year end debt** | **Underlying profit** | | **Year end debt** | |
| **Target aligned to business plan** | **% of basic salary payable** | | **Level** | **% of basic salary payable** | **Level** | **% of basic salary payable** |
| Threshold performance (10% below Target) must exceed prior year's result | 12.5 | 12.5 | - | - | - | - |
| In line with Target | 31.25 | 31.25 | - | - | - | - |
| Maximum ≥10% above Target | 50 | 50 | ✓ | 50 | ✓ | 50 |

For the year ended 31 December 2015, the Committee determined that since both underlying profit performance and net year end debt performance exceeded Target by more than 10%, total annual performance related pay would be 100% of salary, based on the salary earned by each executive director during the year under review.

| **Measure** | **Performance metrics** | | | **2015 outturn** | |
|---|---|---|---|---|---|
| | | | | **Performance** | **Payout** |
| | **Threshold** | **Target** | **Maximum** | **Actual** | **% of basic salary payable** |
| Underlying profit | >£60.2m | ≥£60.9m | ≥£67.0m | £70.1m | 50 |
| Net debt | <£92.7m | ≤£84.3m | ≤£75.08m | £69.6m* | 50 |
| | | | | Total bonus achieved | 100 |

*The 2015 year-end net debt performance has been adjusted to take account of the non-underlying element of £10.0m, relating to the Group's refinancing which is due to complete during Q1 2016.

# DIRECTORS' REMUNERATION REPORT

## BASE SALARY FOR 2015

Base salaries for the executive directors will remain unchanged from the 2015 salary levels.

## PERFORMANCE RELATED PAY FOR 2016

The annual bonus for the 2016 financial year will operate on the same basis as for the 2015 financial year and will be consistent with the policy detailed in the Remuneration Policy section of this report having maximum bonus opportunity, deferral and clawback provisions identical to those in place for 2015. The performance metrics selected are underlying profit and year-end net debt, with an equal weighting given to each. Underlying profit and year-end net debt targets have been set to be challenging relative to the 2016 business plan. The targets themselves, as they relate to the 2016 financial year, are considered to be commercially sensitive, and we do not publish details of these in advance.

## LONG TERM INCENTIVE AWARDS MADE IN 2015

In March 2015, the executive directors were granted performance awards in accordance with the Remuneration Policy as applicable to LTIPs detailed on page 52. Individual performance awards were equivalent to 150% of base salary in the aggregate. Full details of the performance awards made are displayed in the table below.

The Remuneration Committee considers that the LTIP provides the most appropriate incentive and alignment of executive award with shareholders' interests. Vesting of LTIP performance awards remain conditional on challenging performance targets being achieved.

For the 2015 LTIP, vesting of performance awards will take place, subject to underlying EPS targets (measured from the 2014 underlying EPS result over a three year performance period) so that it will be actual EPS achieved in the financial year ending 31 December 2017 that determines vesting, as follows:-

| Director | Award | Type | No. of Shares | Face value (%age of salary) | Performance Condition | Performance Period | % vesting at threshold performance |
|---|---|---|---|---|---|---|---|
| Trevor Finn | Performance | Nil Cost Option | 1,764,593 | £695,250 (150) | Underlying EPS growth over RPI[1] | 3 financial years ending 31 December 2017 | 25 |
| Martin Casha | Performance | Nil Cost Option | 1,113,236 | £438,615 (150) | Underlying EPS growth over RPI[1] | 3 financial years ending 31 December 2017 | 25 |
| Tim Holden | Performance | Nil Cost Option | 840,704 | £331,237 (150) | Underlying EPS growth over RPI[1] | 3 financial years ending 31 December 2017 | 25 |
| Hilary Sykes | Performance | Nil Cost Option | 490,164 | £193,125 (150) | Underlying EPS growth over RPI[1] | 3 financial years ending 31 December 2017 | 25 |

1. Underlying EPS performance conditions for the 2015 LTIP are described in detail below.
2. It will be actual underlying EPS achieved in the financial year ending 31.12.17 that determines vesting; see table below.

**LTIP 2015 performance conditions**

| 2017 Underlying EPS* | Percentage Vesting |
|---|---|
| Below 3.8 pence | Nil |
| 3.8 pence | 25% |
| 4.5 pence | 100% |

Straight line vesting between performance points. *Underlying EPS targets are based on achieving EPS growth over RPI (+4% for threshold vesting and +10% for 100%/full vesting). If the performance condition is not satisfied, none of the LTIP awards will vest. The above table assumes RPI of 3%.

## LONG TERM INCENTIVES VESTING IN 2015

The Remuneration Committee assesses the extent to which the performance conditions that apply to the performance related elements of the remuneration framework have been met, following sign off of the company's audited Annual Report and Accounts. This ensures that incentive payments are made following independently audited results being known.

Following an assessment of the performance conditions applicable to the 2013 award, the Remuneration Committee determined that the relevant performance conditions to achieve 100% vesting were satisfied (namely that actual underlying EPS achieved in the financial year ending 31 December 2015 be 2.8p or above): actual EPS achieved was 3.7p. The 2013 award remained subject to an annual cap on variable pay, introduced in 2013 and applying for one year only, which restricted the costs of variable pay to 25% of the growth in profit in any given year. The application of this cap results in the scaling back of the long term incentive award granted in 2013, such that only 56% of the face value of the 2013 LTIP is capable of vesting in March 2016.

## LONG TERM INCENTIVES FOR 2016

It is proposed that the LTIP award for the 2016 financial year will operate on the same basis as that for the 2015 financial year, consistent with the policy detailed in the Remuneration Policy section of this report in terms of maximum LTIP opportunity, deferral and clawback provisions. The guaranteed six month holding period introduced in 2013 for vested LTIP shares will continue to be operated. This means that for awards granted in 2016, assuming the awards vest in 2019, a holding period of six months will apply before any shares can be sold. The Remuneration Committee will continue to consider the appropriateness of the length of the holding period in the light of prevailing attitudes and as the market approach develops during 2016.

2016 LTIP awards will be at the maximum 150% of salary level, with vesting taking place subject to underlying EPS targets shown in the table below (measured from the 2015 underlying EPS result over a three-year performance period) so that it will be actual underlying EPS achieved in the financial year ending 31 December 2018 that determines vesting. The underlying EPS will continue to operate subject to a positive Total Shareholder Return (TSR) underpin.

| Actual EPS year ended 2018 | Vesting % |
|---|---|
| Less than RPI + 4% | 0% |
| RPI + 4% | 25% |
| RPI + 10% | 100% |
| Straight line vesting between performance points | |

## RECOVERY AND WITHHOLDING PROVISIONS

As detailed in the summary of remuneration policy on pages 50 to 52, the clawback provisions that operate in both the annual bonus and LTIP enable the Remuneration Committee to recover value overpaid in the event of either a material misstatement of the company's financial results for any period or misconduct. Should it be considered appropriate to enforce these provisions, value can be recovered through the withholding of future incentive payouts (including at the point of vesting of an LTIP award) or through requiring the overpayment be refunded to the company on a net of tax basis. The clawback provisions are included in the relevant plan documentation so that there is a clear basis on which the Remuneration Committee could seek to enforce the provisions should it consider it necessary to do so.

## DIRECTORS' SHAREHOLDINGS (AUDITED INFORMATION)

| | Legally owned as at 31.12.2015 | Legally owned as at 31.12.2014 | Subject to deferral under the annual bonus plan | | Subject to performance conditions under the relevant long term incentive plan | | | Vested but unexercised share options |
|---|---|---|---|---|---|---|---|---|
| | | | 2015 LTIP award | 2014 LTIP award | 2013 LTIP[1,2] award | 2014 LTIP[3] award | 2015 LTIP[4] award | |
| Trevor Finn | 15,482,988 | 34,317,691 | No | No | 2,934,528 | 2,207,142 | 1,764,593 | 0 |
| Martin Casha | 7,135,869 | 7,135,869 | No | No | 1,679,201 | 1,326,123 | 1,113,236 | 0 |
| Tim Holden | 1,127,015 | 1,127,015 | No | No | 1,270,995 | 1,051,547 | 840,704 | 0 |
| Hilary Sykes | 2,282,612 | 2,535,988 | No | No | 815,146 | 613,095 | 490,164 | 0 |

1. Performance conditions: actual EPS achieved in the financial in the financial year ending 31.12.15: 2.37p (25% vesting) rising to 2.8p (full vesting). 2. As a result of an annual cap on variable pay, which was particular to incentives awarded in 2013, only 56% percent of the award will be capable of vesting, despite the applicable performance conditions having been achieved. 3. Performance conditions: vesting is subject to the satisfaction of performance conditions based on achieving defined earnings per share targets measured from the 2013 earnings per share result over a three year performance period – 2.82p (25% vesting) rising to 3.32p (100% vesting). 4. Performance conditions: vesting is subject to the satisfaction of performance conditions based on achieving defined earnings per share targets measured from the 2014 earnings per share result over a three year performance period – 3.8p (25% vesting) rising to 4.5p (100% vesting).

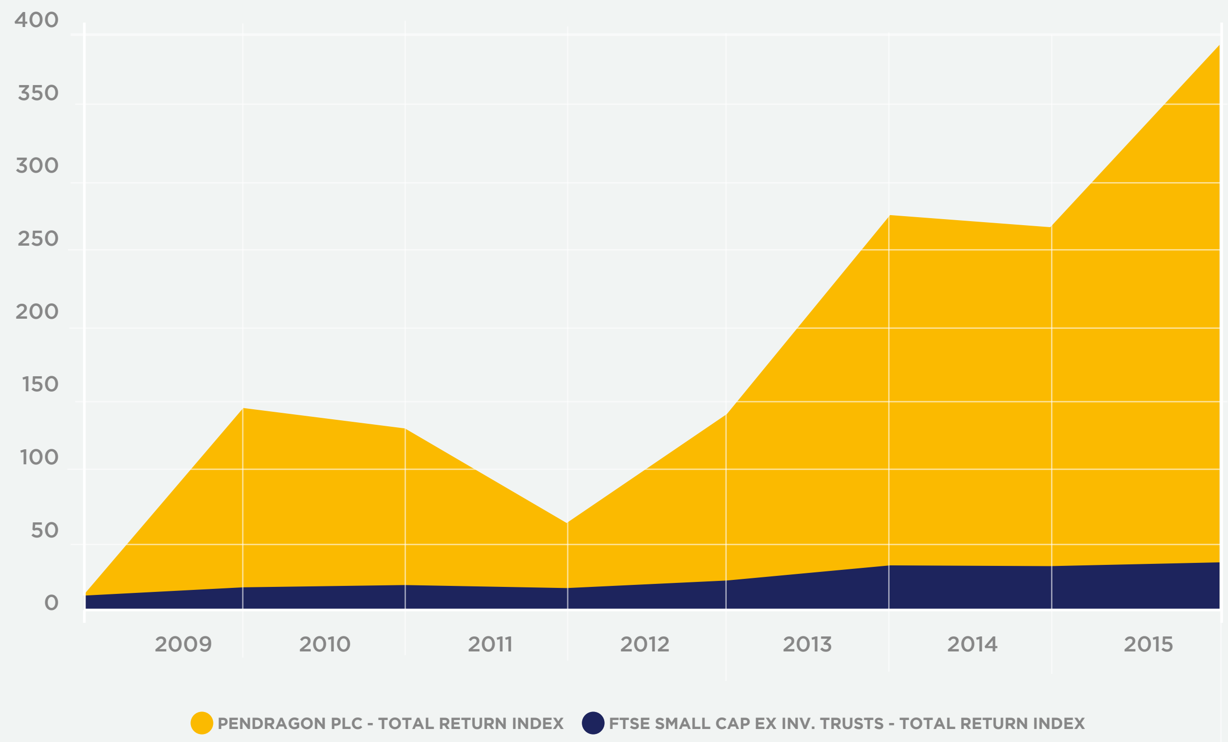
## DIRECTORS' SHAREHOLDINGS (AUDITED INFORMATION)

Each executive director fulfils the requirements of the company share ownership policy applicable to them (i.e. building a 200% of salary share ownership in the case of the Chief Executive and 100% in the case of the other executive directors). There is no company policy on non-executive director share ownership.

## TOTAL SHAREHOLDER RETURN[1]

The graph below shows the total shareholder return ("TSR")[2] on the company's shares in comparison to the FTSE Small Cap Index (excluding investment companies).[3] TSR has been calculated as the percentage change, during the relevant period, in the market price of the shares, assuming that any dividends paid are reinvested on the ex-dividend date. The relevant period is the seven years ending 31 December 2015. The notes at the foot of the graph provide more detail of the TSR calculation.

### PENDRAGON PLC TSR 2009 - 2015




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 seven years ended on 31 December 2015 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 2015 detailed above.

## HISTORY OF CHIEF EXECUTIVE REMUNERATION (AUDITED INFORMATION)

| Chief Executive | **2015** | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| Total Remuneration £m (single figure) | **1,775** | 3,472 | 2,961 | 857 | 946 | 944 | 1,078 |
| Annual bonus award (% of maximum that could have been paid) | **100%** | 100% | 100% | 54% | 75% | 75% | 100% |
| Percentage of LTIP[1] vesting | **56%** | 100% | 100% | 0% | 0% | 0% | 0% |

[1]Percentage of shares vesting under the Pendragon Long Term Incentive Plan (for 2012, the Pendragon ExSOP) against the maximum number of shares that could have been received

## PERCENTAGE CHANGE IN CHIEF EXECUTIVE REMUNERATION

The table opposite illustrates the percentage change in the remuneration awarded to the Chief Executive between the preceding year and the reported year and that of the Group's employees across the entire UK business.

| | **Chief Executive Officer** | **Employees of Company as a whole** |
|---|---|---|
| % change in salary 2015 compared to 2014 | 0% | 2.43% |
| % change in benefits 2015 compared to 2014 | -33.3% | 12.29% |
| % change in bonus 2015 compared to 2014 | 0% | 10.65% |

## RELATIVE IMPORTANCE OF SPEND ON PAY

The graph below illustrates the difference between spend on remuneration paid to all employees of the company, and dividend (interim and final proposed dividend) compared to the prior year.

# DIRECTORS' REMUNERATION REPORT

## SHAREHOLDERS' VOTE ON REMUNERATION AT THE 2015 AGM

| 2015 Directors' Remuneration Report | Number | Proportion of votes cast |
|---|---|---|
| Votes cast in favour | 877,553,650 | 87.41% |
| Votes cast against | 126,394,136 | 12.59% |
| Total votes cast in favour or against | 1,003,947,786 | 100% |
| Votes withheld | 32,171,163 | |

## 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 2015 was 46.75 pence and the range during the year was 32.00 pence to 47.00 pence.

## APPROVAL

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

**Jeremy King**
Chairman of the Remuneration Committee
16 February 2016


Stockton
S UV 2530

# DIRECTORS' REPORT

## STRATEGIC REVIEW AND PRESCRIBED REPORTING

Our Strategic Review at pages 1 to 34 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 1 to 34 and the Viability Statement set out on page 19. Additional information on which the directors are required by law to report is set out below and in the following:

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

In the interests of increasing the relevance of the Report and reducing the environmental impacts of over-lengthy printed reports, we have placed on our website at www.pendragonplc.com certain background information on the company the disclosure of which, in this Report, is not mandatory. We first adopted this approach in 2015, and have not received any adverse feedback. We shall continue to monitor reaction to 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 74 to 138. An interim dividend of 0.6 pence per ordinary share was paid to shareholders on 23 October 2015 (2014: 0.3 pence). The directors are recommending a final dividend of 0.7 pence per ordinary share (2014: 0.3 pence) which would, if approved by shareholders at the 2016 AGM, bring total dividends for 2015 to 1.3 pence (2014 total: 0.9 pence).

## 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. Pendragon has not repurchased any of its own shares during 2015, other than the provision of financial assistance to its independent employee benefit trust to facilitate the market purchase of 19,113,313 ordinary shares in the company for use in connection with various of the company's employee share incentive schemes.

## BUSINESS AT THE ANNUAL GENERAL MEETING

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will issue to 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 update shareholders on the company's trading position. The Chairman and each committee chairman are available to answer questions put by shareholders present.

## DIRECTORS AND THEIR INTERESTS IN SHARES

Current directors are listed on page 36. 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 48 to 62. Directors who served during 2015 and their respective interests in the company's issued ordinary share capital are shown in the table below. At the date of this report, the numbers of company shares held, as shown below, are unchanged from the numbers held on 31 December 2015. All holdings shown are beneficial. None of the directors holds options over company shares. Each executive director fulfils the requirements of the company's share ownership policy applicable to them. There is no company policy requiring non-executive directors to hold a minimum number of company shares.

| Directors' shareholdings | Number at 31.12.15 | Number at 31.12.14 |
|---|---|---|
| Martin Casha | 7,135,869 | 7,135,869 |
| Chris Chambers | 240,000 | Nil |
| Mel Egglenton | 255,252 | 255,252 |
| Trevor Finn | 15,482,988 | 34,317,691 |
| Paul Hampden Smith | 400,000 | 400,000 |
| Tim Holden | 1,127,015 | 1,127,015 |
| David Joyce (retired 8 May 2015) | 106,250 | 106,250 |
| Gillian Kent | Nil | Nil |
| Jeremy King | 78,547 | Nil |
| Hilary Sykes | 2,282,612 | 2,535,988 |

## DIRECTORS' ROTATION

The Articles require directors to retire by rotation. The Code superimposes an obligation that all directors retire annually, if the company is within the FTSE 350. Irrespective of any Code requirements, the company has made annual retirement and offering for re-election compulsory in the case of non-executive directors whose service exceeds six years, even should the company cease to lie within the FTSE 350.

## 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.

## SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 February 2016 the directors had been advised of the following interests in the shares of the company:

| Shareholder | Number of shares | Percentage of voting rights of the issued share capital |
|---|---|---|
| Odey Asset Management | 264,520,545 | 18.11% |
| Schroder Investment Management | 130,275,767 | 8.92% |
| GMT Capital Corp | 103,181,025 | 7.07% |
| Aberforth Partners LLP | 66,828,303 | 4.58% |
| Fidelity Worldwide Investment | 54,076,011 | 3.70% |
| UBS AG London | 44,619,973 | 3.06% |

## SHARE CAPITAL

As at 31 December 2015, Pendragon's issued share capital comprised a single class: ordinary shares of 5 pence each. The Articles permit the creation of more than one class of share, but there is currently none other than ordinary shares. Details of the company' share capital are set out in note 4.4 to the accounts. All issued shares are fully paid. The company issued 5,000,000 new shares during the period under review, pursuant to executive share option requirements. 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 2015 AGM.

# DIRECTORS' REPORT

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

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

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the AGM. Details of the exercise of voting rights attached to the ordinary shares held by the company's Employee Benefit Trust are set out below. None of the ordinary shares, including those held by the Employee Benefit Trust, carries any special voting rights with regard to control of the company.

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

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

## SHARES HELD BY THE PENDRAGON EMPLOYEE BENEFIT TRUST

As at 31 December 2015, the company's Employee Benefit Trust with Investec Trust (Jersey) Limited (the Trustee) held 11,231,954 shares, representing 0.77% of the total issued share capital at that date (2014: 11,739,026; 0.80%). 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 24,620,385 shares to satisfy such entitlements (2014: 22,096,951).

## 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 2015. 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 (2014: £nil).

## AUDITOR

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

By order of the Board

**Hilary Sykes**
Secretary
16 February 2016

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

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

**Responsibility statement of the directors in respect of the annual financial report**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and accounts 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

**Tim Holden**
Finance Director
16 February 2016

# OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

**1. Our opinion on the financial statements is unmodified**

We have audited the financial statements of Pendragon PLC for the year ended 31 December 2015 set out on pages 74 to 153. 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

**2. Our assessment of risks of material misstatement**

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

**Carrying value of Goodwill (£360.8 million)**

Refer to page 44 Audit Committee statement, page 98 (accounting policy) and pages 99 and 100 (financial disclosures).

**The risk** – The Group's significant goodwill balance is allocated across its cash generating units ('CGU's) which generally comprise the franchises that the Group operates. The risk of downturn in the macroeconomic environment and the failure of individual franchise performance may indicate an impairment in goodwill. The inherent uncertainty involved in forecasting and discounting future cash flows is one of the key judgemental areas that our audit is concentrated on. The uncertainty is affected by a number of factors including general market trends, the number of new car registrations, and franchise specific factors such as the performance of specific vehicle models, which form the basis for the assessment of recoverability.

**Our response** – In this area, our audit procedures included assessment of the Group's budgeting procedures as a basis for value in use calculations; comparison of the Group's historical budget to actual performance; as well as future projections compared to prior year actual; comparison of forecasting assumptions for key franchises to externally derived data. In addition, we performed our own assessments in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates. We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group to derive a discount rate. We compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

# OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

**2. Our assessment of risks of material misstatement** *continued*

**Valuation of used vehicle inventory (£386.8 million)**

Refer to page 44 Audit Committee report, page 106 (accounting policy) and page 106 (financial disclosures).

**The risk** – The Group holds significant levels of used vehicle inventory. Used vehicle resale prices are impacted by a number of factors including general economic conditions, new vehicle sales and incentives as well as an individual vehicle's configuration. Sales of used vehicles during the year highlight a proportion of those vehicles are sold at a loss. Accordingly establishing an inventory provision for loss making vehicles requires the directors to make judgments and estimates in relation to the realisable value of such inventory.

**Our response** – In this area our audit procedures included assessment of the procedures performed by the Group's internal audit function on the controls designed to minimise the holdings of ageing used vehicle stock. In addition, we have performed detailed testing over the value of used vehicle stock held at the year end. The Group's provision is predominantly based upon the length of time the Group has held the inventory and the trading conditions in existence at the year end. We performed procedures to validate these assumptions including, among others, consideration of the Group's historical trading patterns and a comparison of the Group's expectations for used car prices to the expectations of other market commentators. We also considered the levels of losses incurred on used cars subsequent to the year-end and the implications of this for the level of provision. We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the vehicle inventory provision.

**Post retirement benefits (£43.4 million)**

Refer to page 44 Audit Committee report, page 129 (accounting policy) and pages 129 to 135 (financial disclosures).

**The risk** – Significant estimates are made in valuing the Group's post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the results and financial position of the Group.

**Our response** – With the support of our own actuarial specialists, we challenged the key assumptions applied to determine the Group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficits to these assumptions.

We continue to perform audit procedures over tax provisioning. However, following the settlement of uncertain tax positions, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

# OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

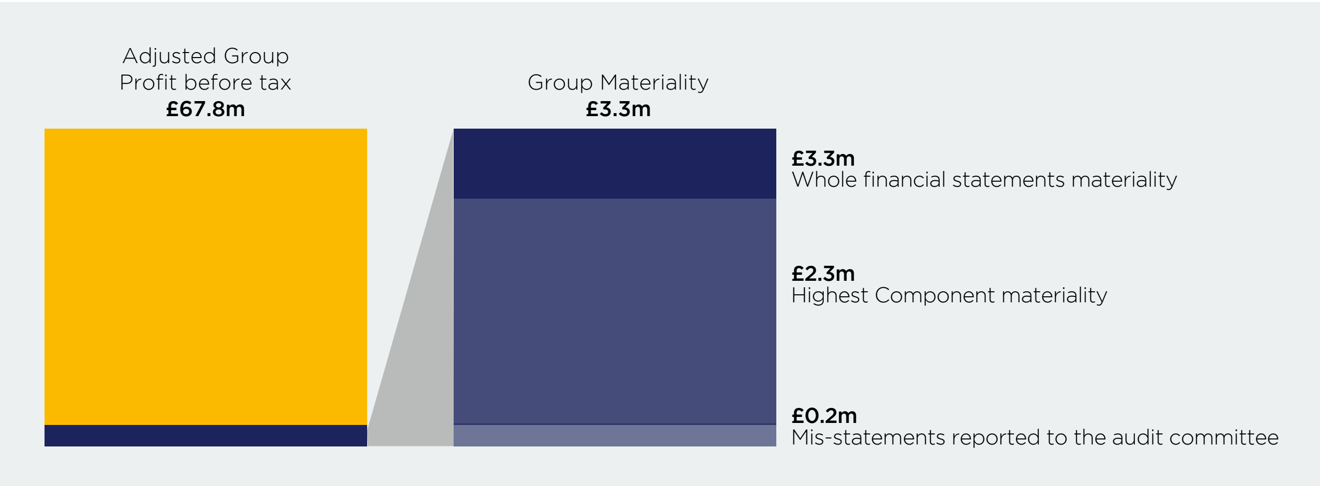
### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £3.3m (2014: £3.1m) determined with reference to a benchmark of underlying Group profit before taxation (adjusted for pension expenses included in non-underlying) of which its represents 4.9% (2014: 5.3%) and 4.2% of Group profit before tax (2014: 4.8%).

We report to the audit committee any corrected and uncorrected identified misstatements exceeding £0.2m (2014: £0.2m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's reporting components, we subjected all thirty-seven to audits for Group reporting purposes. 100% of Group revenue, Group profit before tax and Group total assets have been covered within the scope of our work.

The Group audit team approved the component materiality of £2.3m, having regard to the mix of size and risk profile of the Group across the components. The Group audit team performed all of the audit work in relation to the thirty-seven components.




### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of Viability Statement on page 19, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 December 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

# OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

**6. We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 68, in relation to going concern and long-term viability; and
- the part of the Corporate Governance Statement on pages 37 to 41 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

**We have nothing to report in respect of the above responsibilities.**

# SCOPE OF REPORT AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 69, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Michael Steventon (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
One Snowhill, Snowhill Queensway, Birmingham B4 6GH
16 February 2016

# CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2015*

| | Notes | Underlying £m | Non-Underlying £m | **2015 £m** | Underlying £m | Non-Underlying £m | 2014 £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 2.1 | 4,453.9 | - | **4,453.9** | 4,000.4 | - | 4,000.4 |
| Cost of sales | | (3,905.0) | - | **(3,905.0)** | (3,477.8) | - | (3,477.8) |
| **Gross profit** | | 548.9 | - | **548.9** | 522.6 | - | 522.6 |
| Operating expenses | 2.2 | (448.4) | (4.1) | **(452.5)** | (432.8) | - | (432.8) |
| **Operating profit before other income** | | 100.5 | (4.1) | **96.4** | 89.8 | - | 89.8 |
| Other income - gains on the sale of businesses and property | 2.6 | - | 11.5 | **11.5** | - | 3.2 | 3.2 |
| Other income - gain on disposal of investment | 3.3 | - | 13.8 | **13.8** | - | - | - |
| Other income - dividends received | 3.3 | - | - | **-** | 1.1 | 3.1 | 4.2 |
| **Operating profit** | | 100.5 | 21.2 | **121.7** | 90.9 | 6.3 | 97.2 |
| Finance expense | 4.3 | (30.9) | (12.3) | **(43.2)** | (31.2) | (1.9) | (33.1) |
| Finance income | 4.3 | 0.5 | - | **0.5** | 0.5 | - | 0.5 |
| **Net finance costs** | | (30.4) | (12.3) | **(42.7)** | (30.7) | (1.9) | (32.6) |
| **Profit before taxation** | | 70.1 | 8.9 | **79.0** | 60.2 | 4.4 | 64.6 |
| Income tax (expense) / credit | 2.7 | (17.0) | 10.9 | **(6.1)** | (15.3) | 0.5 | (14.8) |
| **Profit for the year** | | 53.1 | 19.8 | **72.9** | 44.9 | 4.9 | 49.8 |

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic earnings per share | 2.8 | 5.0p | 3.5p |
| Diluted earnings per share | 2.8 | 5.0p | 3.4p |

| **Non GAAP measure:** | Notes | 2015 | 2014 |
|---|---|---|---|
| Underlying basic earnings per share | 2.8 | **3.7p** | 3.1p |
| Underlying diluted earnings per share | 2.8 | **3.6p** | 3.1p |

The notes on pages 80 to 138 form part of these financial statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2015*

| | Notes | **2015 £m** | 2014 £m |
|---|---|---|---|
| **Profit for the year** | | **72.9** | 49.8 |
| | | | |
| **Other comprehensive income** | | | |
| Items that will never be reclassified to profit and loss: | | | |
| Defined benefit plan remeasurement gains and (losses) | 5.1 | **22.4** | (24.0) |
| Income tax relating to defined benefit plan remeasurement gains and (losses) | 2.7 | **(5.5)** | 4.8 |
| | | **16.9** | (19.2) |
| | | | |
| Items that are or may be reclassified to profit and loss: | | | |
| Fair value gains on investments reclassified to profit and loss | 3.3 | **(14.0)** | 14.0 |
| Foreign currency translation differences of foreign operations | | **0.4** | 0.3 |
| | | **(13.6)** | 14.3 |
| | | | |
| **Other comprehensive income for the year, net of tax** | | **3.3** | (4.9) |
| **Total comprehensive income for the year** | | **76.2** | 44.9 |

The notes on pages 80 to 138 form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2015*

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Translation reserve £m | Retained earnings £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 72.8 | 56.8 | 2.5 | 12.6 | (0.6) | 195.8 | **339.9** |
| **Total comprehensive income for 2015** | | | | | | | |
| Profit for the year | - | - | - | - | - | 72.9 | **72.9** |
| Other comprehensive income for the year, net of tax | - | - | - | - | 0.4 | 2.9 | **3.3** |
| **Total comprehensive income for the year** | - | - | - | - | 0.4 | 75.8 | **76.2** |
| Issue of ordinary shares (note 4.4) | 0.2 | - | - | - | - | (0.2) | **-** |
| Dividends paid (note 4.5) | - | - | - | - | - | (17.4) | **(17.4)** |
| Own shares acquired | - | - | - | - | - | (7.6) | **(7.6)** |
| Own shares issued under share schemes | - | - | - | - | - | 1.4 | **1.4** |
| Share based payments | - | - | - | - | - | 2.0 | **2.0** |
| Income tax relating to share based payments | - | - | - | - | - | 0.6 | **0.6** |
| **Balance at 31 December 2015** | 73.0 | 56.8 | 2.5 | 12.6 | (0.2) | 250.4 | **395.1** |

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Translation reserve £m | Retained earnings £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | 71.9 | 56.8 | 2.5 | 12.6 | (0.9) | 162.3 | **305.2** |
| **Total comprehensive income for 2014** | | | | | | | |
| Profit for the year | - | - | - | - | - | 49.8 | **49.8** |
| Other comprehensive income for the year, net of tax | - | - | - | - | 0.3 | (5.2) | **(4.9)** |
| **Total comprehensive income for the year** | - | - | - | - | 0.3 | 44.6 | **44.9** |
| Issue of ordinary shares (note 4.4) | 0.9 | - | - | - | - | (0.5) | **0.4** |
| Dividends paid (note 4.5) | - | - | - | - | - | (8.6) | **(8.6)** |
| Own shares acquired | - | - | - | - | - | (4.7) | **(4.7)** |
| Own shares issued under share schemes | - | - | - | - | - | 1.0 | **1.0** |
| Share based payments | - | - | - | - | - | 1.5 | **1.5** |
| Income tax relating to share based payments | - | - | - | - | - | 0.2 | **0.2** |
| **Balance at 31 December 2014** | 72.8 | 56.8 | 2.5 | 12.6 | (0.6) | 195.8 | **339.9** |

The notes on pages 80 to 138 form part of these financial statements

# CONSOLIDATED BALANCE SHEET

*At 31 December 2015*

| | Notes | **2015 £m** | 2014 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 3.2 | **352.7** | 312.0 |
| Goodwill | 3.1 | **360.8** | 365.4 |
| Other intangible assets | 3.1 | **5.8** | 6.1 |
| Investments | 3.3 | **-** | 24.0 |
| Deferred tax assets | 2.7 | **11.5** | 23.9 |
| **Total non-current assets** | | **730.8** | 731.4 |
| **Current assets** | | | |
| Inventories | 3.5 | **830.6** | 676.1 |
| Trade and other receivables | 3.7 | **134.5** | 117.9 |
| Cash and cash equivalents | 4.2 | **138.8** | 91.4 |
| Assets classified as held for sale | 3.4 | **16.2** | 11.6 |
| **Total current assets** | | **1,120.1** | 897.0 |
| **Total assets** | | **1,850.9** | 1,628.4 |
| **Current liabilities** | | | |
| Trade and other payables | 3.8 | **(1,050.9)** | (884.1) |
| Deferred income | 3.10 | **(32.9)** | (26.2) |
| Current tax payable | | **(9.2)** | (33.0) |
| Provisions | 3.9 | **(5.0)** | (2.5) |
| **Total current liabilities** | | **(1,098.0)** | (945.8) |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 4.2 | **(218.4)** | (200.2) |
| Trade and other payables | 3.8 | **(41.6)** | (31.0) |
| Deferred income | 3.10 | **(50.1)** | (41.6) |
| Retirement benefit obligations | 5.1 | **(43.4)** | (66.4) |
| Provisions | 3.9 | **(4.3)** | (3.5) |
| **Total non-current liabilities** | | **(357.8)** | (342.7) |
| **Total liabilities** | | **(1,455.8)** | (1,288.5) |
| **Net assets** | | **395.1** | 339.9 |
| **Capital and reserves** | | | |
| Called up share capital | 4.4 | **73.0** | 72.8 |
| Share premium account | 4.4 | **56.8** | 56.8 |
| Capital redemption reserve | 4.4 | **2.5** | 2.5 |
| Other reserves | 4.4 | **12.6** | 12.6 |
| Translation reserve | 4.4 | **(0.2)** | (0.6) |
| Retained earnings | | **250.4** | 195.8 |
| **Total equity attributable to equity shareholders of the Company** | | **395.1** | 339.9 |

Approved by the Board of directors on 16 February 2016 and signed on its behalf by:

**T G Finn**
Chief Executive

**T P Holden**
Finance Director

Registered Company Number: 2304195

The notes on pages 80 to 138 form part of these financial statements

# CONSOLIDATED CASH FLOW STATEMENT

*Year ended 31 December 2015*

| | Notes | **2015 £m** | 2014 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **72.9** | 49.8 |
| Adjustment for taxation | | **6.1** | 14.8 |
| Adjustment for net financing expense | | **42.7** | 32.6 |
| Adjustment for dividend received | | **-** | (4.2) |
| | | **121.7** | 93.0 |
| Depreciation and amortisation | | **25.3** | 27.0 |
| Share based payments | | **2.0** | 1.5 |
| Profit on sale of businesses and property | | **(11.5)** | (3.2) |
| Gain on disposal of investment | | **(13.8)** | - |
| Impairment of assets held for sale | | **0.9** | 1.0 |
| Reversal of impairment of assets held for sale | | **-** | (1.0) |
| Changes in inventories | 3.5 | **(109.1)** | (60.1) |
| Changes in trade and other receivables | | **(16.9)** | (15.1) |
| Changes in trade and other payables | | **148.4** | 83.5 |
| Changes in retirement benefit obligations | | **(2.9)** | (2.9) |
| Changes in provisions | | **3.3** | 0.2 |
| Movement in contract hire vehicle balances | 3.6 | **(21.8)** | (17.5) |
| **Cash generated from operations** | | **125.6** | 106.4 |
| Taxation paid | | **(22.3)** | (8.3) |
| Interest received | | **0.5** | 0.5 |
| Interest paid | | **(29.3)** | (29.5) |
| **Net cash from operating activities** | | **74.5** | 69.1 |
| | | | |
| **Cash flows from investing activities** | | | |
| Dividends received | 3.3 | **-** | 4.2 |
| Proceeds from sale of businesses | 6.2 | **21.2** | 1.1 |
| Purchase of property, plant, equipment and intangible assets | 3.1, 3.2 | **(136.9)** | (96.7) |
| Proceeds from sale of property, plant and equipment | 3.1, 3.2 | **80.8** | 65.6 |
| Proceeds from sale of investments | 3.3 | **23.8** | - |
| **Net cash used in investing activities** | | **(11.1)** | (25.8) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds on issue of shares (net of costs paid) | | **-** | 0.4 |
| Dividends paid to shareholders | | **(17.4)** | (8.6) |
| Own shares acquired | | **(7.6)** | (4.7) |
| Own shares issued under share schemes | | **1.4** | 1.0 |
| Proceeds from issue of bond and loans | | **7.6** | 1.6 |
| **Net cash outflow from financing activities** | | **(16.0)** | (10.3) |
| | | | |
| **Net increase in cash and cash equivalents** | | **47.4** | 33.0 |
| Cash and cash equivalents at 1 January | | **91.4** | 58.4 |
| **Cash and cash equivalents at 31 December** | 4.2 | **138.8** | 91.4 |

The notes on pages 80 to 138 form part of these financial statements

# RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 2015 £m | 2014 £m |
|---|---|---|
| Net increase in cash and cash equivalents | **47.4** | 33.0 |
| Proceeds from issue of bond and loans (net of directly attributable transaction costs) | **(7.6)** | (1.6) |
| Non-cash movements | **(10.6)** | (0.6) |
| Decrease in net debt in the year | **29.2** | 30.8 |
| Opening net debt | **(108.8)** | (139.6) |
| **Closing net debt** | **(79.6)** | (108.8) |

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

The notes on pages 80 to 138 form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2015 or later years. To facilitate the understanding of each note to the financial statements those accounting policies that are relevant to a particular category are presented within the relevant notes.

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2015 comprise the company and its subsidiaries and the Group's interest in jointly controlled entities, together referred to as the "Group".

The Group financial statements have been prepared and approved by the directors in accordance with international accounting standards, being the International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

The company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 139 to 150.

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention and where other bases are applied these are identified in the relevant accounting policy in the notes below.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational Review sections on pages 12 to 15 and pages 30 to 31. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review section on pages 32 to 34. In addition, note 4.2 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

At 31 December 2015, there are undrawn available facilities and, as highlighted in note 4.2 to the financial statements, the Group meets its day to day working capital requirements through bank, manufacturer and third party vehicle financing facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next three years. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Accounting estimates and judgements

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 critical estimates and judgements applicable to the financial statements:

- note 2.7 - tax liability and recognition of deferred tax assets
- note 3.1 - key assumptions used in discounted cash flows for impairment testing
- note 3.5 - assessment of fair value of inventories
- note 5.1 - measurement of defined benefit obligations

## SECTION 1 - BASIS OF PREPARATION

### Basis of consolidation

The consolidated financial statements include the financial statements of Pendragon PLC, all its subsidiary undertakings, investments and the Group's share of its joint venture under the equity accounting method. Consistent accounting policies have been applied in the preparation of all such financial statements including those of the joint venture.

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments
Investments in entities in which the Group has no control are stated at their fair value.

Joint ventures
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities net assets and profit after tax, on an equity accounted basis, from the date joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation
Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the entity.

### Foreign currencies

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SECTION 1 - BASIS OF PREPARATION

### 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.

### Impairment

The carrying amounts of the Group's assets, other than inventories (see note 3.5) and deferred tax assets (see note 2.7), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other groups of assets ('the cash generating unit'). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash generating units. Management have determined that the cash generating units of the Group are the motor franchise groups and other business segments.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of assets is the greater of their 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 an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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.

## SECTION 1 - BASIS OF PREPARATION

**Adoption of new and revised standards and new standards and interpretations not yet adopted**

In the current year, the Group has adopted the following new standards and interpretations:

IAS 19: Defined Benefit Plans: Employee Contributions – this clarifies the treatment of contributions from employees or third parties.

Annual improvements to IFRSs - 2010-2012 Cycle, including changes to IFRS 2 Share-based payment – definition of 'vesting condition', IFRS 3 Business combinations – classification and measurement of contingent consideration, IFRS 8 Operating segments – disclosures on the aggregation of operating segments, IFRS 13 Fair value measurement – measurement of short-term receivables and payables, IAS 16 Property, plant and equipment and IAS 38 Intangible assets – restatement of accumulated depreciation (amortisation) on revaluation and IAS 24 Related party disclosures – definition of 'related party'.

The adoption of the new standards and amendments above have had no significant impact.

The following standards have been published, endorsed by the EU, and available for early adoption but have not yet been applied by the Group in these financial statements:

Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation.

Amendments to IAS 27 - Equity Method in Separate Financial Statements.

Annual Improvements to IFRSs – 2012-2014 Cycle, including changes to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in method for disposal, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits – Discount rate in a regional market sharing the same currency and IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'.

Disclosure Initiative – Amendments to IAS 1

The above standards are not expected to have a significant impact on the financial statements of the Group.

## SECTION 2 - RESULTS AND TRADING

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



### 2.1 Revenue

**Accounting policy**

Revenue from the sale of goods is recognised in the income statement, net of discounts, when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts have been supplied or when service has been completed. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to time expended on services that are charged on a labour rate basis.

Where vehicles are supplied to a leasing company for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the significant risks and rewards of ownership are 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 IAS 17 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company 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 IAS 17 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. Revenue also comprises commissions receivable for arranging vehicle finance.

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 (see note 3.10).

Rental income from property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from property is recognised as rents received in net operating expenses.

### 2.2 Net operating expenses

| | **2015 £m** | 2014 £m |
|---|---|---|
| Net operating expenses: | | |
| Distribution costs | **(247.7)** | (238.8) |
| Administrative expenses | **(209.2)** | (197.8) |
| Rents received | **4.4** | 3.8 |
| | **(452.5)** | (432.8) |

### 2.3 Operating segments

The Group has seven reportable segments, as described below, which are the Group's strategic business units. The segments offer different ranges of products and services and are managed separately because they require their own specialisms in terms of market and product. For each of these segments, the Executive Committee which is deemed to be the Chief Operating Decision Maker (CODM), reviews internal management reports on at least a monthly basis. The review of these

## SECTION 2 - RESULTS AND TRADING

### 2.3 Operating segments *continued*

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 program or working capital allocation. The following summary describes the operations in each of the Group's reportable segments:

**Stratstone** This segment comprises the Group's premium vehicles, truck and commercial vans brand encompassing the sale of new and used motor cars, motorbikes, trucks and vans, together with associated aftersales activities of service, body repair and parts sales.

**Evans Halshaw** This segment comprises the Group's volume brand encompassing the sale of new and used motor vehicles and commercial vans, together with associated aftersales activities of service, body repair and parts sales.

**California** 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.

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

**Quickco** This segment comprises the Group's wholesale parts distribution businesses.

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

**Central** This segment represents the Group's head office function and includes all central activities including directors, finance, HR, marketing, central procurement and call centre and property management.

The tables of financial performance presented in the Operational and Financial Review on pages 30 to 34 are based upon these segmental reports with the exception that the result of the Central segment is allocated across the other operational segments. A reconciliation of this allocation is presented within the tables below.

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

**Change in reporting structure**

The Group has revised its reporting segments. In January 2015 the Group re-organised its management and reporting structure. The significant change was that the Quicks used car operation was brought under the management of the Evans Halshaw operation and this is reflected in the internal reporting structure as presented to the Chief Operating Decision Maker. In these financial statements therefore the Quicks segment is no longer reported separately. The results of the Quicks segment for the comparative period has been aggregated into the Evans Halshaw segment and is restated as follows for the year ended 31 December 2014:

| | As Reported 31 December 2014 Evans Halshaw £m | Quicks £m | **Evans Halshaw Segment As Restated £m** |
|---|---|---|---|
| **Revenue from external customers** | 2,070.3 | 49.6 | **2,119.9** |
| | | | |
| **Operating profit before non underlying items** | 38.1 | (2.2) | **35.9** |
| Finance expense | (3.0) | (0.4) | **(3.4)** |
| **Segmental profit before tax** | 35.1 | (2.6) | **32.5** |
| | | | |
| **Reconciliation to tables in the Segmental Results Section** | | | |
| Operating profit before non-underlying items as above | 38.1 | (2.2) | **35.9** |
| Allocation of central overheads | (5.5) | - | **(5.5)** |
| **Result as presented in the Segmental Results tables** | 32.6 | (2.2) | **30.4** |
| | | | |
| Depreciation | (11.1) | (0.2) | **(11.3)** |
| Amortisation | (0.9) | - | **(0.9)** |

## SECTION 2 - RESULTS AND TRADING

**2.3 Operating segments** *continued*

Year ended 31 December 2015

| | Stratstone £m | Evans Halshaw £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|
| Aftersales revenue | 127.1 | 149.4 | 27.4 | - | - | - | - | **303.9** |
| Used vehicle revenue | 693.0 | 1,060.6 | 67.7 | - | - | - | - | **1,821.3** |
| New vehicle revenue | 851.0 | 1,205.2 | 162.4 | - | - | - | - | **2,218.6** |
| Support businesses revenue | - | - | - | 49.1 | 72.0 | 22.8 | - | **143.9** |
| Total gross segment revenue | 1,671.1 | 2,415.2 | 257.5 | 49.1 | 72.0 | 22.8 | - | **4,487.7** |
| Inter-segment revenue | - | - | - | (14.9) | (8.7) | (10.2) | - | **(33.8)** |
| Revenue from external customers | 1,671.1 | 2,415.2 | 257.5 | 34.2 | 63.3 | 12.6 | - | **4,453.9** |
| | | | | | | | | |
| Operating profit before non-underlying items | 41.2 | 51.2 | 10.4 | 4.4 | 2.1 | 9.0 | (17.8) | **100.5** |
| Non-underlying items | - | - | - | - | - | - | 21.2 | **21.2** |
| Operating profit | 41.2 | 51.2 | 10.4 | 4.4 | 2.1 | 9.0 | 3.4 | **121.7** |
| Finance expense | (3.0) | (2.7) | (0.6) | - | - | - | (36.9) | **(43.2)** |
| Finance income | - | - | - | 0.1 | 0.1 | 0.3 | - | **0.5** |
| Segmental profit before tax | 38.2 | 48.5 | 9.8 | 4.5 | 2.2 | 9.3 | (33.5) | **79.0** |
| | | | | | | | | |
| Reconciliation to tables in Operational Review | | | | | | | | |
| Operating profit before non-underlying items (as above) | 41.2 | 51.2 | 10.4 | 4.4 | 2.1 | 9.0 | (17.8) | **100.5** |
| Allocation of central overheads | (7.7) | (9.2) | - | (0.3) | (0.3) | (0.3) | 17.8 | **-** |
| Result as presented in Operational Review tables | 33.5 | 42.0 | 10.4 | 4.1 | 1.8 | 8.7 | - | **100.5** |

The results presented in the Operational Review are stated after the allocation of the costs incurred in the Central segment. This approach is not used as an internal measure of performance evaluation but is adopted to give an indication as to the overall contribution each operating segment makes to the Group and offers a consistent approach to that adopted in previous years to shareholders and the market as a whole.

## SECTION 2 - RESULTS AND TRADING

**2.3 Operating segments** *continued*

Year ended 31 December 2015

| | Stratstone £m | Evans Halshaw £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|
| Other items included in the income statement are as follows: | | | | | | | | |
| Depreciation and impairment | (6.4) | (11.0) | (1.5) | (25.8) | (0.1) | (0.4) | - | **(45.2)** |
| Amortisation | (0.2) | (0.3) | - | - | - | (1.7) | - | **(2.2)** |
| Share based payments | (1.1) | (0.9) | - | - | - | - | - | **(2.0)** |
| Impairment of assets held for sale | - | - | - | - | - | - | (0.9) | **(0.9)** |
| Other income - gains on the sale of businesses, property and investments | - | - | - | - | - | - | 25.3 | **25.3** |

**SECTION 2 - RESULTS AND TRADING**

**2.3 Operating segments** *continued*

Year ended 31 December 2014

| | Stratstone £m | Evans Halshaw £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|
| Aftersales revenue | 132.5 | 147.4 | 23.1 | - | - | - | - | **303.0** |
| Used vehicle revenue | 683.2 | 925.0 | 61.2 | - | - | - | - | **1,669.4** |
| New vehicle revenue | 775.4 | 1,047.5 | 119.7 | - | - | - | - | **1,942.6** |
| Support businesses revenue | - | - | - | 37.1 | 72.6 | 21.2 | - | **130.9** |
| Total gross segment revenue | 1,591.1 | 2,119.9 | 204.0 | 37.1 | 72.6 | 21.2 | - | **4,045.9** |
| Inter-segment revenue | - | - | - | (14.9) | (20.3) | (10.3) | - | **(45.5)** |
| Revenue from external customers | 1,591.1 | 2,119.9 | 204.0 | 22.2 | 52.3 | 10.9 | - | **4,000.4** |
| Operating profit before non-underlying items | 41.8 | 35.9 | 8.6 | 5.9 | 2.4 | 9.0 | (12.7) | **90.9** |
| Non-underlying items | - | - | - | - | - | - | 6.3 | **6.3** |
| Operating profit | 41.8 | 35.9 | 8.6 | 5.9 | 2.4 | 9.0 | (6.4) | **97.2** |
| Finance expense | (2.9) | (3.4) | (0.6) | - | - | - | (26.2) | **(33.1)** |
| Finance income | - | - | - | - | 0.1 | 0.4 | - | **0.5** |
| Segmental profit before tax | 38.9 | 32.5 | 8.0 | 5.9 | 2.5 | 9.4 | (32.6) | **64.6** |
| Reconciliation to tables in Operational Review | | | | | | | | |
| Operating profit before non-underlying items (as above) | 41.8 | 35.9 | 8.6 | 5.9 | 2.4 | 9.0 | (12.7) | **90.9** |
| Allocation of central overheads | (6.3) | (5.5) | - | (0.3) | (0.3) | (0.3) | 12.7 | **-** |
| Result as presented in Operational Review tables | 35.5 | 30.4 | 8.6 | 5.6 | 2.1 | 8.7 | - | **90.9** |

**2.3 Operating segments** *continued*

Year ended 31 December 2014

| | Stratstone £m | Evans Halshaw £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|
| Other items included in the income statement are as follows: | | | | | | | | |
| Depreciation and impairment | (8.8) | (11.3) | (1.5) | (26.4) | (0.1) | (0.3) | - | **(48.4)** |
| Amortisation | (0.9) | (0.9) | - | - | - | - | - | **(1.8)** |
| Share based payments | (0.8) | (0.7) | - | - | - | - | - | **(1.5)** |
| Impairment of assets held for sale | - | - | - | - | - | - | (1.0) | **(1.0)** |
| Reversal of impairment on assets classified as held for sale | - | - | - | - | - | - | 1.0 | **1.0** |
| Other income - dividends received | - | - | - | - | - | - | 4.2 | **4.2** |
| Other income - losses on the sale of businesses and property | - | - | - | - | - | - | 3.2 | **3.2** |

**Geographical information.**

All segments, with the exception of California in the United States originate in the United Kingdom.  The California segment has non-current assets of £17.0m (2014: £17.3m).

## SECTION 2 - RESULTS AND TRADING

### 2.4 Staff costs

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

| | **2015 Number** | 2014 Number |
|---|---|---|
| Sales | **2,896** | 2,803 |
| Aftersales | **4,441** | 4,298 |
| Administration | **2,316** | 2,242 |
| | **9,653** | 9,343 |

Costs incurred in respect of these employees were:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Wages and salaries | **259.4** | 243.0 |
| Social security costs | **24.1** | 22.7 |
| Contributions to defined contribution plans (see note 5.1) | **5.3** | 5.1 |
| Cost recognised for defined benefit plans (see note 5.1) | **2.3** | 1.9 |
| Share based payments (see note 4.6) | **2.0** | 1.5 |
| | **293.1** | 274.2 |

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 48 to 62.

### 2.5 Audit fees

| Auditors' remuneration: | **2015 £000** | 2014 £000 |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts: | **203.8** | 212.4 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Audit of the company's subsidiaries pursuant to legislation | **225.1** | 162.1 |
| Audit-related assurance services | **45.0** | 45.0 |
| Tax compliance services | **60.7** | 60.7 |
| Tax advisory services | **65.7** | 83.6 |
| Other assurance services | **10.0** | 10.0 |
| | **610.3** | 573.8 |

SECTION 2 - RESULTS AND TRADING

**2.6 Non-underlying items (before tax)**

Non-underlying income and expenses are items that have non-trading attributes due to their size, nature or incidence.

| | **2015 £m** | 2014 £m |
|---|---|---|
| Within operating expenses: | | |
| Increase in VAT assessment provision | **(3.2)** | - |
| Impairment of assets held for sale | **(0.9)** | (1.0) |
| Reversal of impairment on assets classified as held for sale (see note 3.4) | **-** | 1.0 |
| | **(4.1)** | - |
| Within other income - gains on the sale of businesses, property and investments: | | |
| Gains on the sale of businesses | **10.9** | 0.1 |
| Gains on the sale of property | **0.6** | 3.1 |
| Gain on disposal of investment | **13.8** | - |
| | **25.3** | 3.2 |
| Within other income - dividends received: | | |
| Dividends received | **-** | 3.1 |
| Within finance expense: | | |
| Net interest on pension scheme obligations | **(2.3)** | (1.9) |
| Refinancing charge | **(10.0)** | - |
| | **(12.3)** | (1.9) |
| **Total non-underlying items (before tax)** | **8.9** | 4.4 |

## SECTION 2 - RESULTS AND TRADING

**2.6 Non-underlying items (before tax)** *continued*

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

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was an impairment charge against assets held for sale tangible fixed assets of £0.9m during the year (2014: £1.0m). 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 (2014: £1.0m).

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 non trading attribute of this amount. A net expense of £2.3m has been recognised during the year (2014: £1.9m).

Other income, being the profit on disposal of businesses, property and investments, comprises a £10.9m profit on the disposal of motor vehicle dealerships (2014: £0.1m), a £0.6m profit on sale of properties (2014: £3.1m). On 28 January 2015, King Arthur Holdings S.a.r.L disposed of its only subsidiary company, King Arthur Properties S.a.r.L. The Group received £23.8m in total in respect of dividends and the repayment of share capital resulting in a £13.8m gain on the disposal of investments (2014: £nil).

During the previous year the Group received dividend income from its investment in King Arthur Holdings S.a.r.L of £4.2m. Of this £3.1m was deemed to be non-underlying in nature as the income related to a distribution of profits the company made on disposal of some of its investment properties and cash released following its refinancing, rather than that earned from the rental of those properties. No such income was received in the current year.

The Group has made a provision in the year of £3.8m in respect of potential VAT issues arising from purchases of vehicles from Motability, the settlement of which is expected to be concluded in the forthcoming year. The brought forward provision of £0.6m, in respect of VAT issues arising from sales to finance companies, was released in the year resulting in a total net expense of £3.2m (2014: £nil).

As at 31 December 2015, the Company had a reasonable expectation that it would sign a £240.0m 5-year committed bank facility with a club of existing and new banks, and a £60.0m 7-year debt private placement to refinance and replace early its £175.0m 6.875% bonds due 2020 and existing bank facility. As a result of this expectation, the existing drawn bank and bond facilities carrying amounts have been recalculated to reflect the earler repayment, resulting in a non-underlying charge for this period of £10.0m. This comprises the premium payable upon early repayment of the bonds of £7.8m and the write-off of the previously carried amortising costs of £2.2m.

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 equity, in which case it is recognised in equity.

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, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### 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.

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.

## SECTION 2 - RESULTS AND TRADING

### 2.7 Taxation *continued*

#### Taxation - Income statement

| | 2015 £m | 2014 £m |
|---|---|---|
| UK corporation tax: | | |
| Current tax on profit for the year | **4.2** | 7.0 |
| Adjustments in respect of prior periods | **(8.1)** | 1.3 |
| | **(3.9)** | 8.3 |
| Overseas taxation: | | |
| Current tax on profit for the year | **3.9** | 3.2 |
| Adjustments in respect of prior periods | **(0.2)** | 0.3 |
| | **3.7** | 3.5 |
| Total current tax | **(0.2)** | 11.8 |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | **6.3** | 2.6 |
| Benefit of tax losses recognised | **-** | 0.4 |
| Total deferred tax | **6.3** | 3.0 |
| Total income tax expense in the income statement | **6.1** | 14.8 |

Factors affecting the tax charge for the period:
The tax assessed is different from the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)
The differences are explained below:

| | 2015 £m | 2014 £m |
|---|---|---|
| Profit before taxation | **79.0** | 64.6 |
| Tax on profit at UK rate of 20.25% (2014: 21.50%) | **16.0** | 13.9 |
| Differences: | | |
| Tax effect of expenses that are not deductible in determining taxable profit | **0.2** | 0.3 |
| Permanent differences arising in respect of fixed assets | **0.4** | 1.0 |
| Dividend income | **-** | (0.2) |
| Unrecognised losses | **-** | 0.1 |
| Tax rate differential on overseas income | **2.1** | 1.5 |
| Non-underlying items (see below) | **(12.7)** | (1.5) |
| Impact of UK corporation tax rate change | **0.4** | (0.4) |
| Adjustments to tax charge in respect of previous periods | **(0.3)** | 0.1 |
| Total income tax expense in the income statement | **6.1** | 14.8 |

**2.7 Taxation** *continued*

### Taxation - Other comprehensive income

| | 2015 £m | 2014 £m |
|---|---|---|
| Relating to defined benefit plan remeasurement (gains) and losses | **(5.5)** | 4.8 |
| | **(5.5)** | 4.8 |

### Tax rate

On 8 July 2015, the Chancellor stated his intention to reduce the main rate of UK corporation tax to 19% from 1 April 2017 and a further reduction to 18% from 1 April 2020. These additional rate reductions were substantively enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on the expected long term rate of 18% substantively enacted at the balance sheet date.

### Factors affecting the tax charge

The tax charge / credit is decreased / increased by the release of prior year provisions relating to UK corporation tax returns and also non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

### Non-underlying tax credit / charge

The tax credit in relation to non-underlying items referred to in note 2.6 was £10.9m (2014: tax charge £0.5m). This includes a tax credit of £7.1m (2014: £nil) relating to the settlement of certain historic tax issues, £0.6m in respect of tax relief on business disposals and £2.0m in respect of financing charges arising on the recalculation of the carrying value of the Group's bond as set out in note 4.2. The majority of the non-underlying income relates to either the receipt of tax free income or chargeable gains covered by historic capital losses.

### Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £20.1m (2014: £20.1m) 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 of £57.0m (2014: £70.0m).

### Deferred tax assets / (liabilities)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Deferred tax assets | **13.2** | 25.1 |
| Deferred tax liabilities | **(1.7)** | (1.2) |
| | **11.5** | 23.9 |

## 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 2014 £m | (Charged) to consolidated income statement £m | Credited / (charged) to equity £m | **At 31 December 2014 £m** |
|---|---|---|---|---|
| Property, plant and equipment | 3.6 | (0.3) | - | **3.3** |
| Retirement benefit obligations | 8.8 | (0.2) | 4.8 | **13.4** |
| Other short term temporary differences | 8.4 | (2.1) | (0.6) | **5.7** |
| Losses | 1.9 | (0.4) | - | **1.5** |
| Tax assets / (liabilities) | 22.7 | (3.0) | 4.2 | **23.9** |

| | At 1 January 2015 £m | (Charged) to consolidated income statement £m | (Charged) to equity £m | **At 31 December 2015 £m** |
|---|---|---|---|---|
| Property, plant and equipment | 3.3 | (4.5) | - | **(1.2)** |
| Retirement benefit obligations | 13.4 | - | (5.5) | **7.9** |
| Other short term temporary differences | 5.7 | (1.7) | (0.6) | **3.4** |
| Losses | 1.5 | (0.1) | - | **1.4** |
| Tax assets / (liabilities) | 23.9 | (6.3) | (6.1) | **11.5** |

## 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 Company by the weighted average number of ordinary shares in issue during the period. 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, LTIPs and share warrants.

| **Earnings per share calculation** | **2015 Earnings per share pence** | **2015 Earnings total £m** | 2014 Earnings per share pence | 2014 Earnings total £m |
|---|---|---|---|---|
| Basic earnings per share | **5.0** | **72.9** | 3.5 | 49.8 |
| Adjusting items: | | | | |
| Non-underlying items attributable to the parent (see note 2.6) | **(0.6)** | **(8.9)** | (0.4) | (4.4) |
| Tax effect of non-underlying items | **(0.7)** | **(10.9)** | - | (0.5) |
| Underlying earnings per share (Non GAAP measure) | **3.7** | **53.1** | 3.1 | 44.9 |
| | | | | |
| Diluted earnings per share | **5.0** | **72.9** | 3.4 | 49.8 |
| Diluted earnings per share - underlying (Non GAAP measure) | **3.6** | **53.1** | 3.1 | 44.9 |

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

| | **2015 Number** | 2014 Number |
|---|---|---|
| Weighted average number of ordinary shares in issue | **1,445.6** | 1,428.6 |
| Weighted average number of dilutive shares under option | **14.0** | 27.0 |
| Weighted average number of shares in issue taking account of applicable outstanding share options | **1,459.6** | 1,455.6 |
| Non-dilutive shares under option | **20.2** | 15.7 |

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

## 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

#### 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. Goodwill is then held in the balance sheet at cost less any accumulated impairment losses.

Adjustments are applied to bring the accounting policies of the acquired businesses into alignment with those of the Group. The costs associated with reorganising or restructuring are charged to the post acquisition income statement. For those acquisitions made prior to 1 January 2004, goodwill is recorded on the basis of its deemed cost which represented its carrying value as at 1 January 2004 under UK GAAP. Fair value adjustments are made in respect of acquisitions. If at the balance sheet date the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

Internally generated intangible assets relate to activities that involve the development of dealer management systems by the Group's Pinewood division. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of labour and overhead costs that are directly attributable to preparing the asset for its intended use. If the development expenditure does not meet the above criteria it is expensed to the income statement.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses and is amortised over a period of five years.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and any impairment losses. This category of asset includes purchased computer software and internally generated intangible assets which are amortised by equal instalments over four years and the fair value of the benefit of forward sales orders assumed on acquisition, which is amortised by reference to when those orders are delivered.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets arising on an acquisition are recognised separately from goodwill if the fair value of the asset can be identified separately and measured reliably. Amortisation is calculated on a straight line basis over the estimated useful life of the intangible asset. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

**Activity**

| | Goodwill £m | Development costs £m | Other intangibles £m | **Total £m** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2014 | 435.8 | 8.8 | 14.1 | **458.7** |
| Additions | - | 1.9 | 1.0 | **2.9** |
| Other disposals | - | - | (0.3) | **(0.3)** |
| At 31 December 2014 | 435.8 | 10.7 | 14.8 | **461.3** |
| At 1 January 2015 | 435.8 | 10.7 | 14.8 | **461.3** |
| Additions | - | 2.4 | 0.8 | **3.2** |
| Disposals of businesses | (4.6) | - | - | **(4.6)** |
| Other disposals | - | - | (3.9) | **(3.9)** |
| At 31 December 2015 | 431.2 | 13.1 | 11.7 | **456.0** |
| **Amortisation** | | | | |
| At 1 January 2014 | 70.4 | 5.1 | 12.8 | **88.3** |
| Amortised during the year | - | 1.5 | 0.3 | **1.8** |
| Other disposals | - | - | (0.3) | **(0.3)** |
| At 31 December 2014 | 70.4 | 6.6 | 12.8 | **89.8** |
| At 1 January 2015 | 70.4 | 6.6 | 12.8 | **89.8** |
| Amortised during the year | - | 1.6 | 0.6 | **2.2** |
| Other disposals | - | - | (2.6) | **(2.6)** |
| At 31 December 2015 | 70.4 | 8.2 | 10.8 | **89.4** |
| **Carrying amounts** | | | | |
| At 1 January 2014 | 365.4 | 3.7 | 1.3 | **370.4** |
| At 31 December 2014 | 365.4 | 4.1 | 2.0 | **371.5** |
| At 1 January 2015 | 365.4 | 4.1 | 2.0 | **371.5** |
| At 31 December 2015 | 360.8 | 4.9 | 0.9 | **366.6** |

The following have been recognised in the income statement within net operating expenses:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Amortisation of internally generated intangible assets | **1.6** | 1.5 |
| Amortisation of other intangible assets | **0.6** | 0.3 |
| Research and development costs | **0.7** | 0.5 |

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

Goodwill is allocated across multiple cash-generating units which are franchise groups and other business units and consequently a consistent approach in assessing the carrying value of this amount is taken. This value was 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 from 2016 to 2019. These forecasts are based on key assumptions for the aftersales, used and new sectors. The aftersales sector has been forecast based on assumptions for the nearly new car parc (the key market segment for the business). The used sector forecast is based on modest underlying growth in the used car market. The new sector forecast is based on a weighted average assumption for the new car market growth rates from the Society of Motor Manufacturers and Traders, British Car Motor Auctions and University of Buckingham data and consideration of the new car recovery profile from historical data. For each of these sectors the forecast assumption is that gross margins will be stable. These forecasts have been approved by the directors and form the basis of the growth assumptions for future cash flows from 2016 to 2019. The growth rates are considered to be at or below long term market trends for the Group's business.

It is anticipated that the units will grow revenues in the future. For the purpose of the impairment testing, a growth rate of 2.4% (2014: 3.0%) has been assumed beyond the business plan.

The 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. With all units carrying a goodwill value operating in the UK and in the motor retail or related sector a single pre-tax discount rate of 10.3% has been applied (2014: 10.3%).

Neither a 1% increase in the discount rate or a 2% reduction in the post business plan growth rate would result in any additional impairment being required.

Movements of the principal CGUs are summarised in the table below:

| | BMW £m | Ford £m | Mercedes £m | Vauxhall £m | Others £m | **Total £m** |
|---|---|---|---|---|---|---|
| At 1 January 2014 and at 31 December 2014 | 32.1 | 71.6 | 47.8 | 77.8 | 136.1 | **365.4** |
| | | | | | | |
| At 1 January 2015 | 32.1 | 71.6 | 47.8 | 77.8 | 136.1 | **365.4** |
| Disposals | - | - | - | - | (4.6) | **(4.6)** |
| At 31 December 2015 | 32.1 | 71.6 | 47.8 | 77.8 | 131.5 | **360.8** |

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.1 Intangible assets and goodwill *continued*

#### Goodwill by segment

| | 2015 £m | 2014 £m |
|---|---|---|
| Stratstone | **127.1** | 131.7 |
| Evans Halshaw | **210.7** | 210.7 |
| Quickco | **0.7** | 0.7 |
| Pinewood | **0.3** | 0.3 |
| Contract Hire | **22.0** | 22.0 |
| | **360.8** | 365.4 |

In 2008 goodwill impairments in respect of Land Rover and USA of £12.3m and £14.0m respectively were made. Whilst the reversal of an impairment loss is not recognised in subsequent periods, since 2010, the cash flow projections of both the Land Rover CGU and USA CGU have indicated that, if permitted, the impairments could have been reversed.

### 3.2 Property, plant and equipment

#### Accounting policy

Freehold land is not depreciated. Depreciation is provided to write off the cost less the estimated residual value of other assets by equal instalments over their estimated useful economic lives. On transition to IFRS as at 1 January 2004, all land and buildings were restated to fair value as permitted by IFRS 1, which is then treated as the deemed cost. All other assets are initially measured and recorded at cost.

Depreciation rates are as follows:

- Freehold buildings – 2% per annum
- Leasehold property improvements – 2% per annum or over the period of the lease if less than 50 years
- Fixtures, fittings and office equipment – 10 – 20% per annum
- Plant and machinery – 10 – 33% per annum
- Motor vehicles – 20 – 25% per annum
- Contract hire vehicles are depreciated to their residual value over the period of their lease

The residual value of all assets, depreciation methods and useful economic lives, if significant, are reassessed annually.

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

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

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

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

| | Land & buildings £m | Plant & equipment £m | Motor vehicles £m | Contract hire vehicles £m | **Total £m** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 199.7 | 62.8 | 39.0 | 124.2 | **425.7** |
| Additions | 20.8 | 8.4 | 64.6 | 47.1 | **140.9** |
| Exchange adjustments | 1.2 | 0.3 | - | - | **1.5** |
| Disposals of businesses | (0.3) | (0.2) | (0.1) | - | **(0.6)** |
| Other disposals | (9.3) | (5.5) | (59.0) | - | **(73.8)** |
| Contract hire vehicles transferred to inventory | - | - | - | (32.0) | **(32.0)** |
| Classified as non-current assets held for sale | (8.1) | - | - | - | **(8.1)** |
| Reinstated from non-current assets held for sale | 5.7 | - | - | - | **5.7** |
| At 31 December 2014 | 209.7 | 65.8 | 44.5 | 139.3 | **459.3** |
| | | | | | |
| At 1 January 2015 | 209.7 | 65.8 | 44.5 | 139.3 | **459.3** |
| Additions | 26.8 | 11.4 | 95.5 | 65.3 | **199.0** |
| Exchange adjustments | 1.2 | 0.3 | - | - | **1.5** |
| Disposals of businesses | (5.7) | (2.6) | - | - | **(8.3)** |
| Other disposals | - | (4.9) | (83.1) | - | **(88.0)** |
| Contract hire vehicles transferred to inventory | - | - | - | (50.4) | **(50.4)** |
| Classified as non-current assets held for sale | (12.3) | - | - | - | **(12.3)** |
| Reinstated from non-current assets held for sale | 1.0 | - | - | - | **1.0** |
| At 31 December 2015 | 220.7 | 70.0 | 56.9 | 154.2 | **501.8** |
| | | | | | |
| **Depreciation** | | | | | |
| At 1 January 2014 | 38.4 | 43.9 | 9.1 | 38.6 | **130.0** |
| Exchange adjustments | 0.3 | 0.3 | - | - | **0.6** |
| Charge for the year | 11.5 | 6.6 | 7.1 | 23.2 | **48.4** |
| Disposals of businesses | (0.1) | (0.1) | - | - | **(0.2)** |
| Other disposals | (6.4) | (4.5) | (5.9) | - | **(16.8)** |
| Contract hire vehicles transferred to inventory | - | - | - | (16.3) | **(16.3)** |
| Classified as non-current assets held for sale | (0.9) | - | - | - | **(0.9)** |
| Reinstated from non-current assets held for sale | 2.5 | - | - | - | **2.5** |
| At 31 December 2014 | 45.3 | 46.2 | 10.3 | 45.5 | **147.3** |
| | | | | | |
| At 1 January 2015 | 45.3 | 46.2 | 10.3 | 45.5 | **147.3** |
| Exchange adjustments | 0.3 | 0.3 | - | - | **0.6** |
| Charge for the year | 5.2 | 6.8 | 11.1 | 22.1 | **45.2** |
| Disposals of businesses | (0.7) | (2.0) | - | - | **(2.7)** |
| Other disposals | - | (4.5) | (8.3) | - | **(12.8)** |
| Contract hire vehicles transferred to inventory | - | - | - | (26.4) | **(26.4)** |
| Classified as non-current assets held for sale | (2.1) | - | - | - | **(2.1)** |
| At 31 December 2015 | 48.0 | 46.8 | 13.1 | 41.2 | **149.1** |

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

**Carrying amounts**

| | Land & buildings £m | Plant & equipment £m | Motor vehicles £m | Contract hire vehicles £m | **Total £m** |
|---|---|---|---|---|---|
| At 1 January 2014 | 161.3 | 18.9 | 29.9 | 85.6 | **295.7** |
| At 31 December 2014 | 164.4 | 19.6 | 34.2 | 93.8 | **312.0** |
| At 1 January 2015 | 164.4 | 19.6 | 34.2 | 93.8 | **312.0** |
| At 31 December 2015 | 172.7 | 23.2 | 43.8 | 113.0 | **352.7** |

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

| | **Land & buildings £m** |
|---|---|
| **Depreciation** | |
| Charge for the year | **-** |
| **Carrying amounts** | |
| At 31 December 2014 | **0.1** |
| At 31 December 2015 | **0.1** |

| | **2015 £m** | 2014 £m |
|---|---|---|
| Building projects currently under construction for which no depreciation has been charged during the year | **8.0** | 4.7 |
| Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment | **1.7** | 10.0 |
| Cumulative interest charges capitalised as construction costs and included in land and buildings | **1.4** | 0.9 |
| The following items have been charged to the income statement as operating expenses during the year: | | |
| Depreciation of property, plant and equipment - owned | **45.2** | 48.4 |

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.3 Investments

#### Accounting policy

Investments other than held-to-maturity debt securities are classified as either fair value through profit and loss or available for sale and are measured at subsequent reporting dates at fair value. Fair value changes in respect of financial assets held as available for sale are recognised through other comprehensive income.

The equity securities represented a 5.8% holding in King Arthur Holdings S.a.r.L. On 28 January 2015, King Arthur Holdings S.a.r.L disposed of its only subsidiary company, King Arthur Properties S.a.r.L. resulting in the Group receiving proceeds of £23.8m in respect of the repayment of its investment.

#### Balance sheet

| Investment in King Arthur Holdings S.a.r.L | **2015 £m** | 2014 £m |
|---|---|---|
| At 1 January | **24.0** | 10.0 |
| Fair value gains through other comprehensive income | **-** | 14.0 |
| Fair value gains through other comprehensive income reclassified to profit and loss | **(14.0)** | - |
| Proceeds received | **(23.8)** | - |
| Profit on disposal though profit and loss | **13.8** | - |
| Investment at 31 December | **-** | 24.0 |

No dividend was received in respect of this investment during the year. In the previous period a dividend of £4.2m was received. Of this, £3.1m was deemed to be non-underlying in nature as the income related to a distribution of profits the company made on disposal of some of its investment properties and cash released following its refinancing and £1.1m was in respect of income earned from the rental of properties.

## 3.4 Assets classified as held for sale

### 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.

### Balance sheet

The Group holds a number of freehold and long leasehold properties that are currently being marketed for sale which are expected to be disposed of during 2016.

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.

One property previously classified as held for sale has now been de-classified having been taken off the market to facilitate re-development. This asset has been re-classified as property, plant and equipment at its carrying amount. There were no significant adjustments in the re-instatement for any depreciation that would have been charged had the asset not been classified as held for sale.

These properties form part of central segment assets.

### Income statement

The following items have been credited/(charged) to the income statement during the year:

| | **Income statement category** | **2015 £m** | 2014 £m |
|---|---|---|---|
| Profit on sale of assets classified as held for sale | Other income - gains on the sale of businesses and property | **0.6** | 2.5 |
| Reversal of impairment on assets classified as held for sale | Net operating expenses | **-** | 1.0 |
| Impairment of assets held for sale | Net operating expenses | **(0.9)** | (1.0) |

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £0.5m would have been recognised (2014: £0.8m).

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.5 Inventories

**Accounting policies**

Motor vehicle inventories are stated at the lower of cost and net realisable value. Cost is net of incentives received from manufacturers in respect of target achievements. Fair values are assessed using market research data which is based upon recent industry activity. 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 cash flow arises from these transfers.

**Balance sheet**

| | 2015 £m | 2014 £m |
|---|---|---|
| New and used vehicles | **718.1** | 589.0 |
| Consignment vehicles | **76.3** | 53.5 |
| Vehicle parts and other inventories | **36.2** | 33.6 |
| | **830.6** | 676.1 |

| | 2015 £m | 2014 £m |
|---|---|---|
| Inventories stated at net realisable value | **202.3** | 134.8 |
| Carrying value of inventories subject to retention of title clauses | **763.3** | 493.3 |
| Charge recognised in respect of the movement of inventory provisions | **(5.1)** | (1.9) |

**Cash flow statement information**

| | 2015 £m | 2014 £m |
|---|---|---|
| Movement in inventory | **(154.5)** | (73.6) |
| Inventory changes in business combinations and disposals | **(1.2)** | (0.6) |
| Impact of exchange differences | **(0.2)** | (0.2) |
| Non cash movement in consignment vehicles | **22.8** | (1.4) |
| Transfer value of contract hire vehicles from fixed assets to inventory | **24.0** | 15.7 |
| Cash flow decrease due to movements in inventory | **(109.1)** | (60.1) |

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.6 Movement in contract hire vehicle balances

| | **2015 £m** | 2014 £m |
|---|---|---|
| Depreciation | **22.1** | 23.2 |
| Changes in trade and other payables and deferred income | **22.5** | 8.0 |
| Purchases of contract hire vehicles | **(65.3)** | (47.1) |
| Unwinding of discounts in contract hire residual values | **(1.1)** | (1.6) |
| | **(21.8)** | (17.5) |

### 3.7 Trade and other receivables

**Accounting policies**

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.

**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), cash balances and the Group's former investment in King Arthur Holdings S.a.r.L. 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.

**Balance sheet**

| | **2015 £m** | 2014 £m |
|---|---|---|
| Trade receivables | **62.2** | 52.2 |
| Allowance for doubtful debts | **(0.3)** | (0.3) |
| | **61.9** | 51.9 |
| Other receivables | **55.9** | 46.2 |
| Prepayments | **16.7** | 19.8 |
| | **134.5** | 117.9 |

All amounts are due within one year.

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.7 Trade and other receivables *continued*

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 2015 was £61.9m (2014: £51.9m). No trade receivables have been classified as held for sale (2014: £nil). Receivables of the California segment are £10.0m (2014: £8.6m).

The average credit period taken on sales of goods is 29 days (2014: 29 days). No interest is charged on trade receivables. The Group makes an impairment provision for all debts that are considered unlikely to be collected plus a proportion of all debts over 120 days past their due date. No expense has been recognised in respect of impairment losses during the year (2014: £nil). Any impairment is in respect of items that are aged greater than 120 days.

| **The ageing of trade and other receivables at the reporting date was:** | **Trade receivables 2015 £m** | **Other receivables 2015 £m** | Trade receivables 2014 £m | Other receivables 2014 £m |
|---|---|---|---|---|
| Not past due | **55.3** | **44.7** | 37.2 | 39.6 |
| Past due 0-30 days | **3.8** | **5.6** | 12.0 | 4.0 |
| Past due 31-120 days | **2.7** | **5.6** | 2.5 | 2.6 |
| Past due 120+ days subject to impairment | **0.4** | **-** | 0.5 | - |
| | **62.2** | **55.9** | 52.2 | 46.2 |
| Provision for impairment | **(0.3)** | **-** | (0.3) | - |
| | **61.9** | **55.9** | 51.9 | 46.2 |

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Balance at 1 January and 31 December | **0.3** | 0.3 |

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

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.8 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 impairment losses.

#### Balance Sheet

| | **2015 £m** | 2014 £m |
|---|---|---|
| Trade payables | **808.4** | 678.1 |
| Contract hire buyback commitments | **51.6** | 44.5 |
| Consignment vehicle liabilities | **76.3** | 53.5 |
| Payments received on account | **28.8** | 15.2 |
| Other taxation and social security | **27.8** | 14.0 |
| Accruals | **99.6** | 109.8 |
| | **1,092.5** | 915.1 |
| | | |
| Non-current | **41.6** | 31.0 |
| Current | **1,050.9** | 884.1 |
| | **1,092.5** | 915.1 |

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

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

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

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.9 Provisions

**Accounting policy**

A provision is recognised if as a result of a past event the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that the Group will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Vacant property provision**

A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a lease contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments less any contributions from income derived from the sub-letting of these properties. The present value of future net lease commitments is calculated using a 2% discount rate. It is expected that the majority of this expenditure will be incurred over the next four years. The present value of the income from the sub-leases is £8.8m over the period of the leases and assumes that any sub-let properties will remain so until the end of the sub-lease.

**VAT assessment**

The Group has a provision of £3.8m in respect of potential VAT issues arising from purchases of vehicles from Motability, the settlement of which is expected to be concluded in the forthcoming year. The brought forward provision of £0.6m, in respect of VAT issues arising from sales to finance companies, was released in the year.

The movements in provisions for the year are as follows:

| | Vacant property provision £m | VAT assessment £m | **Total £m** |
|---|---|---|---|
| At 31 December 2014 | 5.4 | 0.6 | **6.0** |
| Provisions made during the year | 2.0 | 3.8 | **5.8** |
| Provisions used during the year | (1.9) | - | **(1.9)** |
| Provisions released during the year | - | (0.6) | **(0.6)** |
| At 31 December 2015 | 5.5 | 3.8 | **9.3** |
| | | | |
| Non-current | 4.3 | - | **4.3** |
| Current | 1.2 | 3.8 | **5.0** |
| | 5.5 | 3.8 | **9.3** |

## SECTION 3 - OPERATING ASSETS AND LIABILITIES

### 3.10Deferred Income

#### Property leases

The Group entered into a sale and leaseback arrangement in December 2006 with its joint venture company PPH0 Limited, in which a number of properties were disposed of generating total proceeds of £250.1m. The arrangement entitled PPH0 Limited to lease back those properties to the Group over a period of 25 years, a factor resulting in the Group receiving a consideration in excess of the deemed fair value as at the date of disposal, when measured under an open market valuation in accordance with IFRS. The proceeds received were estimated to be greater than the fair value of the properties by £17.8m and as required by IAS 17 'Leases' this excess over fair value is deferred and will be amortised over the period of the leases. In addition, the leases include fixed rental increases. During 2013 PPH0 Limited sold its interests in all of its properties to King Arthur Properties S.a.r.L. who have subsequently sold all their property interests to an external third party in January 2015. However the terms of the leases remain unchanged for the Group and therefore there is no change in the recognition of the deferred income in respect of these leases.

#### 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. Warranty provision relates to used car service contracts taken out by the customers. If any of the provisions becomes onerous, a provision would be made in the accounts.

#### Contract hire

Vehicles supplied to a leasing company for contract hire purposes where the Group undertakes to repurchase the vehicle at a predetermined date are accounted for in accordance with IAS 17 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 company are allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term.

| | Property leases £m | Warranty policies £m | Contract hire £m | **Total £m** |
|---|---|---|---|---|
| At 31 December 2014 | 15.2 | 6.0 | 46.6 | **67.8** |
| Created in the year | - | 2.9 | 17.6 | **20.5** |
| Recognised as income during the year | (0.6) | (2.5) | (2.2) | **(5.3)** |
| At 31 December 2015 | 14.6 | 6.4 | 62.0 | **83.0** |
| | | | | |
| Non-current | 13.9 | 1.7 | 34.5 | **50.1** |
| Current | 0.7 | 4.7 | 27.5 | **32.9** |
| | 14.6 | 6.4 | 62.0 | **83.0** |

## 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

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expires. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled. Financial instruments comprise both derivative and non-derivative financial instruments.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

**Investment in equity** - see note 3.3

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

**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.

**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.

In the case of a debt renegotiation where the existing and new terms are substantially different the exchange shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is recognised in profit or loss. Any costs or fees incurred in the refinancing are recognised as part of the gain or loss on extinguishment. If an exchange is not accounted for as an extinguishment, any fees or costs incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.1 Accounting policies *continued*

**Trade and other payables** - see note 3.8

**Hedging instruments**

The Group holds hedging instruments to hedge currency risks arising from its activities. Hedging instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the income statement. However, the treatment of gains or losses arising from hedging instruments which qualify for hedge accounting depends on the type of hedge arrangement. The fair value of hedging instruments is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date. The only hedging instrument held by the Group at the balance sheet date was its borrowing in USD to hedge its investment in overseas operations. A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

### 4.2 Financial instruments and derivatives

**Net Debt**

| | **2015 £m** | 2014 £m |
|---|---|---|
| Cash and cash equivalents | **138.8** | 91.4 |
| Non-current interest bearing loans and borrowings | **(218.4)** | (200.2) |
| | **(79.6)** | (108.8) |

**Cash and cash equivalents**

Bank balances and bank overdrafts set out below are stated net of legal rights of set-off resulting from pooling arrangements operated by individual banks.

| | **Carrying value & fair value 2015 £m** | Carrying value & fair value 2014 £m |
|---|---|---|
| Bank balances and cash equivalents | **138.8** | 91.4 |

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

**Borrowings**

As at 31 December 2015, the Group had a £105.0m credit facility and a £175.0m issued bond, expiring as set out below:

| Revolving credit facility | Expiry date | £m |
|---|---|---|
| | December 2016 | **16.25** |
| | June 2017 | **88.75** |
| Revolving credit facility | | **105.00** |
| Bond | May 2020 | **175.00** |
| | | **280.00** |

As at 31 December 2015, the Company had a reasonable expectation that it would sign a £240.0m 5-year committed bank facility with a club of existing and new banks, and a £60.0m 5.75% 7-year debt private placement to refinance and replace early its £175.0m 6.875% bonds due 2020 and existing bank facility. The bond has originally been recorded at its fair value of proceeds received of £175.0m less directly attributable issue costs of £3.9m. These costs have been amortised over the expected life of the bond to date resulting in an amortisation charge of £0.6m per annum. At 31 December 2015, as a result of the refinancing, the carrying value of the bond has been recalculated to reflect its an additional payment as compensation for loss of interest in 2016 with the resulting difference of £10.0m charged to profit and loss account for the year as a non-underlying finance expense. This comprises the premium payable upon early repayment of the bonds and the write-off of the previously carried amortising costs. The fees and expenses associated with the new debt of approximately £2.5m will be amortised over the expected life of the facility commencing in 2016.

The margin on the new bank facility is less than on the one it replaces, and the covenant package is more favourable to the Company. In addition, the new debt is unsecured, whereas the debt it replaces was secured.

The revolving credit facility has been recorded initially at its fair value of the proceeds received.

| | Current margin | Commitment (non-utilisation) fee |
|---|---|---|
| Revolving credit facility | 2.25% | 0.90% |
| Bond | 6.875% | n/a |

The margin on the revolving credit facility was initially 3.50%, but after 31 December 2013 reduced as the ratio of net debt to underlying EBITDA (after stocking interest) falls. At 31 December 2015, the margin had already reduced to its lowest possible level of 2.25%, consequent on the Group having achieved a ratio of less than 1.0. The commitment fee is calculated at 40% of the margin. The interest rate in respect of the bond is a fixed rate of 6.875% until maturity.

The revolving credit facility is subject to performance covenants with respect to debt : underlying EBITDA, fixed charge cover and net capital expenditure. The bond is subject to incurrence covenants only i.e. the Group is only permitted certain acts in certain circumstances. The main incurrence covenants relate to the incurrence of further debt, the making of certain restricted payments and the making of certain asset sales provided required thresholds are met (for example, provided a minimum fixed charge coverage ratio is achieved).

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

## 4.2 Financial instruments and derivatives *continued*

### Security

Both the revolving credit facility and the bond are secured and rank pari-passu. The security granted is over certain of its assets, not subject to any other arrangements, comprising property, plant and equipment of £195.9m, trade and other receivables of £117.8m and bank accounts of £124.4m.

### Summary of Borrowings

| | **Carrying value 2015 £m** | **Fair value 2015 £m** | Carrying value 2014 £m | Fair value 2014 £m |
|---|---|---|---|---|
| Non-current: | | | | |
| Bank borrowings | **33.9** | **33.9** | 26.3 | 26.3 |
| 6.875% bond 2020 | **182.8** | **182.8** | 172.2 | 181.0 |
| Other loan notes | **0.2** | **0.2** | 0.2 | 0.2 |
| Finance leases | **1.5** | **1.5** | 1.5 | 1.5 |
| Total non-current | **218.4** | **218.4** | 200.2 | 209.0 |
| Total Borrowings | **218.4** | **218.4** | 200.2 | 209.0 |

### 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 fair value of the bond has been determined by a Level 1 valuation method. The revolving credit facility has been measured by a Level 2 valuation method. The fair value disclosed in the table above represents the bond at its market price of 104.46p at 31 December 2015 (2014: 103.44p).

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The effective interest rates for all borrowings are all based on LIBOR for the relevant currency, except for the 6.875% bond 2020, which is at a fixed rate. Finance leases are effectively held at fixed rates of interest within the range set out below. Information regarding classification of balances and interest, the range of interest rates applied in the year to 31 December 2015 and repricing periods, is set out in the table below.

| | Classification | Carrying value £m | Classification | Interest classification | Interest rate range | Effect of interest rate and currency swaps | Swapped interest rate range | Repricing periods |
|---|---|---|---|---|---|---|---|---|
| Bank balances and cash equivalents | Loans and receivables | **138.8** | Amortised cost | Floating GBP | 0.35% - 1.88% | n/a | n/a | 6 months or less |
| **Borrowings** | | | | | | | | |
| Non - current: | | | | | | | | |
| Bank borrowings | Other financial liabilities | **33.9** | Amortised cost | Floating USD | 2.40% - 3.67% | n/a | n/a | 6 months or less |
| 6.875% bond 2020 | Other financial liabilities | **182.8** | Amortised cost | Fixed GBP | 6.875% | n/a | n/a | n/a |
| Other loan notes | Other financial liabilities | **0.2** | Amortised cost | Fixed GBP | 12.50% | n/a | n/a | n/a |
| Finance leases | Other financial liabilities | **1.5** | Amortised cost | Fixed GBP | 6.00% - 7.93% | n/a | n/a | n/a |
| Total non-current | | **218.4** | | | | | | |
| Total borrowings | | **218.4** | | | | | | |

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Pound sterling | **184.5** | 173.9 |
| US dollar | **33.9** | 26.3 |
| | **218.4** | 200.2 |

**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 on the failure of a customer or counterparty to meet its obligations to the Group as they fall due

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 on the following pages.

### 4.2 Financial instruments and derivatives *continued*

#### Treasury policy and procedures

Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity, interest rate and foreign exchange exposure. Management of these areas is the responsibility of the Group's central treasury function. Hedging financial instruments are utilised to reduce exposure to movements in foreign exchange rates. The Board does not permit the speculative use of derivatives.

#### Funding and liquidity management

The Group is financed primarily by its issued bond, revolving credit facility, vehicle stocking credit lines and operating cash flow. Committed facilities mature within appropriate timescales, are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the Group.

Each business within the Group is responsible for its own day to day cash management and the overall cash position is monitored on a daily basis by the Group treasury department.

The maturity of non-current borrowings is as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Between 1 and 2 years | **33.9** | - |
| Between 2 and 5 years | **182.8** | 26.3 |
| Over 5 years | **1.7** | 173.9 |
| | **218.4** | 200.2 |

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

| | Carrying amount | Contractual cashflows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Bank borrowings | 33.9 | 36.3 | 0.9 | 0.8 | 34.6 | - | - |
| Secured bond | 182.8 | 229.1 | 6.0 | 6.0 | 12.0 | 205.1 | - |
| Loan notes | 0.2 | 0.5 | - | - | - | 0.1 | 0.4 |
| Finance leases | 1.5 | 6.4 | 0.1 | 0.1 | 0.1 | 0.3 | 5.8 |
| | 218.4 | 272.3 | 7.0 | 6.9 | 46.7 | 205.5 | 6.2 |

The Group has the following undrawn borrowing facilities:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Expiring in less than one year | **-** | 20.0 |
| Expiring in more than one year but not more than two years | **71.1** | 16.3 |
| Expiring in more than two years | **-** | 62.5 |
| | **71.1** | 98.8 |

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

#### Interest rate risk management

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash-flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not actively manage cash flow interest rate risk as the Board believes that the retail sector in which the Group operates provides a natural hedge against interest rate movements. Consequently, it is normal Group policy to borrow on a floating rate basis and all fair value interest rate risk arising from fixed rate borrowings entered into by the Group are usually managed by swaps into floating rate. However, the Group has decided on a deviation from this policy in respect of the 6.875% bond 2020. This bond has been issued at a fixed rate of interest and, due to the historically low rates in current floating interest rates, there is relatively low downside risk in maintaining the bond at fixed rate.

#### Interest rate risk sensitivity analysis

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

| | **Profit / (loss) 2015 £m** | Profit / (loss) 2014 £m |
|---|---|---|
| 100 bps increase | **(6.6)** | (5.1) |
| Tax effect | **1.3** | 1.1 |
| Effect on net assets | **(5.3)** | (4.0) |
| | | |
| 100 bps decrease | **6.6** | 5.1 |
| Tax effect | **(1.3)** | (1.1) |
| Effect on net assets | **5.3** | 4.0 |

#### Foreign exchange risk management

The Group faces currency risk in respect of its net assets denominated in currencies other than sterling. On translation into sterling, movements in currency will affect the value of these assets. The Group's policy is therefore to match, where possible, net assets in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. The Group has therefore borrowed USD 50.0m (2014: USD 41.0m) against its net assets held in overseas subsidiaries.

**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.

| | **2015 $m** | 2014 $m |
|---|---|---|
| Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries | **50.0** | 41.0 |

| | **2015 £m** | 2014 £m |
|---|---|---|
| Foreign exchange losses on translation of borrowings to sterling at balance sheet date | **(1.6)** | (2.3) |
| Foreign exchange gains on translation of net investments to sterling at balance sheet date | **2.0** | 2.6 |
| Net exchange gain recognised within translation reserve in equity | **0.4** | 0.3 |

### Capital management

The Group views its financial capital resources as primarily comprising share capital, issued bond, bank loans, vehicle stocking credit lines and operating cashflow.

Core debt i.e. total debt required to fund the Group's Debt : underlying EBITDA target of 1.0 to 1.5, is essentially funded by the Group's issued Bond. The Group requires its revolving credit facility to fund its day to day working capital requirements. A fundamental element of the Group's financial resources revolves around the provision of vehicle and parts stocking credit lines, usually provided by the vehicle manufacturers funding arms, but also by other third party providers. The Group's funding of its vehicle and parts inventories is set out below:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Manufacturer finance arm | **544.7** | 439.4 |
| Third party stock finance | **218.6** | 180.9 |
| Bank | **67.3** | 55.8 |
| Total inventories | **830.6** | 676.1 |

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the vehicle manufacturers through their related finance arms and that funded through third party stock finance facilities and bank borrowings. Financing for stock other than through bank borrowings is shown in trade creditors in the balance sheet. Manufacturers' finance arms tend to vary the level of finance facilities offered dependent on the amount of stocks their manufacturer wishes to put into the network and this varies depending on the time of year and the level of production.

The Group is also responsible for funding the pension deficit. As part of this requirement, the Group provides the pension scheme with an investment which generates a predictable property asset-backed income for up to 20 years to 2031. This asset backed arrangement is reflected in the pension deficit disclosed below. The total financial resources required by the Group to fund itself at 31 December 2015 comprises:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Net debt | **79.6** | 108.8 |
| Stock finance | **763.3** | 620.3 |
| Pension deficit | **43.4** | 66.4 |
| | **886.3** | 795.5 |

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group, to grow organically and service its debt requirements through generating cash flow. The Group had set a debt : underlying EBITDA target range of 1.0 to 1.5 : 1. At 31 December 2015 the debt : underlying EBITDA ratio achieved was 0.5 : 1, calculated as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Underlying operating profit | **100.5** | 90.9 |
| Depreciation | **45.2** | 48.4 |
| Amortisation | **2.2** | 1.8 |
| Underlying EBITDA | **147.9** | 141.1 |
| | | |
| Debt (being net debt as set out above) | **79.6** | 108.8 |
| | | |
| Debt : underlying EBITDA Ratio | **0.5** | 0.8 |

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2015 and 2014 are set out below:

| | **2015** | 2014 |
|---|---|---|
| Underlying profit before tax (£m) | **70.1** | 60.2 |
| Underlying Earnings per Share (p) | **3.7** | 3.1 |
| Debt : underlying EBITDA | **0.5** | 0.8 |

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.2 Financial instruments and derivatives *continued*

The Group has from time to time repurchased its own shares in the market and cancelled them. There is no predetermined plan for doing this although the Group has permission from shareholders to buy back up to 10% of its equity at any one time. The Group has in the past used profits made on surplus property sales to purchase its own shares and cancel them in order to promote growth in earnings per share. In the near term, the Group expects not to follow this strategy but instead to use proceeds from the sales of surplus properties to reinvest in the business. 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 schemes and group-wide sharesave schemes from time to time.

Certain of the company'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.

### 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 | **2015 £m** | 2014 £m |
|---|---|---|
| Interest payable on bank borrowings, bond and loan notes | **14.5** | 15.0 |
| Vehicle stocking plan interest | **15.7** | 14.6 |
| Interest payable on finance leases | **0.1** | 0.1 |
| Net interest on pension scheme obligations (non-underlying - see note 2.6) | **2.3** | 1.9 |
| Interest on refinancing (non-underlying - see note 2.6) | **10.0** | - |
| Less: interest capitalised | **(0.5)** | (0.1) |
| Total interest expense being interest expense in respect of financial liabilities held at amortised cost | **42.1** | 31.5 |
| Unwinding of discounts in contract hire residual values | **1.1** | 1.6 |
| Total finance expense | **43.2** | 33.1 |

Interest of £0.5m has been capitalised during the year on assets under construction at an average rate of 6.88% (2014: £nil).

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.3 Net financing costs *continued*

#### Finance income

| Recognised in profit and loss | **2015 £m** | 2014 £m |
|---|---|---|
| Interest receivable on bank deposits | **0.5** | 0.5 |
| Total finance income | **0.5** | 0.5 |

### 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 2014 | 1,455,320,656 | **72.8** |
| Issued during the year | 5,000,000 | **0.2** |
| Allotted, called up and fully paid shares of 5p each at 31 December 2015 | 1,460,320,656 | **73.0** |

During the year 5,000,000 (2014: 6,600,000) ordinary new shares were issued at nominal value to the Employee Benefit Trust for a consideration of £0.2m (2014: £0.4m).

During 2014, 9,648,277 ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing in 2009. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 1,857,805 in settlement of consideration of £0.6m.

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

#### Capital redemption reserve

The capital redemption reserve has arisen following the purchase by the company 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.

#### Other reserves

Other reserves comprise the amount of demerger reserve arising on the demerger of the company from Williams Holdings PLC in 1989.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

**4.4 Capital and reserves** *continued*

**Own shares held by Employee Benefit Trust (EBT)**

Transactions of the Group-sponsored EBT trust are included in the Group 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 re-issued the resulting surplus or deficit on the transaction is also recognised within retained earnings.

The market value of the investment in the company's own shares at 31 December 2015 was £5.6m (2014: £4.1m), being 11.2m (2014: 11.7m) shares with a nominal value of 5p each, acquired at an average cost of £0.32 each (2014: £0.30). During the year the trust acquired 24.1m (2014: 21.0m) shares for a consideration of £7.8m (2014: £4.7m) and disposed of 24.6m (2014: 22.1m) shares in respect of LTIP and executive share option awards for a consideration of £1.4m (2014: £1.0m). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2015 was £15.3m (2014: £8.9m). The trustee of the EBT is Salamanca Group Trust (Jersey) Limited, formerly Investec 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 48 to 62.

Dividends on the shares owned by the trust, the purchase of which were funded by interest free loans to the trust from Pendragon PLC, are waived. All expenses incurred by the trust are settled directly by Pendragon PLC and charged in the accounts as incurred.

The trust is regarded as a quasi subsidiary and its assets and results are consolidated into the financial statements of the Group.

**Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the net investment in foreign operations as well as from the translation of liabilities held to hedge the respective net investment in foreign operations.

**4.5 Dividends**

Final dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised when they are paid.

| | **2015 £m** | 2014 £m |
|---|---|---|
| Ordinary shares | | |
| Final dividend in respect of 2014 of 0.6p per share (2013: 0.3p per share) | **8.7** | 4.3 |
| Interim dividend in respect of 2015 of 0.6p per share (2014: 0.3p per share) | **8.7** | 4.3 |
| | **17.4** | 8.6 |

The Board is recommending a final dividend for 2015 of 0.7p (2014: 0.6p) per ordinary share equating to £10.1m (2014: £8.7m) in total.

## 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 2015** | **Number of options millions 2015** | Weighted average exercise price 2014 | Number of options millions 2014 |
|---|---|---|---|---|
| Outstanding at beginning of period | **16.33p** | **20.6** | 16.30p | 31.6 |
| Exercised during the period | **12.63p** | **(10.9)** | 11.11p | (8.6) |
| Lapsed during the period | **10.41p** | **(0.9)** | 32.61p | (6.5) |
| Granted during the period | **39.92p** | **7.6** | 31.82p | 4.1 |
| Outstanding at the end of the period | **29.59p** | **16.4** | 16.33p | 20.6 |
| Exercisable at the end of the period | **12.17p** | **4.9** | 10.52p | 5.4 |

The options outstanding at 31 December 2015 have an exercise price in the range of 8.82 pence to 39.92 pence and a weighted contractual life of 3.8 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 2015 were as follows:

| Exercise period | Date of grant | Exercise price per share | At 31 December 2014 Number | Granted Number | Exercised Number | Lapsed Number | At 31 December 2015 Number |
|---|---|---|---|---|---|---|---|
| 20 September 2013 to 19 September 2020 | 20 September 2010 | 14.22p | 1,685,886 | - | (289,383) | (210,077) | 1,186,426 |
| 7 October 2014 to 6 October 2021 | 6 October 2011 | 8.82p | 3,665,591 | - | (2,075,827) | - | 1,589,764 |
| 31 March 2015 to 30 March 2022 | 30 March 2012 | 13.50p | 11,185,755 | - | (8,515,755) | (500,000) | 2,170,000 |
| 19 September 2017 to 19 September 2024 | 18 September 2014 | 31.82p | 4,050,000 | - | - | (150,000) | 3,900,000 |
| 1 April 2018 to 31 April 2025 | 31 March 2015 | 39.92p | - | 7,575,000 | - | (75,000) | 7,500,000 |
| | | | 20,587,232 | 7,575,000 | (10,885,965) | (935,077) | 16,346,190 |

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation *continued*

On 31 March 2015 options over 7,575,000 ordinary shares of 5p were granted pursuant to the 2009 Executive Option Scheme at an exercise price of 39.92p per share.

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 pre-condition to the exercise of grants made under the 2009 Scheme that the growth in the company'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 39.4p (2014: 30.6p).

All options are settled by physical delivery of shares.

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 2015 is 7.1p (2014: 4.9p).

2009 Executive Scheme

| | **2015** | 2014 |
|---|---|---|
| Number of share options granted in year | **7,575,000** | 4,100,000 |
| Weighted average share price (pence) | **39.92** | 31.82 |
| Weighted average exercise price (pence) | **39.92** | 31.82 |
| Weighted average fair value (pence) | **8.28** | 7.71 |
| Expected volatility (%) | **36.9%** | 41.8% |
| Expected life (years) | **3.0** | 3.0 |
| Risk free rate (%) | **0.86%** | 1.33% |
| Expected dividend yield (%) | **3.0%** | 3.0% |

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 team member turnover.

**Executive Long Term Incentive Plan ("LTIPs")**

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

| | **Weighted average exercise price 2015** | **Number of options millions 2015** | Weighted average exercise price 2014 | Number of options millions 2014 |
|---|---|---|---|---|
| Granted during the period | **0.00p** | **4.7** | - | - |
| Outstanding at the end of the period | **0.00p** | **4.7** | - | - |

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.6 Share based compensation *continued*

Movements in the number of options to acquire ordinary shares under the Group's LTIP, together with the outstanding position at 31 December 2015 were as follows:

| Exercise period | Date of grant | At 31 December 2014 Number | Granted Number | Lapsed Number | At 31 December 2015 Number |
|---|---|---|---|---|---|
| 31 March 2018 | 31 March 2015 | - | 4,650,000 | - | 4,650,000 |

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

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 2015 is 36.5p (2014: nil)

| Executive LTIP Scheme | **2015** | 2014 |
|---|---|---|
| Number of share options granted in year | **4,650,000** | - |
| Weighted average share price (pence) | **0.00** | - |
| Weighted average exercise price (pence) | **0.00** | - |
| Weighted average fair value (pence) | **36.48** | - |
| Expected volatility (%) | **36.9%** | - |
| Expected life (years) | **3.0** | - |
| Risk free rate (%) | **0.86%** | - |
| Expected dividend yield (%) | **3.0%** | - |

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 team member turnover.

The Group recognised a total net expense of £2.0m (2014: £1.5m) as an employee benefit cost in respect of all equity-settled share based payment transactions included within administration costs.

## 4.7 Obligations under finance leases

### Accounting policies

Leases are classified as finance leases wherever the lease transfers substantially all the risks and rewards of ownership to the Group. All other leases are treated as operating leases.

Assets held under finance leases are recorded at inception at the lower of the fair value of the asset and the present value of the minimum payments required to be made under the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is recorded as a finance lease obligation. The finance charge element of rentals paid under these leases is expensed so as to give a constant rate of finance charge on the remainder of the obligation. Finance charges are expensed in the income statement and the capitalised leased asset is depreciated over the shorter of the lease term and the asset's useful economic life.

### Finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Amounts payable under finance leases: | | | | |
| Within one year | **0.1** | 0.1 | **0.1** | 0.1 |
| In the second to fifth years inclusive | **0.4** | 0.4 | **0.3** | 0.3 |
| After five years | **5.6** | 5.7 | **1.1** | 1.1 |
| | **6.1** | 6.2 | **1.5** | 1.5 |
| Less: future finance charges | **(4.6)** | (4.7) | **-** | - |
| Present value of lease obligations | **1.5** | 1.5 | **1.5** | 1.5 |
| | | | | |
| Amount due for settlement within one year | | | **-** | - |
| Amount due for settlement in over one year | | | **1.5** | 1.5 |
| | | | **1.5** | 1.5 |

The Group's obligations under finance leases comprise properties on long term leases with a lease term of between 53 and 78 years. The effective interest rates are shown in note 4.2 above. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

## SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

### 4.8 Operating lease arrangements

Leases are classified as operating leases wherever the lease does not transfer substantially all the risks and rewards of ownership to the Group.

Rentals paid under operating leases are charged directly to the income statement on a straight line basis over the period of the lease. Leases subject to predetermined fixed rental uplifts have their rentals accounted for on a straight line basis recognised over the life of the lease. Lease incentives received and paid are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

**The Group as lessee**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Within one year | **42.0** | 42.6 |
| In the second to fifth years inclusive | **161.7** | 157.4 |
| After five years | **422.2** | 436.3 |
| | **625.9** | 636.3 |

The Group leases a number of properties, the majority of which are motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of the leases includes contingent rentals. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles hired for short term usage, typically as courtesy cars.

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

| | | **2015 £m** | 2014 £m |
|---|---|---|---|
| Operating lease rentals payable | - hire of plant and machinery | **2.9** | 3.1 |
| | - property rentals | **41.1** | 42.8 |

**The Group as lessor**

Property rental income earned during the year was £4.4m (2014: £3.8m). No contingent rents were recognised in income (2014: £nil). The Group currently receives rental income on 31 (2014: 31) properties on short term leases.

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Within one year | **3.9** | 4.0 |
| In the second to fifth years inclusive | **14.6** | 14.3 |
| After five years | **29.3** | 30.2 |
| | **47.8** | 48.5 |

In addition, the Group is a lessor in respect of vehicle sales with committed repurchase terms (see notes 3.8 and 3.10). There are no future minimum lease payments outstanding.

## 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 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 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.

A defined contribution plan is one under which the Group 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.

In accordance with IFRIC 14 surpluses in schemes are recognised as assets only if they represent unconditional economic benefits available to the Group 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 Group support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is an obligation for the Group to pay deficit funding, this is also recognised.

Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2015 there was an outstanding balance of £0.8m (2014: £0.8m) payable to the pension schemes.

**Pension obligations**

The Group operated six defined benefit pension schemes (one of which had a defined contribution section) which closed to future benefits on 30 September 2006 and employees were offered membership of a stakeholder pension arrangement.

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 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.

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

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 composed of two employee, two employer representatives, an independent trustee and an independent chair. 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.

The asset values shown do not include those of the defined contribution sections. 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.

**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.

**Pendragon Group Pension Scheme**

The Scheme's first actuarial valuation was carried out as at 31 December 2012 using the projected unit credit method. At this date the market value of the Scheme's assets relating to the defined benefit section was £409.8m; these assets represented 90.9% of the value of the technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5.0% and the annual rate of pension increases would be between 2.3% - 3.1%. The employer contributions paid to the defined benefit scheme section of the Plan during the year were based upon actuarial advice.

**Stakeholder arrangements**

With effect from April 2006, new contributions to the defined contribution sections of the schemes ceased. For the employees affected the Group offered to pay contributions to a stakeholder arrangement with Friends Provident. This arrangement was also made available to the employees affected by the closure of the defined benefit sections of the schemes on 30 September 2006. A Group Self Invested Personal Pension arrangement with Legal & General replaced the Friends Provident arrangement from 1 January 2010. Total contributions paid by the Group in 2015 to the Legal & General arrangement were £3.0m (2014: £3.0m).

**Automatic enrolment**

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 2015 were £2.3m (2014: £2.1m).

## 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 £34.5m of properties 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 £2.7m to the Pendragon Group Pension Scheme through the Partnership (2014: £2.7m). The pension partnership agreement restricts the ability of the scheme to sell or otherwise transfer its income interest without consent from the Group. As a result the income interest does not meet the criteria for recognition as an IAS 19 plan asset.

#### IAS 19 assumptions

The principal assumptions used by the independent qualified actuaries for the purposes of IAS19 for all schemes were:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Inflation - RPI | **3.10%** | 3.00% | 3.50% |
| Inflation - CPI | **2.10%** | 2.00% | 2.50% |
| Rate of increase in salaries | **n/a** | n/a | n/a |
| Rate of increase to pensions in payment | **2.75%*** | 2.67%* | 3.03% |
| Discount rate | **3.90%** | 3.60% | 4.50% |
| Mortality table assumption ** | **S1PMA CMI 2015 M (1%) / S1PFA CMI 2015 F (1%)** | S1PMA CMI 2013 M (1%) / S1PFA CMI 2013 F (1%) | S1PMA CMI 2013 M (1%) / S1PFA CMI 2013 F (1%) |

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2015 valuation is as follows:

| | |
|---|---|
| RPI to max 5% | 3.10% |
| RPI to max 3% | 2.80% |
| RPI to min 3% to max 5% | 3.40% |
| CPI to max 5% | 2.10% |
| CPI to max 3% | 2.10% |
| CPI to min 3% to max 5% | 3.00% |

During 2010 the Government announced a change to the index to be used for pension increases from RPI to CPI. The change applied to certain elements of pension increases depending on the nature of the pension entitlement, the period in which it was earned and the rules of each scheme. The application of either RPI or CPI to calculate the pension liability has been assessed for each scheme and the relevant elements of pension increases within each scheme.

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

| Assumption | Change in assumption | Impact on scheme liabilities |
|---|---|---|
| Discount rate | Increase / decrease by 0.1% | Decrease / increase of £7.0m |
| Rate of inflation | Increase / decrease by 0.1% | Increase / decrease of £5.5m |
| Mortality | Increase in life expectancy of 1 year | Increase by £12.3m |

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the period ending 31 December 2015 is 16 years (2014: 17 years).

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. 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 would be partially offset by an increase in the value of the scheme's bond holdings. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation.

The assumptions used by the actuary are the best estimates 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 2015 and differ from those used for the earlier independent statutory actuarial valuations explained above.

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

| | **2015 years** | 2014 years | 2013 years |
|---|---|---|---|
| Males aged 45 | **23.0** | 23.3 | 23.3 |
| Females aged 45 | **25.5** | 25.7 | 25.6 |
| Males aged 65 | **21.7** | 22.0 | 21.9 |
| Females aged 65 | **24.0** | 24.2 | 24.1 |

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

**Scheme assets and liabilities**

| | **2015 £m** | 2014 £m | 2013 £m |
|---|---|---|---|
| UK equities | **218.4** | 228.1 | 238.1 |
| Overseas equities | **14.8** | 15.1 | 14.4 |
| Unit trust | **22.4** | 21.8 | 20.6 |
| Corporate bonds | **9.9** | 17.8 | 15.8 |
| Government bonds | **127.3** | 141.3 | 113.7 |
| Cash | **4.1** | 4.6 | 4.8 |
| Fair value of scheme assets | **396.9** | 428.7 | 407.4 |
| Present value of funded defined benefit obligations | **(440.3)** | (495.1) | (450.8) |
| Net liability on the balance sheet | **(43.4)** | (66.4) | (43.4) |

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

None of the fair values of the assets shown above include any of the company's own financial instruments or any property occupied by, or other assets used by, the company. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

It is the policy of the Trustee and the company to review the investment strategy at the time of each funding valuation. 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.

There are no asset-liability matching strategies currently being used by the scheme.

The company have 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 2015 and at 31 December 2014.

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Net liability for defined benefit obligations at 1 January | **(66.4)** | (43.4) |
| Contributions received | **2.9** | 2.9 |
| Expense recognised in the income statement | **(2.3)** | (1.9) |
| Actuarial gains and losses recognised in the statement of other comprehensive income | **22.4** | (24.0) |
| Net liability for defined benefit obligations at 31 December | **(43.4)** | (66.4) |

The Scheme undertook a Flexibility at Retirement exercise during the year, the transactions of which have been treated as a settlement. The value of the settlement cost has been derived as the difference between the value of the IAS 19 liabilities settled and the transfer values paid out as part of the exercise. The cost in the year was £nil.

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

| | **2015 %** | 2014 % |
|---|---|---|
| Deferred plan participants | **60** | 60 |
| Retirees | **40** | 40 |

| | **2015 £m** | 2014 £m |
|---|---|---|
| Actual return on assets | **14.1** | 34.6 |
| Expected contributions in following year | **3.0** | 2.9 |

The expected interest income as at 31 December 2015 was 3.90%. This compares to the discount rate of 3.60% used in the calculation of the interest income for the period ending 31 December 2014.

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

**Total in the income statement**

| | 2015 £m | 2014 £m |
|---|---|---|
| Net interest on obligation | **2.3** | 1.9 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Finance costs | **2.3** | 1.9 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Cumulative amount at 1 January | **(47.6)** | (23.6) |
| Recognised during the period | **22.4** | (24.0) |
| Cumulative amount at 31 December | **(25.2)** | (47.6) |

**Defined benefit (costs) / income recognised in statement of other comprehensive income**

| | 2015 £m | 2014 £m |
|---|---|---|
| Difference between actual and expected interest income on scheme assets | **(0.5)** | 16.5 |
| Experience gain on scheme liabilities | **2.7** | 0.2 |
| Changes in assumptions underlying the present value of scheme obligations | **20.2** | (40.7) |
| | **22.4** | (24.0) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Opening present value of defined benefit obligation | **495.1** | 450.8 |
| Interest cost | **16.9** | 19.9 |
| Remeasurements: | | |
| Experience adjustments | **(2.7)** | (0.2) |
| Actuarial gains due to changes in demographic assumptions | **(4.4)** | - |
| Actuarial losses due to changes in financial assumptions | **(15.8)** | 40.7 |
| Benefits paid | **(26.4)** | (16.1) |
| Liabilities extinguished on settlements | **(22.4)** | - |
| Closing present value of defined benefit obligation | **440.3** | 495.1 |

## SECTION 5 - PENSION SCHEMES

### 5.1 Pension obligations *continued*

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Opening fair value of assets | **428.7** | 407.4 |
| Interest income | **14.6** | 18.0 |
| Return on plan assets, excluding interest income | **(0.5)** | 16.5 |
| Contributions by employer | **2.9** | 2.9 |
| Benefits paid | **(26.4)** | (16.1) |
| Assets distributed on settlements | **(22.4)** | - |
| End of period | **396.9** | 428.7 |

**History of experience adjustments**

| | 2015 £m | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **440.3** | 495.1 | 450.8 | 435.1 | 398.2 |
| Fair value of scheme assets | **396.9** | 428.7 | 407.4 | 405.3 | 395.0 |
| Adjustment in respect of minimum funding requirement and non-recognition of surplus | **-** | - | - | - | (4.8) |
| Deficit in schemes | **43.4** | 66.4 | 43.4 | 29.8 | 8.0 |
| Experience adjustments on scheme liabilities: | | | | | |
| Amount | **(22.9)** | 40.5 | 11.1 | 37.3 | (0.6) |
| Percentage of scheme liabilities (%) | **(5.2%)** | 8.2% | 2.5% | 8.6% | (0.2%) |
| Experience adjustments on scheme assets: | | | | | |
| Amount | **(0.5)** | 16.5 | 34.6 | 11.5 | 3.1 |
| Percentage of scheme liabilities (%) | **(0.1%)** | 3.3% | 7.7% | 2.6% | 0.8% |

## SECTION 6 - OTHER NOTES

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

6.1 Business combinations
6.2 Business disposals
6.3 Related party transactions
6.4 Contingent liabilities and contingent assets

### 6.1 Business combinations

**Accounting policy**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (See Basis of preparation in Section 1 above) . The results of companies and businesses acquired during the year are included from the effective date of acquisition.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
• the fair value of the consideration transferred; plus
• the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
• the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market based value of the replacement awards compared with the market based value of the acquiree's awards and the extent to which the replacement awards relate to past and / or future service.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

## SECTION 6 - OTHER NOTES

### 6.1 Business combinations *continued*

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

**Activity**

There were no business combinations in the current or prior year.

### 6.2 Business disposals

**Accounting policy**

The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

**Activity**

During the year the Group disposed of eight dealerships representing Honda, Jaguar, Land Rover and Vauxhall franchise points.

Net assets at the date of disposal:

| | Net book Value £m |
|---|---|
| Goodwill | **4.6** |
| Property, plant and equipment | **5.6** |
| Inventories | **1.2** |
| Trade and other receivables | **0.1** |
| Trade and other payables | **(1.2)** |
| | **10.3** |
| Profit on sale of businesses | **10.9** |
| Proceeds on sale satisfied by cash and cash equivalents | **21.2** |

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

Proceeds on sale satisfied by cash and cash equivalents for the previous period was £1.1m.

### 6.3 Related party transactions

**Subsidiaries**

The Group's ultimate parent company is Pendragon PLC. A listing of all subsidiaries is shown within the financial statements of the company on page 145.

## SECTION 6 - OTHER NOTES

### 6.3 Related party transactions

**Joint venture**

The Group has a 51% ordinary share capital interest in a joint venture PPHO Limited, whose principal activity was that of a property company. The Group occupied properties owned by PPHO Limited and its group on short term leases until 27 November 2013 when the property assets were sold to King Arthur Properties S.a.r.L. At this point the Group ceased trading with PPHO Limited.

**Investments**

The Group had a 5.8% holding in King Arthur Holdings S.a.r.L whose principal activity was that of a property company, which was sold in January 2015. The Group occupied properties owned by King Arthur Holdings S.a.r.L and its group on short term leases up to the date of the disposal upon which the properties were subsequently leased from a third party landlord.

During the year the Group entered into transactions with its related parties (King Arthur Holdings S.a.r.L) on an arms length basis and has balances outstanding at 31 December as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Rent paid to related parties | - | 17.3 |
| Management fees and sales fees received from related party | - | 0.2 |
| Dividend received from related party | - | 4.2 |
| Property assets acquired from related party | - | 12.9 |

**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 48 to 62.

Directors of the company and their immediate relatives control 3.15% of the ordinary shares of the company.

During the year key management personnel compensation was as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Short term employee benefits | **2.6** | 2.6 |
| Post-employment benefits | **0.2** | 0.2 |
| Share based payments | **1.3** | 1.3 |
| | **4.1** | 4.1 |

### 6.4 Contingent liabilities and contingent assets

In addition to the VAT assessment provision, the Group is in discussion with HM Revenue and Customs over issues which may result in both additional amounts of VAT payable and VAT receivable to be recognised in future periods and although these amounts, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2015 financial statements in respect of these issues.

# COMPANY BALANCE SHEET

*Year ended 31 December 2015*

| | note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 5 | **922.6** | 922.6 |
| Loans to subsidiary undertakings | | **90.0** | 90.0 |
| | | **1,012.6** | 1,012.6 |
| **Current assets** | | | |
| Debtors | 6 | **40.3** | 46.7 |
| Cash at bank and in hand | | **2.0** | 3.1 |
| | | **42.3** | 49.8 |
| **Creditors**: amounts falling due within one year | 7 | **(396.2)** | (444.2) |
| **Net current liabilities** | | **(353.9)** | (394.4) |
| **Total assets less current liabilities** | | **658.7** | 618.2 |
| **Creditors**: amounts falling due after more than one year | 8 | **(216.7)** | (198.5) |
| Retirement benefit obligations | 12 | **(43.4)** | (66.4) |
| **Net assets** | | **398.6** | 353.3 |
| **Capital and reserves** | | | |
| Called up share capital | 11 | **73.0** | 72.8 |
| Share premium account | | **56.8** | 56.8 |
| Capital redemption reserve | | **2.5** | 2.5 |
| Other reserves | | **13.9** | 13.9 |
| Profit and loss account | | **252.4** | 207.3 |
| **Equity shareholders' funds** | | **398.6** | 353.5 |

Approved by the Board of Directors on 16 February 2016 and signed on its behalf by:

**T G Finn**
Chief Executive

**T P Holden**
Finance Director

Registered Company Number : 2304195

The notes on pages 142 to 150 form part of these financial statements.

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2015*

| | 2015 £m | 2014 £m |
|---|---|---|
| **Profit for the year** | **49.0** | 131.4 |
| | | |
| **Other comprehensive income** | | |
| Items that will never be reclassified to profit and loss: | | |
| Defined benefit plan remeasurement gains and (losses) | **24.4** | (22.0) |
| Income tax relating to defined benefit plan remeasurement gains and (losses) | **(5.5)** | 4.8 |
| **Other comprehensive income for the year, net of tax** | **18.9** | (17.2) |
| **Total comprehensive income for the year** | **67.9** | 114.2 |

The notes on pages 142 to 150 form part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2015*

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Retained earnings £m | **Total £m** |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 72.8 | 56.8 | 2.5 | 13.9 | 207.3 | **353.3** |
| **Total comprehensive income for 2015** | | | | | | |
| Profit for the year | - | - | - | - | 49.0 | **49.0** |
| Other comprehensive income for the year, net of tax | - | - | - | - | 18.9 | **18.9** |
| **Total comprehensive income for the year** | - | - | - | - | 67.9 | **67.9** |
| Transactions with owners, recorded directly in equity | | | | | | |
| Issue of ordinary shares | 0.2 | - | - | - | (0.2) | **-** |
| Own shares acquired | - | - | - | - | (7.6) | **(7.6)** |
| Own shares issued under share schemes | - | - | - | - | 1.4 | **1.4** |
| Share based payments | - | - | - | - | 1.3 | **1.3** |
| Income tax relating to share based payments | - | - | - | - | (0.3) | **(0.3)** |
| Dividends paid (see note 4) | - | - | - | - | (17.4) | **(17.4)** |
| Total contributions by and distributions to owners | 0.2 | - | - | - | (22.8) | **(22.6)** |
| **Balance at 31 December 2015** | 73.0 | 56.8 | 2.5 | 13.9 | 252.4 | **398.6** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | 71.9 | 56.8 | 2.5 | 13.9 | 105.0 | **250.1** |
| **Total comprehensive income for 2014** | | | | | | |
| Profit for the year | - | - | - | - | 131.4 | **131.4** |
| Other comprehensive income for the year, net of tax | - | - | - | - | (17.2) | **(17.2)** |
| **Total comprehensive income for the year** | - | - | - | - | 114.2 | **114.2** |
| Transactions with owners, recorded directly in equity | | | | | | |
| Issue of ordinary shares | 0.9 | - | - | - | (0.5) | **0.4** |
| Own shares acquired | - | - | - | - | (4.7) | **(4.7)** |
| Own shares issued under share schemes | - | - | - | - | 1.0 | **1.0** |
| Share based payments | - | - | - | - | 1.3 | **1.3** |
| Income tax relating to share based payments | - | - | - | - | (0.4) | **(0.4)** |
| Dividends paid (see note 4) | - | - | - | - | (8.6) | **(8.6)** |
| Total contributions by and distributions to owners | 0.9 | - | - | - | (11.9) | **(11.0)** |
| **Balance at 31 December 2014** | 72.8 | 56.8 | 2.5 | 13.9 | 207.3 | **353.3** |

The notes on pages 142 to 150 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 1 Accounting policies

**(a) Basis of preparation** Pendragon PLC is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has adopted FRS 101 for the first time. Shareholders approved the adoption of FRS 101 at the AGM on 8 May 2015.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided on pages 149 and 150.

In these financial statements, the Company has applied the exemptions available under FRS 101, and will continue to do so on an ongoing basis, 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;
- An additional balance sheet for the beginning of the earliest comparative period following the adoption of FRS 101;
- Disclosures in respect of the compensation of Key Management Personnel.

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 and in preparing an opening FRS 101 IFRS balance sheet at 1 January 2014 for the purposes of the transition to FRS 101 Adopted IFRSs.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

- notes 6 & 9 - tax liability and recognition of deferred tax assets
- note 12 - retirement benefit obligations

**(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.

1 **Accounting policies** *continued*

**(c) Investments** Investments held as fixed assets are stated at cost less any impairment losses.

**(d) 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.

**(e) 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.

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 with 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.

**(f) 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.

# NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1 **Accounting policies** *continued*

**(g) 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.

**(h) 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**

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit after taxation attributable to the company dealt with in its own accounts for the year ended 31 December 2015 is £49.0m (2014: £131.2m).

3 **Directors**

Total emoluments of directors (including pension contributions) amounted to £2.8m (2014: £2.8m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 48 to 62.

The directors are the only employees of the company.

4 **Dividends**

| | **2015 £m** | 2014 £m |
|---|---|---|
| Ordinary shares | | |
| Final dividend in respect of 2014 of 0.6p per share (2013: 0.3p per share) | **8.7** | 4.3 |
| Interim dividend in respect of 2015 of 0.6p per share (2014: 0.3p per share) | **8.7** | 4.3 |
| | **17.4** | 8.6 |

The Board is recommending a final dividend for 2015 of 0.7p (2014: 0.6p) per ordinary share equating to £10.1m (2014: £8.7m) in total.

5 **Investments**

| | **Shares in subsidiary undetakings £m** |
|---|---|
| At 31 December 2014 and at 31 December 2015 | **922.6** |

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 the Great Britain:**

Alloy Racing Equipment Limited
Bramall Quicks Dealerships Limited
CD Bramall Dealerships Limited
Chatfields Limited
Derwent Vehicles Limited
National Fleet Solutions Limited
Pendragon Vehicle Management Limited
Pendragon Finance & Insurance Services Limited
Pendragon Management Services Limited
Pendragon Motor Group Limited
Pendragon Orient Limited
Pendragon Premier Limited
Pendragon Property Holdings Limited
Pendragon Sabre Limited
Pinewood Technologies PLC *
Pendragon Used Cars Limited
Reg Vardy (MML) Limited
Reg Vardy (VMC) Limited **
Reg Vardy Limited *
Stratstone Limited
Stripestar Limited
Victoria (Bavaria) Limited
Chatfields - Martin Walter Limited
Pendragon Group Services Limited
Pendragon Overseas Limited
Pendragon Stock Limited
Pendragon Stock Finance Limited
Vardy Contract Motoring Limited
Vardy Marketing Limited
Pendragon General Partner Limited
Pendragon Limited Partner Limited
Bramall Quicks Limited
CD Bramall Limited
Evans Halshaw Motors Ltd
Executive Motor Group Limited
Stratstone Motor Holdings Limited
Petrogate Limited
Reg Vardy (Property Management) Limited
Reg Vardy (TMC) Limited
Reg Vardy (TMH) Limited
Evans Halshaw.com Limited
Quicks Motor Stores Limited
Pendragon Automotive Services Limited
Stratstone.com Limited
Vardy (Continental) ltd
Pendragon Group Pension Trustees Limited
Allens (Plymouth) Limited
AMG Limited
Andre Baldet Limited
Archers (Dorridge) Limited
Archers (Shirley) Limited
Arena Auto Limited
Autocity Limited
Automend Limited
Berkhamsted Motor Company Limited
Bletchley Motor Company Limited
Bletchley Motor Contracts Limited
Bletchley Motor Group Limited
Bletchley Motor Rentals Limited
Bletchley Motors Car Sales Limited
Bletchley Properties Limited
Boxmoor Motors Limited
Bramall Contracts Limited
Bramall Laidlaw Limited
Bridgegate Limited
Brightdart Limited
Buist Manor Limited
C P Evinson Limited
C.2K Limited
C.G.S.B Holdings Limited
Calmoon Limited
Canitanel Consulting Limited
Car Fleet Control Limited
CD Bramall Motor Group Limited
CD Bramall Pensions Limited
CD Bramall Pension Trustee Limited
CD Bramall York Limited
Central Motor Company (Leicester) Limited
Chalfont Service Station Limited
Charles Douglas Dealerships Limited
Charles Motors Limited
Charles Sidney Holdings Limited
Charles Sidney Limited
Chelmhill Motors Limited
Clarks Garage (Narborough) Limited
Comet Vehicle Contracts Limited
Contim Harrow Limited
Contim Hayes Limited
Contim Heathrow Limited
Cowley & Wilson Limited
Cumbria Vehicles Limited
Dandytown Limited
Davenport Vernon Beaconsfield Limited
Davenport Vernon Berkshire Limited
Davenport Vernon Croxley Green Limited
Davenport Vernon Finance Limited
Davenport Vernon Gloucester Limited
Davenport Vernon High Wycombe Limited
Davenport Vernon Milton Keynes Limited
Davenport Vernon Nissan Limited
Davenport Vernon Northfield Limited
Davenport Vernon Oxford Limited
Davenport Vernon Reading Limited
Davenport Vernon Watford Limited
Davenport Vernon Welwyn Garden City Limited
David Ruskin Limited
Davies Holdings Limited
Dunham & Haines Limited
Evans Halshaw (Cardiff) Limited
Evans Halshaw (Chesham) Limited
Evans Halshaw (Halifax) Limited
Evans Halshaw (Halesowen) Limited
Evans Halshaw (Macclesfield) Limited
Evans Halshaw (Midlands) Limited
Evans Halshaw (Newport) Limited
Evans Halshaw (Northern) Limited
Evans Halshaw (Preston) Limited
Evans Halshaw (South West) Limited
Evans Halshaw (Sussex) Limited
Evans Halshaw (Sutton) Limited
Evans Halshaw (The Wirral) Limited
Evans Halshaw Group Pension Trustees Limited
Evans Halshaws Limited
Evans Halshaw Motor Holdings Limited
Evans Halshaw Vehicle Management Services Limited
Evinson Tractors Limited
Excalibur Motor Finance Limited
Executive Motor Group Limited
Executive Motors (Stevenage) Limited
Extra Rentals Limited
Folletts Limited
Ford Parts Limited
G.E. Harper Limited
Gelderd Road Eight Limited
Giltbase Limited
Godfrey Davis (London) Limited
Godfrey Davis (Trust) Limited
Godfrey Davis Motor Group Limited
Godfrey Motor Company (Cardiff) Limited
H. Flack & Son Limited
Hemel Hempstead Motors Limited
Kingston Reconditioning Services Limited
Kitchener Garages Limited
Leveling Limited
Lewcan Limited
Longton Garages Limited
Manchester Garages (Cars) Limited
Manchester Garages Holdings Limited
Manchester Garages Limited
Merlin (Chatsworth) Limited
Michael Jackson Motors Limited
Miles (Chesham) Limited
Milton Keynes Garages Limited
Motors Direct Limited
Motown Limited
Munn & Chapman Limited
Munn Holdings Limited
Neville (EMV) Limited
Newport (Gwent) Motor Company Limited
Northside Truck Centre Limited
Oggelsby'S Limited
P J Evans (Dudley) Limited
P J Evans (Holdings) Limited
Paramount Cars Limited
Parkhouse Garage (Newcastle) Limited
Pendragon Business Development Limited
Pendragon Company Car Finance Limited
Pendragon Demonstrator Finance Limited
Pendragon Demonstrator Finance November Limited
Pendragon Demonstrator Sales Limited
Pendragon Extra Limited
Pendragon Lion Limited
Pendragon Pension Trustees Limited
Pendragon Quest Trustees Limited
Petrogate Properties Limited
Pinewood Computers Limited
Plumtree Motor Company Limited
Portmann Limited
PPH2 Limited
PPH3 Limited
PPH4 Limited
Premier Carriage Limited
Premier Parts Limited
Quicks (1997) Motor Holdings Limited
Quicks (1997) Properties Limited
Quicks Finance Limited
Quicks Pension Trustees
Reades Of Telford Limited
Reed Wedge Motor Company Limited
Regency Automotive Limited
Reg Vardy (Aberdeen) Limited
Reg Vardy (AMC) Limited
Reg Vardy (DWSB) Limited
Reg Vardy (EBT) Limited
Reg Vardy (MMC) Limited
Reg Vardy (MME) Limited
Reg Vardy (Property Management) Limited
Reg Vardy (Rentals) Limited
Reg Vardy (RTL) Limited
Evans Halshaw.Com Limited
Reg Vardy (TMC) Limited
Reg Vardy (TMH) Limited
Risboro' Garage Limited
Rossleigh Limited
Rudds Limited
RV Pensions Limited
RV Trustee Company Limited
Sanderson Murray & Elder Limited
Skipper Of Aintree Limited
Skipper Of Burnley Limited
Skipper Of Cheltenham Limited
Skipper Of Darlington Limited
Skipper Of Northallerton Limited
Skipper Of Plymouth Limited
Skipper Of Sheffield Limited
Skipper Of Torbay Limited
Skipper Of Wakefield Limited
Slater Brothers (Dronfield) Limited
SM & E Properties Limited
Storm Of Leicester Limited
Strattons (Service) Limited
Strattons (Wilmslow) Limited
T K Motors Limited
T K Motor Group Limited
Tamplins Limited
The Halshaw Group Limited
The Mcgill Group Limited
The Skipper Group Limited
Tins Limited
Trust Advertising Limited
Trust Developments Limited
Trust Holidays Limited
Trust Motors (Glasgow) Limited
Trust Motors (Motherwell) Limited
Trust Motors Limited
Trust Properties Limited
Tyne Tees Properties Limited
United Motor Group Limited
Vardy (Continental) Limited
Venture (RVL) Limited
Vertcell Limited
Wayahead Fuel Services Limited
West Of Thame Limited

**Incorporated in the United States of America:**

Pendragon North America Automobiles Inc.
Penegon West Inc.
Penegon Mission Viejo Inc.
Penegon Newport Beach Inc.
Penegon Glendale Inc.
Lincoln Irvine Inc.
Penegon South Bay Inc.
Penegon Santa Monica Inc.
South County Inc.
Bauer Motors Inc.

**Incorporated in Germany:**

Pendragon Overseas Holdings GmbH.

* Direct subsidiary of Pendragon PLC
** Pendragon PLC owns 95% of the issued ordinary share capital

## 6 Debtors

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Amounts due within one year: | | |
| Prepayments | **31.8** | 32.5 |
| | **31.8** | 32.5 |
| Amounts due after more than one year | | |
| Deferred tax (see note 9) | **8.5** | 14.2 |
| | **8.5** | 14.2 |
| | **40.3** | 46.7 |

## 7 Creditors: amounts falling due within one year

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Amounts due to subsidiary undertakings | **396.2** | 444.2 |

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

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Bank loans (repayable between two and five years) | **33.9** | 26.3 |
| 6.875% bond 2020 | **182.8** | 172.2 |
| | **216.7** | 198.5 |

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

## 9 Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. There are no offset amounts as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Deferred tax assets | **8.5** | 14.2 |

The movements in the deferred tax asset for the year are as follows:

| | Retirement benefit obligations £m | Other provisions £m | **Total £m** |
|---|---|---|---|
| At 1 January 2014 | 8.7 | 1.4 | **10.1** |
| Charged to income statement | (0.2) | (0.1) | **(0.3)** |
| Credited / (charged) to equity | 4.8 | (0.4) | **4.4** |
| At 31 December 2014 | 13.3 | 0.9 | **14.2** |
| | | | |
| At 1 January 2015 | 13.3 | 0.9 | **14.2** |
| Charged to income statement | - | 0.1 | **0.1** |
| Credited / (charged) to equity | (5.5) | (0.3) | **(5.8)** |
| At 31 December 2015 | 7.8 | 0.7 | **8.5** |

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 particiaptes as at 31 December 2015 are fully disclosed in note 4.6 of this report.

## 11 Called up share capital

| | Number | **£m** |
|---|---|---|
| Allotted, called up and fully paid shares of 5p each at 31 December 2014 | 1,455,320,656 | **72.8** |
| Issued during the year | 5,000,000 | **0.2** |
| Allotted, called up and fully paid shares of 5p each at 31 December 2015 | 1,460,320,656 | **73.0** |

During the year 5,000,000 (2014: 6,600,000) ordinary new shares were issued at nominal value to the Employee Benefit Trust for a consideration of £0.2m (2014: £0.4m).

**11 Called up share capital**

During 2014, 9,648,277 ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing in 2009. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 1,857,805 in settlement of consideration of £0.6m.

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 2015 are fully disclosed in note 4.6 of this report.

The market value of the investment in the company's own shares at 31 December 2015 was £5.6m (2014: £4.1m), being 11.2m (2014: 11.7m) shares with a nominal value of 5p each, acquired at an average cost of £0.32 each (2014: £0.30). During the year the trust acquired 24.1m (2014: 21.0m) shares for a consideration of £7.8m (2014: £4.7m) and disposed of 24.6m (2014: 22.1m) shares in respect of LTIP and executive share option awards for a consideration of £1.4m (2014: £1.0m). The amounts deducted from retained earnings for shares held by the EBT at 31 December 2015 was £15.3m (2014: £8.9m). The trustee of the EBT is Salamanca Group Trust (Jersey) Limited, formerly Investec 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 48 to 62.

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.

**12 Retirement benefit obligations**

Details of Pendragon Group Pension Scheme are fully disclosed in note 5.1 of this report.

**13 Related party transactions**

Identity of related parties
The company has related party relationships with its subsidiaries, its joint venture and its investment (see notes 3.3 and 3.4 of the consolidated financial statements), and with its key management personnel.

Transactions with related parties
The transaction with directors of the company, the joint venture PPH0 Limited and King Arthur Properties S.a.r.L are set out in note 6.3 to the consolidated financial statements.

**14 Contingent liabilities**

(a) The company has entered into cross-guarantees with its bankers whereby it guarantees payment of bank borrowings in respect of UK subsidiary undertakings.
(b) The company has given performance guarantees in the normal course of business in respect of subsidiary undertaking obligations.

# EXPLANATION OF TRANSITION TO FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in preparation of an opening IFRS balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts previously reported in financial statements prepared in accordance with its old basis of accounting under UK GAAP. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables in the notes below.

| **Reconciliation of equity at 1 January 2014** | | **UK GAAP £m** | Retirement benefits £m | Taxation £m | **FRS 101 £m** |
|---|---|---|---|---|---|
| | note | | 1 | 2 | |
| **Fixed assets** | | | | | |
| Investments | | **904.6** | - | - | **904.6** |
| Loans to subsidiary undertakings | | **90.0** | - | - | **90.0** |
| | | **994.6** | - | - | **994.6** |
| **Current assets** | | | | | |
| Debtors | | **0.6** | 41.9 | 1.4 | **43.9** |
| Cash at bank and in hand | | **1.1** | - | - | **1.1** |
| | | **1.7** | 41.9 | 1.4 | **45.0** |
| **Creditors**: amounts falling due within one year | | **(556.9)** | - | - | **(556.9)** |
| **Net current liabilities** | | **(555.2)** | 41.9 | 1.4 | **(511.9)** |
| **Total assets less current liabilities** | | **439.4** | 41.9 | 1.4 | **482.7** |
| **Creditors**: amounts falling due after more than one year | | **(196.3)** | - | - | **(196.3)** |
| Retirement benefit obligations | | **-** | (43.4) | - | **(43.4)** |
| **Net assets** | | **243.1** | (1.5) | 1.4 | **243.0** |
| **Capital and reserves** | | | | | |
| Called up share capital | | **71.9** | - | - | **71.9** |
| Share premium account | | **56.8** | - | - | **56.8** |
| Capital redemption reserve | | **2.5** | - | - | **2.5** |
| Other reserves | | **13.9** | - | - | **13.9** |
| Profit and loss account | | **98.0** | (1.5) | 1.4 | **97.9** |
| **Equity shareholders' funds** | | **243.1** | (1.5) | 1.4 | **243.0** |

| Reconciliation of equity at 31 December 2014 | | UK GAAP £m | Retirement benefits £m | Taxation £m | FRS 101 £m |
|---|---|---|---|---|---|
| | note | | 1 | 2 | |
| **Fixed assets** | | | | | |
| Investments | | **922.6** | - | - | **922.6** |
| Loans to subsidiary undertakings | | **90.0** | - | - | **90.0** |
| | | **1,012.6** | - | - | **1,012.6** |
| **Current assets** | | | | | |
| Debtors | | **-** | 45.8 | 0.9 | **46.7** |
| Cash at bank and in hand | | **3.1** | - | - | **3.1** |
| | | **3.1** | 45.8 | 0.9 | **49.8** |
| **Creditors**: amounts falling due within one year | | **(444.2)** | - | - | **(444.2)** |
| **Net current liabilities** | | **(441.1)** | 45.8 | 0.9 | **(394.4)** |
| **Total assets less current liabilities** | | **571.5** | 45.8 | 0.9 | **618.2** |
| **Creditors**: amounts falling due after more than one year | | **(198.5)** | - | - | **(198.5)** |
| Retirement benefit obligations | | **-** | (66.4) | - | **(66.4)** |
| **Net assets** | | **373.0** | (20.6) | 0.9 | **353.3** |
| **Capital and reserves** | | | | | |
| Called up share capital | | **72.8** | - | - | **72.8** |
| Share premium account | | **56.8** | - | - | **56.8** |
| Capital redemption reserve | | **2.5** | - | - | **2.5** |
| Other reserves | | **13.9** | - | - | **13.9** |
| Profit and loss account | | **227.0** | (20.6) | 0.9 | **207.3** |
| **Equity shareholders' funds** | | **373.0** | (20.6) | 0.9 | **353.3** |

| Reconciliation of profit for the year ended 31 December 2014<br>Profit and loss account | | UK GAAP £m | Retirement benefits £m | Taxation £m | FRS 101 £m |
|---|---|---|---|---|---|
| | note | | 1 | 2 | |
| **Profit for the financial year** | | **133.2** | (2.1) | 0.1 | **131.2** |

| Reconciliation of comprehensive income for the year ended 31 December 2014 | | UK GAAP £m | Retirement benefits £m | Taxation £m | FRS 101 £m |
|---|---|---|---|---|---|
| | note | | 1 | 2 | |
| **Profit for the year** | | **133.2** | (2.1) | 0.1 | **131.2** |
| **Other comprehensive income** | | | | | |
| Items that will never be reclassified to profit and loss: | | | | | |
| Defined benefit plan remeasurement gains and (losses) | | **-** | (21.8) | - | **(21.8)** |
| Income tax relating to defined benefit plan remeasurement gains and (losses) | | **-** | 4.8 | - | **4.8** |
| **Other comprehensive income for the year, net of tax** | | **-** | (17.0) | - | **(17.0)** |
| **Total comprehensive income for the year** | | **133.2** | (19.1) | 0.1 | **114.2** |

**Notes**

1 Under UK GAAP the Company had applied the provisions of FRS 17 in accounting for its pension obligations. The Company under FRS 17 applied the multi employer exemption and as a result the amount charged to the profit and loss account represented the contributions payable to the scheme in respect of the accounting period. There were no assets or liabilities recognised on the balance sheet in respect of the Scheme.

Under the provisions of FRS 101 Pendragon PLC is designated as the princinpal employer of the Pendragon Group Pension Scheme and as such applies the full provisions of IAS 19 Employee benefits (2011). At 1 January 2014, previously reported net assets have been reduced by £1.5m. This is in respect of the recognition of the retirement benefit obligatiton deficit of £43.4m, the corresponding deferred tax of £8.7m and the recognition of a pension prepayment of £33.2m. This prepayment represents the discounted cashflows of a £34.5m contribution which was paid by Pendragon PLC as an extraordinary contribution of £34.5m into the Group Pension scheme during 31 December 2011. Under old UK GAAP, the Company cash accounts for this contribution, however under IAS 19 Employee benefits (2011), this does not meet the definition of a planned asset and therefore the amount is held in pension prepayment and will be unwound over the period in which Scottish Limited Partnership Limited makes contributions to the pension scheme. For more information, see note 5.1 Pension Obligations of the group accounts.

As at 31 December 2014 previously reported net assets have been reduced by £20.6m. The movement in the year relates to increase in the retirement benefit obligation deficit of £23.0m, and its corresponding deferred tax assets of £4.6m. The pension prepayment has unwound by £0.7m during 31 December 2014.

2 Taxation in respect of gains in relation to share based payments is recognised in the Company which in 2014 amounted to a charge to profit and loss of £0.1m and a charge to equity of £0.4m. A deferred tax asset of £1.4m was recognised at 1 January 2014.

# ADVISORS, BANKS AND SHAREHOLDER INFORMATION

## Financial Calendar 2016

| | |
|---|---|
| 16 February | date of this Report |
| 16 February | preliminary announcement of 2015 results |
| 21 April | ex-dividend date 2015 proposed final dividend |
| 22 April | record date 2015 proposed final dividend |
| 28 April | Annual General Meeting (at the Registered Office) |
| 28 April | Spring IMS |
| 24 May | payment of proposed 2015 final dividend |
| 2 August | announcement of 2016 interim results |
| 22 September | ex-dividend date interim dividend 2016 |
| 23 September | record date interim dividend 2016 |
| 25 October | payment of 2016 interim dividend |
| 1 November | Autumn IMS |

## 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 Capita Asset Services (a trading name of Capita IRG Trustees Limited). Details appear at www.capitadeal.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 www.pendragonplc.com

## On-line 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.capitashareportal.com

## Getting company reports online

reduces the environmental impacts of report distribution. To choose on-line only reporting, visit the share portal and register for electronic form reporting, or contact our registrar, whose details are:-

## Registrar and shareholder enquiries

Capita Asset Services
The Registry
34 Beckenham Road
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shareholderenquiries@capitaregistrars.com
Tel: 0871 664 0300

## Auditor

KPMG LLP

## Banks

Barclays Bank PLC
Lloyds TSB Bank plc
Royal Bank of Scotland plc
Allied Irish Banks plc

## Stockbrokers

Arden Partners Plc
Jefferies International Limited

## Solicitors

CMS Cameron McKenna LLP
Geldards LLP

## How to find Pendragon PLC's offices

Visit Contacts on the company's website www.pendragonplc.com or contact the company secretary's office on 01623 725200.

# 5 YEAR GROUP REVIEW

| | **2015 £m** | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Revenue | **4,453.9** | 4,000.4 | 3,848.9 | 3,635.1 | 3,465.8 |
| Gross profit | **548.9** | 522.6 | 499.9 | 481.3 | 470.6 |
| Operating profit before other income | **96.4** | 89.8 | 77.5 | 67.5 | 77.6 |
| Profit before taxation | **79.0** | 64.6 | 38.9 | 34.0 | 24.0 |
| Basic earnings per share | **5.0p** | 3.5p | 2.8p | 1.7p | 3.7p |
| Net assets | **395.1** | 339.9 | 305.2 | 275.4 | 267.2 |
| Net borrowings (note 1) | **79.6** | 108.8 | 139.6 | 216.4 | 246.8 |

| **Other financial information** | | | | | |
|---|---|---|---|---|---|
| Underlying profit before tax | **70.1** | 60.2 | 44.2 | 36.4 | 30.8 |
| Underlying earnings per share (note 4) | **3.7p** | 3.1p | 2.3p | 2.0p | 2.3p |
| Debt : underlying EBITDA (note 6) | **0.5** | 0.8 | 1.2 | 2.0 | 2.2 |
| Gross margin | **12.3%** | 13.1% | 13.0% | 13.2% | 13.6% |
| Total operating margin (note 2) | **2.3%** | 2.2% | 2.0% | 2.0% | 2.2% |
| After tax return on equity (note 3) | **19.8%** | 15.4% | 14.2% | 9.6% | 21.0% |
| Dividends per share (note 5) | **1.3p** | 0.9p | 0.4p | 0.1p | - |
| Dividend cover (times) | **3.9** | 3.8 | 6.9 | 19.3 | - |
| Interest cover (times) | **2.9** | 3.0 | 2.0 | 2.0 | 1.4 |
| Gearing (note 7) | **20.1%** | 32.0% | 45.7% | 78.6% | 92.4% |

| **Business summary** | | | | | |
|---|---|---|---|---|---|
| Number of franchise points | **200** | 213 | 225 | 240 | 235 |

note 1 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments.

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 Debt : underlying EBITDA ratio are given in note 4.2 to the financial statements.

note 7 Gearing is calculated as net borrowings as a percentage of net assets.

Pendragon | PLC

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