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PENDRAGON PLC REMUNERATION POLICY

This section of the Pendragon website informs you about our remuneration policies and practices. We keep it up to date with our current remuneration policies, which are usually approved on a three year cycle. Our current remuneration policy was approved by our shareholders at the 2017 AGM, and under current law, will be subject to re-approval/renewal by our shareholders at the 2020 AGM. Information specific to executive remuneration for specific reporting periods is set out in the company's published Annual Report. Consistent with market practice, the Remuneration Committee will retain full discretion over all elements of variable remuneration, both in terms of annual bonus awards made and long term incentive awards granted and vesting.

FUTURE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

BASE SALARY

ELEMENT AND PURPOSE

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

MAXIMUM OPPORTUNITY

Salary levels are eligible for increases during the three year period that the remuneration policy operates (assuming effective from 27 April 2017).

During this time, salaries may be increased each year. Salary increases are determined after taking due account of market conditions and any increases awarded to the wider workforce.

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

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

OPERATION

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

- the performance and experience of the individual concerned;
- any change in responsibilities;
- appropriate executive remuneration benchmarking, which may include the following comparator groups (i) FTSE 250 companies (excluding investment trusts); (ii) companies of a similar size to the Group, currently being those in the bottom quartile of the FTSE 250 and the top quartile of the FTSE Small Cap; (iii) FTSE retailers, broadly the FTSE All Share General Retailers index excluding companies with a market capitalisation greater than £3.5bn; and (iv) selected automotive retailers which are deemed to be the closest comparators to the company. Alternative peer groups may need to be referenced depending on the business circumstances.

Base salaries are paid monthly in arrears

PERFORMANCE METRICS

Individual performance is an important factor considered by the Committee when reviewing base salary each year.

CHANGES

No changes.

BENEFITS

ELEMENT AND PURPOSE

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

MAXIMUM OPPORTUNITY

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

OPERATION

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

PERFORMANCE METRICS

None.

CHANGES

No changes.

PENSION

ELEMENT AND PURPOSE

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

MAXIMUM OPPORTUNITY

Post-2009 executives: contribution of 10% of base salary or payment of a cash alternative at the option of the executive. Pre-2009 executives: 26% of salary cash supplement in lieu of pension contribution.

OPERATION

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

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

PERFORMANCE METRICS

None.

CHANGES

No changes.

ANNUAL BONUS

ELEMENT AND PURPOSE

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

MAXIMUM OPPORTUNITY

Maximum available bonus is equivalent to 100% of base salary. Maximum bonus is available only for material outperformance of the company's annual business plan.

OPERATION

Annual bonuses are earned over the year and are paid annually in arrears after the end of the financial year to which they relate, based on performance against targets over the year. 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. In such situations where bonus is deferred into shares, an executive director may be entitled to dividend payments on such shares receive dividend payments on such shares.

PERFORMANCE METRICS

Annual bonus is earned based on performance against stretching company financial performance measures as set and assessed by the Committee. At present, financial measures used are underlying (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 hurdles.

CHANGES

The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy over each year. The measures will be dependent on the company's goals over the year under review.

VALUE CREATION PLAN (VCP)

ELEMENT AND PURPOSE

The company has introduced a Value Creation Plan (VCP), which has been designed to reward and retain executive directors over the longer term, whilst also aligning the incentives of the participants with the long-term performance of the business and returns for our shareholders.

The VCP will operate with retrospective effect from 1 January 2017, with the first awards to be made following the company's 2017 AGM.

The VCP is now the company's principal long term incentive plan for rewarding and incentivising executive directors.

The VCP operates by granting the executive directors, and other eligible team members, an entitlement to a percentage share in a pool of returns delivered to shareholders, above a hurdle rate of return. The participant's percentage entitlement will be awarded under nil-cost options over shares, with a value calculated to be a proportion of the total shareholder return created for shareholders. This will be measured over a four year VCP performance period, with a further one year holding period being applicable to any awards vesting.

The overall effect of the VCP is that the executive directors and other eligible team members will be able to earn shares equivalent to 10% of any total shareholder return created above a 10% per annum annual growth rate based on the measurement of absolute total shareholder return generated over the four year VCP performance period. In other words, until shareholders receive a 10% p.a. return, the VCP will not pay out. Beyond that, broadly participants may receive 10% of any further value created subject to cap of 5% of issued share capital. The company has used an initial or base share price of the Q4 2016 average share price.

MAXIMUM OPPORTUNITY

Under the VCP, the maximum aggregate number of ordinary shares in the company that can be issued to satisfy awards under the VCP to all participants is limited to 5% of the company's issued share capital at the end of the four year performance period.

At the outset, it is proposed splitting the entitlements of participants in the pool of returns as follows:-

chief executive officer - up to a maximum of 30%

chief operating officer - up to a maximum of 20%

finance director - up to a maximum of 10%

other below board participants - share of remaining balance of 40%

PERFORMANCE METRICS

The performance condition is based on the absolute total shareholder return performance of the company over a four-year period. It participants in the UCP will be able to earn shares equivalent to 10% of any total shareholder return created above a 10% p.a. threshold.

CHANGES

Although existing LTIP awards will remain in force, no new awards will be made under this as the VCP will replace the existing LTIP as the company's sole long term incentive plan going forward.

LONG TERM INCENTIVE PLAN (LTIP)

ELEMENT AND PURPOSE

Incentivises executives to achieve EPS growth over a three year period. EPS growth is the measure most appropriate to the company's strategy.

OPERATION

Awards are subject to performance conditions measured over three years and a service requirement.

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.

MAXIMUM OPPORTUNITY

Fully paid shares equivalent to a maximum of 150% of the executive's base salary, subject to strict vesting conditions.

PERFORMANCE METRICS

Awards vest at the end of a three year performance period, based on achievement of stretching underlying EPS targets. The underlying EPS targets operate subject to a positive total shareholder return (TSR) underpin. Threshold performance attracts vesting of 25% of the award with 100% of awards being achieved for maximum performance. There is a straight line vesting between performance points.

CHANGES

The VCP has been approved by shareholders at the 2017 AGM, the company does not intend to use the long term incentive plan to reward the executive directors over the period of the remuneration policy and in the future.

POLICY ON EXECUTIVE DIRECTOR SHARE OWNERSHIP

The company continues to recognise the importance of executive directors building significant holdings of the company's shares. To encourage share ownership among executive directors joining the company, these require executive directors to aim, within five years of joining the Board, to have built a stake in value equal to 100% of their annual salary (200% in case of the Chief Executive).

Until such time as the policy is met, executive directors will be required to defer 25% of annual bonus into the company's shares and retain half the after tax number of vested shares received under the VCP.

POLICY ON NON-EXECUTIVE DIRECTORS' REMUNERATION

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

Fee Type	Fee Level	Change in 2017
Chairman fee	£150,000	None
Basic fee:	£40,000	None
Supplementary fees:		None
Senior Independent Director	£4,000	None
Audit Committee Chairman	£10,000	None
Remuneration Committee Chairman	£5,000	None
Nomination Committee Chairman	Nil	

REMUNERATION POLICY AND BUSINESS STRATEGY

The company's strategy is to maximize the returns in the three key sectors of aftersales, used and new. The company's remuneration policy is designed to link executive pay with strategy, aiming to:-

- attract and retain directors of the calibre necessary to run the business effectively with levels of remuneration that are arrived at responsibly and also reflect their individual contribution and value to the company;
- recognize the benefits of simplicity in the design of remuneration structures;
- weight remuneration towards variable pay which is aligned with the achievement of business specific measures tied to the company's strategy.
- Structure performance targets that are suitably challenging, the delivery of which is aligned with the interests of shareholders but that do not encourage undue financial or operational risk-taking; and
- encourage executives to build significant levels of share ownership, through the retention of vested share awards, which provide the greatest weighting in the overall remuneration package.

ANNUAL BONUS, VALUE CREATION PLAN AND LITP POLICY; REMUNERATION COMMITTEE DISCRETIONS

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

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

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

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

POLICY ON NEW APPOINTMENTS AS AN EXECUTIVE OR NON-EXECUTIVE DIRECTOR

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

New Appointment as Executive Director	
Reward Element	
Base Salary	Base salary in set in accordance with the policy detailed within the remuneration policy detailed above.
Annual Bonus	Eligible to participate in annual bonus plan in operation, as described in the remuneration policy table above.
VCP	Eligible to participate in the VCP in operation, as described in the remuneration policy table at above.
LTIP	The company does not currently intend to use the LTIP to reward executive directors in the future.
Buy Outs	In order to facilitate external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeit on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy-out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions.

POLICY ON NON-EXECUTIVE DIRECTORS REMUNERATION

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

HOW EMPLOYEES' PAY IS TAKEN INTO ACCOUNT IN EXECUTIVE REMUNERATION

Pay and conditions elsewhere in the Group are considered when finalising the remuneration package of executive directors. The Committee is kept updated during each year on salary increases within the Group, and the level of annual bonus awards, as well as overseeing participation in long term incentives for below Board level team members. As a result, the Committee is aware of how typical employee total remuneration compares to the potential total remuneration packages of executive directors.

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

The company has not specifically consulted with its employees and no steps have been taken to seek employee views in relation to the setting of executive director remuneration policy.

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

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

During late 2016 and early 2017, the Remuneration Committee undertook a review of remuneration policy, taking into account developments in remuneration policy, as well as prevailing market practice and considering the views of the our major shareholders. The remuneration committee chairman continues to make himself available to shareholders to discuss any specific matters arising from our remuneration policy proposals. During early 2017, he met with certain of our shareholders at their request to discuss our proposals and in particular, the VCP. The outcome of this exercise formed the basis of the remuneration policy for the period 2017 to 2020. The chairman of the Remuneration Committee aims to maintain regular contact with our major shareholders key points during the year to ensure we are fully aware of their prevailing thinking on our remuneration policies.

SERVICE CONTRACTS AND EXIT PAYMENTS

Executive directors are appointed under service contracts of indefinite duration (with a 12 month notice period), whereas non-executive directors each have a fixed term appointment letter renewable upon expiry at the company's discretion. Since 2010, appointments of new non-executive directors and renewals of existing appointments have been on three-year fixed terms. When considering the re-appointment of a non-executive director, the Board reviews his attendance at and participation in meetings and his overall performance, and also takes into account the balance of skills and experience of the Board as a whole.

Name	Commencement	Expiry/cessation	Unexpired at date of report (months)
Chris Chambers	27.01.16	31.12.18	22
Gillian Kent	22.05.16	31.12.18	22
Jeremy King	25.11.14	24.11.17	8

The service contracts of Trevor Finn and Martin Casha commenced on 20 December 1999. Tim Holden's service contract commenced on 10 December 2009. Each may be terminated by the company giving one year's notice. The company would expect any future executive director appointments to contain the same terms as to notice periods. Service contracts and letters of appointment are kept for inspection at the Company's registered office.

Previous years' Annual Reports disclosed that both the current executive directors' and certain non-executive directors' terms of appointment contain legacy provisions for payments to be made to them if their employment with the company is terminated as a result of a take-over. These have now been phased out on renewals of appointments for non-executive directors. New executive director appointment terms will not include any entitlement to any predetermined compensation or severance payments in the event of cessation in office or employment as a consequence of a take over. The proportions and calculations of these take-over entitlements are as follows:-

DIRECTOR COMPENSATION POLICY IN THE EVENT OF A TAKEOVER		
Role	Proportion of annual salary/fees	Proportion of annual performance related pay
Executive Director	75%	75% of maximum available plus a pro rata amount, equivalent to the unexpired performance period

With regard to the circumstances under which the current executive directors might leave service, other than the above, these are described below with a description of possible payments that may be anticipated:-

<table>
<tr><th rowspan="2">NATURE OF BENEFIT</th><th colspan="3">REASON FOR LEAVING</th></tr>
<tr><th>“Bad” leaver (e.g. resignation)</th><th>“Good” leaver (e.g. ill health or retirement)</th><th>Departure on Agreed Terms</th></tr>
<tr><td>Salary in lieu of notice period</td><td>No salary in lieu of notice paid on resignations unless in the interests of the company to do so.</td><td>Up to a maximum of 100% of salary (e.g. redundancy). Normal practice would be for phased payment.</td><td rowspan="4">Treatment will depend on the circumstances of the leaver event, subject to the discretion of the Remuneration Committee, and the terms of any termination agreement.</td></tr>
<tr><td>Pension and benefits</td><td>Provided for period of notice period served. No benefits provided for periods after actual cessation of service unless in the interests of the company to do so.</td><td>Up to one year’s worth of pension and benefits (e.g. redundancy). Possible payment of pension and insured benefits triggered by the leaver event (this would be governed by the terms of the benefits provided).</td></tr>
<tr><td>Bonus</td><td>None</td><td>Yes (discretion to pay pro-rata based on company’s performance)</td></tr>
<tr><td>Long-term incentive entitlements</td><td>Lapse</td><td>Discretion to allow up to full vesting, based on company’s performance, with normal practice to be for pro rata vesting based on the proportion of the performance period served.</td></tr>
<tr><td>Other payments</td><td>None</td><td colspan="2">Disbursements such as contribution to legal costs</td></tr>
</table>

FEES FROM EXTERNAL DIRECTORSHIPS

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