



POLICY ON THE USE OF EXTERNAL AUDITORS FOR NON-AUDIT SERVICES

INTRODUCTION

This paper sets out the policy for the appointment and remuneration of the external auditors for any work undertaken on behalf of Pendragon PLC (“the Company”) and outlines the control processes the Company has put in place to ensure compliance with this policy.

STATUTORY AUDIT

The Company’s finance director will negotiate and recommend the overall fee for the statutory audit to the Audit Committee. It is the responsibility of the Audit Committee to review the proposed statutory audit fee and recommend it to the Company’s Board for approval.

The Audit Committee will review the independence and effectiveness of the external auditors on an annual basis. The external auditors will be requested to confirm their independence annually in writing.

The Company is cognisant of rules regarding audit firm rotation, first introduced in June 2016 under Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (“EU Audit Reform”). As a Public Interest Entity (as defined by the EU Audit Reform) (“PIE”) the Company complies with the rotation rules forming part of the EU Reform and the Audit Committee takes responsibility for detailed monitoring of the EU Audit Reform’s requirements and the Company’s adherence to them.

WORK OTHER THAN STATUTORY AUDIT

In commissioning from external accountancy practices work which is outside the scope of audit services normally performed by the Company’s appointed external audit firm, the Company complies with the provisions of applicable regulation and the Audit Committee takes responsibility for detailed monitoring of the EU Audit Reform’s requirements and the Company’s adherence to them.

There may be occasions when the external auditor is best placed to undertake other audit, reporting, accounting, advisory and consultancy work on behalf of the Company because of their in depth knowledge of the Company. However, the following areas of work are specifically prohibited:

- Work related to accounting records and financial statements that will ultimately be subject to external audit;
- Management of, or significant involvement in, internal audit services;
- Secondments to management positions that involve any decision-making;
- Any work where a mutuality of interest is created that could compromise the independence of the external auditor;
- Any work of the nature set out in Appendix A, being the list of work-types prohibited under the EU Audit Reform current at the date of this Policy; and
- Any other work the performance of which by the external auditor of a PIE is prohibited, whether by UK ethical guidance or the EU Audit Reform (including rules issued thereunder by the Financial Reporting Council) or otherwise by applicable law (together “Applicable Law”).

Subject to the prohibitions above, it is permissible for the external auditor to undertake non-audit work; however any such work can only be undertaken to the extent that it does not involve any decision-making or design of internal controls that have an impact on accounting records and financial statements.

Subject to Applicable Law, areas of non-audit work that may be suitable for the external auditor to undertake include the following:-

- Other work as auditors or reporting accountants;
- Tax advisory services in certain limited circumstances;
- M&A support;
- Pensions;
- Risk management;
- Regulatory (such as FCA compliance);
- Interim results and any review of the Directors' Report and accounts for regulatory purposes;
- Assurance work relating to compliance and corporate governance;
- Listing particulars and prospectuses;
- Accounting advice and reviews of accounting standards; and
- Reviews commissioned by the Audit Committee.

In determining what is and is not prohibited non-audit work Applicable Law shall in all cases prevail and, in any case of ambiguity or uncertainty, prior to engaging a firm for the performance of the work in question, the Audit Committee shall take appropriate professional advice. The Audit Committee and the Company's finance director or, as the case may be, company secretary must approve the appointment of the external auditor for any such work in advance.

The Audit Committee will, on a regular basis, receive a report analysing fees paid to the external auditor for any non-audit work performed by it.

APPENDIX A

EU AUDIT REFORM - Schedule of prohibited non-audit work for PIEs

The following prohibitions apply to PIEs, with effect from the first accounting period beginning on or after 17th June 2016.

A. Tax services:

- I. Preparation of tax forms*;
- II. Payroll tax;
- III. Customs duties;
- IV. Identification of public subsidies and tax incentives unless support from the audit firm in respect of such inspections is required by law*;
- V. Support regarding tax inspections by tax authorities unless support from the audit firm in respect of such service is required by law*;
- VI. Calculation of direct and indirect tax and deferred tax*;
- VII. Provision of tax advice.

B. Services that involve playing any part in the management or decision-making of the audited entity.

C. Bookkeeping and preparing accounting records and financial statements.

D. Payroll services.

E. Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

F. Valuation services, including valuations performed in connection with actuarial services or litigation support services.

G. Legal services, with respect to:

- I. The provision of general counsel;
- II. Negotiating on behalf of the entity;
- III. Acting in an advocacy role in the resolution of litigation;

H. Services related to the audit entity's internal audit function.

I. Corporate finance type service:

Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity.

J. Promoting, dealing in, or underwriting shares in the audited entity.

K. HR services

Human resources services with respect to:

- I. Management in a position to exert significant influence over the preparation of the accounting records or financial statement which are the subject of the statutory audit, where such services involve:
 - a. Searching for or seeking out candidates for such positions; or
 - b. Undertaking reference checks of candidates for such positions.
- II. Structuring the organisation design;
- III. cost control.

Services in point E are prohibited in the financial year prior to the year subject to audit (the 'cooling in' period).

*Potentially permitted services

A number of prohibited services (as identified by asterisks) may still be provided, subject to audit committee approval and after an assessment of threats, if the following requirements are complied with:

- I. No direct or clearly inconsequential effect, separately or in aggregate, on financial statements;
- II. Estimation of the effect on the financials is comprehensively documented and explained in the additional report to the audit committee;
- III. In line with principles of independence in Section 1 of the additional report to the Ethical Standard; and
- IV. The audit firm would not place significant reliance for the purpose of the audit on the work performed by the audit firm in performing these services.