Statement in relation to The UK Corporate Governance Code (July 2018): Board Leadership and Company Purpose, Provision 4

Dear Shareholder

I am writing to you in my capacity as the Chair of the Remuneration Committee (the "Committee") of Pendragon plc (the "Company") to provide an update on the Company's response to the outcome of the 2021 Annual General Meeting ("AGM") in May this year. We note that all resolutions were successfully passed with the requisite majority, although there were three resolutions which received less than 80% of votes in favour.

I would like to set out, based on my communications with shareholders prior to the AGM and reflecting on views expressed at the AGM, what I understand to be the reason for the voting outcomes, as well as the actions taken in response to them.

Resolution 2 – Annual Report on Director's Remuneration for Year ended 31 December 2020

The advisory vote on Pendragon's Remuneration Report (the "Report") was passed by shareholders at our AGM in May 2021 with support of 57.58% of votes in favour of the resolution. The Committee is aware that some shareholders remain concerned about certain aspects of the Director's Remuneration Policy (the "Policy"), which had previously been approved by shareholders at the 2020 Annual General Meeting, with these ongoing concerns being reflected by the vote against how the Policy was implemented in 2020.

As we have previously stated, the Policy which was put to shareholders at the 2020 AGM contained a number of best practice features including:-

- the introduction of a more conventional Long Term Incentive Plan ("LTIP") with a performance period of 3 years and a holding period of 2 years (in normal circumstances);
- Improved malus and clawback provisions including the addition of reputational risk and corporate failure to the triggers;
- Introduction of a post-cessation shareholding requirement equal to the in-employment shareholding requirement for 2 years after cessation of employment; and
- Changes to the pension policy to bring Executive Director pensions in line with average employee rate over time by ensuring that new Executive Directors are appointed with a pension contribution which is not above the level available to the wider workforce and reducing the pension contribution of current Executive Directors where appropriate.

Specifically, we understand the decision to make an exceptional award of up to 250% of salary remained a concern for shareholders. On this basis, the subsequent awards under this Policy were made at the normal maximum level (capped at 150% of salary).

The other facet of the LTIP which we understand remained a concern for some shareholders was the ability to apply a performance period of 1-year in exceptional circumstances. The normal practice under the Policy is for 3-year targets to be set, however, given the difficulty in setting 3-year targets in particular for the FY20 and FY21 award, the Policy contained the flexibility in exceptional circumstances to award an LTIP with a performance period which is shorter than 3 years. The July 2021 LTIP Awards were the final awards made with an exceptional performance period under discretion granted to the Committee.

Subject to further and ongoing consultation with shareholders during the remainder of the year, it is the Committee's intention to revert to awards with a three-year performance period and two-year holding period in Spring 2022, with the maximum level of award capped at 150% of salary in accordance with the Company's core remuneration policy.

It is worth noting that the LTIP is measured 50% on EPS and 50% on strategic measures, which achieves two key goals (i) allows the measurement of progress towards vital imperatives drawing a direct link between the strategy set out to shareholders in September 2020 and the incentives; and (ii) ensures that the LTIP does not pay-out on a single metric which could lead to all or nothing payments depending on the setting of the targets.

Secondly, the Committee understands that some shareholders highlighted that the base salary levels of the Executives were above that seen for other companies of a similar size. The Committee considers a range of reference points when determining salaries including size as well as sector comparators. The Committee maintains that Executive director salary levels remain appropriate and aligned with the need to attract the right talent to the business, and ensures it is paying the right amount for the right candidate.

Resolution 3 – re-election of Bill Berman

The Company understands that the reason for the 79.09% of votes in favour of resolution 2 at the AGM was primarily due to concerns over the chief executive officer also continuing to hold the role of interim executive chairman. The Company announced on the 13 October 2021 the appointment of Mr Ian Filby as non-executive chairman with effect from 01 November 2021, at which point Mr Berman would relinquish the role of interim executive chairman. For the avoidance of doubt, Mr Berman did not participate in any meetings of either the Nomination Committee or Board concerning the recruitment, selection or appointment of the non-executive chairman. The clear segregation of the duties and responsibilities of the chief executive officer and non-executive chairman should now allay any ongoing shareholder concern.

Resolution 9 – re-election of Michael Wright

The Company understands that the reason for the 58.96% of votes in favour of resolution 9 (my re-election) at the AGM this year was linked to the remuneration issues outlined above.

Although I am pleased that the majority of shareholders supported the resolutions, I will of course continue to communicate with all shareholders on behalf of the Committee and invite you to get in touch with any comments, questions or ongoing concerns throughout the year.

Yours sincerely

Mike Wright – Chair of the Remuneration Committee

28 October 2021