PENDRAGON

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Private & Confidential

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Our Ref: 0000691

12 September 2024

Dear

Pendragon Group Pension Scheme (the "Scheme")

I'm writing to you as Chairman of the Pendragon Group Pension Scheme. We look after the benefits you have built up in the Scheme and make sure they're paid when they're due.

In this letter, you'll find the Pension Scheme's latest summary funding statement

This tells you about the Scheme's financial situation. It sets out the value of the Scheme's assets and how that compares with the amount it needs to pay benefits, both now and in the future. Please take a few minutes to read it.

Lithia Motors Inc purchase of Pendragon's UK Motor and Fleet Management business

You may already be aware that, at the end of January 2024, Lithia Motors Inc ("Lithia") purchased the UK motor and fleet management divisions of Pendragon PLC. Pendragon PLC was then renamed Pinewood Technologies Plc as its principal business going forward comprised the Pinewood business, which provides software to dealerships.

In order to support the separation of the UK motor and fleet management business from the Pinewood business, a new holding company called Pendragon Newco 2 Limited (the "New Employer") was formed into which Pendragon PLC's obligations to the Scheme were transferred.

The law and regulations regarding transfers of pensions obligations is complex but ultimately the Trustee has to assess that the support provided by the new employer is robust and ensure that the security of members' benefits is not reduced. The Trustee received advice from a specialist advisory firm called Teneo, to assess the financial strength of the New Employer. The Trustee also took advice from the Scheme's lawyers and the Scheme actuary, to ensure that the Trustee had considered all relevant legal and actuarial issues to enable its agreement to the transfer.

As part of the transaction, the Trustee was able to negotiate an immediate cash contribution of £10m into the Scheme and additional properties with a value of approximately £50m were added to the Central Asset Reserve ("CAR"), increasing the market value of the properties in the CAR overall to approximately

£90m. This was against a backdrop of the Scheme's estimated solvency deficit having improved from a figure of approximately £145m as at 31 December 2021 to a figure of around £70m by 31 December 2023.

As a result of the agreement which the Trustee reached with the employer, in the unlikely event the New Employer were to fail, the combined value of the assets in the CAR, together with the Scheme's existing investments, should be sufficient for the Scheme be able to purchase annuity policies with an insurer (a "buyout") to secure all members' benefits in full.

Some of the new properties in the CAR will also generate rent to be paid to the Scheme, increasing the payments being made to the Scheme from the CAR from £3.45m pa to approximately £5.9m pa (with effect from 1 May 2024). These additional payments will help to continue to improve the Scheme's funding level over time.

In the light of the package summarised above, the Trustee agreed to the transfer of the Scheme's liabilities to the new Employer, Pendragon Newco 2 Limited, which in turn became the new principal employer of the Scheme from 1 February 2024.

We would like to take the opportunity to reassure members that there have been absolutely no changes to benefits as a result of the sale of the business from Pendragon PLC to Lithia Inc.

As you can imagine, it takes time to arrange for all of the additional properties to be transferred to the CAR and the Trustee is working closely with the Employer to achieve this. We anticipate that all of the additional properties will have been transferred to the CAR by 31 December 2024 at the latest.

Change of administration from Pendragon to Isio

As you know, up until now, the Employer itself has provided administration services to the Scheme. However, following the departure of a key member of staff, the Employer decided that it wished to outsource administration to a specialist pension administration company.

The Trustee contacted a number of well known and respected pension administration companies to tender to provide administration services to the Scheme. After a detailed selection process, the Trustee, after consultation with the Employer, selected Isio to be the Scheme's new administrator.

You can find out more about Isio by going to their website, address below:
https://www.isio.com/what-we-do/pensions/pensions-administration

Isio will be in touch soon to introduce themselves and provide you with new contact details, so please look out for this.

There will be absolutely no change to members' benefits as a result of the proposed transfer to Isio. In particular, pension payments will continue to be paid in exactly the same way as they are at the moment.

Lifetime Allowance and Annual Allowance changes

Following the Budget announcement in March 2023, the Chancellor has confirmed there will be changes to a number of pensions allowances.

The Lifetime Allowance, the amount of pension savings you can build up over your lifetime before additional tax is levied, was abolished completely from 6 April 2024. The charge for exceeding the Lifetime Allowance had already been removed from 6 April 2023.

The Annual Allowance, the amount you can save into all of your pensions each tax year also changed, from 6 April 2023, when it increased from £40,000 to £60,000.

If you want to find out more, or if you're concerned about how these changes might affect you, then please speak to an independent financial adviser.

Be on the lookout for pension scams

Pension scammers are confidence tricksters who have stolen millions of pounds from pension scheme members in recent years. They use false promises to get their hands on your money. They could telephone you at home, send you a text message or email you. They might offer you the chance to 'cash in' your benefits early. They might use phrases like 'Pension Liberation', 'Pension Loan' or 'Pension Cash back'.

These offers sound promising. But if you fall for a pension scam, you could end up with a big tax bill. You might even lose your pension altogether. A reputable financial adviser will never contact you out of the blue about your pension – so treat unsolicited contact of this kind with extreme caution. More information about pension scams is available from Money Helper at www.moneyhelper.org.uk

How to get in touch

If you have any questions about the Scheme or your benefits, please contact the Reward & Benefits Team by post, using the above address, or email us at pensions@pendragon.uk.com. Please remember to tell us if you move house, so that we can keep in touch with you about your pension.

Once Isio have contacted you to introduce themselves and provide you with new contact details, please ensure you use these contact details in future.

Yours sincerely

Nigel Moore
Chairman of Trustees - Pendragon Group Pension Scheme

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Email: pensions@pendragon.uk.com

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PENDRAGON

PENDRAGON GROUP PENSION SCHEME
Summary Funding Statement – 31 December 2023

This summary funding statement gives you an update on the financial situation of the Pendragon Group Pension Scheme (the Scheme) as at the last actuarial valuation. It also explains any changes made since then. Every pension scheme has to provide this information to its members.

The Pendragon Group Pension Scheme is a defined benefit (DB) scheme

In a defined benefit (DB) scheme, member benefits include an income that is paid from when a member retires until they die. Our Scheme also pays spouses an income if they live longer than the member. These benefits are paid out of the scheme's assets, which includes its investments.

At least every three years, the Scheme's financial situation is checked by actuaries.

This regular check is known as a valuation and was last done as at 31 December 2021. The valuation establishes how much the Scheme's assets are worth. It then compares this with the amount the actuaries calculate is needed to pay members their benefits, both now and in the future. This amount is known as the Scheme's liabilities. To carry out the valuation, the actuaries need to make some assumptions about factors such as life expectancy and inflation. These assumptions are agreed with the Trustee and the Company (Pendragon PLC for the last valuation and Newco 2Limited for the upcoming valuation). If the assets are more than the liabilities, the Scheme is said to be in surplus. If the liabilities are more than the assets, the Scheme is in deficit.

A deficit doesn't mean that the Scheme won't be able to pay pensions as they fall due. But it does mean that the Trustee needs to agree with the Company how to make up the deficit. As the performance of the Scheme's investments and the assumptions change over time, it's normal for the funding position to change between valuations.

In December 2021, the Scheme was in deficit

The valuation showed that on 31 December 2021, the funding position of the Scheme was as follows:

The Scheme's assets	**£545,404,000**
The Scheme's liabilities	**£578,758,000**
Deficit	**£33,354,000**
Funding level	**94%**

We've agreed a plan to make up the deficit

In November 2022, the Trustee and the Company agreed on a Recovery Plan to make up this deficit. As part of this agreement, the Company has paid the sum of £13,069,000 into the Scheme during 2022 and further sums increasing by 2.25% each year is due to be paid into the Scheme. Payments were made quarterly, in advance, and the final payment was made in October 2023. These extra payments, together with returns from the Scheme's investments, were expected to make up this deficit by 31 December 2023. As part of the agreed Recovery Plan, the Company will pay all the expenses of running the Scheme except for the investment management fees. The agreed Deficit Recovery Contributions include income from the Central Asset Reserve, (see below)

The Central Asset Reserve

One of the Scheme's assets is the Central Asset Reserve (CAR). The CAR comprises a number of properties occupied by Pendragon the rent on which is used to provide the Scheme with a regular income. Provided that the Scheme's funding level on the Long Term Funding Target basis is below 102.5%, the CAR will make payments to the Scheme up until August 2031, (which is 20 years from the date on which the CAR was established). The Trustee would also have a claim on the value of the CAR's properties if they were sold because the Group had gone bankrupt. On 31 December 2023, the CAR was valued at £18,121,000. But, in accordance with the Pension Regulator's guidance on pension scheme funding, this value was not included in the Scheme's funding assessment.

Long Term Funding Target

As explained above, when the Truste and Company were discussing the 2021 valuation, they expected that the deficit disclosed in the 2021 valuation should have been paid off by 31 December 2023. The Trustee has therefore agreed with the Company that, at this point, the Scheme will adopt a new long-term funding target (LTFT). The LTFT is a stronger funding basis than the one used in the 2021 valuation, and so adopting it should further strengthen the security of members' benefits.

In order to seek to reach this new target, the Company has agreed that from 1 January 2024 until 31 December 2026 it will make annual contributions to the Scheme of £3,450,000 (increasing in each year by 2.25%). It is anticipated that these payments will be funded by the income generated by the CAR.

As part of the next triennial valuation of the Scheme, which is due as at 31 December 2024, the Scheme Actuary will report on the funding level of the Scheme on the LTFT basis.

By December 2023 the deficit had been reduced

This update shows that the Scheme's funding has improved in monetary terms since the December 2021 valuation. At 31 December 2023, the Scheme's deficit had fallen from £33,354,000 (a funding level of 94%) to £9,583,000 (a funding level of 98%). This improvement was mainly due to the performance from the Scheme's investments between 31 December 2021 and 31 December 2023, together with contributions that the Company has made to the Scheme.

The Scheme's Liability Driven Investments ('LDI') continues to provide a hedge against the Scheme's interest rate and inflation liabilities. The value of the Scheme's assets have decreased from £545,404,000 at December 2021 to £378,789,000 at December 2023. However, the value of the Scheme's liabilities had also decreased from £578,808,000 at December 2021 to £388,372,000 at December 2023.

After 31 December 2023 and as part of the purchase of Pendragon by Lithia the Company agreed to a one-off £10m contribution (received in February 2024), to increase the market value of properties in the CAR to approximately £90m and to increase the annual contribution by £2,421,000 per annum (with effect from 1 May 2024).

What would happen if the Scheme were wound up

'Winding up' is the process of closing a pension scheme. This is usually done by using all the Scheme's assets to buy a policy from an insurance company that then pays members their benefits.

There is no intention to wind up the Pendragon Group Pension Scheme, but pension regulations mean we have to tell members what would happen if we did. Winding up would probably only happen if the Company itself was wound up. This is because the Scheme currently depends on the Company's support for it to have enough money to pay current and future benefits.

If the Company did decide to wind up the Scheme, it would have to pay enough into the Scheme to make sure it could buy an insurance policy that would then pay members their benefits in full. The latest formal estimate of the amount the Scheme would need to buy this type of policy was made as at 31 December 2021.

Total estimated buyout cost	£707,607,000
Total Assets	£562,071,000
Amount the Company would have to contribute	£145,536,000
Solvency level	79%

Any money that members hold in defined contribution or money purchase pension pots, such as AVCs, is not included in the figures in this statement. This is because they are not involved in paying the defined benefits. The next actuarial valuation is due to take place as at 31 December 2024.

About the Scheme's investment strategy

The Trustee aims to have enough assets available to pay members' pensions as they become due. To help us achieve this, we have designed an investment strategy for our assets. This takes into account the financial support the Company is willing and able to give the Scheme and their attitude to investment risk. The Trustee has divided the Scheme's assets into two parts:

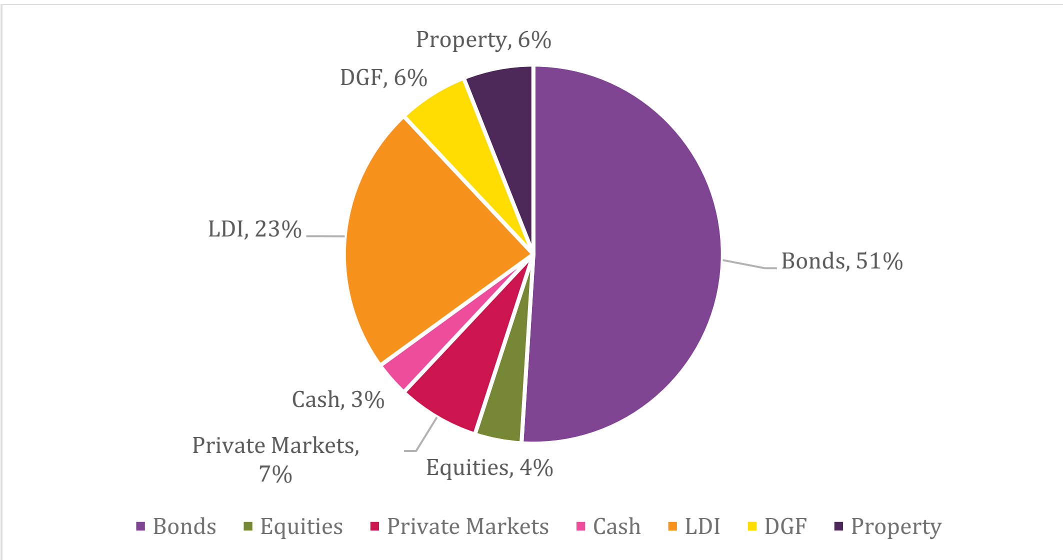
1. The first part is **growth-seeking assets**. These aim to generate a positive return and improve the Scheme's funding position by increasing the value of its assets relative to its liabilities.

2. The second part is **matching assets**. These aim to provide a hedge (protection) against changes in interest rates and inflation, which can affect the Scheme's liabilities.

Since February 2017, based on advice from our Investment Consultants, the Scheme has held within its investment portfolio Liability Driven Investments ('LDI'). The LDI assets are designed to provide a hedge against the Scheme's interest rate and inflation liabilities. By adopting this approach, the Trustee aims to reduce the volatility of the Scheme's funding level, while still allowing the Scheme's growth-seeking asset allocation to increase.

You may have read media reports which have questioned the effectiveness of LDI in pension schemes. The Trustee is pleased to be able to reassure members that, notwithstanding events in financial markets, particularly in the 2nd half of 2022, the LDI portfolio has continued to fulfil the role it was designed to do, and the funding level of the Scheme continues to be strong.

Excluding the value of the Central Asset Reserve (CAR), as at 31 December 2023, the Scheme's investments were broadly allocated as 51% in bonds or gilts, 7% in private markets, 6% in Property, 6% in diversified growth funds (DGF), 4% in equities, 3% in cash and 23% in LDI funds.



Can I transfer out of the Scheme?

As a member of the Scheme, you are entitled to a pension for life from the day you retire. But before you retire, you can ask that we transfer the cash value of your future benefits from the Scheme to an alternative pension arrangement chosen by you.

The transfer value of your pension entitlement is calculated by the Scheme's Actuary, based on professional and legal guidelines. We are currently paying full, unreduced transfer values. However, transfer values may change in the future, depending on the Scheme's financial position.

If you're thinking of transferring out of the Scheme, you should speak to an independent financial adviser. The law says you must do this if your transfer value is over £30,000. Neither the Company nor we are allowed to provide members with financial advice.

How can I get financial advice?

You can find a financial adviser in your area by visiting www.unbiased.co.uk. To help people understand their retirement choices, the Government offers a free and impartial service called Money Helper. This provides information to members online and over the phone. Find out more about at www.moneyhelper.org.uk

How to get in touch?

If you have any other questions, or would like more information about the Scheme, you can get in touch with us:

- by email at pensions@pendragon.uk.com
- by post at Reward & Benefits Team, Pendragon PLC, Loxley House, Little Oak Drive, Annesley, Nottingham, NG15 0DR.
- Visit https://members.pensionpal.co.uk/pendragonpensions

How we store and use your personal information

The Trustee holds and processes personal information in line with the General Data Protection Regulation. This information may also be forwarded to insurance companies and to government bodies if required. Information will only be disclosed for pension benefit purposes. The Scheme Actuary acts as a joint data controller with the Trustee in respect of the Scheme.

A copy of the Trustee's Privacy Statement can be found here: Microsoft Word - 180222 PGPS - Privacy Notice (Long form).docx (pensionpal.co.uk)

Additional Notes

- Contributions are paid to the Scheme by the Company so that the Scheme can pay pensions to Scheme members when they retire. The money to pay for members' pensions for the Scheme's final salary section is held in common funds. It is not held in separate funds for each individual.
- Regular valuations are obtained of the benefits accrued by members. This information is used to enable the Scheme's Trustee to agree the level of future contributions with the Company.
- With effect from 30 September 2006, members of the Scheme ceased to build up any future benefits.
- There has not been any payment to the Company out of Scheme funds since the last statement was issued.
- You should keep the Trustee informed of any change of circumstances, such as changes of address, updated beneficiary nominations and changes to marital/civil partnership status.
- Under the Pensions Act 2004, the Government established the Pension Protection Fund (PPF). The PPF can provide pension compensation to members of schemes where the sponsoring employer company is insolvent and there are insufficient assets in the scheme to cover PPF levels of compensation. The Board of the PPF determines which schemes are eligible for compensation. Although the PPF provides compensation for all members of eligible schemes, there are limits on the amounts that would be paid. Further information is available on the PPF's website at ppf.co.uk

For and on behalf of Pendragon Group Pension Trustees Limited
September 2024