Lookers
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Responses to shareholder questions submitted in advance of the General Meeting to be held on 28th December 2020

As noted at Note 6 to the Notice of General Meeting dated 4 December 2020, "*Any member with the right to attend the General Meeting is entitled, pursuant to section 319A of the Companies Act 2006 to ask any question relating to the business being dealt with at the meeting. All questions must be submitted via email to generalmeetings@lookers.co.uk. Members are encouraged to send their questions as soon as possible. The Company will, to the extent practicable, answer any such questions unless (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; or (ii) it is undesirable in the interests of the company or the good order of the meeting that the question be answered; or (iii) the answer has already been given on a website in the form of an answer to a question. In the interests of efficiency and to avoid unnecessary repetition, if multiple questions are submitted with a common theme, they will be answered as one question*."

The following questions (which have been re-worded, where appropriate) have been received by the Company.

Question 1: Why were the accounting irregularities reported in the 2019 Annual Report and Accounts not picked up by the Company's finance / internal audit teams?

On 10 March 2020 the Group announced an investigation into potentially fraudulent transactions working in conjunction with a forensic team from Grant Thornton. The Investigation identified accounting irregularities including certain financial systems and controls weaknesses, non-compliance with the Group's accounting policies or accounting standards and poor accounting.

Subsequent to the year-end, the Audit and Risk Committee has spent considerable time working with the Executive Directors in considering the outcomes of an investigation into potential fraud and accounting irregularities and in determining the remedial actions required to strengthen internal controls in specific areas. During the year under review, an area of focus was the design and implementation of a revised Internal Audit Universe[1] and annual plan with a robust enterprise risk management framework. For further insight on the Audit and Risk Committee's oversight of risk, internal controls and financial reporting please

[1] Internal Audit Universe – this is a technical term that refers to the scope of the internal audit which may be organised by business units, product or service lines, processes, programmes, systems or controls or by risk category/prioritisation.

refer to the Audit and Risk Committee Report on page 70 of the 2019 Annual Report and Accounts.

In 2020, the investigation into fraudulent activity and accounting irregularities identified further control weaknesses, non-compliance with laid down policies and procedures and financial misstatements. In addition, it identified a disappointing level of cultural and behavioral issues which significantly impacted the control environment.

Remedial actions to strengthen internal controls and accounting procedures have been established and are set out on page 35. During 2020 and 2021 the Committee will monitor the effectiveness and embedding of these actions.

Question 2: Why were shareholders not allowed more time to formulate questions ahead of the Meeting?

As noted at Note 6 to the Notice of General Meeting dated 4 December 2020, the Company will "*will ensure, to the extent practicable, that answers to questions received by 12 December 2020 are published on our website by 10.00 a.m. on 16 December 2020. The Company will endeavour to publish responses to any questions received after 12 December 2020 on the Company's website in advance of the General Meeting*."

The Company has answered all questions received on and before 12 December 2020. The dates set out at Note 6 were selected to allow shareholders sufficient time to consider the responses to any questions posed in advance of the proxy voting deadline.

Question 3: Were any manufacturer bonuses incorrectly claimed by the Company?

During the first quarter of 2020, the Board became aware of potentially fraudulent transactions arising in one of its operating divisions and in March 2020, in conjunction with Grant Thornton LLP, the Board commenced an investigation focused on the operating division concerned and identified certain misrepresented debtor balances in respect of bonus receivables together with a number of fraudulent expenses claims. At the request of the Board the initial investigation was extended across all operating divisions. The investigation has finalised and has resulted in a number of prior period adjustments presented in these financial statements

One operating division created fictitious journal entries to recognise non-existent manufacturer bonuses. The initial misstatement was created in 2018, the entries being reversed in 2019 and further fictitious sums being recorded in 2019. These fictitious entries enabled the division to achieve its targets for the year, were entirely internal in nature and were never communicated to, reported to, nor claimed from the relevant manufacturer.

The transactions arose because of local management override and lack of central oversight and review, enabling unsubstantiated journals to be processed without challenge

Question 4: Why does the Company use technical language in its reporting that may be difficult for shareholders to fully understand (e.g. "reporting attestation"; "regulatory rule mapping risk assessment" and horizon scanning processes"?

The language used is not uncommon within company financial reports. However, the Company strives to communicate with shareholders in a clear and straight forward manner, and consequently we will bear these points in mind during the preparation of the 2020 Report and Accounts.

Please see below copy of an email sent to our top 10 shareholders earlier today:

Dear sirs

The Company is aware that several advisory bodies have produced reports relating to the Meeting and have made recommendations or otherwise highlighted issues associated with matters to be addressed at the Meeting namely:

1. A vote against the adoption and receipt of the financial statements; and
2. A vote against the Remuneration Report.

As a result, the Company would like to provide the following Report Feedback Statements with respect to the recommendations and issues highlighted. While we respect the advisory bodies unreservedly, we believe the supplemental information outlined below provides important context necessary for the Company's stakeholders to better inform their voting intentions.

Taking each item in turn (using the same numbering as above):

1. The Company wishes to remind stakeholders that the Annual Report and Accounts for the year ended 31 December 2019 received a clean audit opinion, without qualification. The Company identified accounting irregularities back in March 2020 which manifested themselves initially as a potential fraud, which ultimately was found to be £327k in a single division and which had accumulated over several years. The Company announced this issue, delayed the announcement of its results and unilaterally commenced an immediate external investigation working in conjunction with a forensic team from Grant Thornton UK LLP. As part of this investigation the Company also undertook additional work including extended procedures with its auditors to attempt to get to the root of the issues. As a result of the findings of the investigation, the Company has implemented a set of remedial actions to strengthen internal controls and accounting procedures, as more fully set out in the Annual Report and Accounts. During 2020 and 2021, the Company will monitor the effectiveness and embedding of these actions to ensure that these issues are not repeated.

   We believe that a recommendation to vote against the adoption and receipt of the Annual Report and Accounts would be disappointing given the circumstances in which the Company found itself in 2020 and the work involved to obtain an unqualified set of accounts for 2019.

2. The Company notes the comments as regards the Remuneration Report and would like to make the following comments in that regard:

Termination arrangements for Robin Gregson

It is important to note that Robin's departure in September 2019 was prior to the investigations taking place, and that Robin was classed as a good leaver. Whilst Mark Raban was recruited to the role of CFO in July 2019, there was a significant amount of handover work to be completed and therefore there was a requirement for Robin to continue employment until September 2019 to assist with this. Therefore the Remuneration Committee determined at the time that it was fair given the circumstances surrounding Robin's departure that a full 12 month notice period should be provided for from his termination.

Salary for Mark Raban

A remuneration benchmarking exercise was carried out with our remuneration advisers prior to the salary rise for the previous CEO, Andy Bruce. This exercise looked at pay levels in other retailers as well as in the broader market. An increase to the salary to £450,000 was market-aligned and therefore considered appropriate for the role at Lookers. Following the investigations being carried out, there was a need to recruit a competent leader to steer the company through a challenging period.

While external candidates were considered, Mark Raban was selected as the best candidate for the role, given his strong performance and knowledge of the business through his tenure as CFO. We are also cognisant that many shareholders are unsupportive of staged increases to pay, instead preferring companies to appoint executives at an appropriate level, without further ratcheting of pay. Therefore, it was deemed appropriate to pay Mark the full "rate for the job" as CEO. Following interviews with external candidates and given the Company's situation, the Remuneration Committee did not believe a suitable candidate could be secured for lower remuneration than that offered to Mark. 2020 has been a very challenging year for Lookers and the Remuneration Committee demonstrated commitment to reducing costs by reducing salaries for a period during 2020, as well as cancelling both bonus and LTIP awards for the year. This demonstrates a willingness to take tough decisions on pay and ensure we pay no more than necessary.

We believe that a recommendation to vote against this is therefore harsh in the context of the decisions made in 2020, which included salary reductions for executives and non-executives, no bonuses being paid for 2019 and no LTIPs being awarded.

In summary, although we understand the methodologies used by the advisory bodies to reach their conclusions, we believe it is also important to review that analysis by reference to the above. The Company hopes that the additional information provided above will help stakeholders make a fully informed decision when deciding upon their voting intentions.

Thank you for your consideration of this Report Feedback Statement.