ARNOLD CLARK AUTOMOBILES LIMITED
ANNUAL REPORT 2018

SC36386

Directors, Principal Officers and Advisers

Arnold Clark Automobiles Limited

Directors

Lady Clark MA (Glasgow)	Chairwoman and Director
E Hawthorne BA CA	Chief Executive and Group Managing Director
K J McLean BAcc (Hons) CA	Group Finance Director
S Willis	Group Sales Director
J A Clark BA MSc MIMI	Group Franchise Director
R E Borrie	Group Franchise Director
D M Cooper BAcc (Hons) FCCA	Group Retail Finance and Leasing Director
W G P Gall FIMI	Director

Operations Board

J A Brown BSc (Hons) BEng (Hons)	Group Chief Information Officer
A H W Clark BSc (Hons)	Group Fleet and Business Development Director
A M Graham BCom (Hons) CA	Group Financial Controller
J T Graham BSc (Hons) CA Dip CII	Group Risk and Products Director
S R Grant BA	Group Aftersales Director
C S Henry BA (Hons) FCIPD	Group Human Resources Director
S J MacAulay MIMI	Group Parts Director

Company Secretary

S K Thorpe BA (Hons) FCA

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Principal Bankers

The Royal Bank of Scotland plc
1304 Duke Street, Glasgow G31 5PZ

Auditors

Ernst & Young LLP
G1, 5 George Square, Glasgow G2 1DY

Tax Advisers

Ernst & Young LLP
G1, 5 George Square, Glasgow G2 1DY

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Chief Executive's Statement

Arnold Clark Automobiles Limited

In what has been widely reported as a turbulent period for the motor industry and the retail sector, I am pleased to report an excellent full year performance for the Group. Profit before tax increased by £6.9m to £113.5m, resulting in Group net assets exceeding £1bn - a significant milestone for the Group and a testament to the vision and hard work of our founder, Sir Arnold Clark.

The Group has performed ahead of the wider market on new cars with sales of 68,344 units - a reduction of 2.6%. This compares very favourably with the full UK market which reported a decrease in new car registrations of 6.8% to 2.37m units in 2018 from 2.54m in 2017. The previously observed decline in available new car stock in 2017 has continued in 2018 and was impacted further by new EU regulations for emissions testing. From 1 September 2018, every new car has been required to undergo the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) which caused disruption to the supply chain for some manufacturers. In addition to this, the severe winter weather conditions in early March resulted in many of our branches being unable to open for several days at what is a critical time for new car sales.

Overall growth in revenue of 7.8% was primarily driven by used car sales with units sold increasing by 9.5% to 238,977. Used vehicle supply has been strengthened considerably through investment in our Arnold Buys Your Car (ABYC) brand which provides an efficient and reliable digital route for individuals to sell their used car. As a result of a continued focus on operational efficiency, we have been able to achieve improved vehicle margins, resulting in an increase in operating profit to £125.5m.

I was delighted to have our achievements recognised at the AM Awards in February 2019 where we won five separate awards, including the prestigious headline award of Dealer Group of the Year. As a Group, we have continued to innovate over the last year and these awards reflect the hard work put in by our employees.

Arnold Clark Finance Limited, our vehicle hire business, reported a decrease in revenue of 6.9% to £506.7m. Profit before tax was £9.0m compared with £9.7m in the prior year. A reduction in the volume of vehicle disposals and increased costs was partially offset by significant growth in our daily rental division. 2019 has started positively with growth in vehicle units across all divisions.

Expansion of our branch network

The Group continued to add to its dealership network throughout the year, both in locations in which we are a familiar and trusted name and in exciting new territories in England.

In recent years, we have invested heavily in our Motorstore brand to develop an alternative route to market for used vehicles whilst maintaining a quality dealership experience for customers. In 2017, we opened four new Motorstore branches and it is pleasing to note that these new sites are making an improved contribution to Group results as they build their presence and our brand reputation in new markets. The expansion of our network continued in 2018 with the opening of Doncaster Motorstore in September. The site has 250 nearly-new and used cars on site and fully equipped service and valet departments.

In March 2018 we acquired the trade and assets of Kilmarnock Citroen out of administration, preserving the jobs of the local workforce and providing another excellent facility in the area.

In May 2018, the Group acquired the entire share capital of Crossflags (Motors) Limited. The business has two well-appointed showrooms on Annan Road, Dumfries which will be used to service the higher-end motor retail market in Dumfries.

During the year, tenanted dealerships were added in Solihull and Morecambe, additional land and facilities were acquired in Aberdeen, Stirling and at Crow Road Volkswagen in Glasgow and a site was purchased in Wellington Road, Aberdeen which is currently being refurbished to relocate our Volvo franchise.

Two small sites in Kemnay and Perth were disposed of in the year.

In January 2019, we acquired the trade and assets of the Phoenix Motor group which preserved 150 jobs and secured the operation of the Kia, Hyundai, Mitsubishi and Honda franchises at Linwood, near Paisley.

Building upon the momentum in used car volumes into 2019, we opened Bolton Motorstore in February and have plans for two further Motorstores in the latter half of the year.

Innovation and development

We invest significant resources into bringing newly acquired used vehicles up to the high-quality standard we require before displaying for retail sale. As part of our ongoing drive for operational efficiency we have piloted a new process for this and, in October, opened a dedicated preparation centre in Ayr to provide this service to our branches in the area. This investment has released space and labour capacity at our existing Ayr branches which has improved aftersales lead times for our customers and enhanced their overall branch experience. This solution will be rolled out to other suitable locations throughout the Group in due course.

Investment in digital retailing continues with further enhancements made to the Deal Builder product. A core priority for our customers is that we are easy to do business with and this product is a significant development towards achieving this within a rapidly changing retail environment, creating further opportunity for the Group. In addition to this, we have rebranded our Click and Collect service, allowing the efficient sale and delivery of any vehicle to locations near our customers throughout the UK with a personalised and professional service offered by our Product Genies.

Business development

A significant part of our focus and investment in 2018 was employee related in order to deliver on our objective to become an employer of choice, not just within the automotive sector but across the entire retail industry. These changes have included a rebranding of our sales force to Product Consultants to reflect more accurately the breadth of the role they perform; a shift to a five day working week for our Product Consultants to facilitate improved work life balance; further increases to our living wage rates in excess of the Government prescribed minimum; increases to employer pension contributions in line with legislation and an array of incentives to reward excellent customer service across all areas of our business.

In 2018, we have created and filled over 300 new apprenticeship positions across a wide range of disciplines. I am delighted to note that our fantastic apprenticeship programme was recognised at the 2018 Scottish Apprenticeship Awards. Not only did we win the Large Employer of the Year award but also GTG Assessor, Jim Swan, took home the Instructor of the Year Award. The Board and I recognise the importance of the role that our apprentices play in our business and more importantly the role they will fulfil in future years. It is our intention to continue this programme with another 300 apprentices being inducted into Arnold Clark in 2019.

Community engagement

As the Group continues to expand, our commitment to supporting the local communities we operate within is more important than ever. The Board and I were delighted to receive the Community Hero Award at the 2019 AM awards as recognition for the support we provided to a number of charities and community-based causes throughout the UK in 2018.

During 2018, the Group supported 432 charities throughout the UK - many at the request of employees who are raising funds for causes within their local communities and in which they have a personal interest. It is our great pleasure to be able to match funds raised by our employees, a policy which will continue in 2019 and beyond.

At Arnold Clark, we are proud to be a diverse and inclusive employer. As part of our overall strategy, we continued to support several LGBT+ Pride events throughout the UK. Internally, we have made significant changes aimed at addressing gender imbalance and supporting our LGBT+ colleagues. It is pleasing that this was recognised at the Diversity Awards during the year where we received a commendation in the Diversity Star Performer category.

Future prospects

With continued uncertainty around "Brexit", we expect market conditions to continue to be challenging with SMMT forecasting a reduction in new car registrations of 2.3% in 2019. As a Group, we anticipate that we will feel some impact from this but this will be offset by modest underlying growth in the used car market. We have made a strong start to 2019 by focusing attention on having the right product mix to meet the needs of our customers, ensuring a continued emphasis on delivering an exceptional customer experience and offering genuine value for money.

2018 has not been without challenge. It is testament to the effort and commitment demonstrated by all of our workforce that we are in a position to report another year of excellent results. On behalf of the Board, I would like to take this opportunity to thank our employees for their hard work and dedication. I have no doubt that 2019 will be a significant year of change given the current political uncertainty, however, the Group continues to have the financial strength to sustain it through such a volatile period and also to capitalise on the opportunities that will present themselves.

E Hawthorne
Chief Executive and Group Managing Director
27 March 2019

The Directors present their Strategic Report for the year ended 31 December 2018.

Review of the business

The Group's principal activities during the year were the hiring, selling and servicing of motor vehicles.

The Group's key financial and other performance indicators during the year were as follows:

	2018	2017	Change
Group revenue	£4,237m	£3,931m	7.8%
Used car sales (units)	238,977	218,188	9.5%
New car sales (units)	68,344	70,167	(2.6)%
Group operating profit	£125.5m	£117.9m	6.4%

Used car sales units increased by 9.5% due to the opening of new branches and like for like sales increasing by 7.4%. New car sales units fell by 2.6% on the prior year.

Revenue rose by 7.8% to a record £4,237m, primarily as a result of the increase in used car sales. Group operating profit increased by 6.4% due the significant increase in used car units retailed and strong margins retained on those. Early trading conditions in 2019 have been positive in the used car market but the Group still face significant challenges in the new car market. The Board predicts both revenue and profitability will remain in line with the excellent results achieved in 2018.

A further review of the business is provided in the Chief Executive's Statement on pages 2 to 4.

Principal risks and uncertainties

The main risks and uncertainties associated with the Group's operations are set out below:

Financial instrument risks: The Group's principal financial instruments comprise cash, cash equivalents, bank loans and hire purchase contracts. Other financial assets and liabilities, such as trade creditors and trade debtors, arise directly from operating activities.

Interest rate risk: The Group invests surplus cash in a floating rate interest yielding bank deposit account and in short and medium term certificates of deposit. The Group also has access to a floating rate interest bearing revolving credit facility. Hire purchase agreements and term loans are entered into at floating interest rates. The Group's interest income and expenses are therefore affected by movements in interest rates. The Group does not undertake active hedging of this risk.

Credit risk: The Group has external debtors; however, the Group undertakes assessments of its customers in order to ensure that credit is not extended where there is a likelihood of default.

Liquidity risk: The Group aims to mitigate liquidity risk by managing cash generated by its operations.

Price risk: The Group holds investments in the form of equity shares in publicly listed companies in the UK and certain other publicly tradeable investments. The Group does not undertake active hedging of the market price risk associated with these investments; however, the investments are all actively managed by investment management companies on behalf of the Group.

Principal risks and uncertainties (continued)

General economic conditions: The Group's performance is influenced by general economic conditions overall, and in particular by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales, availability of consumer credit, changes in consumer demand, consumer confidence levels, fuel prices, personal discretionary spending levels, interest rates, and unemployment rates. Significant changes in any of these factors may impact the number and type of vehicles that will be sold in the year and therefore the revenue generated by the Group and its profitability.

Manufacturers: Many of our dealerships operate under franchise agreements with automotive manufacturers. We are dependent on the various manufacturers because, without a franchise agreement, we cannot operate a new vehicle franchise or perform manufacturer warranty services. Consequently, manufacturers exercise a degree of control over the operations of our franchised dealerships. Our franchise agreement may be terminated or not renewed by manufacturers for a variety of reasons. The success of the Group also depends to a degree upon the reputation of the various manufacturers, particularly in relation to the marketing, design and build-quality of their products. A significant deterioration in the reputation of any of the major manufacturers may have an impact on the performance of the Group.

Regulatory issues: The Group's business activities require a number of regulatory authorisations or registrations from various public bodies, including, amongst others, the Financial Conduct Authority, the Driver and Vehicle Standards Agency and the Driver and Vehicle Licensing Agency. Withdrawal of any of these authorisations or registrations may have a significant impact on Group's ability to trade and on its financial performance. The Group has a range of established systems, processes and controls in place to ensure regulated activities are carried out in accordance with the relevant regulatory frameworks.

Information systems: The Group is dependent upon a number of business critical systems which, if interrupted for any length of time, could have a material effect on the efficient running of the Group's businesses. The Group has a disaster recovery plan in place to reduce the time taken to restore systems and to minimise the impact on the financial performance of the business.

On behalf of the Board

E Hawthorne
Chief Executive and Group Managing Director
27 March 2019

Directors' Report

The Directors present their report for the year ended 31 December 2018.

Results and dividends

The profit on ordinary activities before taxation amounted to £113.5m (2017 - £106.6m). The profit for the year, after taxation, amounted to £89.3m (2017 - £85.6m).

An ordinary interim dividend of £5.4m was paid during the year (2017 - £3.5m). The Directors recommend that no final dividend be paid, which leaves a profit of £83.9m (2017 - £82.1m) to be retained. The 2019 interim dividend of £6.5m has been declared prior to the signing of these accounts.

A further review of the business and its principal risks is provided in the Chief Executive's Statement on pages 2 to 4 and in the Strategic Report on pages 5 and 6.

Employees

Regular meetings are held between management and employees to allow a free flow of information and exchange of ideas and information relevant to employees is provided through an employee portal, which is available to all members of staff.

The Group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a disabled person.

With regard to existing employees and those who have become disabled during the year, the Group has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

Directors

The Directors who served during the year were as follows:

Lady Clark
E Hawthorne
K J McLean
S Willis
J A Clark
R E Borrie
D M Cooper
W G P Gall

The Company has made qualifying third-party indemnity provisions for the benefit of all the Directors; such indemnity provisions were in force during the year and remain in force at the date of this report.

Directors' statement as to disclosure of information to the auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

E Hawthorne
Chief Executive and Group Managing Director
27 March 2019

Statement of Directors' Responsibilities

Arnold Clark Automobiles Limited

The Directors are responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The Directors are responsible for preparing financial statements for each financial period that give a true and fair view, in accordance with IFRSs, of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Company and Group financial statements comply with FRS 101 and IFRSs respectively, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of Arnold Clark Automobiles Limited

Opinion

We have audited the financial statements of Arnold Clark Automobiles Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Financial Position and Company Statement of Changes in Equity and the related notes 1 to 32 and A1 to A23, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance in with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 62, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report

to the members of Arnold Clark Automobiles Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Mark Harvey
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP,
Statutory Auditor, Glasgow

28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

Arnold Clark Automobiles Limited

	Notes	2018 £m	2017 £m
Revenue	9	4,236.7	3,931.4
Cost of sales		(3,546.0)	(3,310.1)
Gross profit		690.7	621.3
Distribution expenses		(336.4)	(299.4)
Administrative expenses		(232.6)	(206.6)
Other operating income	10	3.8	2.6
Operating profit		125.5	117.9
Finance costs	11	(13.4)	(12.5)
Finance income	12	1.4	1.2
Profit before tax from continuing operations		113.5	106.6
Income tax expense	17	(24.2)	(21.0)
Profit for the year		89.3	85.6
Other comprehensive income		-	-
Total comprehensive income for the year		89.3	85.6

All operations were classed as continuing operations during the year.

Consolidated Statement of Financial Position

at 31 December 2018

Arnold Clark Automobiles Limited

	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Property, plant and equipment	18	1,131.1	1,021.2
Investment properties	19	61.1	66.7
Intangible assets	20	10.1	9.9
Deferred tax assets	17	-	0.2
		1,202.3	1,098.0
Current assets			
Inventories	21	582.0	561.0
Trade and other receivables	22	139.7	121.6
Financial assets	23	115.6	104.0
Cash and cash equivalents	24	121.7	131.8
		959.0	918.4
Total assets		2,161.3	2,016.4
Equity and liabilities			
Issued share capital	25	1.0	1.0
Profit and loss account		1,020.7	937.0
Total equity		1,021.7	938.0
Non-current liabilities			
Interest-bearing loans and borrowings	28	225.0	176.8
Provisions	27	5.4	4.5
Trade and other payables	29	25.5	4.8
Deferred tax liabilities	17	18.4	19.8
		274.3	205.9
Current liabilities			
Interest-bearing loans and borrowings	28	312.0	296.9
Trade and other payables	29	527.7	550.6
Income taxes payable		21.5	21.3
Provisions	27	4.1	3.7
		865.3	872.5
Total liabilities		1,139.6	1,078.4
Total equity and liabilities		2,161.3	2,016.4

Approved by the Board on 27 March 2019

E Hawthorne
Chief Executive and Group
Managing Director

K J McLean
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

Arnold Clark Automobiles Limited

	Share capital	Profit and loss account	Total
	£m	£m	£m
As at 1 January 2017	1.0	854.9	855.9
Total comprehensive income	-	85.6	85.6
Dividends to shareholders	-	(3.5)	(3.5)
As at 31 December 2017	1.0	937.0	938.0
As at 1 January 2018	1.0	937.0	938.0
IFRS 15 adjustment	-	(0.2)	(0.2)
Total comprehensive income	-	89.3	89.3
Dividends to shareholders	-	(5.4)	(5.4)
As at 31 December 2018	1.0	1,020.7	1,021.7

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

Arnold Clark Automobiles Limited

	Notes	2018 £m	2017 £m
Net cash flows from operating activities	31	(11.1)	62.3
Investing activities			
Proceeds from sale of property, plant and equipment		2.6	1.5
Purchase of property, plant and equipment		(39.6)	(61.7)
Purchase of investment properties		(7.0)	(12.2)
Acquisitions, net of cash acquired		(1.1)	(0.2)
Proceeds from sale of investments		0.8	10.4
Purchase of investments		(12.3)	(4.4)
Income from investments		0.3	0.3
Net cash flows used in investing activities		(56.3)	(66.3)
Financing activities			
Proceeds from borrowings		391.0	336.1
Repayment of borrowings		(373.8)	(322.8)
Proceeds from new hire purchase contracts		407.4	387.0
Repayment of capital element of hire purchase contracts		(361.9)	(388.4)
Dividends paid to equity holders of the parent		(5.4)	(3.5)
Net cash flows from financing activities		57.3	8.4
Net (decrease)/increase in cash and cash equivalents		(10.1)	4.4
Cash and cash equivalents at 1 January		131.8	127.4
Cash and cash equivalents at 31 December	24	121.7	131.8

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

Arnold Clark Automobiles Limited

1. Corporate information

Arnold Clark Automobiles Limited is a privately owned company incorporated in Scotland under the Companies Act 2006. The address of the registered office is 454 Hillington Road, Glasgow, G52 4FH.

Information on the Group's operations and its principal activities are set out in the Strategic Report on pages 5 - 6.

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("IFRS").

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets, which have been measured at fair value. The consolidated financial statements are presented in Sterling and rounded to the nearest £0.1 million, except where otherwise indicated.

2.2 Adoption of new and revised standards and new standards issued but not yet effective

In the current year, the Group has adopted the following new standards:

- IFRS 9 Financial Instruments - effective date 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective date 1 January 2018

The adoption of the new standards above have had no significant impact.

Standards and amendments to standards that have been issued but are not effective for 2018 and have not been early adopted are:

- IFRS 16 Leases - effective date 1 January 2019
- IFRIC 23 Uncertainty over Income Tax Treatments - effective date 1 January 2019
- Annual improvements to IFRS 2015-2017 cycle - effective date 1 January 2019
- Amendment to IAS 19 - effective date 1 January 2019

The above standards and amendments issued but not yet effective will be adopted in accordance with their effective dates and have not been adopted in these financial statements.

IFRS 15

The Group has elected to adopt the modified retrospective method for transition and applied it to all contracts not complete at 1 January 2018. The cumulative effect of the required adjustment of £0.2m has been presented as an adjustment to the opening balance of retained earnings in the Statement of Changes in Equity.

2.2 Adoption of new and revised standards and new standards issued but not yet effective (continued)

IFRS 16

Management has conducted a review of the requirements of accounting standard IFRS 16 Leases, and assessed the impact expected in the period of initial application, being the year ended 31 December 2019.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. Therefore IFRS 16 will be applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17. The Group also plans to apply the practical expedient for short-term leases. Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases will be recognised on a straight-line basis as an expense in profit or loss.

Lease obligation liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's relevant incremental borrowing rate as of 1 January 2019. The associated right-of-use assets will be measured at the amount equal to the lease liability. Each lease payment will be allocated between the liability and finance cost. The finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset will be depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

On 1 January 2019, the lease liability and the equal and opposite right-of-use asset are estimated to be in the order of £35.0m. Adoption is expected to have an immaterial impact on profit with a decrease to profits in the order of £0.3m at the 2019 reporting date.

2.3 Basis of consolidation

The Group financial statements consolidate the financial statements of Arnold Clark Automobiles Limited and all of its subsidiary undertakings made up to a date co-terminous with the financial year of the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.4 Going concern

The Group's business activities, a review of the business and a description of the principal risks and uncertainties, together with the Group's financial risk management processes and narrative regarding its exposure to key financial risks are outlined in the Strategic Report.

The Group funds vehicles purchased for its contract hire fleet using hire purchase contracts from a number of providers. The vehicles are accounted for as fixed assets and a corresponding liability is recognised, an element of which will be classified as a current liability. The Directors have reviewed the Group's forecast cash flows and these are sufficient to meet the liabilities as they fall due.

Taking into account the above and after making enquiries, the Directors believe that the Group has adequate resources to meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

2.5 Summary of significant accounting policies

Business combinations and goodwill

All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. If, at the balance sheet date, the fair value of the net identifiable assets acquired and liabilities assumed can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. An impairment test is performed annually.

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historic cost is the invoice price of the item less any discounts or rebates receivable plus any directly attributable costs.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Land and buildings	: Freehold	- 1% - 16.7%
	: Leasehold	- as freehold or over the lease term where shorter
Plant and equipment	: General	- 8.5% to 25%
	: Computer equipment	- 25% to 33%
Motor vehicles	: Own use	- 12.5% to 40%
	: Contract hire vehicles	- straight line over the term of the hire contract to residual value

Investment properties

Investment properties are measured initially at cost, including transaction costs.

Depreciation is provided on all investment properties at a rate calculated to write off the cost, less estimated residual value, of each asset over an expected useful life of 50 years. Transfers are made to, or from, investment property only when there is a change in use.

2.5 **Summary of significant accounting policies (continued)**

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

Assets held under finance leases and hire purchase agreements are capitalised at the commencement of the lease at the inception date fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful life of customer relationships is expected to be up to 5 years and the intangibles are amortised on a straight line basis over the useful economic life. Amortisation is included in administrative expenses in the profit and loss account.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU's") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.5 Summary of significant accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the Statement of Profit or Loss and Other Comprehensive Income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognised in the Statement of Profit or Loss and Other Comprehensive Income in finance costs for loans and in cost of sales or other operating expenses for receivables. Interest is not recognised on short-term receivables where the interest would be immaterial. This category generally applies to trade and other receivables.

Impairment of financial assets

For financial assets carried at amortised cost, impairment losses are calculated based on an 'expected credit loss' model as permitted under IFRS 9. The amount of any impairment loss identified is measured as the difference between the contractual cashflows due less what the Group expects to receive. Trade and other receivables are considered to be in default when borrower is unlikely to pay its credit obligations in full after reasonable actions have been taken to recover the debt.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or other payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Cash and short-term deposits

Cash and short-term deposits in the Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of 3 months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, as they are considered an integral part of the Group's cash management.

2.5 Summary of significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value.

Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

The Directors have considered the terms of each of the individual manufacturer's consignment stocking agreements with specific reference to those terms that have a significant bearing on the allocation of risks and rewards of ownership between the Group and the manufacturer. These terms are the Group's ability to return stock to the manufacturer without penalty, the manufacturer's ability to reallocate stocks to third parties and the point in time at which the consideration payable on adoption of the stock is determined. Where, based on this assessment, the Directors consider that the substance of the manufacturer's consignment stocking agreement is such that the risks and rewards of ownership are substantially transferred to the Group, the stocks are recognised on the balance sheet and the corresponding liability to the manufacturer is included within creditors. In all other circumstances the consignment stocks and corresponding liability are not recognised on the balance sheet and are instead disclosed separately in a note to the financial statements.

Provisions for liabilities

Provisions are recognised when the Group has a present obligation, whether legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Statement of Profit or Loss and Other Comprehensive Income.

The Group acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is early-settled by the customer or terminated early by the finance company due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to 5 years in line with the terms of the associated finance arrangements.

Revenue recognition

Revenue is derived based on the satisfaction of performance obligations identified in any given contract with our customers. Revenue recognised depicts the transfer of promised goods or services to our customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue is principally generated from the sale of new and used motor vehicles, servicing and repair activities and the supply of parts for these activities and those sold on their own right. Product and services can be sold individually or together in a single transaction. Where multiple products and services are sold in a singular transaction, the Group identifies the individual performance obligations within the contract and assigns consideration received or receivable from the transaction price to each distinct obligation. The stand-alone selling prices for each obligation is determined by reference to the list prices the Group sells each product or service for which is itemised on the customer invoice.

New and used vehicles, parts and accessories

The Group recognises revenue on the sale of motor vehicles and parts when they have been supplied to the customer. The associated performance obligation is satisfied on delivery or collection of the product. The Group acts as agent on behalf of various finance companies for the arrangement of finance for its customers to purchase its products. Commission earned is recognised when the customer draws down the finance which coincides with the delivery of the product.

Vehicle rental

Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease. The performance obligation, being the promise to provide the customer with the contracted vehicle for the agreed period of time, is satisfied over the term of the agreement as the customer simultaneously receives and consumes the benefit of having use of the vehicle for the period in which the Group provides the vehicle.

2.5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Service and repairs

For individual servicing works, revenue is recognised on completion of the service.

The Group offers its own service plan product which consists of multiple components. Each component represents a distinct performance obligation and consideration is assigned to each component with reference to the monies received or receivable. Revenue for each component is recognised on complete satisfaction of the performance obligation which is generally when the servicing activity is complete or obligation to perform is remote or expired.

The Group offers servicing products on behalf of the manufacturer and retains a proportion of the sales price of the product. The Group recognises the revenue at the contract inception date as the obligation to satisfy the servicing obligations lie with the manufacturer. If a customer redeems a valid servicing element identified within the contract with a Group branch, the branch performs the service and invoices the manufacturer for pre-determined contractual amounts on completion. Revenue is recognised on completion of the service.

Vehicle warranty

The Group performs warranty work in accordance with manufacturer terms and conditions. The obligation to satisfy the warranty obligation lies with the manufacturer. The Group invoices the manufacturer for warranty work on completion of the rectification of the mechanical fault.

The Group offers its own warranty products for non-franchise motor vehicle units supplied, with a guarantee period typically ranging from 4 months to 2 years. The Group recognises revenue on warranties on a straight-line basis over the warranty period, which commences at the later of 60 days from delivery of the vehicle and the remaining term of applicable manufacturer guarantees.

Other

For training services, revenue is recognised in the month the training takes place. If a full course is delivered within a month, then the performance obligation is wholly satisfied in that time period. If the revenue relates to courses delivered over two months or more, the proportion of future dated training is deferred and recognised on satisfaction of the performance obligation over the remaining period.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the Statement of Profit or Loss and Other Comprehensive Income due to its operating nature.

Where vehicles are supplied to third parties and the Group undertakes to repurchase the vehicle at a predetermined date and value, the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset and, in accordance with IAS 17 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the third party are held as deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the related lease term. These vehicles are held within property, plant and equipment at their cost to the Group and are depreciated to their residual values over the terms of the leases.

2.5 **Summary of significant accounting policies (continued)**

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Pension costs

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the profit and loss account.

Insurance contracts

The Group provides Vehicle Replacement Insurance, a return to invoice insurance, to third-party customers from Arnold Clark Insurance (Malta) Limited, which is regulated by the Maltese Financial Services Authority.

Premiums vary depending on the value, age and mileage of the vehicle being insured and are earned proportionally over the period of cover provided. The pricing is reviewed monthly against market rates and loss experience and adjusted as necessary. The portion of premium received on in-force contracts that relates to unexpired risks at the accounting date is included in liabilities.

Claims and loss adjustment expenses are charged to the profit and loss account as incurred based on the estimated liability for compensation owed to policyholders. They include direct and indirect settlement costs arising from events that have occurred up to the accounting date, even if they have not yet been reported to the Group. Due to the short-term nature of the policies, the Group does not discount its liabilities for unpaid claims. Provision is made for all claims notified by the insured. Provision is also made for claims incurred but not reported ("IBNR") based on previous claims experience. Claims reserves comprise provisions for the estimated costs of settling all claims incurred up to, but not paid at, the accounting date. The level of provisioning is based on information that is currently available, including potential loss claims that have been intimated to the Group, experience of the development of similar claims and case law. Whilst the Directors consider that the provision of these claims is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amounts provided are reflected in the financial statements in the accounting year in which they arise.

The risks underwritten by the Group are short tail and the risk of material differences in the reported claims liabilities is considered to be insignificant.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Provisions

The Group acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is early-settled by the customer or terminated early by the finance company due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to 5 years in line with the terms of the associated finance arrangements.

The timing and quantum of the amounts due to the finance companies is inherently uncertain and the amounts provided are based on prior years' experience and on expectations for the future. The calculation of the provision requires the exercise of significant judgement by management and the key assumption is that a similar percentage of commissions will be clawed back in each future accounting periods. The provision has been discounted at the risk-free discount rate of 1% (2017 - 1%). Significant unforeseen changes in the wider economy or changes to the UK Gilt rates could result in the provision being misstated.

Goodwill and other intangible assets

The Group reviews the goodwill arising on the acquisition of subsidiaries or businesses for impairment at least annually. Goodwill, other intangible assets and tangible assets are reviewed when events or changes in economic circumstances indicate that impairment may have taken place. The impairment review is performed by projecting the future cash flows, excluding finance and tax, of the associated cash generating unit based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying net assets and related goodwill, an impairment charge would be required in the Statement of Profit or Loss and Other Comprehensive Income.

This calculation requires the exercise of significant judgement by management; if the estimates made prove to be incorrect or changes in the performance of the subsidiaries affect the amount and timing of future cash flows, goodwill may become impaired in future periods.

The Group estimates discounted rates based on pre-tax rates that reflect the Group's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Group. The WACC used in the calculation is 8.7% (2017 - 8.6%).

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 1.5% (2017 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

Other than those noted above there are no other significant accounting judgements, estimates or assumptions.

4. Capital management

The Group's capital resources consist of share capital, hire purchase funding, other loans and cash and cash equivalents. The Group manages its capital to ensure that it will be able to continue as a going concern (see note 2.4) and to maximise profitability.

The Group is not subject to any externally imposed capital requirements and the capital resources and requirements are actively managed by the Directors.

Analysis of net debt

	2018 £m	2017 £m
Cash and cash equivalents	121.7	131.8
Hire purchase contracts	(468.0)	(422.4)
Loans	(69.0)	(51.3)
	(415.3)	(341.9)

5. Financial instruments risk management

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include financial assets, trade and other receivables and cash and cash equivalents that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Directors and the Group's senior management oversee the management of these risks. The Group operates a relatively straight-forward business model with no complex transactions or derivative transactions.

Market risk

The Group invests in a wide range of short-term instruments including deposits with approved counterparties, certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty and equity investments.

The Group's main exposure is to the fair value interest rate risk as the investment portfolio mainly consists of deposits with credit institutions issued at fixed rates. These deposits do not carry a significant fair value risk since they earn a low interest rate and principally mature within the short term. The risk has also been kept to a minimum as the objective of the portfolio is to provide an investment return from a diversified portfolio of high quality issues that have low interest rate risk and a low level of capital volatility. The maturity profile of the certificates of deposit is spread with initial terms of between 3 and 12 months, thereby mitigating the impact on the financial assets of a movement in the interest rate.

The Directors do not deem this risk to be significant and, accordingly, a sensitivity analysis for interest rate risk is not deemed necessary in respect of the financial assets.

Whilst the Group's financial assets are predominantly held in deposits and certificates of deposit and therefore not subject to other price risks, a small proportion of the portfolio is held in actively traded equity investments. These investments are actively managed by Barclays Bank plc on behalf of the Group. The equity investments are not considered to be material and, consequently, the Directors do not deem this risk to be significant. As a result, no sensitivity analysis is deemed necessary.

5. Financial instruments risk management (continued)

Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due. The Group seeks to manage this risk by only investing with counterparties that meet a minimum credit rating of P1 (short term) or A3 (long term) depending on the time remaining to maturity. In the event of a downgrade of an investment to below the minimum rating, the Directors will assess the credit risk in determining whether to dispose of the investment or hold it to maturity.

The following table provides information regarding the Group's aggregated credit risk exposure at the reporting date and includes Moody's composite rating, when available.

At 31 December 2018

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£m
Cash and cash equivalents	-	1%	13%	4%	-	82%	-	121.7
Financial assets at fair value through profit and loss	6%	20%	69%	3%	-	-	2%	115.6
Total								237.3

At 31 December 2017

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£m
Cash and cash equivalents	-	4%	1%	3%	1%	91%	-	131.8
Financial assets at fair value through profit and loss	-	27%	61%	6%	3%	-	3%	104.0
Total								235.8

Trade receivables

The nature of the Group's business results in a significant proportion of the vehicle sales being either on a cash basis or with regulated financial institutions. The transactions with the financial institutions are dealt with by a centralised unit and debts are closely monitored. Customer credit risk for other transactions is managed by each business unit and, in respect of fleet vehicle sales and certain parts sales, on a Group-wide basis and is subject to the Group's established policy, procedures and control relating to customer credit risk management. An impairment analysis is performed at each reporting date on an individual basis for each customer. The Group considers that the concentration of risk with respect to trade receivables is low as its only individually significant customers are regulated financial institutions. An analysis of the ageing of the trade receivables is included in note 22.

5. **Financial instruments risk management (continued)**

Liquidity risk

The Group monitors its risk of a shortage of funds by forecasting the future cash flows from each operating unit on a regular basis. Whilst the Group is extremely well funded and has significant cash reserves to meet its day to day obligations, the Group funds vehicles purchased for its contract hire fleet using hire purchase contracts from a number of providers. The vehicles are accounted for as fixed assets and a corresponding liability is recognised, an element of which will be classified as a current liability. The current element of the liability will be met from the operating lease receipts from the hire of the corresponding vehicles and/or from the proceeds of the disposal of the vehicles at the end of the lease.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

At 31 December 2018

	On demand £m	In less than 1 year £m	In 1 - 5 years £m	Total £m
Interest-bearing loans and borrowings	69.0	251.2	229.7	549.9
Trade and other payables	-	422.3	25.5	447.8
	69.0	673.5	255.2	997.7

At 31 December 2017

	On demand £m	In less than 1 year £m	In 1 - 5 years £m	Total £m
Interest-bearing loans and borrowings	51.3	251.7	180.0	483.0
Trade and other payables	-	453.7	4.8	458.5
	51.3	705.4	184.8	941.5

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's hire purchase contracts which have floating interest rates. The Group does not enter into any derivative contracts to manage this risk.

The Directors have carried out sensitivity analysis in respect of a movement of 50 basis points in the interest rates, based on the Directors' assessment of the maximum likely change.

	+ 50 basis points		- 50 basis points	
	2018 £m	2017 £m	2018 £m	2017 £m
Effect on profit or loss	(1.2)	(1.1)	1.4	1.1

6. **Group information**

The consolidated financial statements of the Group include:

Name	Principal activity	Country of incorporation	Equity interest 2018 %	2017 %
Arnold Clark Finance Ltd	Hiring of motor vehicles	Scotland	100	100
Arnold Clark Holdings (Malta) Ltd	Intermediate holding company	Malta	100	100
Arnold Clark Insurance (Malta) Ltd	Insurance services	Malta	100	100
Arnold Clark Insurance Services Ltd	Insurance services	Scotland	100	100
Artex Insurance (ACA7) IC Limited (Guernsey)	Insurance services	Guernsey	100	-
Assure Alarms Ltd	Intruder alarm installation and maintenance	Scotland	100	51
Crossflags (Motors) Ltd	Sale and servicing of motor vehicles	Scotland	100	-
GTG Training Ltd	Provision of education and training	Scotland	100	100
Harry Fairbairn Ltd	Sale and servicing of motor vehicles	Scotland	100	100
Towquest Ltd	Provision of specialist computer software	England & Wales	100	100
Arnold Clark Vehicle Management Ltd	Dormant	Scotland	100	100
A Clark's West End Motors Ltd	Dormant	Scotland	100	100
Arnold Clark (Bearsden) Ltd	Dormant	Scotland	100	100
Arnold Clark (Birtley) Ltd	Dormant	England & Wales	100	100
Arnold Clark (Paisley) Ltd	Dormant	Scotland	100	100
Arnold Clark (Stirling) Ltd	Dormant	Scotland	100	100
Calterdon Ltd	Dormant	Scotland	100	100
Dane County Holdings Ltd	Dormant	England & Wales	100	100
Dane County Ltd	Dormant	England & Wales	100	100
Delmore Cars Ltd	Dormant	Scotland	100	100
Glasgow Training Group (Motor Trade) Ltd	Dormant	Scotland	100	100
Glasgow Training Group Ltd	Dormant	Scotland	100	100
Grangemouth Motor Group Ltd	Dormant	Scotland	100	100
Grant, Melrose & Tennent Ltd	Dormant	Scotland	100	100
Harpers (Aberdeen) Ltd	Dormant	Scotland	100	100
Hintonmead Ltd	Dormant	England & Wales	100	100
Hobin Group Ltd	Dormant	England & Wales	100	100
Hobin of Preston Ltd	Dormant	England & Wales	100	100
John R Weir (Inverness) Ltd	Dormant	Scotland	100	100
John R Weir Ltd	Dormant	Scotland	100	100
Macharg Rennie & Lindsay Ltd	Dormant	Scotland	100	100

6. Group information (continued)

Name	Principal activity	Country of incorporation	Equity interest 2018 %	2017 %
Maclaren Automotive Ltd	Dormant	England & Wales	100	100
Ness Motors (Holdings) Ltd	Dormant	Scotland	100	100
Ness Motors Ltd	Dormant	Scotland	100	100
Patterson Leasing Ltd	Dormant	England & Wales	100	100
Pattersons (Berwick) Ltd	Dormant	England & Wales	100	100
Pattersons Training Ltd	Dormant	England & Wales	100	100
R H Patterson & Co Ltd	Dormant	England & Wales	100	100
R H Patterson (Motor Finance) Ltd	Dormant	England & Wales	100	100
R H Patterson (Ponteland) Ltd	Dormant	England & Wales	100	100
RHP (Hire) Ltd	Dormant	England & Wales	100	100
Scotiaford Ltd	Dormant	Scotland	100	100
Strathford (Ayrshire) Ltd	Dormant	Scotland	100	100
Strathford Motor Company Ltd	Dormant	Scotland	100	100
The Harper Motor Company Ltd	Dormant	Scotland	100	100
The Park Automobile Company Ltd	Dormant	Scotland	100	100
Tomkins (Glasgow) Ltd	Dormant	Scotland	100	100

The share capital of Arnold Clark Insurance (Malta) Limited is held indirectly via Arnold Clark Holdings (Malta) Limited.

The limited companies listed above which were incorporated in Scotland have a corresponding registered office address of 454 Hillington Road, Glasgow, Scotland, G52 4FH. Those listed above which were incorporated in England have a corresponding registered office address of 405-409 Scotswood Road, Newcastle Upon Tyne, NE4 7BP. Those listed above which were incorporated in Malta have a corresponding registered office address of The Landmark, Level 1, Suite 2, Triq L -Iljun, Qormi QRM38800, Malta. The company incorporated in Guernsey has a registered office address of Heritage Hall, Le Marchant Street, St Peter Port, Guernsey.

7. Business combinations

On 28 March 2018, the Group acquired the trade and assets of a Citroen dealership in Kilmarnock. On 31 May 2018, the Group acquired 100% of the share capital of Crossflags (Motors) Limited, an unlisted company registered in Scotland. The acquisition has been accounted for using the acquisition method of accounting. These acquisitions are immaterial individually but are disclosed in aggregate below.

	Fair value at acquisition £m
Property, plant and equipment	1.9
Vehicles and other inventories	2.8
Receivables	0.7
Bank loans	(0.5)
Payables	(4.2)
	0.7
Goodwill	0.4
Consideration in cash	1.1

The goodwill of £0.4m represents the excess of consideration paid over the fair value of identifiable assets and liabilities and represents the expected benefits from expanding the existing representation in the relevant market territories.

From the date of acquisition, the businesses acquired contributed £15.0m of revenue and a loss of £0.04m to profit before tax from continuing operations to the Group's results.

8. Fair value measurement

The following table presents the Group's assets that are measured at fair value by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1		Level 2		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Assets measured at fair value:						
Financial assets (note 23)						
Certificates of deposit	-	-	113.0	101.2	113.0	101.2
Quoted equity shares	2.6	2.8	-	-	2.6	2.8
Cash equivalents (note 24)						
Certificates of deposit	-	-	21.0	7.2	21.0	7.2
	2.6	2.8	134.0	108.4	136.6	111.2

The Group holds investments in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposits issued by approved counterparties that can be realised within 1 month without notice or penalty. The fair value of the investments categorised as level 2 at year-end is determined by reference to the market yield for the specific period to maturity. The inputs required to fair value those investments are observable and consequently investments as at 31 December 2018 and 31 December 2017 are being categorised as level 2.

There were no transfers between levels during 2018. All valuations have been carried out as at 31 December in the relevant year.

9. Revenue

Revenue recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income is analysed as follows:

	2018 £m	2017 £m
Used motor vehicles	2,799.1	2,418.9
New motor vehicles	954.9	1,049.0
Vehicle rental	195.3	179.6
Aftersales & other	287.4	283.9
	4,236.7	3,931.4

99.8% of all activities take place within the United Kingdom. The remainder take place in Malta.

10. Other operating income

	2018 £m	2017 £m
Net gain on disposal of property, plant and equipment	3.4	2.4
Miscellaneous other income	0.4	0.2
	3.8	2.6

11. Finance costs

	2018 £m	2017 £m
Finance charges payable under hire purchase agreements	9.6	7.8
Other interest payable	3.7	4.6
Unwinding of discount and effect of changes in discount rate on provisions (note 27)	0.1	0.1
	13.4	12.5

12. Finance income

	2018 £m	2017 £m
Income from investments	0.3	0.3
Net gain on financial assets at fair value through profit and loss	0.1	0.4
Bank interest receivable	0.9	0.5
Other interest receivable	0.1	-
	1.4	1.2

13. Operating profit

The following items have been included in arriving at operating profit from operations:

	2018 £m	2017 £m
Depreciation of property, plant and equipment	168.4	158.0
Amortisation of intangible assets	0.2	0.2
Impairment of goodwill	-	0.2
Costs of inventories recognised as an expense	3,375.7	3,119.2
Insurance claims paid as insurer	2.0	1.3
Operating lease rentals - land and buildings	4.0	4.1
Operating lease rentals - plant and equipment	0.4	0.4
Gain on disposal of property, plant and equipment	3.4	2.4

14. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2018 £m	2017 £m
Fees payable to the company's auditor for the audit of the:		
Company's annual accounts	0.1	0.1
Subsidiaries' annual accounts	0.1	0.1
Total audit fees	0.2	0.2
Tax compliance and other advisory	0.1	0.1
Total non-audit fees	0.1	0.1

15. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2018 £m	2017 £m
Wages and salaries	341.7	309.8
Social security costs	32.2	29.1
Pension costs	8.2	5.3
Total employee benefits expense	382.1	344.2

The monthly average number of employees during the year was as follows:

	2018 No.	2017 No.
Office and management	2,071	1,989
Sales	3,770	3,472
Technicians	6,391	5,966
	12,232	11,427

16. Key management remuneration

The key management compensation, which includes Directors and key operational staff, was as follows:

	2018 £m	2017 £m
Short-term employee benefits	10.6	8.4

The Directors' emoluments were as follows:

	2018 £m	2017 £m
Emoluments	9.1	7.5
Emoluments of the highest paid Director	4.1	3.5

17. Income tax

The major components of income tax expense are:

	2018 £m	2017 £m
Current income tax:		
Corporation tax charge	25.5	23.3
Adjustments in respect of corporation tax charge of prior years	(0.1)	(0.3)
Deferred tax:		
Relating to origination and reversal of temporary differences	(1.4)	(1.7)
Effect of changes in tax rates	-	(0.3)
Adjustment in respect of previous years	0.2	-
Income tax expense reported in the Statement of Profit or Loss	24.2	21.0

There was no tax charged to Other Comprehensive Income in either year.

The reconciliation of the tax expense and the accounting profit multiplied by the standard rate of corporation tax for each year is as follows:

	2018 £m	2017 £m
Accounting profit before income tax	113.5	106.6
At UK corporation tax rate of 19% (2017 - 19.25%)	21.6	20.5
Tax effect of non-deductible expenses and non-taxable income	2.8	1.3
Effect of changes/differences in tax rates	-	(0.3)
Relief for overseas tax	(0.3)	(0.2)
Adjustments in respect of current income tax of prior periods	(0.1)	(0.3)
Adjustments in respect of deferred tax of prior periods	0.2	-
At the effective income tax rate of 21.3% (2017 - 19.7%)	24.2	21.0

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on these rates.

17. Income tax (continued)

Deferred tax is calculated in full on temporary timing differences under the liability method at the rates in force when the difference is likely to reverse. The average tax rate for 2018 is 17.9% (2017 - 17.9%).

	Consolidated Statement of Financial Position		Consolidated Statement of Profit or Loss and Other Comprehensive Income	
	2018 £m	2017 £m	2018 £m	2017 £m
Accelerated capital allowances	15.7	16.9	(1.2)	(3.2)
Other temporary differences	2.7	2.7	-	1.2
Deferred tax expense			(1.2)	(2.0)
Net deferred tax liability	18.4	19.6		

Reflected in the Statement of Financial Position as follows:

	2018 £m	2017 £m
Deferred tax assets	-	(0.2)
Deferred tax liabilities	18.4	19.8
Net deferred tax liability	18.4	19.6

The movement on the deferred tax account is reconciled as follows:

	2018 £m	2017 £m
At 1 January	19.6	21.6
Charged to the Statement of Profit or Loss and Other Comprehensive Income	(1.2)	(2.0)
At 31 December	18.4	19.6

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets because it is probable that there will be future taxable profits available. The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

18. Property, plant and equipment

Cost:	Freehold land and buildings £m	Leasehold property £m	Assets under construction £m	Plant and equipment £m	Motor vehicles £m	Total £m
At 1 January 2018	439.1	65.6	10.0	99.3	765.6	1,379.6
Additions	10.8	0.4	17.8	10.6	551.0	590.6
Disposals	(1.4)	-	(0.4)	(3.8)	(460.2)	(465.8)
Transfers	5.3	-	5.5	0.1	-	10.9
Acquisitions	1.7	-	-	0.2	-	1.9
At 31 December 2018	455.5	66.0	32.9	106.4	856.4	1,517.2
Depreciation:						
At 1 January 2018	74.3	6.7	-	64.9	212.5	358.4
Provided during the year	10.0	2.3	-	11.8	144.3	168.4
Disposals	(0.4)	-	-	(3.5)	(136.8)	(140.7)
At 31 December 2018	83.9	9.0	-	73.2	220.0	386.1
Net book value:						
At 31 December 2018	371.6	57.0	32.9	33.2	636.4	1,131.1
At 31 December 2017	364.8	58.9	10.0	34.4	553.1	1,021.2

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £770.1m (2017 - £694.2m) and related accumulated depreciation of £204.2m (2017 - £197.0m) , which are held for use in operating leases. Additions during the year include £478.7m (2017 - £460.0m) of motor vehicles purchased by way of hire purchase agreements. These cashflows have been presented gross in the cashflow, which accurately reflects the timing and structure of the related funding arrangements. These vehicles are provided as security in respect of the sums outstanding on the associated hire purchase agreements.

19. Investment properties

Cost:	£m
At 1 January 2018	66.7
Additions	7.0
Transfers to property, plant and equipment	(10.9)
At 31 December 2018	62.8
Depreciation:	
At 1 January 2018	-
Provided during the year	1.7
Disposals	-
At 31 December 2018	1.7
Net book value:	
At 31 December 2018	61.1
At 31 December 2017	66.7

20. Intangible assets

	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 January 2018	9.4	1.2	10.6
Acquisition of subsidiary undertakings	0.4	-	0.4
At 31 December 2018	9.8	1.2	11.0
Amortisation:			
At 1 January 2018	-	0.7	0.7
Provided during the year	-	0.2	0.2
At 31 December 2018	-	0.9	0.9
Net book value:			
At 31 December 2018	9.8	0.3	10.1
At 31 December 2017	9.4	0.5	9.9

The goodwill of £9.8m (2017 - £9.4m) arose on the acquisition of a number of dealerships; details of the movements in the year are included in note 7.

The Group's other intangibles consist of customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of business combinations. Due to the interlinked nature of these assets the Directors are not able to determine the cash flows resulting from the individual elements and consequently these are shown as a single asset.

For the purposes of impairment testing of goodwill, the Group allocates the goodwill acquired in a business combination to cash generating units ("CGU's"). Management have determined that the CGU's of the Group are the motor franchise groups and other business segments. The recoverable amount of each CGU's goodwill is based on its value in use calculated using the Board-approved budgets to calculate the discounted cash flows to perpetuity. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and gross margins.

The Group estimates discounted rates based on pre-tax rates that reflect the Group's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Group. The WACC used in the calculation is 8.7% (2017 - 8.6%).

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 1.5% (2017 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

Neither a 1% increase in the discount rate nor a 10% reduction in the forecast profitability would result in any impairment being required.

21. Inventories

	2018 £m	2017 £m
Motor vehicles	488.6	446.8
Parts and accessories	19.2	19.4
Work in progress and other stocks	5.4	5.2
Consignment stocks	68.8	89.6
	582.0	561.0

Included in motor vehicles is £87.1m (2017 - £64.7m) that is pledged as security for the other loan (see note 28).

At 31 December 2018, the Group held vehicles on sale or return with a wholesale value of £121.5m (2017 - £152.1m) excluding Value Added Tax. Included in stocks is £68.8m (2017 - £89.6m) in respect of vehicles where the risk and rewards of ownership are considered to lie with the Group. The Directors are satisfied that the remaining vehicles totalling £52.7m (2017 - £62.5m) are assets of the manufacturers. In relation to these stocks, the Group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

22. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	85.4	74.0
Other receivables	16.1	12.9
Prepayments and accrued income	38.0	34.5
Assets classified as held for sale	0.2	0.2
	139.7	121.6

Assets classified as held for sale consists of a freehold property in East Kilbride, Glasgow, which was actively being marketed for sale throughout the year. The property was sold after the balance sheet date on 16 January 2019 for proceeds of £0.2m.

At 31 December 2018, trade receivables with an initial carrying value of £1.3m (2017 - £1.6m) were impaired and fully provided for. The movements in the provision were as follows:

	2018 £m	2017 £m
At 1 January	1.6	1.2
Charge for the year	3.3	3.5
Utilised	(1.7)	(1.3)
Unused amounts reversed	(1.9)	(1.8)
At 31 December	1.3	1.6

22. Trade and other receivables (continued)

As at 31 December, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired			
		<30 days	30-60 days	60+ days	Total
	£m	£m	£m	£m	£m
2018	69.7	9.8	1.9	4.0	85.4
2017	60.6	8.7	1.5	3.2	74.0

23. Financial assets

The Group's investments are summarised by measurement category as follows:

	2018 £m	2017 £m
Fair value through profit and loss		
Certificates of deposit	113.0	101.2
Listed equities	2.6	2.8
	115.6	104.0

Movements in financial assets during the year were as follows:

	2018 £m	2017 £m
At 1 January	104.0	109.6
Net additions/(disposals)	11.5	(6.0)
Net fair value gains recognised in the profit and loss account	0.1	0.4
At 31 December	115.6	104.0

24. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	100.7	124.6
Certificates of deposit	21.0	7.2
	121.7	131.8

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group invests surplus cash in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents.

25. Issued share capital

The share capital at 31 December 2018 and 31 December 2017 is analysed as follows:

	Authorised		Allotted, called up and fully paid	
	2018 No.	2017 No.	2018 £m	2017 £m
Ordinary shares of £1 each	1,000,000	1,000,000	1.0	1.0

No shares were authorised or issued in either period.

26. Dividends

	2018 £m	2017 £m
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £5.37 per share (2017 - £3.50 per share)	5.4	3.5

The 2019 interim dividend of £6.5m was declared on 8 March 2019 (£6.50 per share).

27. Provisions

	Commission clawback	
	2018 £m	2017 £m
At 1 January	8.2	6.7
Amounts utilised in the period	(5.7)	(5.1)
Amounts charged to the profit and loss account	6.9	6.5
Unwinding of discount	0.1	0.1
At 31 December	9.5	8.2
Amounts included in current liabilities	4.1	3.7
Amounts included in non-current liabilities	5.4	4.5
	9.5	8.2

The Group acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is early-settled by the customer or terminated early by the finance company due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to 5 years in line with the terms of the associated finance arrangements.

The provision has been discounted at the risk-free discount rate of 1% (2017 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.4m and a 1% increase in the risk-free discount rate would reduce the provision by £0.1m.

28. Financial liabilities

Interest-bearing loans and borrowings

	2018 £m	2017 £m
Current interest-bearing loans and borrowings:		
Other loans	69.0	51.3
Obligations under hire purchase agreements	243.0	245.6
	312.0	296.9
Non-current interest-bearing loans and borrowings:		
Obligations under hire purchase agreements	225.0	176.8
Total interest-bearing loans and borrowings	537.0	473.7

Other loans represents a stocking facility with Lombard North Central plc, is secured on the vehicles funded and is repayable on demand.

The Group has a number of hire purchase contracts for vehicles. The Group's obligations under hire purchase contracts are secured on the vehicles funded. Future minimum payments under hire purchase agreements, together with the present value of the net minimum lease payments, are as follows:

	Minimum payments		Present value of payments	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts payable				
Within one year	251.2	251.7	243.0	245.6
In two to five years	229.7	180.0	225.0	176.8
	480.9	431.7	468.0	422.4
Less: future finance charges	(12.9)	(9.3)		
Present value of hire purchase obligations	468.0	422.4		
Current interest-bearing borrowings			243.0	245.6
Non-current interest-bearing borrowings			225.0	176.8
			468.0	422.4

29. Trade and other payables

	2018 £m	2017 £m
Trade payables	211.8	225.0
Other taxes and social security costs	11.1	22.0
Other creditors	60.1	57.4
Insurance liabilities	6.7	8.4
Accruals and deferred income	180.7	153.0
Consignment stock creditor	68.8	89.6
Buyback creditor	14.0	-
	553.2	555.4
Amounts included in current liabilities	527.7	550.6
Amounts included in non-current liabilities	25.5	4.8
	553.2	555.4

Amounts included in non-current liabilities relate to rentals paid in advance, which are included in accruals and deferred income, and the buyback creditor which represents the Group's commitment to buy back certain vehicles previously sold at a pre-determined date and value.

Insurance liabilities comprise of provisions for the estimated cost of settling all motor and liability claims incurred up to but not paid at the balance sheet date. The time to settle such claims is subject to the complexity of each case but is not expected to exceed 10 years. Insurance liabilities are analysed as follows:

	2018 £m	2017 £m
VRI: claims outstanding	0.2	0.2
VRI: claims outstanding - incurred but not reported	0.3	1.5
	0.5	1.7
Self-insured: claims outstanding	6.2	6.7
Total insurance liabilities	6.7	8.4

The development tables below give an indication of the time it takes to settle claims in regard to VRI.

	2016 £m	2017 £m	2018 £m	Total £m
Estimate of ultimate claims cost:				
at end of accounting period	0.4	0.5	0.3	
one year later	1.3	0.8	-	
two years later	1.4	-	-	
three years later	-	-	-	
Current estimate of cumulative claims	1.4	0.8	0.3	2.5
Cumulative payments to date	(1.3)	(0.7)	(0.1)	(2.1)
Liability recognised in the Statement of Financial Position	0.1	0.1	0.2	0.4
Other technical provisions				0.1
				0.5

30. Commitments and contingencies

Operating lease commitments - Group as a lessee

The Group has entered into operating leases in respect of land and buildings, with lease terms from 1 to 124 years. Under some of the leases the Group and/or the landlord has the option to break the lease at specified points in time; in these cases the future minimum payments are calculated up until the specified point in time.

Future minimum rentals payable for land and buildings under non-cancellable operating leases as at 31 December are as follows:

	2018 £m	2017 £m
Within one year	3.6	3.5
After one year but not more than five years	8.8	9.9
More than five years	76.9	77.9
	89.3	91.3

The Group has entered into operating leases in respect of plant and equipment, with lease terms from 1 to 5 years from installation. Future minimum rentals payable for plant and equipment under non-cancellable operating leases as at 31 December are as follows:

	2018 £m	2017 £m
Within one year	0.4	0.4
After one year but not more than five years	1.2	1.4
More than five years	-	0.1
	1.6	1.9

Operating lease commitments - Group as a lessor

The Group has entered into operating leases as lessor in respect of contract hire vehicles and in respect of investment properties. The contract hire vehicles are leased for periods of between 12 and 48 months and the investment properties are on lease terms of up to 16 years with most of the agreements being subject to break clauses.

Future minimum rentals receivable under non-cancellable operating leases at 31 December are as follows:

	Contract hire vehicles		Investment properties	
	2018 £m	2017 £m	2018 £m	2017 £m
Within one year	105.9	95.6	3.6	4.4
After one year but not more than five years	102.3	90.2	12.2	15.5
More than five years	-	-	9.8	15.9
	208.2	185.8	25.6	35.8

Capital commitments

At the year end, the Group had capital commitments as follows:

	2018 £m	2017 £m
Contracted but not provided for	3.0	4.0

31. Reconciliation of profit to net cash flow from operating activities

	2018 £m	2017 £m
Profit for the year	89.3	85.6
Adjustment for taxation	24.2	21.0
Adjustment for net financing costs	12.0	11.3
	125.5	117.9
Depreciation of property, plant and equipment	168.4	158.0
Depreciation of investment property	1.7	-
Amortisation of intangibles	0.2	0.2
Impairment of goodwill	-	0.2
Profit on disposal of property, plant and equipment	(3.4)	(2.4)
Increase in receivables	(17.5)	(8.5)
Increase in inventories	(39.0)	(65.0)
Increase in trade and other payables	14.4	46.6
Increase in provisions	1.3	1.4
Unwinding of discount on provisions	(0.1)	(0.1)
Additions to motor vehicles	(551.0)	(515.3)
Proceeds from disposal of motor vehicles	325.9	369.9
Taxation paid	(25.2)	(28.9)
Interest received	1.0	0.5
Interest paid	(13.3)	(12.2)
Net cash flow from operating activities	(11.1)	62.3

32. Ultimate controlling related party

The Directors consider that Lady Clark is the Group's ultimate controlling party by virtue of her office, her shareholding and the shareholdings of her immediate family.

Company Statement of Financial Position

at 31 December 2018

Arnold Clark Automobiles Limited

	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Property, plant and equipment	A5	511.6	465.7
Investment properties	A6	61.1	66.7
Intangible assets	A7	7.4	7.6
Investments	A8	71.6	65.5
		651.7	605.5
Current assets			
Inventories	A9	537.5	493.3
Trade and other receivables	A10	122.8	108.4
Financial assets	A11	55.2	53.6
Cash and cash equivalents	A12	117.8	124.0
		833.3	779.3
Total assets		1,485.0	1,384.8
Equity and liabilities			
Issued share capital	A13	1.0	1.0
Profit and loss account		856.7	786.1
Total equity		857.7	787.1
Non-current liabilities			
Provisions	A15	5.4	4.5
Trade and other payables	A18	20.5	-
Deferred tax liabilities	A16	10.5	10.9
		36.4	15.4
Current liabilities			
Interest-bearing loans and borrowings	A17	69.0	51.3
Trade and other payables	A18	499.8	513.4
Income tax payable		18.0	13.9
Provisions	A15	4.1	3.7
		590.9	582.3
Total liabilities		627.3	597.7
Total equity and liabilities		1,485.0	1,384.8

Approved by the Board on 27 March 2019

E Hawthorne
Chief Executive and Group
Managing Director

K J McLean
Group Finance Director

Company Statement of Changes in Equity

for the year ended 31 December 2018

Arnold Clark Automobiles Limited

	Share Capital	Profit and loss account	Total
	£m	£m	£m
As at 1 January 2017	1.0	696.6	697.6
Total comprehensive income	-	93.0	93.0
Dividends to shareholders	-	(3.5)	(3.5)
As at 31 December 2017	1.0	786.1	787.1
As at 1 January 2018	1.0	786.1	787.1
Total comprehensive income	-	76.0	76.0
Dividends to shareholders	-	(5.4)	(5.4)
As at 31 December 2018	1.0	856.7	857.7

Notes to the Company Financial Statements

for the year ended 31 December 2018

Arnold Clark Automobiles Limited

A1. Statement of compliance with FRS 101

The results of Arnold Clark Automobiles Limited ("the Company") are included in the consolidated financial statements on pages 13 to 46.

The separate entity financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) as issued September 2015. The financial statements are prepared under the historical cost convention. The Company has elected to prepare the Statement of Financial Position in an adapted format, as permitted under the standard, so that it is prepared in a consistent format to the Consolidated Statement of Financial Position.

No Statement of Profit or Loss is presented by the Company as permitted by Section 408 of the Companies Act 2006. The Company had no other comprehensive income in either year.

The accounting policies that follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018. The financial statements are prepared in Sterling and are rounded to the nearest £0.1 million pounds.

A2. Accounting policies

A2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 "Reduced Disclosure Framework").

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a. The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS3 Business Combinations;

b. the requirements of IFRS 7 Financial Instruments: Disclosures;

c. the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

d. the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

  i. paragraph 79(a)(iv) of IAS 1;

  i. paragraph 73(e) of IAS 16 Property, Plant and Equipment;

  i. paragraph 118(e) of IAS 38 Intangible Assets;

  i. paragraphs 76 and 79(d) of IAS 40 Investment Property;

e. the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS1 Presentation of Financial Statements;

f. the requirements of IAS 7 Statement of Cash Flows

g. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

h. the requirements of paragraph 17 of IAS24 Related Party Disclosures;

i. the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is a wholly owned by such a member; and

j. the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of assets.

In each instance equivalent disclosures are included in the consolidated financial statements of the Group in which the Company is consolidated.

A2.2 **Summary of significant accounting policies**

Business combinations and goodwill

All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the Company will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised as negative goodwill in the Statement of Financial Position. If, at the accounting date, the fair value of the net identifiable assets acquired and liabilities assumed can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. An impairment test is performed annually.

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Land and buildings	: Freehold	-	1% - 16.7%
	: Leasehold	-	as freehold or over the lease term where shorter
Plant and equipment	: General	-	8.5% to 25%
	: Computer equipment	-	25% to 33%
Motor vehicles		-	12.5% to 40%

Investment properties

Investment properties are measured initially at cost, including transaction costs.

Depreciation is provided on all investment properties at a rate calculated to write off the cost, less estimated residual value, of each asset over an expected useful life of 50 years. Transfers are made to, or from, investment property only when there is a change in use.

A2.2 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful life of customer relationships is expected to be up to 5 years. Amortisation is included in administrative expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

Subsequent measurement

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the Statement of Profit or Loss and Other Comprehensive Income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognised in the Statement of Profit or Loss and Other Comprehensive Income in finance costs for loans and in cost of sales or other operating expenses for receivables. Interest is not recognised on short-term receivables where the interest would be immaterial. This category generally applies to trade and other receivables.

A2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets
For financial assets carried at amortised cost, impairment losses are calculated based on an 'expected credit loss' model as permitted under IFRS 9. The amount of any impairment loss identified is measured as the difference between the contractual cashflows due less what the Company expects to receive. Trade and other receivables are considered to be in default when borrower is unlikely to pay its credit obligations in full after reasonable actions have been taken to recover the debt.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or other payables.
All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

The Directors have considered the terms of each of the individual manufacturer's consignment stocking agreements with specific reference to those terms which have a significant bearing on the allocation of risks and rewards of ownership between the Company and the manufacturer. These terms are the Company's ability to return stock to the manufacturer without penalty, the manufacturer's ability to reallocate stocks to third parties and the point in time at which the consideration payable on adoption of the stock is determined. Where, based on this assessment, the Directors consider that the substance of the manufacturer's consignment stocking agreement is such that the risks and rewards of ownership are substantially transferred to the Company, the stocks are recognised on the balance sheet and the corresponding liability to the manufacturer is included within creditors. In all other circumstances the consignment stocks and corresponding liability are not recognised on the balance sheet and are instead disclosed separately in a note to the financial statements.

Cash and short-term deposits

Cash and short-term deposits in the Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of 3 months or less, which are subject to an insignificant risk of changes in value.

Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Statement of Profit or Loss and Other Comprehensive Income.

The Company acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is terminated early due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to 5 years in line with the terms of the associated finance arrangements.

A2.2 Summary of significant accounting policies (continued)

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted ,or substantively enacted, at the reporting date.

A3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Provisions

The Company acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is early-settled by the customer or terminated early by the finance company due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to 5 years in line with the terms of the associated finance arrangements.

The timing and quantum of the amounts due to the finance companies is inherently uncertain and the amounts provided are based on prior years' experience and on expectations for the future. The calculation of the provision requires the exercise of significant judgement by management. The provision has been discounted at the risk-free discount rate of 1% (2017 - 1%). Significant unforeseen changes in the wider economy or changes to the UK Gilt rates could result in the provision being misstated.

Goodwill and other intangible assets

The Company reviews the goodwill arising on the acquisition of subsidiaries or businesses for impairment at least annually. Goodwill, other intangible assets and tangible assets are reviewed when events or changes in economic circumstances indicate that impairment may have taken place. The impairment review is performed by projecting the future cash flows, excluding finance and tax, of the associated cash generating unit based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying net assets and related goodwill, an impairment charge would be required in the Income Statement.

The Company estimates discount rates based on pre-tax rates that reflect the Company's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Company. The WACC used in the calculation is 8.7% (2017 - 8.6%)

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 1.5% (2017 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

This calculation requires the exercise of significant judgement by management; if the estimates made prove to be incorrect or changes in the performance of the subsidiaries affect the amount and timing of future cash flows, goodwill may become impaired in future periods.

A4. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £76.0m (2017 - £93.0m).

A5. Property, plant and equipment

	Freehold land and buildings £m	Leasehold property £m	Assets under construction £m	Plant and equipment £m	Motor vehicles £m	Total £m
Cost:						
At 1 January 2018	391.4	63.7	10.0	88.6	56.7	610.4
Additions	10.5	0.4	17.8	8.8	66.0	103.5
Disposals	(1.3)	-	(0.4)	(3.5)	(43.7)	(48.9)
Transfers	5.3	-	5.5	0.1	-	10.9
At 31 December 2018	405.9	64.1	32.9	94.0	79.0	675.9
Depreciation:						
At 1 January 2018	68.2	6.3	-	57.7	12.5	144.7
Provided during the year	9.0	2.2	-	10.2	13.8	35.2
Disposals	(0.3)	-	-	(3.4)	(11.9)	(15.6)
At 31 December 2018	76.9	8.5	-	64.5	14.4	164.3
Net book value:						
At 31 December 2018	329.0	55.6	32.9	29.5	64.6	511.6
At 31 December 2017	323.2	57.4	10.0	30.9	44.2	465.7

A6. Investment properties

Cost:	£m
At 1 January 2018	66.7
Additions	7.0
Transfers to property, plant and equipment	(10.9)
At 31 December 2018	62.8
Depreciation:	
At 1 January 2018	-
Provided during the year	1.7
Disposals	-
At 31 December 2018	1.7
Net book value:	
At 31 December 2018	61.1
At 31 December 2017	66.7

A7. Intangible assets

	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 January 2018	7.3	0.7	8.0
Disposals	-	-	-
At 31 December 2018	7.3	0.7	8.0
Amortisation:			
At 1 January 2018	-	0.4	0.4
Provided in the year	-	0.2	0.2
At 31 December 2018	-	0.6	0.6
Net book value:			
At 31 December 2018	7.3	0.1	7.4
At 31 December 2017	7.3	0.3	7.6

The Company's other intangibles consist of customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of business combinations. Due to the interlinked nature of these assets the Directors are not able to determine the cash flows resulting from the individual elements and consequently these are shown as a single asset.

For the purposes of impairment testing of goodwill, the Group allocates the goodwill acquired in a business combination to cash generating units ("CGU's"). Management have determined that the CGU's of the Group are the motor franchise groups and other business segments. The recoverable amount of each CGU's goodwill is based on its value in use calculated using the Board approved budgets to calculate the discounted cash flows to perpetuity. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and gross margins.

The Company estimates discount rates based on pre-tax rates that reflect the Company's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Company. The WACC used in the calculation is 8.7% (2017 - 8.6%).

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 1.5% (2017 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

Neither a 1% increase in the discount rate nor a 10% reduction in the forecast profitability would result in any impairment being required.

A8. Investments

Cost	£m
At 1 January 2018	65.5
Additions	6.1
At 31 December 2018	71.6

A full list of subsidiary undertakings is provided in note 6.

A9. Inventories

	2018 £m	2017 £m
Motor vehicles	449.4	395.0
Parts and accessories	18.2	18.3
Work in progress and other stocks	5.3	5.0
Consignment stocks	64.6	75.0
	537.5	493.3

Included in motor vehicles is £87.1m (2017 - £64.7m) that is pledged as security for the other loan (see note A17).

At 31 December 2018, the Company held vehicles on sale or return with a wholesale value of £117.3m (2017 - £137.5m) excluding Value Added Tax. Included in stocks is £64.6m (2017 - £75.0m) in respect of vehicles where the risk and rewards of ownership are considered to lie with the Company. The Directors are satisfied that the remaining vehicles totalling £52.7m (2017 - £62.5m) are assets of the manufacturers. In relation to these stocks, the Group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

A10. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	60.7	56.0
Other receivables	14.4	11.7
Prepayments and accrued income	31.0	29.1
Amounts due from group undertakings	16.7	11.6
	122.8	108.4

Arnold Clark Automobiles Limited

A11. Financial assets

The Company's investments are summarised by measurement category as follows:

	2018 £m	2017 £m
Fair value through profit and loss		
Certificates of deposit	52.6	50.8
Listed equities	2.6	2.8
	55.2	53.6

Movements in financial assets during the year were as follows:

	£m
At 1 January 2018	53.6
Net additions	1.6
Net *fair value gains recognised in the profit and loss account*	-
At 31 December 2018	55.2

A12. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	96.8	116.8
Certificates of deposit	21.0	7.2
	117.8	124.0

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company invests surplus cash in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents in accordance with IAS7.

A13. Issued share capital

The share capital at 31 December 2018 and 31 December 2017 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2018 No.	2017 No.	2018 £m	2017 £m
Ordinary shares of £1 each	1,000,000	1,000,000	1.0	1.0

No shares were authorised or issued in either period.

A14. Dividends

	2018 £m	2017 £m
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £5.37 per share (2017 - £3.50 per share)	5.4	3.5

The 2019 interim dividend of £6.5m was declared on 8 March 2019 (£6.50 per share).

A15. Provisions

	Commission clawback	
	2018 £m	2017 £m
At 1 January	8.2	6.7
Amounts utilised in the period	(5.7)	(5.1)
Amounts charged to the profit and loss account	6.9	6.5
Unwinding of discount	0.1	0.1
At 31 December	9.5	8.2
Amounts included in current liabilities	4.1	3.7
Amounts included in non-current liabilities	5.4	4.5
	9.5	8.2

The Company acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is early-settled by the customer or terminated early by the finance company due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to 5 years in line with the terms of the associated finance arrangements.

The provision has been discounted at the risk-free discount rate of 1% (2017 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.4m and a 1% increase in the risk-free discount rate would reduce the provision by £0.1m.

A16. Deferred tax liabilities

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 17.1% (2017 - 17.1%).

	2018 £m	2017 £m
Accelerated capital allowances	7.8	8.0
Other timing differences	2.7	2.9
Deferred tax liability	10.5	10.9

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets because it is probable that there will be future taxable profits available.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

A17. Financial liabilities

Current interest-bearing loans and borrowings:

	2018 £m	2017 £m
Other loans	69.0	51.3

Other loans represents a stocking facility with Lombard North Central plc, is secured on the vehicles funded and is repayable on demand.

A18. Trade and other payables

	2018 £m	2017 £m
Trade payables	176.1	187.6
Other taxes and social security costs	12.3	19.0
Other creditors	43.4	41.5
Insurance liabilities	6.2	6.7
Accruals and deferred income	146.2	123.2
Consignment stock creditor	64.6	75.0
Amounts due to group undertakings	57.5	60.4
Buyback creditor	14.0	-
	520.3	513.4
Amounts included in current liabilities	499.8	513.4
Amounts included in non-current liabilities	20.5	-
	520.3	513.4

Amounts included in non-current liabilities relate to rentals paid in advance, which are included in accruals and deferred income, and the buyback creditor which represents the Company's commitment to buy back certain vehicles previously sold at a pre-determined date and value.

A19. Operating lease commitments

Company as a lessee

The Company has entered into operating leases in respect of land and buildings, with lease terms from 1 to 124 years. Under some of the leases the Company and/or the landlord has the option to break the lease at specified points in time, in these cases the future minimum payments are calculated up until the specified point in time.

Future minimum rentals payable for land and buildings under non-cancellable operating leases as at 31 December are as follows:

	2018 £m	2017 £m
Within one year	3.2	3.0
After one year but not more than five years	7.9	8.7
More than five years	76.6	77.5
	87.7	89.2

A19. Operating lease commitments (continued)

The Company has entered into operating leases in respect of plant and equipment, with lease terms from 1 to 5 years from installation.

Future minimum rentals payable for plant and equipment under non-cancellable operating leases as at 31 December are as follows:

	2018 £m	2017 £m
Within one year	0.4	0.4
After one year but not more than five years	1.2	1.4
More than five years	-	0.1
	1.6	1.9

Company as a lessor

The Company has entered into operating leases as lessor in respect of investment properties on lease terms of up to 16 years with most of the agreements being subject to break clauses.

Future minimum rental receivable under non-cancellable operating leases at 31 December are as follows:

	2018 £m	2017 £m
Within one year	3.6	4.4
After one year but not more than five years	12.2	15.5
More than five years	9.8	15.9
	25.6	35.8

A20. Capital commitments

At the year end, the Company had capital commitments as follows:

	2018 £m	2017 £m
Contracted but not provided for	3.0	4.0

A21. Other financial commitments

The Company has undertaken to repurchase certain motor vehicles throughout 2018. As the Company will be repurchasing these vehicles at trade values at the date of purchase, the Directors consider that losses arising from disposal of the vehicles for less than the repurchase value will not occur and, accordingly, no provision for such losses is made in the financial statements.

Arnold Clark Automobiles Limited

A22. Contingent liabilities

Under a group registration for Value Added Tax, the companies within the Group are jointly and severally liable for Value Added Tax due by any member of the group registration. At 31 December 2018, the Value Added Tax receivable by other members of the group registration amounted to £1.9m (2017 - payable of £2.5m).

Under the terms of an inter-company guarantee, the parent company and its trading subsidiaries have jointly and severally guaranteed repayment of all sums due to The Royal Bank of Scotland plc by any of the parties to the guarantee. At 31 December 2018, the other companies included in the guarantee had net funds of £2.4m (2017 - £2.6m) due from The Royal Bank of Scotland plc.

A23. Directors emoluments

The Directors' emoluments were as follows:

	2018 £m	2017 £m
Emoluments	8.5	7.0
Emoluments of the highest paid Director	4.1	3.5