ARNOLD CLARK AUTOMOBILES LIMITED
ANNUAL REPORT 2019

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
J T Graham BSc (Hons) CA Dip CII	Finance Director (Automobiles)
S R Grant BA	Group Aftersales Director
C S Henry BA (Hons) FCIPD	Group People Director
C Morgan BA (Hons) LLB	Group Head of Legal

Company Secretary

S K Thorpe BA (Hons) BFP FCA MICA

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Tax Advisers

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

Principal Bankers

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

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Auditors

Deloitte LLP
110 Queen Street, Glasgow G1 3BX

Chief Executive's Statement

Arnold Clark Automobiles Limited

As I write, Covid-19 and its ongoing impact dominates our daily lives. The restrictions which the Government implemented on the movement of people and trading activity to contain the virus had an immediate adverse impact on economic activity. It is now clear that the two greatest challenges we face are the well-being of our customers and staff as well as the cash flow impact arising from the temporary closure of our retail sites. It is not clear how widespread or long lasting the situation will be, but our priority is to make sure our workplaces are as safe as possible for customers and staff as they reopen and concentrate our immediate efforts on taking the necessary mitigating actions to ensure that the business has the financial resources to emerge from the current difficult situation and return to profitable growth.

Following the temporary closure of our retail sites, with no substantive revenue generation and carrying close to normal levels of used vehicle inventory, it was essential to minimise further net cash outflows and a range of mitigating actions were implemented. The principal mitigating actions are more fully explained in Note 34 to the Consolidated Financial Statements and include difficult decisions around the furloughing of employees, accessing various forms of Government support and the deferral of funding repayments both by ourselves and by our customers.

I would like to express my gratitude to all of our manufacturer, finance, banking and business partners who are providing tremendous support to the Group during this unprecedented period and helping to mitigate the economic and societal impact of the Covid-19 virus.

The financial strength of the Group provides a very solid foundation in terms of our net funding position. The Board has concluded that the business has sufficient cash and other resources to deal with the challenges in the year ahead. The Board will continue to monitor the situation on a daily basis.

Having outlined our plans to mitigate the immediate issue of Covid-19, I will now comment on our 2019 performance and our plans for when the current situation has passed.

2019 was another excellent full year performance for the Group despite ongoing challenging market conditions for the UK motor industry and the wider retail sector. Revenue increased by 5.3% to £4.5bn with profit before tax increasing by £3.5m to £117.0m.

The increase in revenue is primarily driven by used car sales with units increasing by 7.3% to 256,376. Used vehicle supply has continued to be strengthened by our 'Arnold Buys Your Car' brand which provides an efficient and straightforward digital solution for individuals to sell their used vehicle. As in previous years, we have continued to invest in and expand our Motorstore used vehicle operation.

The Group's new car sales decreased by 7.4% to 63,310 units, reflecting the continued decline in the UK new car market. Availability of new car stock continued to be an issue in 2019 and was further impacted by the second stage of Real Driving Emissions (RDE2) regulations, increasing new car testing requirements and causing additional disruption to the supply chain.

Arnold Clark Finance Limited, our vehicle management and daily rental business, reported a fall in both revenue and profit before tax. Revenue decreased by 8.3% to £464.6m as contract timings led to a reduction in the volume of vehicle disposals. Profit before tax decreased from £9.0m to £7.5m due to a combination of vehicle price increases, increased funding costs and increased depreciation charges associated with operating a larger fleet.

I am honoured that we have once again been recognised at the AM Awards in February 2020. For the second year running, we were named Dealer Group of the Year - AM's headline award - in addition to being recognised as Best Used Car Dealer Group. These awards were only possible thanks to the hard work and dedication of our employees, our commitment to putting our customers first and the digital to physical retail experience we've created over the years. I believe this sets us apart in the motor trade and in our ambition to be a retailer of choice.

Expansion of our branch network

As noted previously, we continue to invest significant resources in our Motorstore brand which retails nearly new and used cars along with aftersales offerings in strategic locations. In February 2019, we opened our new branch in Bolton and completed the construction of our Wolverhampton site in September. Both locations are in new territories for the Group and we have worked hard to engage with local communities to promote our product offerings. It is pleasing to note that both branches have made significant contributions to the Group since opening. We also look forward to the opening of our second Motorstore in Leeds in the second half of this year.

As reported last year, the Group acquired the trade and assets of Phoenix Motor Group in January 2019. This preserved 150 jobs and secured the Kia, Hyundai, Mitsubishi and Honda franchises in Linwood, near Paisley. In December 2019, we acquired the former Hardie of Stirling site adjacent to our existing Mitsubishi and Volvo dealerships.

In July and December respectively, we opened our new Volvo branches in Aberdeen and Stirling, incorporating the latest Volvo Retail Experience corporate identity. In September, we opened our Trafford Park Autoparts centre which will assist both dealership expansion in north west England and enhance our trade parts offering in the region.

In April, we were delighted to open the iconic Botanic Gardens Garage retail space on Vinicombe Street in Glasgow's West End. Following a substantial and complex refurbishment, we were honoured to be nominated for Regeneration Project of the Year at the recent Scottish Property Awards.

We also added to our tenanted dealerships during the year with acquisitions in Ayr, East Kilbride, Glasgow, Milton Keynes and Shrewsbury.

Innovation and Business Development

The Group has committed to invest in excess of £5m to create an 'Innovation Centre' in South Street, Glasgow to meet the increased demand for information on electric vehicles. The site, which is the first of its kind in Scotland, will give the general public the opportunity to drive the latest alternatively fuelled vehicles and will act as an education hub for local communities, schools and businesses. This project, which commenced before the Government enforced shutdown in March, has now been postponed for the near term.

Digital development continues to be an area of significant strategic importance for us. We have continued to invest in online platforms to streamline and enhance the user experience, including the ability to reserve cars online for a refundable £99 deposit. A full rollout has taken place during 2020 and represents a major advance in our online retail offering. In 2019, we were delighted to surpass 50 million hits on our website; an impressive increase of 32% on the prior year. This has contributed towards a significant uplift in enquiries and is now our principal marketing channel.

In December 2019, we launched our interactive Customer App on both IOS and Android platforms. To date, we have seen an uptake of almost 50,000 customers which has greatly enhanced the digital experience. The app will be one of the main platforms for communicating and transacting with our customers in the future.

We continued to improve the employee experience by developing our Arnold Clark employee app - an employee wellbeing platform focusing on financial, physical and mental health and an enhanced digital onboarding process for new starts. Our progress in this area has been acknowledged through employee feedback resulting in us being ranked in the Indeed 'Top 25 Best Places to Work in the Private Sector'. Our commitment to promoting an open and inclusive culture has led to being recognised in the Financial Times Diversity Leaders rankings and receiving the Autotrader People and Culture award.

In 2019, we enrolled an additional 500 apprentices into our regulated training programmes. These apprenticeship programmes have been severely disrupted by the Covid-19 crisis, however the Group has extended apprenticeship contracts where appropriate to ensure that each training programme completes in due course. In November, the Group held our annual Arnold Clark Recognition event at the Glasgow SEC Armadillo where the achievements of over 400 employees were recognised.

Chief Executive's Statement

Arnold Clark Automobiles Limited

Community Engagement

During 2019, the Group were proud to support over 400 charities throughout the UK; many at the request of employees who raised funds for causes within their local communities or in which they have a personal interest. Recognising the importance of the communities in which we operate and supporting them through charitable giving is a core part of the culture of our organisation. As such, it gave us great pleasure to be able to match funds raised by our employees; a policy which we intend to continue in the future.

In 2019, we were delighted to continue to be one of the main sponsors of the Kiltwalk which had a fantastic uptake from our employees. We were also proud to be a headline sponsor of the Oor Wullie BIG Bucket Trail, a unique event raising vital funds for children's hospitals, and we partnered with Maggie's to raise funds for their 23 cancer centres across the UK. In the 6th year of running our 'Gear Up For Sport' initiative, we gave away 450 sets of sports kits to youth teams across the country.

Future Prospects

We started 2020 in a strong position and, despite leaving the European Union on 31 January 2020 and trading arrangements remaining unclear during the subsequent transition period, there has been no immediate impact of the withdrawal on our business with positive performance across January and February. Subsequent performance has been adversely impacted by Covid-19 and the resultant temporary closure of our retail sites.

The outlook for the remainder of the year is unclear and is dependent upon the long term impact of Covid-19 as well as the timing of reopening our retail sites. We continue to plan for the full restart of our business whilst always being mindful of why we are in this position, in that the health of our employees, their families, our customers and the communities that we live in will be our main consideration. However, as stated previously, we have put in place a number of mitigating actions to ensure that the business has the financial resources to emerge from the current difficult situation and return to profitable growth.

The success of the business is underpinned by the exceptional work of our employees. On behalf of the Board, I would like to take this opportunity to thank all our staff for their efforts in 2019 and for their continuing support during this difficult time.

Finally, I would like to give my personal thanks and appreciation to Kenneth McLean, Group Finance Director, and Scott Willis, Group Sales Director, who are stepping down from their current operational roles in August 2020. Kenneth and Scott have been in their current roles with the Group for over 25 years and have been an integral part of the Group's success throughout that period. I am, however, delighted that both Kenneth and Scott will continue to bring their substantial knowledge and experience to bear as they will be remaining as Directors of Arnold Clark Automobiles Ltd.

E Hawthorne
Chief Executive and Group Managing Director
4 June 2020

The Directors present their Strategic Report for the year ended 31 December 2019.

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:

	2019	2018	Change
Group revenue	£4,463m	£4,237m	5.3%
Used car sales (units)	256,376	238,977	7.3%
New car sales (units)	63,310	68,344	(7.4)%
Group operating profit	£131.3m	£125.5m	4.6%

Used car sales units increased by 7.3% due to the opening of new branches and like for like sales increasing by 4.2%. New car sales units fell by 7.4% on the prior year.

Revenue rose by 5.3% to a record £4,463m, primarily as a result of the increase in used car sales. Group operating profit increased by 4.6% due the significant increase in used car units retailed and strong margins retained on those. The Group started 2020 well with strong trading performance in January and February. Subsequent performance has been adversely impacted by the Covid-19 and the resultant temporary closure of our retail sites. A further review of the business is provided in the Chief Executive's Statement on pages 2 to 4.

Statement of corporate governance arrangements

As a family owned business, we run our business in a way consistent with an agreed set of core values covering how we deliver value to shareholders and the wider community and how we interact with our stakeholders, including shareholders, employees, customers or suppliers. Accordingly, we have not applied a specific corporate governance code during 2019. The Board will monitor the development of private company corporate governance before deciding, in conjunction with the shareholders, whether it would be beneficial to formally adopt a specific corporate governance code such as the Wates Principles. Our corporate governance arrangements are as follows:

Purpose and leadership

The Group's mission statement was set by our founder, Sir Arnold Clark, and is "to provide exceptional value for money and the highest levels of customer service".

The Board sets our overall strategy and values and formally meets on a quarterly basis to monitor performance against that strategy. The Group's values are embedded in its operations and reinforced during induction for new employees and at regular Director led branch and departmental meetings across the Group. Employee feedback helped to create five core values: Family, Communication, Progression, Community and Recognition. These are the values that guide and inform everything we do and reflect our principles as a business. The Group has a zero-tolerance approach on bribery and corruption, tax evasion and modern slavery. Breach of the Group values is a disciplinary matter where appropriate. The Board holds regular meetings with groups of local managers to seek feedback on trading conditions and the effectiveness of the Group's overall strategy.

Board composition

The Board comprises the Chairwoman, six Executive Directors and one Non-Executive Director. Each Executive Director has clear responsibility for separate parts of the business.

The Board are supported by an Operations Board made up of individuals from a wide range of backgrounds, skills and experience. Executive Directors hold regular operational meetings with their respective leadership teams and meet the Operations Board on a weekly basis to monitor business performance and agree required actions after which an informal meeting of Executive Directors considers appropriate responses and actions. The Board meets quarterly to discuss longer term strategy with additional six monthly strategy meetings held with the Operations Board.

Appointments to the Board are discussed with the Chairwoman prior to any appointment being confirmed.

Statement of corporate governance arrangements (continued)

Director responsibilities

The Board seeks to ensure that the necessary financial, legal and human resources are in place for the Group to be able to meet its objectives, to review management performance and to ensure that its obligations to its shareholders are understood and met. All Directors have a clear understanding of their roles and have access to the Group Head of Legal for advice on their responsibilities or relevant regulation. This ensures the Board receives regular briefings on new regulations impacting the Group, including General Data Protection Regulation and the impact of adopting new accounting standards. The Board receive timeous information regarding the performance of the business throughout the working day.

Remuneration

The Group seeks to provide competitive remuneration packages that will attract and retain executives of the calibre required to take forward the Group's strategy. Remuneration comprises a base salary, bi-annual discretionary bonus, dependent upon individual qualitative performance, and a competitive benefits package. The remuneration package of each Director is discussed and agreed by the CEO and with the Chairwoman as the senior family representative on the Board. Discussions with the Chairwoman take into account business performance and the level of change to employee remuneration.

Brexit

The UK left the European Union on 31 January 2020 and is in a transition period which is due to end on 31 December 2020. There is still significant uncertainty surrounding the terms of the ongoing relationship between the UK and the EU after this date. The outcome will be dependent on the trade negotiations between the two parties which will undoubtedly intensify as we approach the end of the transition period. Our Brexit risk principally arises around the impact on the supply chain and pricing for new vehicles and parts due to the effect of tariff and non-tariff barriers. Given the nature of our business, much depends upon the actions taken by manufacturers and distributors in response to those impacts. We have an open dialogue with our suppliers to ensure we understand the actions they plan to take to implement any changes arising from the negotiations. The Board continue to actively monitor the situation and, as the outcomes of the trading negotiations become clearer, we will take appropriate action as and when necessary.

Opportunity and risk

Led by the Chairwoman, the Board is responsible for generating long-term shareholder value by setting the Group's strategic direction. The Board is responsible for approval of the Group's risk appetite, determining the nature and extent of significant risks the Group is willing to take to achieve its objectives. The Board has established delegated authorities and controls to ensure efficient management of the Group's operations. The Group uses the Internal Audit and Group Risk functions to assist its monitoring of performance and risk. The Board consider the principal risks to be those that could cause the greatest damage if not effectively evaluated, understood and managed. These principal risks are considered to be:

Risk	Potential impacts	Mitigating actions
Failure to meet customer expectations	• Reputational damage • Reduced customer retention	• Investment in quality used car stock • Customer service quality monitoring • Major investment in Head Office customer service resource • Trading Standards review • Mystery shopping • Reviewing customer feedback and altering Group processes to improve business efficiency
Failure to maintain relationships with manufacturers and finance providers	• Reduced access to vehicles on franchise terms • Reduction in availability of funding	• Increased focus on used car and aftersales markets • Maintaining a diverse source of vehicles and finance • Regular communication with manufacturers and finance companies

Statement of corporate governance arrangements (continued)

Opportunity and risk (continued)

Risk	Potential Impacts	Mitigating actions
Adverse changes to manufacturer delivery systems that bypass the current dealer network	• Negative impact on sales volume and margins • Reduction in customer engagement	• Diversification of franchise partners • Regular discussions with manufacturers to understand their strategies • Improved product delivery efficiency • Investment in quality used car stock • Investment in IT systems to enable easier customer transactions with the Group
IT systems failure and data security	• Business interruption or reduced operational efficiency • Reputational damage • Loss of revenue and profit	• Testing of IT contingency plans • Investment in robust IT systems • Systems mirroring • Business continuity planning
Failure to attract and retain our skilled workforce	• Loss of knowledge and experience • Reduction in customer service	• Investment in our employees through training • Equal opportunities policy • Effective Board communication • Employee appraisal process
Legislative, regulatory, environmental changes and major business interuption	• Loss of revenue and operating profit contributions • Supply chain disruption • Business continuity	• Diversification of brands and services • Regular communication with manufacturers and finance companies • Investment in our people • Involvement with trade bodies and local authorities • Availability of significant cash balances and maintenance of alternative funding routes • Business interruption planning

Whilst not identified as a separate principal risk at the balance sheet date, the impact of Covid-19 on the business as a major incident risk is covered within the 'Legislative, regulatory, environmental changes and major business interruption' risk above

Stakeholder relationships and engagement

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) and forms the Directors' statement required under Section 414CZA of The Companies Act 2006:

Who? Stakeholder group	Why? Why is it important to engage	How? How management and/or Directors engaged	What? What were the key topics of engagement	Outcomes and actions What was the impact of the engagement including any actions taken
Customers	Delivering exceptional customer service and genuine value for money is key to customer retention	Director led customer service quality sessions across all business units Customer satisfaction surveys are conducted throughout the Group and the results analysed by the Directors and at branch level Monitoring of complaint levels and root cause analysis of customer complaints	Quality of service Product offering improvements Ease of doing business Business efficiency Improved communication	A more customer focused approach using Product Consultants and Product Geniuses A focus on having the right product mix and ensuring that products and services meet individual customer needs

Stakeholder relationships and engagement (continued)

Who? Stakeholder group	**Why?** Why is it important to engage	**How?** How management and/or Directors engaged	**What?** What were the key topics of engagement	**Outcomes and actions** What was the impact of the engagement including any actions taken
Employees	Ensuring the business has the right culture and values is critical to the delivery of a first-class customer experience	Dedicated employee communication website and app updated daily with information on matters of concern to employees Director attendance at regular departmental team meetings to enable two-way information flows and ensure that employee views are taken into account in making major decisions Annual results and strategy presentations led by the Group Managing Director and Directors across the business Regular performance appraisals and performance-based bonus scheme Annual employee recognition and service awards Network and focus groups led by our People team Dedicated training facilities and new employee induction course	Results of customer survey Quality of training Service improvement ideas Annual results and performance Employee reward mechanisms	A more engaged and valued workforce, delivering a higher standard of customer service Employee remuneration and benefits are updated to reflect feedback The Arnold Clark Group won Family Friendly Working Scotland 2019 Top Employer Award recognising our industry-leading flexitime initiative which encourages employees to enjoy a better work-life balance Introduction of 'Space' - an employee portal for information, advice and support around mental, physical and financial health
Manufacturers	Access to vehicles on franchise terms is important for our franchise businesses as well as our Contract Hire and Daily Rental business	Regular meetings between Directors and manufacturers' senior management to ensure principal decisions are fully informed Group Managing Director frequently meets with representatives of manufacturer partners Monthly financial performance reporting Attendance at manufacturer conferences	Impact of new emissions regulations on pricing and availability of stock Impact of Brexit on pricing and availability of stock New model developments and pricing Franchise performance and customer satisfaction	Improved customer service by matching our detailed product knowledge with customer requirements Expansion of franchise dealership network Industry recognition which includes Dealer Group of the year award at the 2019 and 2020 AM awards

Stakeholder relationships and engagement (continued)

Who? Stakeholder group	Why? Why is it important to engage	How? How management and/or Directors engaged	What? What were the key topics of engagement	Outcomes and actions What was the impact of the engagement including any actions taken
Finance providers	Access to affordable finance is essential to ensure the ongoing viability of our Contract Hire and Daily Rental businesses and to enable customers to finance vehicle purchases	The Group Retail Finance and Leasing Director meets with finance company senior management on a regular basis Quarterly review meetings are held with each finance provider Monthly compliance reporting	Availability of finance and related interest rates Impact of FCA review of motor finance market Impact of Brexit on UK interest rates and availability of finance	Renewed finance facilities Agreed business volume targets and related interest rates Seminar with finance companies on how to implement FCA positions to the benefit of customers
Wider community	Giving back to the community is one of our core values	Continued support of local schools, charities and sports teams Providing young people placements and commitment to our apprenticeship program Taking part in charity events and fundraising using their network of contacts Providing charities with the opportunity to engage with Arnold Clark employees and customers	Building a greater understanding of the needs of our employees and wider community Giving young people from all backgrounds an equal opportunity Giving charities of all sizes a fair chance at receiving support from the Group	Matching of charitable funds raised by employees Sponsorship of major charitable events such as Cash for Kids, Pride and Kiltwalk Investment in defibrillators across our branch network 400 new apprenticeship placements provided within the Group in 2019
Regulators	Compliance with regulatory requirements is essential for the long term benefit of the Group	We are open and transparent in our dealings with regulators We hold frequent meetings with our regulators to fully understand current practice and future developments Trading Standards audit and review	Compliance record Future regulatory developments	Improvements to processes and procedures Renewal of primary authority arrangements with Trading Standards

Principal decisions

We define principal decisions as both those that are material to the Group, and those that are significant to any of our key stakeholder groups.

In making the following principal decisions, the Board considered the outcomes from its stakeholder engagement processes in addition to maintaining our reputation for high standards of business conduct and the need to act fairly between members of the Group.

Phoenix Car Company acquisition

In January 2019, the Board decided to acquire the trade and assets of The Phoenix Car Company at Linwood, near Paisley. The Directors engaged with manufacturers to ensure that the Kia, Hyundai, Mitsubishi and Honda franchises would be transferred as part of the acquisition. The Directors also took into account that the transaction would preserve all existing jobs.

Brexit

Prior to the original Brexit deadline of March 2019, the Board decided to advance the purchase of vehicles for the Hire Drive business and increase the level of parts stock held to mitigate any post Brexit availability issues. The Board decided that no similar action should be taken in advance of the subsequent October 2019 Brexit deadline and ultimate withdrawal on 31st January 2020.

Appointment of Chief Financial Officer

After more than 20 years as Group Finance Director, Mr K J McLean decided to stand down from the role. Following discussions with shareholders, the Board decided to appoint Mr M W Harvey as Chief Financial Officer from mid-2020 after a suitable handover period. Mr K J McLean will remain on the Board.

Appointment of Auditors

Mr M W Harvey was formerly a partner at Ernst & Young LLP who were also the auditor of the Group. As engagement partner on the audit team, due to the conflict of interest with Mr Harvey's proposed appointment, Ernst & Young LLP had to step down as auditors and the 2019 audit was put out to tender. The overall objective of the tender was to select the best auditor for the Group from a quality perspective, as the Group requires an audit of the highest standard in order to provide shareholders with the appropriate level of assurance. Following meetings with key management, receipt of proposal documents and a final presentation of their proposals, a recommendation to appoint Deloitte LLP was agreed by the Board in August 2019.

This report was approved by the Board of Directors on 4 June 2020 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

Directors' Report

Arnold Clark Automobiles Limited

The Directors present their report for the year ended 31 December 2019.

Results and dividends

The profit on ordinary activities before taxation amounted to £117.0m (2018 - £113.5m). The profit for the year, after taxation, amounted to £94.8m (2018 - £89.3m).

An ordinary interim dividend of £16.5m was paid during the year (2018 - £5.4m). The Directors recommend that no final dividend be paid, which leaves a profit of £78.3m (2018 - £83.9m) to be retained.

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 to 10. The Directors assessment of the Group's ability to continue as a going concern is addressed in note 2.4 to the financial statements.

Engagement with suppliers, customers and others in a business relationship with the Group

A summary as to how the Directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Group during the financial year, is included in the stakeholder relationships and engagement section within the Strategic Report.

Engagement with employees

A summary as to how the Directors have engaged with employees, and how the Directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the Group during the financial year, is included in the stakeholder relationships and engagement section within the Strategic Report.

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 continued 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' Report

Arnold Clark Automobiles Limited

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

Ernst & Young LLP resigned as auditors of the Company in May 2019. A detailed tender process was subsequently held, with Deloitte LLP appointed as auditors in August 2019. A resolution to reappoint Deloitte LLP as auditors will be put to the members at the Annual General Meeting.

This report was approved by the Board of Directors on 4 June 2020 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

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 Auditor's Report

to the members of Arnold Clark Automobiles Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Arnold Clark Automobiles Limited (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Profit or Loss and Other Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows;
- the Company Statement of Financial Position;
- the Company Statement of Changes in Equity; and
- the related notes 1 to 34 and A1 to A22.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and 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).

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.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, 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.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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.

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

Independent Auditor's Report

to the members of Arnold Clark Automobiles Limited

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.

David Mitchell

David Mitchell CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
4 June 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

Arnold Clark Automobiles Limited

	Notes	2019 £m	2018 £m
Revenue	9	4,463.1	4,236.7
Cost of sales		(3,739.7)	(3,546.0)
Gross profit		723.4	690.7
Distribution expenses		(337.8)	(336.4)
Administrative expenses		(259.6)	(232.6)
Other operating income	10	5.3	3.8
Operating profit		131.3	125.5
Finance costs	11	(16.9)	(13.4)
Finance income	12	2.6	1.4
Profit before tax from continuing operations		117.0	113.5
Income tax expense	17	(22.2)	(24.2)
Profit for the year		94.8	89.3
Other comprehensive income		-	-
Total comprehensive income for the year		94.8	89.3

All operations were classed as continuing operations during the year.

Consolidated Statement of Financial Position

at 31 December 2019

Arnold Clark Automobiles Limited

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	18	1,278.6	1,131.1
Investment properties	19	78.7	61.1
Intangible assets	20	10.1	10.1
		1,367.4	1,202.3
Current assets			
Inventories	21	610.3	582.0
Trade and other receivables	22	153.4	139.7
Financial assets	23	100.2	115.6
Cash and cash equivalents	24	131.1	121.7
		995.0	959.0
Total assets		2,362.4	2,161.3
Equity and liabilities			
Issued share capital	25	1.0	1.0
Profit and loss account		1,099.0	1,020.7
Total equity		1,100.0	1,021.7
Non-current liabilities			
Interest-bearing loans and borrowings	28	298.8	225.0
Provisions	27	7.0	5.4
Trade and other payables	29	21.4	25.5
Deferred tax liabilities	17	11.6	18.4
		338.8	274.3
Current liabilities			
Interest-bearing loans and borrowings	28	334.3	312.0
Trade and other payables	29	565.8	527.7
Income taxes payable		19.2	21.5
Provisions	27	4.3	4.1
		923.6	865.3
Total liabilities		1,262.4	1,139.6
Total equity and liabilities		2,362.4	2,161.3

Approved by the Board on 4 June 2020 and signed on its behalf by

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 2019

Arnold Clark Automobiles Limited

	Share capital	Profit and loss account	Total
	£m	£m	£m
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 (note 26)	-	(5.4)	(5.4)
As at 31 December 2018	1.0	1,020.7	1,021.7
As at 1 January 2019	1.0	1,020.7	1,021.7
Total comprehensive income	-	94.8	94.8
Dividends to shareholders (note 26)	-	(16.5)	(16.5)
As at 31 December 2019	1.0	1,099.0	1,100.0

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

Arnold Clark Automobiles Limited

	Notes	2019 £m	2018 £m
Net cash flows from operating activities	32	16.7	(11.1)
Investing activities			
Proceeds from sale of property, plant and equipment		6.4	2.6
Purchase of property, plant and equipment		(43.2)	(39.6)
Proceeds from sale of assets held for sale		0.2	-
Purchase of investment properties		(27.8)	(7.0)
Acquisitions, net of cash acquired		(1.7)	(1.1)
Proceeds from sale of investments		41.9	0.8
Purchase of investments		(26.1)	(12.3)
Income from investments		0.5	0.3
Net cash flows used in investing activities		(49.8)	(56.3)
Financing activities			
Proceeds from borrowings		379.5	391.0
Repayment of borrowings		(385.0)	(373.8)
Proceeds from new hire purchase contracts		439.9	407.4
Repayment of capital element of hire purchase contracts		(371.8)	(361.9)
Repayment of capital element of other lease contracts		(3.6)	-
Dividends paid to equity holders of the parent		(16.5)	(5.4)
Net cash flows from financing activities		42.5	57.3
Net increase/(decrease) in cash and cash equivalents		9.4	(10.1)
Cash and cash equivalents at 1 January		121.7	131.8
Cash and cash equivalents at 31 December	24	131.1	121.7

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

Arnold Clark Automobiles Limited

1. Corporate information

Arnold Clark Automobiles Limited is a privately owned company limited by shares and 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 to 10.

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 pounds sterling, which is the currency of the primary economic environment in which the Company operates, 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 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

Standards and amendments to standards that have been issued but are not effective for 2019 and have not been early adopted are:

- IFRS 17 Insurance Contracts - effective date 1 January 2021
- Amendments to IFRS 3 Business Combinations - effective date 1 January 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform - effective date 1 January 2020

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 16 Leases

The Group adopted IFRS 16 Leases with effect from 1 January 2019. IFRS 16 supersedes the previous guidance on leases, including IAS 17, and represents a significant change in the accounting and reporting of leases, particularly from a lessee perspective. IFRS 16 removes the distinction between a finance lease (reported in the Statement of Financial Position) and an operating lease (not reported in the Statement of Financial Position) and instead requires the lessee to recognise a right-of-use asset and corresponding lease liability for all leases, except for short-term leases and leases of low value assets.

The Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. Reclassifications and adjustments arising from the implementation of IFRS 16 using this approach are recognised in the opening Statement of Financial Position on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases within scope of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments not paid at the commencement date, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.91%.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted for prepaid or accrued lease payments. The majority of the right-of-use assets being recognised relate to property and motor vehicles.

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

The Group elected to apply the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of lease contracts with reasonably similar characteristics;
- applied the exemption not to recognise a right-of-use asset and lease liability where less than 12 months of the lease term remained at 1 January 2019;
- excluded initial direct costs from the initial measurement of the right-of-use asset;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- used the option not to reassess whether a contract is, or contains a lease at the date of initial application. IFRS 16 has been applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Group previously classified hire purchase agreements in relation to motor vehicles as finance leases. These have been reassessed under IFRS 16 and reclassified as right-of-use assets. The relevant amounts already recognised in the Statement of Financial Position comprised motor vehicles (within note 18: property, plant and equipment) with a net book value of £516.6m and obligations under hire purchase contracts (within note 28: financial liabilities) of £468.0m.

Reconciliation of operating lease commitments to the IFRS 16 lease liability at 1 January 2019:

	£m
Operating lease commitments disclosed at 31 December 2018	90.9
Less: discount effect of using incremental borrowing rate	(54.2)
Less: short term leases recognised on a straight-line basis	(0.4)
Less: low value leases recognised on a straight-line basis	(1.5)
	34.8
Current lease liabilities	2.3
Non-current lease liabilities	32.5
	34.8

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 Directors have taken into consideration that, since the balance sheet date, restrictions on trading activities and the movement of people applied by the Government to contain the spread of Covid-19 have had a severe effect on economic activity, including the temporary closure of our retail sites from 24 March 2020. Measures were taken across the Group to mitigate the consequential significant profit and cash flow impacts from the loss of sales. At December 2019, the Group had cash and readily realisable financial asset resources of £230m. At the end of May these resources had risen to £290m as a result of the increased focus on cash management, application of mitigating actions and significant working capital inflows which are expected to reverse post commencement of trading. The hire purchase liability at the end of May was £500m (December 2019: £536m) with other borrowings of £73m (December 2019: £97m). Note 34 contains additional disclosures in relation to the impact of the Covid-19 non-adjusting post balance sheet event.

The Directors have reviewed cash flow forecasts to the end of the 2021 financial year which take account of these mitigating actions. The Group accessed funds made available by the Government, in particular to safeguard employment and defer VAT. 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. This represented 85% of our interest bearing loans and borrowings at the year end. The Group has taken advantage of the deferred payment terms offered by its hire purchase providers.

Having reviewed the forecast and applied various stressed assumptions, there is substantial headroom between this forecast and the cash resources available to the Group over the period to December 2021. The forecast also includes conservative judgements where there is continuing uncertainty and the likelihood of headroom being exhausted was considered remote.

For forecast purposes, over the next 3 months, against prior year, vehicle sales were assumed to be 80% down increasing to 20% down before gradually returning to a position that is marginally below historic levels of sales through to the end of 2021. Under this analysis, the Group is forecast to have average closing monthly available cash in excess of £180m.

The Directors have also considered that the Group has an unencumbered property and vehicle asset base with a current estimated book value in excess of £700m and current cash resources of £290m. This gives the Directors confidence that the Group has sufficient existing assets, including likely access to additional liquidity if required, in the extreme and unlikely event that our retail sites reopen and are then forced to fully close again for 6 weeks within the next 12 months even with no further Government support similar to what is currently being provided.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue to operate 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

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. The Group determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

Group as a lessee

At the lease commencement date, the Group recognises a right-of-use asset, which represents the Group's right to use an underlying asset, and a lease liability, which represents the Group's obligation to make lease payments. This applies to all leases with the exception of those deemed to be of low value or short term in nature. Payments associated with short term leases, being lease contracts with a term of 12 months or less, and low value assets are recognised as an expense on a straight-line basis over the lease term.

The right-of-use asset is measured at the amount equivalent to the initial measurement of the lease liability plus any initial direct costs incurred and adjusted for any prepaid or accrued lease payments. The right-of-use asset is depreciated straight-line over the shorter of the lease term and useful life of the underlying asset. The right-of-use asset is subsequently remeasured where the lease liability is remeasured to reflect changes to the lease payments.

The lease liability is initially measured at the present value of the lease payments that are not paid on commencement date, discounted using the interest rate implicit in the lease or the Group's incremental borrowing rate (where the implicit rate is not readily determined). Generally the Group uses its incremental borrowing rate as the discount rate for all leases.

The lease liability is subsequently measured by increasing the carrying amount to reflect the interest expense on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in the amounts payable following contractual rent review and changes in the assessment of whether an extension or termination option is reasonably certain to be exercised.

Group as a lessor

At the inception date of a lease, the Group uses judgement in determining whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. Where this is deemed to be the case, the Group recognises a finance lease receivable equivalent to the net investment in the lease, being the present value of the future lease receipts discounted at the interest rate implicit in the lease. Otherwise, lease receipts are recognised straight-line 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 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.

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.

2.5 Summary of significant accounting policies (continued)

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.

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 or the remaining term of applicable manufacturer guarantees.

2.5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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 IFRS 16 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.

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.

2.5 Summary of significant accounting policies (continued)

Insurance contracts

The Group sells Vehicle Shortfall Insurance, a return to invoice insurance, to customers on behalf of a regulated third-party insurance company. Artex Insurance (ACA7) IC Limited, a subsidiary company registered in Guernsey, subsequently reinsures part of the risk.

Reinsurance premiums vary depending on the value 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 reinsurance premium received on in-force contracts that relates to unexpired risks at the balance sheet 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

Judgements

The Group applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. The key accounting judgements, without estimation, that have been applied in these financial statements are as follows:

Goodwill

The Group allocates goodwill acquired in a business combination to specific cash generating units ("CGU's") for impairment review purposes. CGU's are determined in line with how the financial performance of the Group is reviewed by management. The allocation of goodwill to different CGU's across the Group could give rise to the potential for impairment.

Consignment Stocks

The Group holds new vehicles on a sale or return basis and recognises as inventory those vehicles where the risk and rewards of ownership are considered to lie with the Group. The remaining vehicles are considered to be assets of the manufacturer. This is due to the Group primarily retaining 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. Due to the complex nature of the stocking arrangements, judgement is often required when assessing whether the risk and rewards of ownership lie with the Group.

Estimates

The preparation of the Group'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 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.

Used vehicle inventory valuation

The assessment of the net realisable value of used motor vehicle inventory involves an element of estimation. The key assumption is estimating the likely sales proceeds and expected profit or loss for each used vehicle held in inventory at the balance sheet date. The Group conducts this assessment by comparing all used inventory (considering both the age and condition) to external market data together with our own experience and expectations, taking into account model mix, current trends and expected holding period. As used vehicle values are subject to short term market distortions a material reduction to carrying values could occur.

Contract Hire vehicles residual value

Vehicles within the Group's Contract Hire fleet are generally on hire for a period of 36 months. The assessment of vehicle residual values at the end of their contracted period involves an element of estimation. The Group assesses residual values at initial recognition and annually thereafter performs a detailed impairment review. The Group conducts these assessments using external market projections of future used car values together with its own expectations, taking into account model mix and current trends. As used vehicle values are subject to short term market distortions a material reduction to forecast residual values, and thus carrying value, could occur.

Sensitivity

The principal sensitivity underpinning both of the above estimates is the level of reasonably possible movements in average used car market prices. A 1% change in average used vehicle market values could result in an adjustment of £7.0m to the combined carrying value of used vehicle stocks and Contract Hire vehicles.

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

	2019 £m	2018 £m
Cash and cash equivalents	131.1	121.7
Hire purchase contracts	(536.1)	(468.0)
Other loans	(63.5)	(69.0)
Other lease contracts	(33.5)	-
	(502.0)	(415.3)

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 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 2019

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£m
Cash and cash equivalents	1%	-	10%	19%	70%	-	-	131.1
Financial assets at fair value through profit and loss	2%	12%	71%	12%	-	-	3%	100.2
Total								231.3

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

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 2019

	On demand £m	In less than 1 year £m	In 1 - 5 years £m	In more than 5 years £m	Total £m
Interest-bearing loans and borrowings	63.5	281.3	281.3	80.5	706.6
Trade and other payables	-	454.1	21.4	-	475.5
	63.5	735.4	302.7	80.5	1,182.1

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

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	
	2019 £m	2018 £m	2019 £m	2018 £m
Effect on profit or loss	(2.1)	(1.2)	2.7	1.4

6. Group information

The consolidated financial statements of the Group include:

Name	Principal activity	Country of incorporation	Equity interest 2019 %	Equity interest 2018 %
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 Ltd	Insurance services	Guernsey	100	100
Assure Alarms Ltd	Intruder alarm installation and maintenance	Scotland	100	100
GTG Training Ltd	Provision of education and training	Scotland	100	100
Harry Fairbairn Ltd	Sale and servicing of motor vehicles	Scotland	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 (Dumfries) Ltd	Dormant	Scotland	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 2019 %	Equity interest 2018 %
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
Towquest Ltd	Dormant	England & Wales	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

In January 2019, the Group acquired the trade and assets of the Phoenix Motor group which the operated Kia, Hyundai, Mitsubishi and Honda franchises at Linwood, near Paisley. In December 2019, the Group acquired the trade and assets of Hardie of Stirling.

	Fair value at acquisition £m
Property, plant and equipment	1.6
Vehicles and other inventories	1.7
Receivables	0.1
Payables	(1.9)
	1.5
Goodwill	0.2
Consideration in cash	1.7

The goodwill of £0.2m 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 £65.4m of revenue and a profit of £1.0m 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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Assets measured at fair value:						
Financial assets (note 23)						
Certificates of deposit	-	-	97.3	113.0	97.3	113.0
Quoted equity shares	2.9	2.6	-	-	2.9	2.6
Cash equivalents (note 24)						
Certificates of deposit	-	-	28.2	21.0	28.2	21.0
	2.9	2.6	125.5	134.0	128.4	136.6

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 2019 and 31 December 2018 are being categorised as level 2.

There were no transfers between levels during 2019. 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:

	2019 £m	2018 £m
Used motor vehicles	3,020.3	2,799.1
New motor vehicles	969.2	954.9
Vehicle rental	204.9	195.3
Aftersales & other	268.7	287.4
	4,463.1	4,236.7

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

10. Other operating income

	2019 £m	2018 £m
Net gain on disposal of property, plant and equipment	5.1	3.4
Miscellaneous other income	0.2	0.4
	5.3	3.8

11. Finance costs

	2019 £m	2018 £m
Finance charges payable under hire purchase agreements	11.1	9.6
Finance charges payable in regard to other lease liabilities	1.1	-
Other interest payable	4.6	3.7
Unwinding of discount and effect of changes in discount rate on provisions (note 27)	0.1	0.1
	16.9	13.4

12. Finance income

	2019 £m	2018 £m
Income from investments	0.5	0.3
Net gain on financial assets at fair value through profit and loss	0.4	0.1
Bank interest receivable	1.7	0.9
Other interest receivable	-	0.1
	2.6	1.4

13. Operating profit

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

	2019 £m	2018 £m
Depreciation of property, plant and equipment	63.3	168.4
Depreciation of right-of-use assets	116.6	-
Depreciation of investment properties	0.8	1.7
Impairment of investment properties	3.8	-
Amortisation of intangible assets	0.2	0.2
Costs of inventories recognised as an expense	3,649.8	3,375.7
Insurance claims paid as insurer	1.9	2.0
Gain on disposal of property, plant and equipment	(5.1)	(3.4)

14. Auditor's remuneration

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

	2019 £m	2018 £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

With effect from 2019, Deloitte LLP was appointed as auditor of the Company, replacing Ernst & Young LLP. Auditor's remuneration for 2019 relates to Deloitte LLP and for 2018 to Ernst & Young LLP.

15. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2019 £m	2018 £m
Wages and salaries	361.0	341.7
Social security costs	36.5	32.2
Pension costs	12.4	8.2
Total employee benefits expense	409.9	382.1

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

	2019 No.	2018 No.
Office and management	2,170	2,071
Sales	4,014	3,770
Technicians	6,681	6,391
	12,865	12,232

16. Key management remuneration

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

	2019 £m	2018 £m
Short-term employee benefits	13.8	10.6

The Directors' emoluments were as follows:

	2019 £m	2018 £m
Emoluments	12.0	9.1
Emoluments of the highest paid Director	5.4	4.1

17. Income tax

The major components of income tax expense are:

	2019 £m	2018 £m
Current income tax:		
Corporation tax charge	30.2	25.5
Adjustments in respect of corporation tax charge of prior years	(1.2)	(0.1)
Deferred tax:		
Relating to origination and reversal of temporary differences	(4.5)	(1.4)
Effect of changes in tax rates	(0.1)	-
Adjustment in respect of previous years	(2.2)	0.2
Income tax expense reported in the Statement of Profit or Loss	22.2	24.2

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:

	2019 £m	2018 £m
Accounting profit before income tax	117.0	113.5
At UK corporation tax rate of 19% (2018 - 19%)	22.2	21.6
Tax effect of non-deductible expenses and non-taxable income	2.9	2.8
Effect of changes/differences in tax rates	0.4	-
Relief for overseas tax	-	(0.3)
Adjustments in respect of current income tax of prior periods	(1.2)	(0.1)
Adjustments in respect of deferred tax of prior periods	(2.1)	0.2
At the effective income tax rate of 19% (2018 - 21.3%)	22.2	24.2

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change had been substantively enacted at the balance sheet date, and therefore the deferred tax assets and liabilities at 31 December 2019 have been measured using the rates that apply in the periods when the underlying timing differences, on which deferred tax is recognised are expected to unwind.

A reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in the UK Finance Act 2016. The budget on 11 March 2020 confirmed the Government's intention that the corporation tax rate will remain at 19%. Had this been substantively enacted at 31 December 2019, the overall deferred tax liability would have increased by £1.2m.

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 2019 is 17.2% (2018 - 17.9%).

	Consolidated Statement of Financial Position		Consolidated Statement of Profit or Loss and Other Comprehensive Income	
	2019 £m	2018 £m	2019 £m	2018 £m
Accelerated capital allowances	8.7	15.7	(7.0)	(1.2)
Other temporary differences	2.9	2.7	0.2	-
Deferred tax expense			(6.8)	(1.2)
Net deferred tax liability	11.6	18.4		

Reflected in the Statement of Financial Position as follows:

	2019 £m	2018 £m
Deferred tax assets	-	-
Deferred tax liabilities	11.6	18.4
Net deferred tax liability	11.6	18.4

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

	2019 £m	2018 £m
At 1 January	18.4	19.6
Charged to the Statement of Profit or Loss and Other Comprehensive Income	(6.8)	(1.2)
At 31 December	11.6	18.4

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 2019	455.5	66.0	32.9	106.4	856.4	1,517.2
IFRS 16 opening balance	34.7	-	-	0.1	-	34.8
Revised cost at 1 January 2019	490.2	66.0	32.9	106.5	856.4	1,552.0
Additions	15.2	0.1	16.6	12.1	520.7	564.7
Disposals	(3.0)	-	(0.5)	(8.9)	(417.8)	(430.2)
Transfers	21.7	0.1	(16.5)	0.3	-	5.6
Acquisitions	1.5	-	-	0.1	-	1.6
At 31 December 2019	525.6	66.2	32.5	110.1	959.3	1,693.7
Depreciation:						
At 1 January 2019	83.9	9.0	-	73.2	220.0	386.1
Provided during the year	13.1	2.3	-	12.2	152.3	179.9
Disposals	(1.0)	-	-	(8.5)	(141.4)	(150.9)
At 31 December 2019	96.0	11.3	-	76.9	230.9	415.1
Net book value:						
At 31 December 2019	429.6	54.9	32.5	33.2	728.4	1,278.6
At 31 December 2018	371.6	57.0	32.9	33.2	636.4	1,131.1

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £759.6m (2018 - £644.3m) and related accumulated depreciation of £147.8m (2018 - £127.7m), which are held for use in operating leases and are provided as security in respect of the sums outstanding on the associated hire purchase agreements. Additions during the year include £473.1m (2018 - £478.7m) of motor vehicles purchased by way of hire purchase agreements. These contracts have been reassessed under IFRS 16 and reclassified as right-of-use assets with no change to the carrying value previously determined under IAS 17. These cashflows have been presented gross in the cashflow, which accurately reflects the timing and structure of the related funding arrangements. The net book value of right-of-use assets at 31 December 2019 are presented by class of underlying asset in note 30.

19. Investment properties

	£m
Cost:	
At 1 January 2019	62.8
Additions	27.8
Transfers to property, plant and equipment	(5.6)
At 31 December 2019	85.0
Depreciation and impairment:	
At 1 January 2019	1.7
Depreciation charge for the year	0.8
Impairment	3.8
At 31 December 2019	6.3
Net book value:	
At 31 December 2019	78.7
At 31 December 2018	61.1

The Group assesses at each reporting date whether there are any indicators of impairment of investment properties and subsequently conducts an impairment review where such indications exist. Management have determined that the cash generating units ("CGU's") are the individual properties as each generate largely independent cash inflows. The recoverable amount of each CGU is taken to be the higher of its fair value less cost of disposal ("FVLCD") and value in use. At 31 December 2019, investment properties carried at cost had an estimated FVLCD of £82.7m (2018 - £69.2m). The FVLCD has been arrived at on the basis of valuations carried out by Colliers International Property Consultants Limited or J & E Shepherd, independent valuers not connected with the Group. On the basis of the valuations received, an impairment charge of £3.8m has been recognised in the Statement of Profit or Loss in respect of CGU's where the recoverable amount is less than the net book value. Rental income from investment property for the year was £4.8m (2018 - £4.3m).

20. Intangible assets

	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 January 2019	9.8	1.2	11.0
Acquisitions	0.2	-	0.2
At 31 December 2019	10.0	1.2	11.2
Amortisation:			
At 1 January 2019	-	0.9	0.9
Provided during the year	-	0.2	0.2
At 31 December 2019	-	1.1	1.1
Net book value:			
At 31 December 2019	10.0	0.1	10.1
At 31 December 2018	9.8	0.3	10.1

The goodwill of £10.0m (2018 - £9.8m) arose on the acquisition of a number of dealerships; details of the movements in the year are included in note 7.

20. Intangible assets (continued)

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 8.0% (2018 - 8.7%).

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 1.5% (2018 - 1.5%).

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

There no reasonable possible change that would give rise to an impairment.

21. Inventories

	2019 £m	2018 £m
Motor vehicles	521.4	488.6
Parts and accessories	21.5	19.2
Work in progress and other stocks	3.5	5.4
Consignment stocks	63.9	68.8
	610.3	582.0

Included in motor vehicles is £75.2m (2018 - £87.1m) that is pledged as security for the other loans disclosed in note 28. At 31 December 2019, the Group held vehicles on sale or return with a wholesale value of £134.7m (2018 - £121.5m) excluding Value Added Tax. Included in stocks is £63.9m (2018 - £68.8m) 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 £70.8m (2018 - £52.7m) 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

	2019 £m	2018 £m
Trade receivables	91.1	85.4
Other receivables	15.6	16.1
Prepayments and accrued income	46.7	38.0
Assets classified as held for sale	-	0.2
	153.4	139.7

At 31 December 2019, trade receivables with an initial carrying value of £1.1m (2018 - £1.3m) were impaired and fully provided for. The movements in the provision were as follows:

	2019 £m	2018 £m
At 1 January	1.3	1.6
Charge for the year	1.3	1.4
Utilised	(1.5)	(1.7)
At 31 December	1.1	1.3

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
2019	78.8	7.3	2.3	2.7	91.1
2018	69.7	9.8	1.9	4.0	85.4

23. Financial assets

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

	2019 £m	2018 £m
Fair value through profit and loss		
Certificates of deposit	97.3	113.0
Listed equities	2.9	2.6
	100.2	115.6

Movements in financial assets during the year were as follows:

	2019 £m	2018 £m
At 1 January	115.6	104.0
Net (disposals)/additions	(15.8)	11.5
Net fair value gains recognised in the profit and loss account	0.4	0.1
At 31 December	100.2	115.6

24. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	102.9	100.7
Certificates of deposit	28.2	21.0
	131.1	121.7

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 2019 and 31 December 2018 is analysed as follows:

	Authorised		Allotted, called up and fully paid	
	2019 No.	2018 No.	2019 £m	2018 £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

	2019 £m	2018 £m
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £16.50 per share (2018 - £5.37 per share)	16.5	5.4

27. Provisions

	Commission clawback	
	2019	2018
	£m	£m
At 1 January	9.5	8.2
Amounts utilised in the period	(5.9)	(5.7)
Amounts charged to the profit and loss account	7.6	6.9
Unwinding of discount	0.1	0.1
At 31 December	11.3	9.5
Amounts included in current liabilities	4.3	4.1
Amounts included in non-current liabilities	7.0	5.4
	11.3	9.5

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% (2018 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.6m 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

	2019	2018
	£m	£m
Current interest-bearing loans and borrowings:		
Other loans	63.5	69.0
Lease liabilities: obligations under hire purchase agreements	268.2	243.0
Lease liabilities: obligations under other lease contracts	2.6	-
	334.3	312.0
Non-current interest-bearing loans and borrowings:		
Lease liabilities: obligations under hire purchase agreements	267.9	225.0
Lease liabilities: obligations under other lease contracts	30.9	-
	298.8	225.0
Total interest-bearing loans and borrowings	633.1	537.0

Other loans are in regard to a stocking facility with Lombard North Central plc (£56.0m) and other non-hire purchase funding for Contract Hire vehicles (£7.5m), both of which are secured on the vehicles funded and are repayable on demand.

Future minimum payments under hire purchase agreements and other lease contracts, together with the present value of the net minimum lease payments, are set out in note 30.

29. Trade and other payables

	2019 £m	2018 £m
Trade payables	229.4	211.8
Other taxes and social security costs	24.2	11.1
Other creditors	58.2	60.1
Insurance liabilities	6.4	6.7
Accruals and deferred income	192.1	180.7
Consignment stock creditor	63.9	68.8
Buyback creditor	13.0	14.0
	587.2	553.2
Amounts included in current liabilities	565.8	527.7
Amounts included in non-current liabilities	21.4	25.5
	587.2	553.2

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:

	2019 £m	2018 £m
VSI: claims outstanding	0.5	0.2
VSI: claims outstanding - incurred but not reported	0.1	0.3
	0.6	0.5
Self-insured: claims outstanding	5.8	6.2
Total insurance liabilities	6.4	6.7

The development tables below give an indication of the time it takes to settle claims in regard to Vehicle Shortfall Insurance (previously branded Vehicle Replacement Insurance):

	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of ultimate claims cost:					
at end of accounting period	0.4	0.5	0.3	0.4	
one year later	1.3	0.8	1.1	-	
two years later	1.4	1.5	-	-	
three years later	2.0	-	-	-	
Current estimate of cumulative claims	2.0	1.5	1.1	0.4	5.0
Cumulative payments to date	(1.9)	(1.3)	(0.9)	(0.3)	(4.4)
Liability recognised in the Statement of Financial Position	0.1	0.2	0.2	0.1	0.6

30. Leases

Group as a lessee

The Group has entered into leases contracts in regard to property, plant and motor vehicles. The average remaining lease term is 69 years for property, 3 years for plant and 2 years for motor vehicles.

Amounts recognised in the Statement of Profit or Loss

	2019
	£m
Depreciation expense on right-of-use assets	116.6
Interest expense on hire purchase agreements	11.1
Interest expense on other lease liabilities	1.1
Expense relating to short term leases	0.6
Expense relating to low value assets	0.5

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
Carrying value at 1 January 2019	34.7	0.1	516.6	551.4
Carrying value at 31 December 2019	32.8	0.1	612.0	644.9
Additions to right-of-use assets	0.6	-	473.6	474.2
Depreciation charge for the year	(2.6)	-	(114.0)	(116.6)

Future minimum payments under hire purchase agreements and other lease contracts, together with the present value of the net minimum lease payments, are as follows:

Obligations under hire purchase agreements

	Minimum payments		**Present value of payments**	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts payable:				
Within one year	277.7	251.2	268.2	243.0
After one year but not more than five years	273.4	229.7	267.9	225.0
	551.1	480.9	536.1	468.0
Less: future finance charges	(15.0)	(12.9)		
Present value of hire purchase obligations	536.1	468.0		

	2019 £m	2018 £m
Current interest-bearing borrowings:	268.2	243.0
Non-current interest-bearing borrowings	267.9	225.0
	536.1	468.0

The payments for these obligations will be met from the income received from the associated operating lease rentals and from the disposal of the associated assets.

30. Leases (continued)

Obligations under other lease contracts

	Minimum payments	**Present value of payments**
	2019 £m	2019 £m
Amounts payable:		
Within one year	3.6	2.6
After one year but not more than five years	7.9	4.1
More than five years	80.5	26.8
	92.0	33.5
Less: future finance charges	(58.5)	
Present value of other lease obligations	33.5	

Current interest-bearing borrowings	2.6
Non-current interest-bearing borrowings	30.9
	33.5

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 60 months and the investment properties are on lease terms of up to 20 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	
	2019 £m	2018 £m	2019 £m	2018 £m
Within one year	120.3	105.9	5.3	3.6
After one year but not more than five years	115.3	102.3	19.6	12.2
More than five years	-	-	19.3	9.8
	235.6	208.2	44.2	25.6

31. Capital commitments

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

	2019 £m	2018 £m
Contracted but not provided for	4.5	3.0

32. Reconciliation of profit to net cash flows from operating activities

	2019 £m	2018 £m
Profit for the year	94.8	89.3
Adjustment for taxation	22.2	24.2
Adjustment for net financing costs	14.3	12.0
	131.3	125.5
Depreciation of property, plant and equipment	63.3	168.4
Depreciation of right-of-use assets	116.6	-
Depreciation of investment property	0.8	1.7
Impairment of investment property	3.8	-
Amortisation of intangibles	0.2	0.2
Profit on disposal of property, plant and equipment	(5.1)	(3.4)
Increase in receivables	(13.8)	(17.5)
Increase in inventories	(31.5)	(39.0)
Increase in trade and other payables	37.3	14.4
Increase in provisions	1.8	1.3
Unwinding of discount on provisions	(0.1)	(0.1)
Additions to motor vehicles	(520.2)	(551.0)
Proceeds from disposal of motor vehicles	278.0	325.9
Taxation paid	(31.2)	(25.2)
Interest received	1.7	1.0
Interest paid	(16.2)	(13.3)
Net cash flows from operating activities	16.7	(11.1)

33. 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.

34. Events after the reporting date

Following the balance sheet date, Covid-19 has spread rapidly. The Government has implemented significant restrictions on movement of people and trade in order to contain the further spread of the virus. In accordance with IAS 10, the impact of Covid-19 is a non-adjusting event at the balance sheet date. This note sets out the subsequent events considered material to the Group up to the date of this report.

Impact on the business

In response to the Covid-19 pandemic, the Group initially implemented enhanced hygiene rules, minimised the movement of our employees across locations and implemented contingency plans which allowed for remote working where practical. In mid-March, the negative impact of Covid-19 began to be evidenced through vehicle and parts sales. In line with Government advice, on 24 March 2020, the Group temporarily closed all of its retail sites along with the majority of its service departments and Daily Rental locations. A limited number of service departments and Daily Rental locations remained open to support the NHS and emergency services. In late March, the Group also started receiving requests from Contract Hire customers for payment deferrals.

34. Events after the reporting date (continued)

Mitigating actions

As the early impact of Covid-19 became apparent the Group implemented a number of mitigating actions in anticipation of tougher conditions to come. These actions were designed to protect our net cash position and included restrictions on non-essential capital expenditure, reduction in vehicle purchases, freeze on staff recruitment and limiting discretionary spend.

Following the temporary closure of our retail sites, the following additional mitigating actions were implemented:

- Temporary furloughing around 12,000 of our employees with only certain key roles continuing, including those supporting the NHS and emergency services noted above. From that point onwards, the Group claimed the maximum support available for furloughed staff under the Government's Job Retention Scheme.
- Other UK Government support by way of the deferral of indirect tax payments and a business rates holiday for retail premises has been utilised.
- With agreement of our hire purchase funding providers, the Group deferred most of the monthly instalment payments due in the period April to June and agreed that the majority of deferred amounts would be spread over contract terms extended by at least 3 months. This allowed us to offer a large number of our Contract Hire customers revised payment arrangements including payment deferrals and contract extensions of up to 3 months.
- We have considered the carrying value of inventory and, to reflect a possible reduction in net realisable values when our retail sites reopen, have increased our current provisioning levels.

The impact of these mitigating actions are estimated to have reduced our net cash outflows in the period to end of May 2020 by £100m.

In anticipation of reopening of sites, the Group commenced a substantial program of work around water management checks, gas checks, emergency lighting and fire alarm tests and new processes to create robust hygiene and social distancing procedures to protect our employees and our customers in the branches.

This includes the development of a new Social Distancing Policy and related training programmes, purchase of personal protective equipment along with setting up protective screens for use through the main areas where customers will interact with our staff and related safety signage.

As of 18 May, our customers in England were able to collect their vehicles from our sites through our Click & Collect facility, with showrooms beginning to open from 1 June. However, our Scottish showrooms remain closed for car sales until the legislation in Scotland allows.

Conclusions on the overall net position and its implications

The Covid-19 pandemic has become a worldwide crisis and at the date of this report the impacts are still evolving and cannot yet be accurately measured. The closure of our retail sites presented an immediate cash flow challenge for the Group. Our responses are detailed above and in our assessment of going concern on page 23.

The Group started 2020 in a strong position and, despite leaving the European Union on 31 January 2020 and trading arrangements remaining unclear during the subsequent transition period, there has been no immediate impact of the withdrawal on our business with positive performance across January and February. Subsequent performance has been adversely impacted by Covid-19 and the resultant temporary closure of our retail sites. In comparison to 2019, over the 4 month period to end April, vehicle unit sales were down 31% and vehicle revenues down 27%, Aftersales revenues were down 30% and Contract Hire/Daily Rental revenues were flat. Over the same period, overheads are estimated to have reduced by 14%. Over the next 3 months, the expectation, for forecast purposes, is that vehicle sales revenues will be 80% down increasing to 20% down, then gradually return to a position marginally below historic levels.

At December 2019, the Group had cash and readily realisable financial asset resources of £230m. At the end of May these resources had risen to £290m as a result of the increased focus on cash management, application of mitigating actions and significant working capital inflows which are expected to reverse post commencement of trading as trading becomes more normalised over the remainder of 2020 and 2021. The hire purchase liability at the end of May was £500m (December 2019: £536m) with other borrowings of £73m (December 2019: £97m).

Company Statement of Financial Position

at 31 December 2019

Arnold Clark Automobiles Limited

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	A4	565.1	511.6
Investment properties	A5	78.7	61.1
Intangible assets	A6	7.5	7.4
Investments	A7	71.6	71.6
		722.9	651.7
Current assets			
Inventories	A8	556.5	537.5
Trade and other receivables	A9	138.2	122.8
Financial assets	A10	81.0	55.2
Cash and cash equivalents	A11	123.5	117.8
		899.2	833.3
Total assets		1,622.1	1,485.0
Equity and liabilities			
Issued share capital	A12	1.0	1.0
Profit and loss account		968.6	856.7
Total equity		969.6	857.7
Non-current liabilities			
Interest-bearing loans and borrowings	A16	30.3	-
Provisions	A14	7.0	5.4
Trade and other payables	A17	16.3	20.5
Deferred tax liabilities	A15	9.4	10.5
		63.0	36.4
Current liabilities			
Interest-bearing loans and borrowings	A16	57.9	69.0
Trade and other payables	A17	517.3	499.8
Income tax payable		10.0	18.0
Provisions	A14	4.3	4.1
		589.5	590.9
Total liabilities		652.5	627.3
Total equity and liabilities		1,622.1	1,485.0

In accordance with the concession granted under section 408 of the Companies Act 2006, the Statement of Profit or Loss and Other Comprehensive Income of the Company has not been separately presented in these financial statements. The profit of the Company was £128.4m (2018: £76.0m).

Approved by the Board on 4 June 2020 and signed on its behalf by

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 2019

Arnold Clark Automobiles Limited

	Share Capital	Profit and loss account	Total
	£m	£m	£m
As at 1 January 2018	1.0	786.1	787.1
Total comprehensive income	-	76.0	76.0
Dividends to shareholders (note A13)	-	(5.4)	(5.4)
As at 31 December 2018	1.0	856.7	857.7
As at 1 January 2019	1.0	856.7	857.7
Total comprehensive income	-	128.4	128.4
Dividends to shareholders (note A13)	-	(16.5)	(16.5)
As at 31 December 2019	1.0	968.6	969.6

Notes to the Company Financial Statements

for the year ended 31 December 2019

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 17 to 53.

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 2019. The consolidated financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates, and rounded to the nearest £0.1 million, except where otherwise indicated.

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;

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

   iii) paragraph 118(e) of IAS 38 Intangible Assets;

   iv) 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

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. The Company determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

Company as a lessee

At the lease commencement date, the Company recognises a right-of-use asset, which represents the Company's right to use an underlying asset, and a lease liability, which represents the Company's obligation to make lease payments. This applies to all leases with the exception of those deemed to be of low value or short term in nature. Payments associated with short term leases, being lease contracts with a term of 12 months or less, and low value assets are recognised as an expense on a straight-line basis over the lease term.

The right-of-use asset is measured at the amount equivalent to the initial measurement of the lease liability plus any initial direct costs incurred and adjusted for any prepaid or accrued lease payments. The right-of-use asset is depreciated straight-line over the shorter of the lease term or useful life of the underlying asset. The right-of-use asset is subsequently remeasured where the lease liability is remeasured to reflect changes to the lease payments.

The lease liability is initially measured at the present value of the lease payments that are not paid on commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate (where the implicit rate is not readily determined). Generally the Company uses its incremental borrowing rate as the discount rate for all leases.

The lease liability is subsequently measured by increasing the carrying amount to reflect the interest expense on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured when there is a change in future lease payment arising from a change of index or rate, a variation in the amounts payable following contractual rent review and changes in the assessment of whether an extension or termination option is reasonably certain to be exercised.

Company as a lessor

At the inception date of a lease, the Company uses judgement in determining whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. Where this is deemed to be the case, the Company recognises a finance lease receivable equivalent to the net investment in the lease, being the present value of the future lease receipts discounted at the interest rate implicit in the lease. Otherwise, lease receipts are recognised straight-line 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.

A2.2 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 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.

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.

A2.2 Summary of significant accounting policies (continued)

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.

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.

Arnold Clark Automobiles Limited

A3. Significant accounting judgements, estimates and assumptions

Judgements

The Company applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. The key accounting judgements, without estimation, that have been applied in these financial statements are as follows:

Goodwill

The Company allocates goodwill acquired in a business combination to specific cash generating units ("CGU's") for impairment review purposes. CGU's are determined in line with how the financial performance of the Company is reviewed by management. The allocation of goodwill to different CGU's across the Company could give rise to the potential for impairment.

Consignment Stocks

The Company holds new vehicles on a sale or return basis and recognises as inventory those vehicles where the risk and rewards of ownership are considered to lie with the Company. The remaining vehicles are considered to be assets of the manufacturer. This is due to the Company primarily retaining 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. Due to the complex nature of the stocking arrangements, judgement is often required when assessing whether the risk and rewards of ownership lie with the Company.

Estimates

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 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.

Used vehicle inventory valuation

The assessment of the net realisable value of used motor vehicle inventory involves an element of estimation. The key assumption is estimating the likely sales proceeds and expected profit or loss for each used vehicle held in inventory at the balance sheet date. The Company conducts this assessment by comparing all used inventory (considering both the age and condition) to external market data together with our own experience and expectations, taking into account model mix, current trends and expected holding period. As used vehicle values are subject to short term market distortions a material reduction to carrying values could occur.

Sensitivity

The principal sensitivity underpinning of the above estimate is the level of reasonably possible movements in average used car market prices. A 1% change in average used vehicle market values could result in an adjustment of £3.6m to the carrying value of used vehicle inventory.

Arnold Clark Automobiles Limited

A4. 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 2019	405.9	64.1	32.9	94.0	79.0	675.9
IFRS 16 opening balance	33.4	-	-	0.1	-	33.5
Revised cost at 1 January 2019	439.3	64.1	32.9	94.1	79.0	709.4
Additions	15.9	0.1	16.6	11.0	42.2	85.8
Disposals	(3.0)	-	(0.5)	(8.7)	(42.0)	(54.2)
Transfers	21.7	0.1	(16.5)	0.3	-	5.6
Acquisitions	1.5	-	-	0.1	-	1.6
At 31 December 2019	475.4	64.3	32.5	96.8	79.2	748.2
Depreciation:						
At 1 January 2019	76.9	8.5	-	64.5	14.4	164.3
Provided during the year	11.6	2.2	-	11.0	13.5	38.3
Disposals	(1.0)	-	-	(8.3)	(10.2)	(19.5)
At 31 December 2019	87.5	10.7	-	67.2	17.7	183.1
Net book value:						
At 31 December 2019	387.9	53.6	32.5	29.6	61.5	565.1
At 31 December 2018	329.0	55.6	32.9	29.5	64.6	511.6

The net book value of right-of-use assets at 31 December 2019 are presented by class of underlying asset in note A18.

A5. Investment properties

Cost:	£m
At 1 January 2019	62.8
Additions	27.8
Transfers to property, plant and equipment	(5.6)
At 31 December 2019	85.0
Depreciation and impairment:	
At 1 January 2019	1.7
Depreciation charge for the year	0.8
Impairment	3.8
At 31 December 2019	6.3
Net book value:	
At 31 December 2019	78.7
At 31 December 2018	61.1

The Company assesses at each reporting date whether there are any indicators of impairment of investment properties and subsequently conducts an impairment review where such indications exist. Management have determined that the cash generating units ("CGU's") are the individual properties as each generate largely independent cash inflows. The recoverable amount of each CGU is taken to be the higher of its fair value less cost of disposal ("FVLCD") and value in use. At 31 December 2019, investment properties carried at cost had an estimated FVLCD of £82.7m (2018 - £69.2m). The FVLCD has been arrived at on the basis of valuations carried out by Colliers International Property Consultants Limited or J & E Shepherd, independent valuers not connected with the Group. On the basis of the valuations received, an impairment charge of £3.8m has been recognised in the Statement of Profit or Loss in respect of CGU's where the recoverable amount is less than the net book value. Rental income from investment property for the year was £4.8m (2018 - £4.3m).

A6. Intangible assets

	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 January 2019	7.3	0.7	8.0
Acquisitions	0.2	-	0.2
At 31 December 2019	7.5	0.7	8.2
Amortisation:			
At 1 January 2019	-	0.6	0.6
Provided in the year	-	0.1	0.1
At 31 December 2019	-	0.7	0.7
Net book value:			
At 31 December 2019	7.5	-	7.5
At 31 December 2018	7.3	0.1	7.4

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 Company allocates the goodwill acquired in a business combination to cash generating units ("CGU's"). Management have determined that the CGU's of the Company 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 8.0% (2018 - 8.7%).

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 1.5% (2018 - 1.5%).

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

There no reasonable possible change that would give rise to an impairment.

A7. Investments

	£m
Cost of investment in subsidaries as at 31 December 2019 and 31 December 2018	71.6

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

A8. Inventories

	2019 £m	2018 £m
Motor vehicles	471.6	449.4
Parts and accessories	20.6	18.2
Work in progress and other stocks	3.5	5.3
Consignment stocks	60.8	64.6
	556.5	537.5

Included in motor vehicles is £67.7m (2018 - £87.1m) that is pledged as security for the other loans (see note A16). At 31 December 2019, the Company held vehicles on sale or return with a wholesale value of £131.6m (2018 - £117.3m) excluding Value Added Tax. Included in stocks is £60.8m (2018 - £64.6m) 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 £70.8m (2018 - £52.7m) are assets of the manufacturers. In relation to these stocks, the Company 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.

A9. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	68.0	60.7
Other receivables	14.5	14.4
Prepayments and accrued income	34.4	31.0
Amounts due from group undertakings (receivable on demand)	21.3	16.7
	138.2	122.8

A10. Financial assets

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

	2019 £m	2018 £m
Fair value through profit and loss		
Certificates of deposit	78.1	52.6
Listed equities	2.9	2.6
	81.0	55.2

Movements in financial assets during the year were as follows:

	£m
At 1 January 2019	55.2
Net additions	25.4
Net fair value gains recognised in the profit and loss account	0.4
At 31 December 2019	81.0

A11. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	97.0	96.8
Certificates of deposit	26.5	21.0
	123.5	117.8

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.

A12. Issued share capital

The share capital at 31 December 2019 and 31 December 2018 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2019 No.	2018 No.	2019 £m	2018 £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.

A13. Dividends

	2019 £m	2018 £m
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £16.50 per share (2018 - £5.37 per share)	16.5	5.4

A14. Provisions

	Commission clawback	
	2019 £m	2018 £m
At 1 January	9.5	8.2
Amounts utilised in the period	(5.9)	(5.7)
Amounts charged to the profit and loss account	7.6	6.9
Unwinding of discount	0.1	0.1
At 31 December	11.3	9.5
Amounts included in current liabilities	4.3	4.1
Amounts included in non-current liabilities	7.0	5.4
	11.3	9.5

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% (2018 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.6m and a 1% increase in the risk-free discount rate would reduce the provision by £0.1m.

A15. Deferred tax liabilities

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 17.2% (2018 - 17.1%).

	2019 £m	2018 £m
Accelerated capital allowances	6.4	7.8
Other timing differences	3.0	2.7
Deferred tax liability	9.4	10.5

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change had been substantively enacted at the balance sheet date, and therefore the deferred tax assets and liabilities at 31 December 2019 have been measured using the rates that apply in the periods when the underlying timing differences, on which deferred tax is recognised are expected to unwind.

A reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in the UK Finance Act 2016. The budget on 11 March 2020 confirmed the Government's intention that the corporation tax rate will remain at 19%. Had this been substantively enacted at 31 December 2019, the overall deferred tax liability would have increased by £1.0m.

A16. Financial liabilities

Interest-bearing loans and borrowings

	2019 £m	2018 £m
Current interest-bearing loans and borrowings:		
Other loans	56.0	69.0
Lease liabilities: obligations under other lease contracts	1.9	-
	57.9	69.0
Non-current interest-bearing loans and borrowings:		
Lease liabilities: obligations under other lease contracts	30.3	-
Total interest-bearing loans and borrowings	88.2	69.0

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

A17. Trade and other payables

	2019 £m	2018 £m
Trade payables	181.0	176.1
Other taxes and social security costs	21.1	12.3
Other creditors	43.7	43.4
Insurance liabilities	5.8	6.2
Accruals and deferred income	147.8	146.2
Consignment stock creditor	60.8	64.6
Amounts due to group undertakings (payable on demand)	60.4	57.5
Buyback creditor	13.0	14.0
	533.6	520.3
Amounts included in current liabilities	517.3	499.8
Amounts included in non-current liabilities	16.3	20.5
	533.6	520.3

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.

A18. Leases

Company as a lessee

The Company has entered into leases contracts in regard to property and plant. The average remaining lease term is 69 years for property and 1 year for plant.

Amounts recognised in the Statement of Profit or Loss

	2019
	£m
Depreciation expense on right-of-use assets	2.2
Interest expense on lease liabilities	1.1
Expense relating to short term leases	0.6
Expense relating to low value assets	0.5

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Total £m
Carrying value at 1 January 2019	33.4	0.1	33.5
Carrying value at 31 December 2019	31.9	0.1	32.0
Additions to right-of-use assets	0.6	-	0.6
Depreciation charge for the year	(2.2)	-	(2.2)

Obligations under lease contracts

	Minimum payments	Present value of payments
	2019 £m	2019 £m
Amounts payable:		
Within one year	2.9	1.9
After one year but not more than five years	7.4	3.7
More than five years	80.2	26.6
	90.5	32.2
Less: future finance charges	(58.3)	
Present value of other lease obligations	32.2	

Current interest-bearing borrowings	1.9
Non-current interest-bearing borrowings	30.3
	32.2

A18. Leases (continued)

Company as a lessor

The Company has entered into operating leases as lessor in respect of investment properties on lease terms of up to 20 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:

	2019 £m	2018 £m
Within one year	5.3	3.6
After one year but not more than five years	19.6	12.2
More than five years	19.3	9.8
	44.2	25.6

A19. Capital commitments

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

	2019 £m	2018 £m
Contracted but not provided for	4.5	3.0

A20. Other financial commitments

The Company has undertaken to repurchase certain motor vehicles throughout 2020. 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.

A21. 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 2019, the Value Added Tax payable by other members of the group registration amounted to £2.6m (2018 - receivable of £1.9m).

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 2019, the other companies included in the guarantee had net funds of £4.4m (2018 - £2.4m) due from The Royal Bank of Scotland plc.

A22. Directors emoluments

The Directors' emoluments were as follows:

	2019 £m	2018 £m
Emoluments	11.3	8.5
Emoluments of the highest paid Director	5.4	4.1