Annual Report 2021

Arnold Clark Automobiles Limited

SC36386

Directors, Principal Officers and Advisers

Directors

Lady Clark MA (Glasgow)	Chairwoman and Director
E Hawthorne BA CA	Chief Executive and Group Managing Director
R E Borrie	Chief Operating Officer
J A Clark BA MSc MIMI	Chief Commercial Officer
D M Cooper BAcc (Hons) FCCA	Chief Retail Finance and Leasing Officer
J T Graham BSc (Hons) CA Dip CII	Group Finance Director
S R Grant BA	Group Aftersales Director
C S Henry BA (Hons) FCIPD	Group People 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

Company Secretary

S K Thorpe BA (Hons) BFP FCA MICA

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Principal Bankers

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

Auditors

Deloitte LLP,
110 Queen Street, Glasgow G1 3BX

Tax Advisers

PricewaterhouseCoopers LLP
141 Bothwell Street, Glasgow G2 7EQ

VAT Advisers

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

Chief Executive's Statement

2021 has certainly been an eventful year for the Group, the wider motor industry and retail sector. The Group started this year in a lockdown with our showrooms closed to the public and we did not become fully operational until the end of April. As we were reopening, we had severe Covid-19 related absences to contend with, a challenge which has continued throughout the whole year and was exacerbated by the resurgence of Covid-19 in December. On emerging from lockdown, the economic environment has been kinder to our industry than some others, however there has still been many unforeseen challenges to overcome this year. By coming together as a business, focussing on our customers and staff, we have overcome these to achieve a record breaking result for the Group.

Financial performance

This year has seen an excellent performance for the Group with Revenues increasing by 25% to £4.7bn and Profit before tax increasing by 68% to £263m. This was achieved without utilising the Coronavirus Job Retention Scheme which would have been available for around 700 staff during the first 3 months of the year. However, the Group received £5.7m of rates relief during the first 4 months of the year, when our showrooms were closed.

The well publicised restrictions on new vehicle supply, arising primarily from a shortage of semi-conductors, have had a negative impact on new car sales with the overall market remaining well short of pre-pandemic levels. New vehicle sales units recovered from the lows of 2020 to reach 56,000, but remain 10% down on 2019.

Long lead times for new vehicles remain a challenge, as demonstrated by a record number of customer orders carried into 2022. Used car retail units, however, increased by 9.5% to 224,000 despite a market wide shortage of used cars. This shortage, along with robust pricing disciplines, underpinned a significant increase in both used car values and margins. Demand for aftersales services has also rebounded with sales up 11% to £203.7m, with over 2.7 million customers visiting our sites.

Arnold Clark Finance Limited, our vehicle management and daily rental business, had an exceptional year, reporting a record increase in Profit before tax. Revenue grew by 2% to £426.4m and Profit before tax increased by £27.0m to £42.1m. Daily rental hires recovered as the restrictions eased, and utilisation increased by over 10%. The company benefitted from increases in used vehicle values which has had a positive impact on disposal proceeds and related profits. New vehicle supply constraints mean that the business is entering 2022 with its largest ever order bank.

The investment in our digital journey has continued at pace, and allows us to build on the significant developments achieved during 2020. A key customer pillar of our digital journey is being "easy to do business with" and the impact of our investment in this digital journey is evidenced by 77% of customers purchasing their vehicle digitally this year. In the current year, I am pleased to report that this investment also facilitated:

- 50 million web sessions
- 19 million web users (an increase of 28%)
- 384,000 downloads of the Arnold Clark app since its launch
- 92% of all service bookings using online check-in, a quicker and more efficient way for customers to engage with us
- 32,000 vehicles being delivered through stand-alone Click & Collect service

New developments will be launched throughout 2022, continuing the drive to make car buying easier for customers.

Financial stability

The Group's finances remain in a strong position with net funds available of £393.2m. Given the availability of funds, the Board chose to increase the level of used stock held at the year end to over 37,000 vehicles. This maximised retailing opportunities going into 2022 and was 11,000 units above the Group's typical stock holding. Whilst this reduced net funds available, they remain significantly above historic levels.

Director changes

The present senior company Directors expanded their roles during the year as follows:

- Russell Borrie, who was Group Sales Director, took on the role of Chief Operating Officer
- John Clark's role was expanded to cover more areas of the business and he is now Chief Commercial Officer
- David Cooper took on more responsibilities, becoming Chief Retail Finance and Leasing Officer

There were three further appointments made to the main Board in December with the promotions of:

- Jim Graham (Group Finance Director)
- Carol Henry (Group People Director)
- Scott Grant (Group Aftersales Director)

At the same time Kenny McLean and Scott Willis retired from the Board and I personally would like to recognise and thank both Kenny and Scott for their tireless contribution to the success and stability of the Group and look forward to working with them as advisors to the Board for many years to come.

Working together

Covid-19 significantly changed the way many companies operated, and throughout the last 2 years we have had to adapt our business in ways that we never expected to. During the year we set up a number of staff working groups to help us identify potential solutions, and potential barriers, to a more flexible working approach that the entire business can benefit from. This led us to launch a framework that sees every employee falling into one of the following three categories:

- Hybrid - mix of home and office working
- On premise flexible - working entirely from the office or branch but with the ability to apply flexibility to your working day
- Fully flexible - working completely from home

To become an employer of choice in a challenging labour market, it was essential to review employees' financial and benefits packages. Throughout 2021, staff salaries were under constant review with enhancements being made to Company sickness benefit, annual holiday entitlements, maternity and paternity pay and employee loan facilities. We consider the overall remuneration package to be very competitive for the Group's dedicated employees.

Business efficiency and increased customer satisfaction is only achieved by working as one, and to reward staff we introduced a Branch Team Reward ("BTR") scheme. This saw 9,000 employees benefit from a share of the £7.1m BTR bonuses paid out.

During 2021, we won the Apprenticeship Programme of the Year Award at the annual AM Awards. This award highlights the strength of our apprenticeship programme and how committed we are as a Group to training and developing employees. We have maintained a focus on the continuing education of our apprentices over the past 24 months through the development of online training modules. We have 800 apprentices in the business working across a variety of divisions and roles and we will be seeking to recruit another 400 apprentices in 2022. I'd like to personally thank our apprentices and their trainers, mentors and managers for their perseverance, determination and the exceptional work they do to support the Group.

Environmental impact

The far reaching risks of climate change and its growing impact on both the environment and the global economy are well documented. The Board recognises the importance of climate change and, as a result, have launched a new environmental initiative - Sustainable Environment for Nature, Society and the Economy ("SENSE") - to help protect people, the planet and the prosperity of future generations.

The Group's vision is to significantly cut our carbon output, ahead of the UK's climate change targets, by reducing consumption, waste and emissions. This will be achieved by looking at all business operations to improve and minimise environmental impacts. We have created several working groups aimed at identifying opportunities to reduce our carbon footprint and divided these into four areas: Property, Infrastructure, Transport and Employee Engagement. The two significant contributing factors to the size of our existing carbon footprint is the use of fuel and utilities. In our 2020 Annual Report, our independently calculated footprint was 41,647 tonnes of CO_2e and for 2021 the figure, calculated on the same basis, is 48,492. As we were closed for half of 2020, with travel and movement restricted, the prior year figure was not representative of normal Group operations. Accordingly, we are using 2021 as the base year in our 2050 plan to reduce our carbon footprint to net zero.

The UK Government's commitment to banning the sale of new petrol and diesel cars by 2030 has brought a focus to encouraging the public to consider an alternatively fuelled vehicle ("AFV") as their choice of new car. There are barriers to be overcome around public charging infrastructure and range anxiety, and we will continue to rapidly invest in our charging infrastructure throughout the branch network to ensure customers and staff have access to charging facilities. Education, however, will be key to increasing AFV sales and the success of the non-sales/not-for-profit Innovation Centre in Glasgow has led us to open a second centre in Stafford, which should be operational in March 2022. These centres will be available to customers, potential customers and employees. From interactive vehicle guides to safe, tailored test drives in the latest AFV's, everything is covered under our 4 pillars of Learn, Charge, Drive and Change.

These are small steps in our sustainability journey, a huge project for the Group, which will involve a large number of staff for many years to come. Arnold Clark has always been known for doing the right thing and being part of the community we operate in, and our sustainability project will be no exception.

Chief Executive's Statement

Community engagement

Supporting local charities and community groups has always been at the core of our business and we were delighted to launch the Arnold Clark Community Fund in March 2021. The key objective of the Fund is to help community groups and charities in the vicinity of our branches.

Throughout 2021, £10m has been distributed through the Fund to 11,500 charities and community groups, with a particular focus on those dealing with food banks, toy banks, poverty relief, housing and accommodation and it is the Board's intention to continue this level of support into 2022.

The past two years have taken its toll on many individuals, in many different ways, and once again I make no apology for highlighting the impact the pandemic has had on the mental health of our staff. During 2021, "Space", our portal for employee wellbeing, received over 2,000 visits. This reinforced our commitment to employee wellbeing, and we increased support for BEN, SilverCloud and AXA, who are providing mental health support directly to our staff.

Future prospects

Following on from last year's record performance, I remain cautiously optimistic about 2022 given the satisfactory start to the year. There remains continued uncertainty in the motor industry, driven primarily by the vehicle supply constraints in the market. We do, however, enter 2022 with record order banks for both our retail sites and contract hire business. With strong levels of funding, we remain well placed to capitalise on the opportunities that the challenging conditions bring.

The success of our Click & Collect and Click & Deliver services has enabled us to expand the national footprint of our used vehicle business, without the requirement for significant capital investment. In 2022 we are looking to continue with this expansion of retail outlets and supporting infrastructure. To support expansion in England, five large scale vehicle preparation centres in Nottingham, Stafford, Chesterfield, Warrington and Wolverhampton will be operational in the first half of the year. We will also be opening new concept Click & Collect centres, redesigning the future of retailing, in Solihull, Leyland and Linwood.

We recognise that manufacturing partners are looking at changing the way that new vehicle sales are facilitated and we continue to work with them to ensure that this minimises the impact on our business and to customers. Subsequent to the year end, and by mutual agreement, both Ford and Toyota franchise agreements will terminate following an agreed transition period. Plans are in place for all impacted branches to continue operations through alternate franchise appointments or as Motorstores.

The results achieved in 2021 were due to the tremendous efforts of our staff. The Directors and I wish to thank all employees for the contribution they have made, and continue to make, in looking after our customers and ensuring the financial stability of the Group. I would also wish to express thanks to manufacturer, finance, banking and business partners who continue to work closely with us to support the business in many ways. The resilience of our employees and business model, along with the loyalty of our customers throughout the pandemic, gives me optimism that we can look forward to 2022 with renewed confidence.

E Hawthorne
Chief Executive and Group Managing Director
3 March 2022

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2021.

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:

	2021	2020	Change
Group revenue	£4,741m	£3,798m	24.8%
Used car sales (units)	224,071	204,627	9.5%
New car sales (units)	56,780	46,509	22.1%
Group operating profit	£277.7m	£169.5m	63.8%
Profit before tax	£263.0m	£156.5m	68.1%
Inventories	£682.3m	£516.8m	32.0%
Net funds available	£393.2m	£524.0m	(25.0)%

The Group's exceptional performance in 2021 has seen all key trading performance indicators grow significantly. The restricted new vehicle supply, combined with a shortage of used cars, resulted in large increases to vehicle margins over the year. Our new vehicles sales units recovered from the lows of 2020 to reach 56,780, but remain below 2019 levels. Used car retail units increased to 224,071, despite a market wide shortage of used cars. This shortage, along with robust pricing disciplines, underpinned a significant increase in both used car values and margins. Demand for aftersales services has also increased from 2020, with sales up 11% to £203.7m.

Towards the end of the year, the Group significantly increased its level of used vehicle inventories in order to support ongoing sales expectations, specifically our Real Deal event at the start of 2022. This is the primary reason behind the £165.5m increase in our total inventories and the reduction in our net funds available of £130.8m, with our year-end used stock units in excess of 37,000, which is 11,000 more than our normal level.

In addition, we did not participate in the Coronavirus Job Retention Scheme during 2021, which would have been available for around 700 staff during the first quarter. In February 2021, we repaid the £44m of VAT deferral granted in 2020. A further review of the business is provided in the Chief Executive's Statement.

Statement of corporate governance arrangements

As a family owned business, we run the Group in a way consistent with an agreed set of core values, that cover how we deliver value to shareholders and the wider community and how we interact with our stakeholders, including shareholders, employees, customers and suppliers. Accordingly, we have not applied a specific corporate governance code during 2021. The Board will continue to 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. 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. Diversity and inclusion focuses on the right person for the role irrespective of gender, race or religion.

Purpose and leadership (continued)

A significant focus of the Board during much of 2021 has been around the continuing but wide-ranging impacts arising from Covid-19. With our vehicle retail locations closed to customer visits in the early part of 2021, the Board focused on the continued development of our digital journey which has been instrumental to our underlying performance. Subsequently, the Board's focus moved to vehicle procurement, arising from the well documented new and used vehicle shortages, and the recruitment and retention of staff across key areas of the business.

Board composition

The Board comprises of Lady Clark, as non-executive Chairwoman, and 8 Directors.

Following an expansion of their individual roles, as of September 2021:

- R E Borrie, who was our Group Sales Director, took on the role of Chief Operating Officer
- J A Clark's role was expanded to cover more areas of the business and he is now our Chief Commercial Officer
- D M Cooper took on more responsibilities, becoming our Chief Retail Finance and Leasing Officer

In December 2021, to further strengthen the Board, 3 former members of our Operations Board were appointed Directors:

- J T Graham our Group Finance Director
- C S Henry our Group People Director
- S R Grant our Group Aftersales Director

These appointments bring a welcome diversity of skills, expertise and experience to our Board. At the same time K J McLean and S Willis, both of whom had previously stepped down from their executive roles, resigned as Directors.

Appointments to the Board are discussed with the Chairwoman prior to any appointment being confirmed. All new Directors are required to participate in an induction programme upon appointment. Whilst this encompasses standard governance and regulatory items aimed at ensuring that they fully understand, and are equipped to effectively discharge, their duties as Directors, it is also tailored to their individual training and developmental needs.

The Board contains no independent, non-executive Directors. The Board considers that the current Directors bring objective contributions and judgements to Board deliberations in addition to constructive challenge of matters outside their core responsibilities.

The Board are supported by a senior management team made up of individuals with a wide range of backgrounds, skills and experience. Executive Directors hold regular operational meetings with their respective leadership teams and meet with the senior management team 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 formally meets quarterly to discuss longer term strategy with additional annual strategy meetings held with the senior management team.

The Board is committed to developing a more diverse workforce, including at the most senior levels, but recognise that this will be achieved through gradual evolution. Our ongoing approach includes:

- Continuing to train and coach our managers on diversity
- Working in a collaborative and targeted way to increase female recruitment into the business
- Breaking down industry preconceptions to encourage women into areas of the business where they are under-represented, namely our workshops and our sales team
- Promoting successes of our female role models internally and externally on social media
- Continuing to encourage a positive approach to company wide flexible working
- Our mentoring programme

Shareholder relationship

The relationship between the Board and shareholders is managed through formal General Meetings and other family/shareholder meetings. Family/shareholder matters are dealt with in family/shareholder meetings, whilst business matters are dealt with by the Board. Each shareholder receives a copy of the Group Annual Report as well as regular updates on business performance, issues and social responsibility matters.

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.

The health and safety of our customers, staff and wider communities is a priority and the Directors ensure all required resources are available to achieve this, as well as promoting a safety culture on branch visits.

The Board receives regular and timely information on all key aspects of the business, including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability, all supported by Key Performance Indicators (KPIs). The Board receives information regarding the sales performance of the business throughout the working day.

All Directors have a clear understanding of their roles and have access to legal advice on their responsibilities or relevant regulations. 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.

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, biannual discretionary bonus, dependent upon individual qualitative performance, and a competitive benefits package. The remuneration package of each Director is discussed and agreed by the Chief Executive and 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.

Climate change

The far-reaching risks of climate change, and its growing impact on both the environment and the global economy, are well documented and the Group recognises that the automotive sector has always been a significant contributor to global greenhouse gas emissions.
The UK Government has confirmed its ambition to see the end of the sale of new petrol and diesel cars in the UK by 2030.

Board members continue to engage with manufacturer partners, investing in training of our staff in alternate fuel technology, and installing charging points at our sites where possible. August 2021 saw the official opening of our Innovation Centre in Glasgow, with the objective of educating the public on the benefits and viability of alternative fuel vehicles.

During 2021, the Board set up working groups to examine the Group's existing carbon footprint and to identify and assess opportunities to reduce those emissions. These working groups focus primarily on Property, Infrastructure, Transport, Utilities and Employee Engagement and are the key areas which will ensure the company stays on track to meet its objectives of a 1/3rd reduction of our carbon footprint by 2030, a further 1/3rd by 2040 and the remainder before 2050 - with the ultimate goal of achieving net zero emissions. The Directors' Report contains commentary on the Group's energy efficiency actions along with details of our greenhouse gas emissions.

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	• Continued review of our customer systems to ensure we are "easy to do business with" • Investment in quality used car stock • Continued development of our digital journey and Click & Collect/Deliver services • Customer service quality monitoring and quick customer issue resolution • Continued 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
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 i.e. through our Customer App • Remaining relevant to our customer base
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 • Continued investment and review of cyber security protocols • 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 and continual consultation with staff on business performance, development and encouraging employee feedback • Development of our recognition and reward programmes • Employee appraisal process • Review of market rates and implementation of pay and benefit enhancements

Risk	Potential impacts	Mitigating actions
Failure to respond to environmental changes (including moving to greener technologies, tax changes, emission targets)	• Manufacturer supply issues limit availability and impact revenues • Reduced demand for petrol, diesel and old technology hybrid vehicles and potential impact on vehicle residual values • Vehicle purchase and use declines due to higher priced AFVs • Failure to understand increased investment costs connected with AFVs	• Diversification of brands and services • Regular communication with manufacturers and finance companies • Investment in our people • Monitoring of sales by fuel type and alignment with inventory profile • Investment in Innovation Centres • Development of our mobility strategy and products to ensure affordable personal mobility for all
Legislative, regulatory changes and major business interruption (including the risks arising from Covid-19)	• Loss of revenue and operating profit contributions • Supply chain disruption • Business continuity • Non-compliance with FCA regulations leading to trading restrictions	• 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 • Board level monitoring of FCA compliance

Stakeholder relationships and engagement

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

Engaging with stakeholders to deliver long-term success is a key area of focus for the Board and all decisions take into account the impact on a wide range of stakeholders. Views of stakeholders are gathered by Directors and inform the decisions made in Board meetings. Obviously stakeholders are impacted by, or benefit from, decisions made by the Board in different ways. However, it is the Board's priority to ensure that the Directors have acted both individually and collectively in the way that they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs (a) to (f) of Section 172 of the Companies Act 2006. The Board considers the key stakeholders referred to in the table below:

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 sessions to assess the quality of customer service across all business units Customer satisfaction surveys are conducted throughout the Group and the results analysed by the Directors and at branch level through our Think Customer initiative Monitoring of complaint levels and root cause analysis of customer complaints Empowerment at all staff levels to resolve customer issues promptly and efficiently thus promoting customer satisfaction	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 Roll out of Click & Collect and Click & Deliver services Operating as One Business with customers at the centre and incentivising all staff equally to improve the customer journey

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	Monthly update on the Business from the Chief Executive A dedicated employee communication website and app which are updated daily with information on matters of concern to employees Director attendance at regular departmental 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 Chief Executive 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	Regular staff surveys for feedback Changes to working practices during the pandemic Results of customer surveys Quality of training Service improvement ideas Annual results and performance Employee reward mechanisms	Specific consultation with staff on Covid-19 return to work protocols and implementation based on responses received A more engaged and valued workforce delivering a higher standard of customer service Employee remuneration and benefits are updated to reflect changing market conditions Development of 'Space' - an employee portal for information, advice and support around mental, physical and financial health Ability to roll out our Digital Journey Digital development of our time and attendance system to empower staff to take greater responsibility in their employment
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 teams to ensure principal decisions are fully informed Chief Executive/Chief Operating Officer frequently meets with representatives of manufacturer partners Monthly financial performance reporting Attendance at manufacturer conferences	Impact of emissions regulations on pricing and availability of stock Impact of wider Covid-19 related implications 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 Development of franchise dealership network

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 Chief Retail Finance and Leasing Officer 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 the Bank of England's actions on UK interest rates and availability of finance How to make finance relevant, affordable, and understandable for customers i.e. treating customers fairly	Renewed finance facilities Compliance with all FCA requirements Agreed business volume targets and related interest rates Development of online journey using simple and understandable terms to ensure a transparent customer experience
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 programme Taking part in charity events and fundraising using our 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 of 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 New apprenticeship placements within the Group Creation of The Arnold Clark Community Fund providing financial assistance to UK registered charities and local community groups
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 Compliance with relevant FCA requirements

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.

Employee working conditions and rewards

Following the relaxation of certain Government Covid-19 measures, we consulted employees to ensure they felt safe and secure within their workplace. Additional details on these consultations are set out in the Chief Executive's Statement.

Vehicle supplies

Towards the end of the year the Board took the decision to significantly increase its level of used vehicle inventories. This decision was taken to mitigate the ongoing market risk of further vehicle shortages having an impact on the Group's ability to meet its ongoing sales expectations, specifically our January Real Deal event.

The Arnold Clark Community Fund

As part of our commitment to give back to our local communities, the Board launched the Arnold Clark Community Fund through which over £10m has been distributed to 11,500 charities.

This report was approved by the Board of Directors on 3 March 2022 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

The Directors present their report for the year ended 31 December 2021.

Results and dividends

The profit before tax amounted to £263.0m (2020 - £156.5m). The profit for the year, after taxation, amounted to £206.3m (2020 - £125.1m).

Interim dividends of £61.1m were paid during the year (2020 - £Nil). The Directors recommend that no final dividend be paid, which leaves a profit of £145.2m (2020 - £125.1m) to be retained.

A further review of the business and its principal risks is provided in the Chief Executive's Statement and in the Strategic Report. The Directors assessment of the Group's ability to continue as a going concern is addressed in note 2.4 to the financial statements.

Energy efficient operations

The Group is committed to reducing its environmental impact and contribution to climate change through increased energy management and awareness, and continuous improvement procedures.

Our sustainability initiative, SENSE, is our strategy for promoting a Sustainable Environment for Nature, Society, and the Economy. Our objective is to conduct our business in a responsible way that positively impacts the world around us, while identifying, reducing, and managing any negative impacts so we can preserve and improve the quality of life for future generations.

As part of the initiative, the Board set up sustainability working groups to ensure that our SENSE initiatives take account of all activities across the entire business and to ensure that our strategy is comprehensively communicated, implemented, embedded, measured, and managed throughout the Group.

The Group continues to expand its network of EV charging points across our estate, with over £0.7m being invested in new charge points, an investment which will continue in 2022.

The success of our not-for-profit Alternative Fuel Vehicle (AFV) Innovation Centre in Glasgow, which aims to educate motorists on the benefits of AFVs, has led us to open a second centre in Stafford. Customers can test-drive an AFV of their choice for free, as the UK heads towards a 2030 ban on the sale of new purely petrol and diesel-powered internal combustion engine cars.

Greenhouse gas emissions

As our principal activities comprise the hiring, selling and servicing of motor vehicles we have no manufacturing footprint to minimise. We collect data for all material emissions, arising in our UK subsidiaries, for which we deem ourselves to be responsible. Our energy usage arises from the following areas:

- Scope 1 - direct emissions from the combustion of fuels in our facilities (utilising natural gas and other fuels) or through driving activities. Includes estimates of distances travelled during test drives, delivery of customer orders transportation of vehicles and parts between sites, and business travel (excluding commuting by means which are not owned/controlled by us).
- Scope 2 - indirect emissions through the purchase of electricity in our facilities or for the purposes of transportation

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas ("GHG") emissions pursuant to The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the Government's policy on Streamlined Energy and Carbon Reporting.

Greenhouse gas emissions (continued)

Energy use table	2021	2020
Energy use kWh (Scope 1 and 2)	227,217,974	186,392,057
Carbon emissions (tCO_2e)		
Scope 1 (direct emissions from combustion of fuels)	37,640	30,904
Scope 2 (electricity purchased for own use) - location-based model	10,852	10,743
Total Scope 1 and 2 - location-based model	48,492	41,647
Scope 1 (direct emissions from combustion of fuels)	37,640	30,904
Scope 2 (electricity purchased for own use) - market-based model	9,058	8,202
Total Scope 1 and 2 - market-based model	46,698	39,106
Intensity ratio		
Revenue (£million)	4,741.2	3,798.2
Emissions intensity (tCO_2e/£m revenue) - location-based model	10.23	10.96
Emissions intensity (tCO_2e/£m revenue) - market-based model	9.85	10.30

The increase in 2021 reflects the reduced transport fuel usage and mobility in 2020, arising from the Covid-19 restrictions. Therefore, 2021 is considered a more normal year and will be the one used as the base year for measuring our net zero plans.

GHG emissions have been calculated using emissions factors published by BEIS in 2021. Electricity and natural gas emissions have been calculated using metered kWh consumption taken from supplier fiscal invoices, where possible. This metered consumption was converted using the BEIS GHG emissions factors for 2021 for each fuel.

Electricity emissions have been reported using both location and market-based factors. Location-based emissions have been calculated using the UK grid emissions factor published by BEIS. Market-based emissions have been calculated using supplier-specific fuel mix disclosures, in gCO_2/kWh, for 2020 - 2021 representing the contractual arrangements in place. Both location and market-based emissions are included above, including the relevant totals and intensity metric for clarity and compliance.

Transport emissions have been calculated using fuel purchase data and mileage expense claims or personal fuel usage deductions. Where possible, these deductions were identified by fuel type, which was removed from the total volume of fuel purchased over the period based on the average cost of each fuel in the fleet. Where the fuel type of the deduction was unknown, these were apportioned using the fuel split in the Arnold Clark fleet. Figures were then converted into kWh usage GHG emissions using the most recent emissions factors published by BEIS in 2021.

Where invoiced consumption was not available, electricity and gas consumption was estimated. Estimated consumption for missing days was mainly calculated using the average daily consumption, taken from the consumption invoiced over the reporting period. Where no invoiced data was available, consumption was estimated based on meter readings. For transport fuel, the expensed mileage was estimated based on an excerpt of mileage claims for 2 weeks, which was extrapolated to cover the reporting period. In total, estimations of consumption for all fuels or sources accounted for 0.50% of reported emissions.

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

A summary of 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, and to the date of this report, were as follows:

Lady Clark

E Hawthorne

R E Borrie

J A Clark

D M Cooper

W G P Gall

J T Graham (appointed on 1 December 2021)

S R Grant (appointed on 1 December 2021)

C S Henry (appointed on 1 December 2021)

K J McLean (resigned on 1 December 2021)

S Willis (resigned on 1 December 2021)

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

Directors' statement as to disclosure of information to the auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed in the Directors, Principal Officers and Advisers section. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

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

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

Auditors

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

Financial instrument risk management

Details of the financial risk management objectives and policies and exposure to market risk, credit risk, liquidity risk and interest rate risk are provided in Note 5 to the financial statements.

Future developments

Details of future developments are provided in the Chief Executive's Statement and in the Strategic Report.

Subsequent events

There are no events subsequent to the year-end that require disclosure.

This report was approved by the Board of Directors on 3 March 2022 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare:

- the Group financial statements in accordance with UK adopted international accounting standards;
- the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of profit or loss of the Group for that period.

In preparing these financial statements, UK adopted international accounting standard or United Kingdom Generally Accepted Accounting Practice, as appropriate, requires that Directors:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 are sufficient to show and explain both the Group's transactions and disclose with reasonable accuracy at any time the financial position of 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- 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 32 and A1 to A23.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. 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 Financial Reporting Standard 101 "Reduced Disclosure Framework".

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.

Independent Auditor's Report

to the members of Arnold Clark Automobiles Limited

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- review of financing facilities
- linkage to business model and medium-term risks
- assumptions used in the forecasts
- amount of headroom in the forecasts
- sensitivity analysis
- sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, 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.

Independent Auditor's Report

to the members of Arnold Clark Automobiles Limited

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Group's industry and its control environment, and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation, financial conduct authority regulation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address are described below:

- Used vehicle inventory valuation for vehicles > 90 days. We have reviewed the year end net realisable value calculation by assessing against post year end sales or, where not sold, the valuation against external market data.
- Residual value of Arnold Clark Finance motor vehicles (tangible assets). We have reviewed the residual value impairment model, including all assumptions within, and agreed the year end valuation to external market data. We have also considered other signs of impairment.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Independent Auditor's Report

to the members of Arnold Clark Automobiles Limited

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 Chief Executive's Statement, 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 Chief Executive's Statement, the Strategic Report and the 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 Chief Executive's Statement, the Strategic Report or the Directors' Report.

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 (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

3 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Revenue	8	4,741.2	3,798.2
Cost of sales		(3,914.2)	(3,169.3)
Gross profit		827.0	628.9
Distribution expenses		(309.0)	(250.5)
Administrative expenses		(254.2)	(220.8)
Other operating income	9	13.9	11.9
Operating profit	12	277.7	169.5
Finance costs	10	(15.2)	(14.6)
Finance income	11	0.5	1.6
Profit before tax		263.0	156.5
Income tax	16	(56.7)	(31.4)
Profit for the year		206.3	125.1
Other comprehensive income		-	-
Total comprehensive income for the year		206.3	125.1

Consolidated Statement of Financial Position

Arnold Clark Automobiles Limited

at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Property, plant and equipment	17	1,241.4	1,252.4
Investment properties	18	67.1	69.3
Intangible assets	19	10.0	10.0
		1,318.5	1,331.7
Current assets			
Inventories	20	682.3	516.8
Trade and other receivables	21	130.7	122.8
Financial assets	22	183.7	288.7
Cash and cash equivalents	23	477.7	513.9
		1,474.4	1,442.2
Total assets		2,792.9	2,773.9
Equity and liabilities			
Issued share capital	24	1.0	1.0
Profit and loss account		1,369.3	1,224.1
Total equity		1,370.3	1,225.1
Non-current liabilities			
Interest-bearing loans and borrowings	27	290.4	322.7
Provisions	26	10.1	8.4
Trade and other payables	28	4.6	14.2
Deferred tax liabilities	16	12.3	9.1
		317.4	354.4
Current liabilities			
Interest-bearing loans and borrowings	27	642.6	605.3
Trade and other payables	28	456.6	583.7
Provisions	26	6.0	5.4
		1,105.2	1,194.4
Total liabilities		1,422.6	1,548.8
Total equity and liabilities		2,792.9	2,773.9

Approved by the Board on 3 March 2022 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

Consolidated Statement of Changes in Equity

Arnold Clark
Automobiles Limited

for the year ended 31 December 2021

	Issued share capital	Profit and loss account	Total
	£m	£m	£m
As at 1 January 2020	1.0	1,099.0	1,100.0
Total comprehensive income	-	125.1	125.1
Dividends to shareholders (note 25)	-	-	-
As at 31 December 2020	1.0	1,224.1	1,225.1

	Issued share capital	Profit and loss account	Total
As at 1 January 2021	1.0	1,224.1	1,225.1
Total comprehensive income	-	206.3	206.3
Dividends to shareholders (note 25)	-	(61.1)	(61.1)
As at 31 December 2021	1.0	1,369.3	1,370.3

Consolidated Statement of Cash Flows

Arnold Clark
Automobiles Limited

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Net cash flows from operating activities	31	(78.3)	300.8
Investing activities			
Proceeds from sale of property, plant and equipment		6.9	7.0
Purchase of property, plant and equipment		(12.8)	(28.9)
Proceeds from sale of assets held for sale		0.6	-
Purchase of investment properties		(9.4)	-
Proceeds from sale of investments		116.0	10.8
Purchase of investments		(10.7)	(199.1)
Income from investments		-	0.1
Net cash flows used in investing activities		90.6	(210.1)
Financing activities			
Proceeds from borrowings		459.3	250.9
Repayment of borrowings		(408.5)	(268.5)
Proceeds from new hire purchase contracts		330.4	347.1
Repayment of capital element of hire purchase contracts		(364.6)	(312.4)
Repayment of capital element of other lease contracts		(3.0)	(3.6)
Dividends paid to equity holders of the parent		(51.7)	-
Net cash flows from financing activities		(38.1)	13.5
Net increase in cash and cash equivalents		(25.8)	104.2
Net cash and cash equivalents at 1 January		235.3	131.1
Net cash and cash equivalents at 31 December	23	209.5	235.3

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

1. Corporate information

Arnold Clark Automobiles Limited is a privately owned company limited by shares and incorporated and domiciled 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.

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with UK adopted international accounting standards.

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 Group 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 amendments:

- Amendment to IFRS 16 Leases Covid-19 - Related Rent Concessions - effective date 1 June 2020
- Amendments to IFRS 3 Business Combinations - effective date 1 January 2021

Standards and amendments to standards that have been issued but are not effective for 2021 and have not been early adopted are:

- IFRS 17 Insurance Contracts - effective date 1 January 2023

The above standard and amendment issued but not yet effective will be adopted in accordance with its effective date and has not been adopted in these financial statements. We do not expect the adoption of this standard to have a material impact on the financial statements.

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.

2.3 Basis of consolidation (continued)

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

2.4 Going concern

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

The Group remains in a very strong financial position with net funds available (net cash and readily realisable financial assets) of £393.2m at 31 December 2021. The reduction from £524.0m at 31 December 2020 is primarily due to a Board decision to increase our level of available used car stocks.

The Directors have reviewed Group cash flow forecasts to the end of the 2023 financial year. Having reviewed the Group 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 2023. The forecast includes conservative judgements, where there is continuing uncertainty, and the likelihood of headroom being exhausted was considered remote. Under this analysis, the Group is forecast to have substantial available cash across this period.

After making enquiries, the Directors consider that the Group has adequate resources to meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

2.5 Summary of significant accounting policies

Business combinations and goodwill

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

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

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

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

2.5 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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.

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.

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

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 or 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.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables.

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 recognised in the statement of profit or loss.

2.5 Summary of significant accounting policies (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's statement of financial position) when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset, has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified as Financial liabilities at fair value through profit or loss or Financial liabilities at amortised cost (loans and borrowings). Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings) is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Cash and cash equivalents

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, offset by bank overdrafts, 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

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. Products 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 are 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 and repair works, revenue is recognised on completion of the job.

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.

2.5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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. Revenue is recognised on completion of the work. 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.

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.

2.5 Summary of significant accounting policies (continued)

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 or loss account.

Insurance contracts

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

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 or 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.

Government grants

Grants from Government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Covid-19 related grants are Government grants receivable in light of the ongoing Covid-19 pandemic. The amounts principally reflect grants receivable under the Coronavirus Job Retention Scheme ("CJRS"). Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. CJRS income is recognised as a deduction to the related expense in the same period in which the related costs are incurred to the extent there is reasonable certainty that the grant will be received.

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 judgement, without estimation, that has been applied in these financial statements is as follows:

Consignment Stock

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.

3. Significant accounting judgements, estimates and assumptions (continued)

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 £9.7m 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

	2021 £m	2020 £m
Cash and cash equivalents	477.7	513.9
Financial assets	183.7	288.7
Bank overdraft	(268.2)	(278.6)
Hire purchase contracts	(536.7)	(570.9)
Other loans	(96.7)	(45.9)
Other lease contracts	(31.4)	(32.6)
	(271.6)	(125.4)

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, liquidity risk and interest rate 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 listed 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 investments. These investments are actively managed by HSBC Global Liquidity Funds plc on behalf of the Group. The 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 A1 (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 2021

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£m
Net cash and cash equivalents	-	-	1%	99%	-	-	-	209.5
Financial assets at fair value through profit and loss	22%	26%	38%	14%	-	-	-	183.7
Net funds available								393.2

At 31 December 2020

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£m
Net cash and cash equivalents	-	-	1%	29%	70%	-	-	235.3
Financial assets at fair value through profit and loss	1%	14%	42%	42%	-	-	1%	288.7
Net funds available								524.0

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 21.

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 2021

	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	364.9	285.5	273.4	63.3	987.1
Trade and other payables	-	357.2	4.6	-	361.8
	364.9	642.7	278.0	63.3	1,348.9

At 31 December 2020

	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	324.5	289.5	306.0	66.5	986.5
Trade and other payables	-	481.6	14.3	-	495.9
	324.5	771.1	320.3	66.5	1,482.4

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Increase/(decrease) on profit or loss	(1.0)	(0.3)	3.1	2.4

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

6. Group information

The consolidated financial statements of the Group include:

Name	Principal activity	Country of incorporation	Equity interest 2021 %	Equity interest 2020 %
Arnold Clark Finance Ltd	Hiring of motor vehicles	Scotland	100	100
Arnold Clark Holdings (Malta) Ltd	Intermediate holding company	Malta	100	100
Arnold Clark (Malta) Ltd	Non-trading	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
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
Harry Fairbairn 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 2021 %	2020 %
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 (Malta) Limited is held indirectly via Arnold Clark Holdings (Malta) Limited.

The limited companies listed above which were incorporated in Scotland have a registered office address of 454 Hillington Road, Glasgow, Scotland, G52 4FH. Those listed above which were incorporated in England & Wales have a registered office address of Wakefield Rd, Kingstown Industrial Estate, Carlisle, CA3 OHE. Those listed above which were incorporated in Malta have a 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. **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	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Assets measured at fair value:						
Financial assets (note 22)						
Certificates of deposit			173.7	285.7	173.7	285.7
Listed investments	10.0	3.0	-	-	10.0	3.0
Cash equivalents (note 23)						
Certificates of deposit	-	-	6.6	28.8	6.6	28.8
	10.0	3.0	180.3	314.5	190.3	317.5

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 2021 and 31 December 2020 are being categorised as level 2.

There were no transfers between levels during 2021. All valuations have been carried out as at 31 December in the relevant year.

8. Revenue

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

	2021 £m	2020 £m
Used motor vehicles	3,299.8	2,659.3
New motor vehicles	1,006.7	737.9
Vehicle rental	205.9	192.8
Aftersales & other	228.8	208.2
	4,741.2	3,798.2

99.9% of all activities took place within the United Kingdom. The remainder took place in Malta and Guernsey.

9. Other operating income

	2021 £m	2020 £m
Net gain on disposal of property, plant and equipment	13.6	11.6
Miscellaneous other income	0.3	0.3
	13.9	11.9

10. Finance costs

	2021 £m	2020 £m
Finance charges payable under hire purchase agreements	10.7	9.5
Finance charges payable in regard to other lease liabilities	0.9	1.0
Other interest payable	3.5	4.1
Unwinding of discount and effect of changes in discount rate on provisions (note 26)	0.1	-
	15.2	14.6

11. Finance income

	2021 £m	2020 £m
Income from investments	-	0.1
Net gain on financial assets at fair value through profit and loss	-	0.2
Bank interest receivable	0.5	1.2
Other interest receivable	-	0.1
	0.5	1.6

for the year ended 31 December 2021

12. Operating profit

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

	2021 £m	2020 £m
Depreciation of property, plant and equipment	65.1	58.8
Depreciation of right-of-use assets	119.5	125.8
Depreciation of investment properties	0.9	0.9
Impairment of property, plant and equipment	-	1.2
Impairment of investment properties	1.3	3.2
Amortisation of intangible assets	-	0.1
Costs of inventories recognised as an expense	3,820.0	3,078.0
Gain on disposal of property, plant and equipment	(13.6)	(11.6)

13. Auditor's remuneration

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

	2021 £m	2020 £m
Fees payable to the Company's auditor for the audit of the:		
Company's annual accounts	0.2	0.1
Subsidiaries' annual accounts	0.1	0.1
Total audit fees	0.3	0.2
Tax compliance and other advisory	-	0.2
Total non-audit fees	-	0.2

14. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2021 £m	2020 £m
Wages and salaries	349.8	353.5
Social security costs	36.0	33.4
Pension costs	13.1	12.8
Total employee benefits expense	398.9	399.7

During the year ended 31 December 2021, the Group claimed no government grants via the Coronavirus Job Retention Scheme (2020 - £64.3m by way of contributions towards the cost of employee wages and salaries and social security cost).

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

	2021 No.	2020 No.
Office and management	1,925	2,103
Sales	3,298	3,643
Technicians	5,603	6,770
	10,826	12,516

15. Key management remuneration

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

	2021 £m	2020 £m
Short-term employee benefits	12.7	8.6

The Directors' emoluments were as follows:

	2021 £m	2020 £m
Emoluments	10.9	7.0
Emoluments of the highest paid Director	6.4	3.0

16. Income tax

The major components of income tax expense are:

	2021 £m	2020 £m
Current income tax:		
Corporation tax charge	53.9	33.7
Adjustments in respect of corporation tax charge of prior years	(0.4)	0.2
Deferred tax:		
Relating to origination and reversal of temporary differences	(0.2)	(3.5)
Effect of changes in tax rates	3.1	1.2
Adjustment in respect of previous years	0.3	(0.2)
Income tax expense reported in the Statement of Profit or Loss	56.7	31.4

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:

	2021 £m	2020 £m
Accounting profit before income tax	263.0	156.5
At UK corporation tax rate of 19% (2020 - 19%)	50.0	29.7
Tax effect of non-deductible expenses and non-taxable income	3.7	3.8
Effect of changes/differences in tax rates	3.1	(2.1)
Adjustments in respect of current income tax of prior periods	(0.4)	0.2
Adjustments in respect of deferred tax of prior periods	0.3	(0.2)
At the effective income tax rate of 21.6% (2020 - 20.1%)	56.7	31.4

The UK corporation tax rate is due to increase from 19% to 25% from 1 April 2023.

16. 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 2021 is 23.4% (2020 - 19.0%).

	Consolidated Statement of Financial Position		Consolidated Statement of Profit or Loss and Other Comprehensive Income	
	2021 £m	2020 £m	2021 £m	2020 £m
Accelerated capital allowances	9.7	6.8	2.9	(1.9)
Other temporary differences	2.6	2.3	0.3	(0.6)
Net deferred tax liability/expense	12.3	9.1	3.2	(2.5)

Reflected in the Statement of Financial Position as follows:

	2021 £m	2020 £m
Net deferred tax liability	12.3	9.1

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

	2021 £m	2020 £m
At 1 January	9.1	11.6
Charged to the Statement of Profit or Loss and Other Comprehensive Income	3.2	(2.5)
At 31 December	12.3	9.1

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.

17. 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 2021	562.2	64.5	13.5	112.3	953.3	1.705.8
Additions	3.5	0.6	3.9	6.3	374.0	388.3
Disposals	(6.8)	(1.3)	(1.3)	(17.8)	(338.5)	(365.7)
Transfers	2.0	-	(2.1)	0.1	-	-
Assets classified as held for sale	(3.4)	-	-	-	-	(3.4)
At 31 December 2021	557.5	63.8	14.0	100.9	988.8	1.725.0
Depreciation:						
At 1 January 2021	108.5	14.4	-	82.7	247.8	453.4
Provided during the year	15.6	4.2	-	11.3	153.5	184.6
Disposals	(4.0)	(1.3)	-	(17.4)	(130.1)	(152.8)
Assets classified as held for sale	(1.6)	-	-	-	-	(1.6)
At 31 December 2021	118.5	17.3	-	76.6	271.2	483.6
Net book value:						
At 31 December 2021	439.0	46.5	14.0	24.3	717.6	1,241.4
At 31 December 2020	453.7	50.1	13.5	29.6	705.5	1,252.4

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £822.5m (2020- £846.0m) and related accumulated depreciation of £189.8m (2020 - £204.8m), 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 £336.2m (2020 - £332.3m) of motor vehicles purchased by way of hire purchase agreements. These cashflows have been presented gross in the cashflow, which accurately reflects the timing and structure of the related funding arrangements. The net book value of right-of-use assets at 31 December 2021 are presented by class of underlying asset in note 29.

18. Investment properties

	£m
Cost:	
At 1 January 2021	79.6
Additions	9.4
Disposals	(12.6)
At 31 December 2021	76.4
Depreciation and impairment:	
At 1 January 2021	10.3
Depreciation charge for the year	0.9
Impairment charge	1.3
Disposals	(3.2)
At 31 December 2021	9.3
Net book value:	
At 31 December 2021	67.1
At 31 December 2020	69.3

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 2021, investment properties carried at cost had an estimated FVLCD of £68.8m (2020 - £72.0m). 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 £1.3m (2020 - £3.2m) 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 £5.3m (2020 - £5.7m).

19. Intangible assets

Cost:	Goodwill £m	Other intangibles £m	Total £m
At 1 January 2021	10.0	1.2	11.2
Acquisitions	-	-	-
At 31 December 2021	10.0	1.2	11.2
Amortisation:			
At 1 January 2021	-	1.2	1.2
Provided during the year	-	-	-
At 31 December 2021	-	1.2	1.2
Net book value:			
At 31 December 2021	10.0	-	10.0
At 31 December 2020	10.0	-	10.0

The goodwill of £10.0m (2020 - £10.0m) arose on the acquisition of a number of dealerships. No acquisitions were made in the current year.

19. Intangible assets (continued)

The Group's other intangibles consisted of customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of business combinations and are now fully written down.

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 10.0% (2020 - 10.0%).

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 1.5% (2020 - 1.5%).

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

There is no reasonably possible change in key assumptions that would give rise to an impairment.

20. Inventories

	2021 £m	2020 £m
Motor vehicles	608.8	417.7
Parts and accessories	21.6	21.9
Work in progress and other stocks	2.9	2.9
Consignment stocks	49.0	74.3
	682.3	516.8

Included in motor vehicles is £136.4m (2020 - £54.1m) that is pledged as security for the other loans disclosed in note 27. At 31 December 2021, the Group held vehicles on sale or return with a wholesale value of £74.4m (2020 - £122.5m) excluding Value Added Tax. Included in stocks is £49.0m (2020 - £74.3m) 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 £25.4m (2020 - £48.2m) 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.

21. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	74.8	69.6
Other receivables	13.7	17.6
Prepayments and accrued income	36.2	32.5
Income tax recoverable	1.5	0.3
Assets classified as held for sale	4.5	2.8
	130.7	122.8

At 31 December 2021, trade receivables with an initial carrying value of £1.8m (2020 - £2.3m) were impaired and fully provided for. The movements in the provision were as follows:

	2021 £m	2020 £m
At 1 January	2.3	1.1
Charge for the year	0.9	2.4
Utilised	(1.4)	(1.2)
At 31 December	1.8	2.3

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
2021	66.6	6.0	1.0	1.2	74.8
2020	59.3	6.4	1.4	2.5	69.6

22. Financial assets

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

	2021 £m	2020 £m
Fair value through profit and loss		
Certificates of deposit	173.7	285.7
Listed investments	10.0	3.0
	183.7	288.7

Movements in financial assets during the year were as follows:

	2021 £m	2020 £m
At 1 January	288.7	100.2
Net additions/(disposals)	(105.3)	188.3
Net fair value gains recognised in the profit or loss account	0.3	0.2
At 31 December	183.7	288.7

23. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	471.1	485.1
Certificates of deposit	6.6	28.8
	477.7	513.9
Bank overdraft	(268.2)	(278.6)
Net cash and cash equivalents	209.5	235.3

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.

Bank overdrafts are repayable on demand and form an integral part of the Groups cash management and are therefore included as a component of cash and cash equivalents.

24. Issued share capital

The share capital at 31 December 2021 and 31 December 2020 is analysed as follows:

	Authorised		Allotted, called up and fully paid	
	2021 No.	2020 No.	2021 £m	2020 £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. Share capital comprises 150,200 class A1 shares, 250,000 class A2 shares, 350,000 class B shares and 249,800 class C ordinary shares. The rights to dividends, rights on a winding up and voting rights of each class are detailed in the Articles of Association of the Company.

25. Dividends

	2021 £m	2020 £m
Cash dividends on ordinary shares declared and paid:		
Interim dividends	51.7	-
Non-cash in specie dividend on ordinary shares:		
Divestment of two investment properties	9.4	-
Total dividends paid during the year	61.1	-

Interim dividends comprise of £11.7m paid to C shareholders (£46.50 per share) and £40.0m paid to A2 shareholders (£160 per share).

26. Provisions

	Commission clawback	
	2021	2020
	£m	£m
At 1 January	13.8	11.3
Amounts utilised in the period	(6.9)	(4.5)
Amounts charged to the profit and loss account	9.1	7.0
Unwinding of discount	0.1	-
At 31 December	16.1	13.8
Amounts included in current liabilities	6.0	5.4
Amounts included in non-current liabilities	10.1	8.4
	16.1	13.8

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 in the current year by 0.83% (2020 - 0.01%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.8m and an additional 1% added to the risk-free discount rate would reduce the provision by £0.2m.

27. Financial liabilities

	2021	2020
	£m	£m
Current interest-bearing loans and borrowings:		
Other loans	96.7	45.9
Bank overdraft	268.2	278.6
Lease liabilities: obligations under hire purchase agreements	274.9	278.5
Lease liabilities: obligations under other lease contracts	2.8	2.3
	642.6	605.3
Non-current interest-bearing loans and borrowings:		
Lease liabilities: obligations under hire purchase agreements	261.8	292.4
Lease liabilities: obligations under other lease contracts	28.6	30.3
	290.4	322.7
Total interest-bearing loans and borrowings	933.0	928.0

Interest-bearing loans and borrowings

Other loans are in regard to a stocking facility with Lombard North Central plc totalling £84.1m (2020: £36.4m) and other non-hire purchase funding for Contract Hire vehicles totalling £12.6m (2020: £9.5m), 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 29.

28. Trade and other payables

	2021 £m	2020 £m
Trade payables	118.9	209.6
Other taxes and social security costs	41.0	52.4
Other creditors	62.8	53.6
Insurance liabilities	5.4	7.5
Accruals and deferred income	180.0	190.9
Consignment stock creditor	49.0	74.3
Buyback creditor	4.1	9.6
	461.2	597.9
Amounts included in current liabilities	456.6	583.7
Amounts included in non-current liabilities	4.6	14.2
	461.2	597.9

Amounts included in non-current liabilities relate to rentals paid in advance, which are included in accruals and deferred income.

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:

	2021 £m	2020 £m
Vehicle Shortfall Insurance: claims outstanding	0.2	0.8
Vehicle Shortfall Insurance: claims outstanding - incurred but not reported	0.1	0.3
	0.3	1.1
Self-insured: claims outstanding	5.1	6.4
Total insurance liabilities	5.4	7.5

Claims outstanding are considered to be substantially current in nature. The technical provisions are based on case by case estimates supplemented with an additional provision for the estimated cost of Incurred But Not Reported (IBNR) claims which is determined by applying an average claim cost to the estimated number of IBNR claims based primarily on historical experience.

The ultimate cost of outstanding claims, including IBNR claims, is estimated through statistical techniques in order to establish if an unexpired risk provision is required in respect of claims and administrative expenses likely to arise after the end of the financial period from contracts conducted before the Statement of Financial Position date, in so far as their estimated value exceeds the provision for unearned premiums receivable under those contracts.

29. Leases

Group as a lessee

The Group has entered into lease contracts in regard to property, plant and motor vehicles. The average remaining lease term for motor vehicles is 2 years and the average remaining lease term for land and buildings is 51 years.

Amounts recognised in the Statement of Profit or Loss

	2021 £m	2020 £m
Depreciation expense on right-of-use assets	119.5	125.8
Interest expense on hire purchase agreements	10.7	9.5
Interest expense on other lease liabilities	0.9	1.0
Expense relating to short term leases	0.6	0.2
Expense relating to low value assets	0.5	0.5

Right-of-use assets

	Land and buildings £m	Motor vehicles £m	Total £m
Carrying value at 1 January 2021	31.9	641.2	673.1
Carrying value at 31 December 2021	30.4	632.7	663.1
Additions to right-of-use assets	1.5	336.2	337.7
Depreciation charge for the year	(2.5)	(117.0)	(119.5)

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts payable:				
Within one year	283.1	286.3	274.9	278.5
After one year but not more than five years	266.9	297.4	261.8	292.4
	550.0	583.7	536.7	570.9
Less: future finance charges	(13.3)	(12.8)		
Present value of hire purchase obligations	536.7	570.9		

	2021 £m	2020 £m
Current interest-bearing borrowings:	274.9	278.5
Non-current interest-bearing borrowings	261.8	292.4
	536.7	570.9

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.

29. Leases (continued)

Obligations under other lease contracts

	Minimum payments		Present value of payments	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts payable:				
Within one year	2.4	3.2	2.8	2.3
After one year but not more than five years	6.5	8.6	7.8	5.6
More than five years	63.3	66.5	20.8	24.7
Less: future finance charges	72.2	78.3	31.4	32.6
Present value of hire purchase obligations	(40.8)	(45.7)		
	31.4	32.6		
Current interest-bearing borrowings:			2.8	2.3
Non-current interest-bearing borrowings			28.6	30.3
			31.4	32.6

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 19 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	
	2021 £m	2020 £m	2021 £m	2020 £m
Within one year	112.3	117.2	5.3	5.3
After one year but not more than five years	101.1	108.5	19.0	18.4
More than five years	-	-	32.5	17.1
	213.4	225.7	56.8	40.8

30. Capital commitments

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

	2021 £m	2020 £m
Contracted but not provided for	23.0	0.2

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

	2021 £m	2020 £m
Profit for the year	206.3	125.1
Adjustment for taxation	56.7	31.4
Adjustment for net financing costs	14.7	13.0
Operating profit	277.7	169.5
Depreciation of property, plant and equipment	65.1	58.8
Depreciation of right-of-use assets	119.5	125.8
Depreciation of investment property	0.9	0.9
Impairment of property, plant and equipment	-	1.2
Impairment of investment property	1.3	3.2
Amortisation of intangibles	-	0.1
Profit on disposal of property, plant and equipment	(13.1)	(11.6)
(Increase)/decrease in receivables	(5.0)	33.5
(Increase)/decrease in inventories	(190.8)	103.9
(Decrease)/increase in trade and other payables	(111.8)	0.4
Increase in provisions	2.3	2.5
Profit on disposal of asset held for sale	(0.5)	-
Additions to motor vehicles	(374.0)	(366.8)
Proceeds from disposal of motor vehicles	218.6	245.2
Taxation paid	(54.7)	(53.5)
Interest received	0.5	1.3
Interest paid	(14.3)	(13.6)
Net cash flows from operating activities	(78.3)	300.8

32. Ultimate controlling related party

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

Company Statement of Financial Position

at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Property, plant and equipment	A4	541.3	570.3
Investment properties	A5	67.1	69.3
Intangible assets	A6	7.5	7.5
Investments	A7	71.6	71.6
		687.5	718.7
Current assets			
Inventories	A8	682.8	508.2
Trade and other receivables	A9	117.9	107.7
Financial assets	A10	174.5	278.0
Cash and cash equivalents	A11	418.0	447.5
		1,393.2	1,341.4
Total assets		2,080.7	2,060.1
Equity and liabilities			
Issued share capital	A12	1.0	1.0
Profit and loss account		1,198.0	1,082.8
Total equity		1,199.0	1,083.8
Non-current liabilities			
Interest-bearing loans and borrowings	A16	28.3	30.1
Provisions	A14	10.1	8.4
Trade and other payables	A17	-	10.0
Deferred tax liabilities	A15	15.3	10.0
		53.7	58.5
Current liabilities			
Interest-bearing loans and borrowings	A16	354.8	316.9
Trade and other payables	A17	467.2	595.5
Provisions	A14	6.0	5.4
		828.0	917.8
Total liabilities		881.7	976.3
Total equity and liabilities		2,080.7	2,060.1

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 £176.3m (2020: £114.2m).

Approved by the Board on 3 March 2022 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

Company Statement of Changes in Equity

for the year ended 31 December 2021

	Share Capital £m	Profit and loss account £m	Total £m
As at 1 January 2020	1.0	968.6	969.6
Total comprehensive income	-	114.2	114.2
Dividends to shareholders (note A13)	-	-	-
As at 31 December 2020	1.0	1,082.8	1,083.8
As at 1 January 2021	1.0	1,082.8	1,083.8
Total comprehensive income	-	176.3	176.3
Dividends to shareholders (note A13)	-	(61.1)	(61.1)
As at 31 December 2021	1.0	1,198.0	1,199.0

Notes to the Company Financial Statements

for the year ended 31 December 2021

A1. Statement of compliance with FRS 101

The results of Arnold Clark Automobiles Limited ("the Company") are included in the consolidated financial statements.

The separate entity financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 2021. The 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 IAS 1 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 IAS 24 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 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 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 reassesses 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% to 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 42%

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.

Investments

Investments in subsidiaries are stated at cost, less provision for impairment.

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 subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade receivables.

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 recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset, has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified as Financial liabilities at fair value through profit or loss or Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings) is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

A2.2 Summary of significant accounting policies (continued)

Inventories

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

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

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

Cash and cash equivalents

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

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.

Notes to the Company Financial Statements

for the year ended 31 December 2021

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:

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 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 £5.6m to the carrying value of used vehicle inventory.

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 2021	530.7	62.9	13.5	100.0	69.1	776.2
Additions	3.4	0.6	3.9	5.6	37.3	50.8
Disposals	(6.1)	(1.3)	(1.3)	(14.2)	(41.3)	(64.2)
Transfers	2.0	-	(2.1)	0.1	-	-
Assets classified as held for sale	(3.4)	-	-	-	-	(3.4)
At 31 December 2021	526.6	62.2	14.0	91.5	65.1	759.4
Depreciation:						
At 1 January 2021	98.9	13.8	-	72.2	21.0	205.9
Provided during the year	14.8	4.1	-	10.7	20.0	49.6
Disposals	(3.2)	(1.3)	-	(13.9)	(17.4)	(35.8)
Assets classified as held for sale	(1.6)	-	-	-	-	(1.6)
At 31 December 2021	108.9	16.6	-	69.0	23.6	218.1
Net book value:						
At 31 December 2021	417.7	45.6	14.0	22.5	41.5	541.3
At 31 December 2020	431.8	49.1	13.5	27.8	48.1	570.3

The net book value of right-of-use assets at 31 December 2021 are presented by class of underlying asset in note A18.

A5. Investment properties

	£m
Cost:	
At 1 January 2021	79.6
Additions	9.4
Disposals	(12.6)
At 31 December 2021	76.4
Depreciation and impairment:	
At 1 January 2021	10.3
Depreciation charge for the year	0.9
Impairment charge	1.3
Disposal	(3.2)
At 31 December 2021	9.3
Net book value:	
At 31 December 2021	67.1
At 31 December 2020	69.3

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 2021, investment properties carried at cost had an estimated FVLCD of £68.8m (2020 - £72.0m). 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 Company. On the basis of the valuations received, an impairment charge of £1.3m 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 £5.3m (2020 - £5.7m).

A6. Intangible assets

	£m
Goodwill as at 31 December 2021 and 31 December 2020	7.5

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 10.0% (2020 - 10.0%).

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 1.5% (2020 - 1.5%).

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

There is no reasonable possible change in key assumptions that would give rise to an impairment.

A7. Investments

	£m
Cost of investment in subsidiaries as at 31 December 2021 and 31 December 2020	71.6

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

A8. Inventories

	2021 £m	2020 £m
Motor vehicles	609.4	409.1
Parts and accessories	21.5	21.9
Other stocks	2.9	2.9
Consignment stocks	49.0	74.3
	682.8	508.2

Included in motor vehicles is £127.0m (2020 - £46.6m) that is pledged as security for the other loans (see note A16). At 31 December 2021, the Company held vehicles on sale or return with a wholesale value of £74.4m (2020 - £122.5m) excluding Value Added Tax. Included in stocks is £49.0m (2020 - £74.3m) 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 £25.4m (2020 - £48.2m) 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

	2021 £m	2020 £m
Trade receivables	58.8	49.3
Other receivables	13.2	17.0
Prepayments and accrued income	30.2	26.5
Income tax recoverable	8.5	5.9
Assets classified as held for sale	4.5	2.8
Amounts due from Group undertakings (receivable on demand)	2.7	6.2
	117.9	107.7

A10. Financial assets

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

	2021 £m	2020 £m
Fair value through profit and loss		
Certificates of deposit	164.5	275.0
Listed investments	10.0	3.0
	174.5	278.0

Movements in financial assets during the year were as follows:

	£m
At 1 January 2021	278.0
Net additions/(disposals)	(103.8)
Net fair value gains recognised in the profit or loss account	0.3
At 31 December 2021	174.5

A11. Cash and equivalents

	2021 £m	2020 £m
Cash at bank and in hand	412.6	418.7
Certificates of deposit	5.4	28.8
	418.0	447.5
Bank overdraft	(268.2)	(278.6)
Net cash and cash equivalents	149.8	168.9

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 2021 and 31 December 2020 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2021 No.	2020 No.	2021 £m	2020 £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. Share capital comprises 150,200 class A1 shares, 250,000 class A2 shares, 350,000 class B shares and 249,800 class C ordinary shares. The rights to dividends, rights on a winding up and voting rights of each class are detailed in the Articles of Association of the Company.

A13. Dividends

	2021 £m	2020 £m
Cash dividends on ordinary shares declared and paid:		
Interim dividends	51.7	-
Non-cash in specie dividend on ordinary shares:		
Divestment of two investment properties	9.4	-
Total dividends paid during the year	61.1	-

Interim dividends comprise of £11.7m paid to C shareholders (£46.50 per share) and £40.0m paid to A2 shareholders (£160 per share).

A14. Provisions

	Commission clawback	
	2021 £m	2020 £m
At 1 January	13.8	11.3
Amounts utilised in the period	(6.9)	(4.5)
Amounts charged to the profit and loss account	9.1	7.0
Unwinding of discount	0.1	-
At 31 December	16.1	13.8
Amounts included in current liabilities	6.0	5.4
Amounts included in non-current liabilities	10.1	8.4
	16.1	13.8

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 in the current year by 0.83% (2020 - 0.01%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.8m and an additional 1% added to the risk-free discount rate would reduce the provision by £0.2m.

A15. Deferred tax liabilities

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 25% (2020 - 19.0%).

	2021 £m	2020 £m
Accelerated capital allowances	10.8	7.5
Other timing differences	4.5	2.5
Deferred tax liability	15.3	10.0

The UK corporation tax rate is due to increase from 19% to 25% from 1 April 2023. The deferred tax liability at 31 December 2021 has 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.

A16. Financial liabilities

Interest-bearing loans and borrowings

	2021 £m	2020 £m
Current interest-bearing loans and borrowings:		
Other loans	84.1	36.4
Bank overdraft	268.2	278.6
Lease liabilities: obligations under other lease contracts	2.5	1.9
	354.8	316.9
Non-current interest-bearing loans and borrowings:		
Lease liabilities: obligations under other lease contracts	28.3	30.1
Total interest-bearing loans and borrowings	383.1	347.0

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

	2021 £m	2020 £m
Trade payables	115.2	196.7
Other taxes and social security costs	38.9	65.3
Other creditors	48.0	38.7
Insurance liabilities	5.4	6.4
Accruals and deferred income	129.7	139.2
Consignment stock creditor	49.0	74.3
Amounts due to Group undertakings (payable on demand)	76.9	75.3
Buyback creditor	4.1	9.6
	467.2	605.5
Amounts included in current liabilities	467.2	595.5
Amounts included in non-current liabilities	-	10.0
	467.2	605.5

A18. Leases

Company as a lessee

The Company has entered into leases contracts in regard to property. The average remaining lease term is 51 years.

Amounts recognised in the Statement of Profit or Loss

	2021 £m	2020 £m
Depreciation expense on right-of-use assets	2.1	2.3
Interest expense on lease liabilities	0.8	1.0
Expense relating to short term leases	-	0.2
Expense relating to low value assets	0.6	0.5

Right-of-use assets

	Land and buildings £m	Total £m
Carrying value at 1 January 2021	31.3	31.3
Carrying value at 31 December 2021	30.0	30.0
Additions to right-of-use assets	1.3	1.3
Depreciation charge for the year	(2.1)	(2.1)

	Minimum payments		Present value of payments	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts payable:				
Within one year	2.1	2.8	2.5	1.9
After one year but not more than five years	6.3	8.5	7.6	5.5
More than five years	63.2	66.2	20.7	24.5
	71.6	77.5	30.8	31.9
Less: future finance charges	(40.8)	(45.6)		
Present value of other lease obligations	30.8	31.9		

	2021 £m	2020 £m
Current interest-bearing borrowings	2.5	1.9
Non-current interest-bearing borrowings	28.3	30.0
	30.8	31.9

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 19 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:

	2021 £m	2020 £m
Within one year	5.3	5.3
After one year but not more than five years	19.0	18.4
More than five years	32.5	17.1
	56.8	40.8

A19. Capital commitments

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

	2021 £m	2020 £m
Contracted but not provided for	23.0	0.2

A20. Other financial commitments

The Company has undertaken to repurchase certain motor vehicles throughout 2022. 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 2021, the Value Added Tax payable by other members of the group registration amounted to £1.9m (2020 - receivable of £13.2m).

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 2021, the other companies included in the guarantee had net funds of £55.6m (2020 - £64.5m) due from The Royal Bank of Scotland plc.

A22. Directors emoluments

The Directors' emoluments were as follows:

	2021 £m	2020 £m
Emoluments	10.5	6.5
Emoluments of the highest paid Director	6.4	3.0

A23. 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.