# ANNUAL REPORT 2020

Arnold Clark Automobiles Limited

SC036386

# Directors, Principal Officers and Advisers

Arnold Clark Automobiles Limited

## Directors and Senior Executives

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

## Operations Board

| | |
|---|---|
| J A Brown BSc (Hons) BEng (Hons) | Group Chief Information Officer |
| A H W Clark BSc (Hons) | Group Fleet and Business Development Director |
| J T Graham BSc (Hons) CA Dip CII | Finance Director (Automobiles) |
| S R Grant BA | Group Aftersales Director |
| C S Henry BA (Hons) FCIPD | Group People Director |

## 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

Arnold Clark Automobiles Limited

In over 30 years in the industry 2020 was definitely the most difficult and unpredictable year I have ever encountered. The Covid-19 pandemic has impacted both the UK and Global economies on a scale that could never have been envisaged. The recession of the early 1990s and the credit crunch post 2008 pale into insignificance against the impact that Covid-19 has had, not just on our business but, on society as a whole. It has, however, brought home the importance and resilience of our staff, reminded us to focus on the basics and has highlighted the benefits of being a well-funded and prudently run family business with a long term view.

**New ways of working**

In March we had already taken the decision to temporarily close our business, prior to the Prime Minister locking down the country, as the Director's first priority has been the health and safety of our staff, our customers and the wider community in which we operate. The lessons learned from the closure of our entire operation in March 2020, with only limited resources continuing to support our public services, the temporary furloughing of over 12,000 of our staff and the subsequent challenge of gradually bringing our organisation back to life, branch by branch, department by department were numerous. A challenge made all the more difficult given how much had to be achieved against a background of many of our staff working from their spare bedrooms or kitchens. I am humbled by how our people responded with passion and grit and we have learnt how we can work more effectively together, even when socially distanced.

I recognise and want to talk openly about the impact on the mental health of all our people of both working from home and the wider impact of the pandemic. We have missed the chance conversations, unplanned questions, the ability to learn from colleagues, along with the training and camaraderie that the branch and office environments provide. At their best, our offices and branches can be a hive of new ideas and enhanced collaboration as well as bringing a welcome routine to our daily lives. Our Space website was developed to provide information, advice and support to our staff both at work and in their personal life. It was developed to contain support resources to help our people stay well in mind, body and spirit. It has never been more needed or used. I am cognisant of the long term impact of the current situation and the Directors and I are personally committed to ensuring that we continue to support the long term mental health of our staff.

During the pandemic we saw evidence of the benefit of our prior investment in our Digital Journey. The investment in our online platforms to streamline and enhance the user experience allowed us to continue to meet customer demand through Click & Deliver and Click & Collect solutions, one small benefit in that we have achieved in 5 months what would historically have taken us nearly 5 years.

It was pleasing to see how quickly our customers and staff adapted to the new format and our Digital Journey has delivered:

- 15 million web visits resulting in 351,000 online enquiries.
- 228,000 people have downloaded the Arnold Clark app.
- 84,000 vehicle deliveries since May have been Click & Collect at branch, at a Click & Collect centre or home deliveries.
- 304,000 people have used our new online check-in, a more efficient way for us to do business, and a better, quicker way for our customers to engage with us.

Communication is one of the main values of the business and in 2020 it was certainly needed. Throughout the pandemic I have tried to keep all our staff fully informed of our progress through regular email and video updates and via our Arnold Clark Employee ("ACE") app. It would have been extremely difficult to communicate with all our employees but for the app, with over 95% engagement from our staff each week.

I have been honest about the impact on the business, the need to restructure, the decision that six smaller branches would not reopen, the closure of several departments and the difficult but necessary decision to reduce our headcount. Bringing our staff on this journey, with full open communication and direction, has been one of the main reasons that together as a business we have managed to navigate 2020 and emerge as a stronger business. I would like to commend our 800 apprentices who given the circumstances spent the greatest period on furlough and their training has suffered, however their training has now resumed at pace.

# Chief Executive's Statement

Arnold Clark Automobiles Limited

**Financial performance**

Prior to the lockdown in March, the Group had experienced a very positive start to 2020 with a highly successful Real Sale event contributing towards increased revenue and profitability in the first two months of 2020.

Over the following 4 months we lost over £800 million of revenues compared with the same period in 2019, primarily as a result of over 65,000 fewer vehicle sales being made. Our branches were gradually reopened between 18 May and 29 June after spending over £2 million to ensure our locations were Covid-19 secure. This included the implementation of social distancing measures, purchase of suitable personal protection equipment, the delivery of staff training and support materials and enhanced health and safety audits.

In the post lockdown period of July to October, we experienced year-on-year increases across our New vehicles, Used vehicles and Aftersales revenue streams some of which reflected pent-up customer demand carried forward from the previous quarter. Coupled with higher sales volumes, vehicle margins were robust and allowed us to quickly rebuild our annual profits.

The last two months of the year were operationally difficult as a result of the second lockdown in England from 4 November to 2 December and the increased restrictions in Scotland from 25 November to 11 December. However, the experience gained in the first lockdown, the resilience of our people coupled with the enhancement of our Digital Customer experience, ensured a very strong end of year financial performance.

Overall, we have ended the year with Revenues of £3.8 billion and a Profit before tax of £156.5 million. This financial result reflects not only the exceptional performance of our people in 2020 and loyalty of our customers but is also the outcome of many years of investing in our staff, properties and technology with a long term view.

During the initial UK wide lockdown, as our dealerships were closed, we participated in, and were grateful for, the various Government support schemes including the Coronavirus Job Retention Scheme, Business Rates Relief and VAT Payment Deferral Scheme. We did not however require to access any of the Government loan support schemes. We received a total of £64.3m by way of CJRS grants from HMRC to pay our furloughed staff between March and October. This is a large sum of money but, to put it in perspective, it equates to approximately 2 months of our usual payroll costs and reflects the fact that, at peak, we had 12,100 people on furlough. With our showrooms and other retail outlets closed for a significant portion of the year, we were eligible for Business Rates Relief which contributed £11m to overall cost savings in 2020. We also took advantage of the VAT Payment Deferral Scheme during the first and second quarters of 2020. This allowed us to defer £44m of VAT for up to 1 year but has subsequently been repaid to HMRC in February. Despite all of the welcome Government assistance, we took the decision in November not to furlough any staff as a result of the second lockdown. We were still operational, albeit digitally, and we considered our financial position and revised operations, by this time, to be capable of continuing without additional UK Government support. Taking account of the lessons learned during the first lockdown and assessing how we could provide a Covid-19 safe and secure environment for our staff and customers we were able to remain operational under Government guidelines.

I would like to take this opportunity to express our thanks to our Government, manufacturer, finance banking and business partners who have continued to support our business throughout this difficult time.

**Financial stability**

The Group's finances are in a strong position and, by continuing to make good long term business decisions and focusing on basic financial disciplines, we will remain resolute. We reduced our stock levels and discretionary spend as the pandemic progressed and our family shareholders supported the business by agreeing that no dividends would be paid. These actions, along with the other mitigating actions we implemented and set out later in this Report, mean that we go into 2021 with significantly more cash resources than we had at the start of 2020. Our strong liquidity position with net funds available of £524 million, means that we are able to sustain the business throughout this ongoing crisis and take advantage of market opportunities as they arise.

**Community engagement**

Despite all the challenges of 2020, the Arnold Clark organisation is proud to have continued supporting both national and local causes. From the first lockdown in March 2020 until today I am extremely proud of all our staff who have volunteered to help in their communities, none more so than our Daily Hire operatives who, despite the business being closed, volunteered to help the business keep our NHS and frontline workers moving throughout the Covid-19 pandemic. 1,000 vehicles were made available to key workers free of charge and we provided 120 nine-seater minibuses to the NHS to transport both staff and patients to hospitals.

In addition to our annual £100,000 donation to Cash For Kids, we also provided vans for their yearly Christmas toy collections in a number of cities; and our branches took part in Christmas Jumper Day to raise funds which were then matched by the Group's donation match scheme. We also donated £150,000 to BEN to help people in our industry to improve their mental health, physical health and their well-being.

We were delighted to sponsor the Kiltwalk as the event went virtual for the first time in its history. The scope of our support extended to encouraging sign-ups from both participants and charities by donating a new car for one lucky participant to win, and the use of a van for one year for a charity - which was won by the charity Erskine. In total, the event still managed to raise an incredible £5 million for over 900 great causes across Scotland.

In 2020, foodbanks were a large area of focus for us. We supported 95 local foodbanks which were nominated by our staff. We were able to support even more food-related causes through our Community Van Initiative with support given to East End Flat Pack Meals, Tarbet Soup Group and Feeding Families.

**Future prospects**

The UK economy is suffering an ongoing and unprecedented economic shock from Covid-19, the effects of which will be felt for a generation. Whilst we were relieved that a Brexit deal was signed on 24th December, we continue to monitor its impact on the Automotive Industry. I am, however, determined that we focus on what we can influence and remain very positive about the future of Arnold Clark. We are embracing the move to alternative fuel vehicles and, specifically, I am delighted that we opened our Innovation Centre in Glasgow to meet the increased demand for comprehensive and independent information on electric vehicles.

Digital development continues to be a priority for us. Our in-house development team excelled during 2020 and I know they are eager to continue our development at pace during 2021. I am excited about the ability to transact with a customer digitally as well as communicating effectively with them through our Arnold Clark Interactive Customer App. This is essential and we intend to leverage this development to ensure we continue on our journey to be easy to do business with for our customers.

Our employee engagement during the year has also been facilitated by the previous investments in our ACE App. This has been an invaluable way to communicate during the pandemic as well as providing a wealth of resources to support the physical, financial and mental wellbeing of our people.

The skills needed by our business always evolve and this evolution has accelerated during 2020 at the same time when delivering on the job training has been challenging. We will continue to invest heavily in our people to ensure we can exceed both their and our customers' expectations. GTG, our dedicated training provision company, has been delivering apprenticeships to 2,496 learners, not only for the Group but for an array of local and national employers.

On 4 January 2021, a further national lockdown was announced with enhanced restrictions on travel and a requirement to work from home wherever possible. The detailed guidance still allows the Group's vehicle sales operations to continue through a Click & Collect service and the workshops to remain open. With the accelerated vaccination programme, there is light at the end of the tunnel. Whilst the start of the year has been difficult, I believe that we and the industry will experience an upturn in business once our facilities are allowed to be fully operational.

I believe that we are well placed to perform strongly in 2021. During 2020, we continued to progress with the opening of three new branches in Shrewsbury, Leeds and Warrington. Our business is now leaner and in a stronger position than when we entered 2020. We have enhanced our digital model, increased our efficiency and improved customer service. That is a list of achievements I would have been pleased with in any year let alone one impaired by Covid-19.

My final words must go to our staff of Arnold Clark who have put up with so much during the year. Your flexibility, adaptability and commitment over the period has been exceptional and on behalf of the Board, I wish to offer you our sincere thanks for the contribution you have made and continue to make Thank you for all you do for our customers, your colleagues and the communities you live in.

E Hawthorne
Chief Executive and Group Managing Director
2 March 2021

# Strategic Report

Arnold Clark Automobiles Limited

The Directors present their Strategic Report for the year ended 31 December 2020.

**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:

| | 2020 | 2019 | Change |
|---|---|---|---|
| Group revenue | £3,798m | £4,463m | (14.9)% |
| Used car sales (units) | 204,627 | 256,376 | (20.2)% |
| New car sales (units) | 46,509 | 63,310 | (26.5)% |
| Group operating profit | £169.5m | £131.3m | 29.1% |
| Profit before tax | £156.5m | £117.0m | 33.7% |

Revenue decreased by 14.9% in the year to £3,798.2m as result of the impact of Covid-19 and the resultant temporary closure of our retail sites. Before lockdown in March, the Group had experienced a positive start to 2020. The Group put in place a number of mitigating actions including furloughing of staff, restriction on non-essential capital expenditure and limiting discretionary spend which led to a reduction in distribution and administrative expenses. During the initial UK wide lockdown we participated in, and were grateful for, the various Government support schemes including the Coronavirus Job Retention Scheme, VAT deferral and Business Rates Relief. We received a total of £64.3m by way of CJRS grants from HMRC in relation to furloughed staff between March and October (when our final furloughed employee returned).

Our branches were gradually reopened, ensuring our locations and staff were Covid-19 secure. This included the implementation of social distancing measures, purchase of suitable personal protection equipment and the delivery of enhanced staff training and support materials. In the post lockdown period of July to October, we experienced year-on-year improvements across our revenue streams some of which, no doubt, reflected pent-up customer demand carried forward from the lockdown period. During this period, margins held exceptionally well allowing us to claw back trading losses that arose in the lockdown period. This along with a reduction in discretionary spend resulted in a significant increase in operating profit. The last two months of the year were again difficult as a result of the enhanced restrictions across the UK. Despite these restrictions, our performance held up remarkably well thanks to vehicle sales continuing through our digital routes and our service departments staying open. These actions contributed to the significant increase in profitability.

As at close of business on 31 December 2020, the trade and assets of our wholly owned subsidiary, Harry Fairbairn Limited, were hived-up to Arnold Clark Automobiles Limited at their carrying value. A further review of the business is provided in the Chief Executive's Statement on pages 2 to 4.

**Statement of corporate governance arrangements**

As a family owned business, we run our business in a way consistent with an agreed set of core values covering how we deliver value to shareholders and the wider community and how we interact with our stakeholders, including shareholders, employees, customers and suppliers. Accordingly, we have not applied a specific corporate governance code during 2020. The Board will monitor the development of private company corporate governance before deciding, in conjunction with the shareholders, whether it would be beneficial to formally adopt a specific corporate governance code such as the Wates Principles Our corporate governance arrangements are as follows:

**Statement of corporate governance arrangements (continued)**

***Purpose and leadership***

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

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

***Board composition***

As of August 2020, S Willis stepped down from his operational roles but remains a member of the Board in a non-executive capacity. This ensures that the knowledge and experience gained over 25 years in his sales role remains available to the Board. At this point J A Clark was appointed to the role of Group Commercial Director and R E Borrie to Group Sales Director. K J McLean, who had also planned to step down from his executive role in August 2020, agreed to remain as an Executive Director given the unprecedented impact of Covid-19 on the business.

The Board are supported by an Operations Board 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 the Operations Board on a weekly basis to monitor business performance and agree required actions after which an informal meeting of Executive Directors considers appropriate responses and actions. The Board formally meets quarterly to discuss longer term strategy with additional bi-annual strategy meetings held with the Operations Board. However, reflecting the risks arising from Covid-19, the Executive Directors held a number of digital ad-hoc meetings, initially on a daily basis, to formulate and monitor the Group's mitigation plans.

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

***Director responsibilities***

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

***Remuneration***

The Group seeks to provide competitive remuneration packages that will attract and retain executives of the calibre required to take forward the Group's strategy. Remuneration comprises a base salary, bi-annual discretionary bonus, dependent upon individual qualitative performance, and a competitive benefits package. The remuneration package of each Director is discussed and agreed by the 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.

***Covid-19***

Recognising the potential impact of Covid-19 on the Group, the Executive Directors held daily meetings, digitally, to assess the potential risks and implement and monitor the various mitigating actions. The principal decisions taken are set out below. Regular update calls were held with the Chairwoman to ensure her support for all of the actions taken. Uncertainties remain over the duration of the pandemic, the effectiveness of measures taken to contain it and the resultant impact on customer demand, workforce availability and cash flows. As a consequence, the Directors continue to monitor the situation, ensuring that differing Government requirements are understood and complied with and that working capital exposures are appropriate.

**Statement of corporate governance arrangements (continued)**

***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, especially through the growth in SUV use. 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.

The Group's position as a leading multi-franchise auto-retailer means it is ideally positioned to help drive significant change in the market. 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. The Directors Report contains commentary on the Group's energy efficiency actions along with details of our greenhouse gas emissions.

***Brexit***

The UK left the European Union on 31 January 2020 and the transition period ended on 31 December 2020 Throughout 2020, there remained significant uncertainty surrounding the terms of the ongoing relationship between the UK and the EU. Our Brexit risk principally arises around the impact on the supply chain and pricing for new vehicles and parts due to the effect of tariff and non-tariff barriers and the subsequent impact on retail prices in the UK. The Executive Directors maintained an open dialogue with our key manufacturers and distributors throughout 2020 to ensure we understand the actions they planned to take to implement any changes arising from the end of the transition period. The potential pricing and supply issues and subsequent impacts on the retail market were regularly discussed by the Board and specific strategies around inventory levels were agreed. The Board were pleased that the UK Government announced a Brexit deal on 24 December 2020 which allows for tariff free trade between the United Kingdom and the European Union.

***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<br>• Reduced customer retention | • Investment in quality used car stock<br>• Customer service quality monitoring<br>• Major investment in Head Office customer service resource<br>• Trading Standards review<br>• Mystery shopping<br>• 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<br>• Reduction in availability of funding | • Increased focus on used car and aftersales markets<br>• Maintaining a diverse source of vehicles and finance<br>• Regular communication with manufacturers and finance companies |

### Statement of corporate governance arrangements (continued)

***Opportunity and risk (continued)***

| Risk | Potential impacts | Mitigating actions |
|---|---|---|
| Adverse changes to manufacturer delivery systems that bypass the current dealer network | • Negative impact on sales volume and margins<br>• Reduction in customer engagement | • Diversification of franchise partners<br>• Regular discussions with manufacturers to understand their strategies<br>• Improved product delivery efficiency<br>• Investment in quality used car stock<br>• Investment in IT systems to enable easier customer transactions with the Group |
| IT systems failure and data security | • Business interruption or reduced operational efficiency<br>• Reputational damage<br>• Loss of revenue and profit | • Testing of IT contingency plans<br>• Investment in robust IT systems<br>• Systems mirroring<br>• Business continuity planning |
| Failure to attract and retain our skilled workforce | • Loss of knowledge and experience<br>• Reduction in customer service | • Investment in our employees through training<br>• Equal opportunities policy<br>• Effective Board communication<br>• Employee appraisal process |
| Legislative, regulatory, environmental changes and major business interruption (including the risks arising from Covid-19 and Brexit) | • Loss of revenue and operating profit contributions<br>• Supply chain disruption<br>• Business continuity<br>• Non-compliance with FCA regulations leading to trading restrictions | • Diversification of brands and services<br>• Regular communication with manufacturers and finance companies<br>• Development of our Digital Journey, Click & Collect and Click & Deliver services<br>• Investment in our people<br>• Involvement with trade bodies and local authorities<br>• Availability of significant cash balances and maintenance of alternative funding routes<br>• Business interruption planning<br>• Investment in Innovation Centre<br>• 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(1) (a) to (f) and forms the Directors' statement required under Section 414CZA of The Companies Act 2006:

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

# Strategic Report

## Arnold Clark Automobiles Limited

**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 | Bi-weekly email from Chief Executive during Covid and engagement with employees on Covid safety<br>Dedicated employee communication website and app updated daily with information on matters of concern to employees<br>Director attendance at regular departmental team meetings to enable two-way information flows and ensure that employee views are taken into account in making major decisions<br>Annual results and strategy presentations led by the Chief Executive and Directors across the business<br>Regular performance appraisals and performance-based bonus scheme<br>Annual employee recognition and service awards<br>Network and focus groups led by our People team<br>Dedicated training facilities and new employee induction course | Changes to working practices during pandemic<br>Results of customer survey<br>Quality of training<br>Service improvement ideas<br>Annual results and performance<br>Employee reward mechanisms | Clear staff communication during Covid-19 through weekly/bi-weekly email from Chief Executive<br>Roll out of Covid secure environments and supplies of 'PPE' and working from home arrangements<br>A more engaged and valued workforce, delivering a higher standard of customer service<br>Employee remuneration and benefits are updated to reflect feedback<br>'Space' - an employee portal for information, advice and support around mental, physical and financial health<br>Ability to roll out our Digital Journey |
| Manufacturers | Access to vehicles on franchise terms is important for our franchise businesses as well as our Contract Hire and Daily Rental business | Regular meetings between Directors and manufacturers' senior management to ensure principal decisions are fully informed<br>Chief Executive frequently meets with representatives of manufacturer partners<br>Monthly financial performance reporting<br>Attendance at manufacturer conferences | Impact of new emissions regulations on pricing and availability of stock<br>Impact of Brexit on pricing and availability of stock<br>New model developments and pricing<br>Franchise performance and customer satisfaction | Improved customer service by matching our detailed product knowledge with customer requirements<br>Expansion of franchise dealership network<br>Manufacturer support during Covid-19 lockdown period |

**Stakeholder relationships and engagement (continued)**

| **Who?** Stakeholder group | **Why?** Why is it important to engage | **How?** How management and/or Directors engaged | **What?** What were the key topics of engagement | **Outcomes and actions** What was the impact of the engagement including any actions taken |
|---|---|---|---|---|
| Finance providers | Access to affordable finance is essential to ensure the ongoing viability of our Contract Hire and Daily Rental businesses and to enable customers to finance vehicle purchases | The Group Retail Finance and Leasing Director meets with finance company senior management on a regular basis<br><br>Quarterly review meetings are held with each finance provider<br><br>Monthly compliance reporting | Availability of finance and related interest rates<br><br>Impact of FCA review of motor finance market<br><br>Impact of Brexit on UK interest rates and availability of finance | Renewed finance facilities<br><br>Adoption of all FCA rates requirements<br><br>Agreed business volume targets and related interest rates<br><br>Finance provider support during Covid-19 lockdown period |
| Wider community | Giving back to the community is one of our core values | Continued support of local schools, charities and sports teams<br><br>Providing young people placements and commitment to our apprenticeship program<br><br>Taking part in charity events and fundraising using our network of contacts<br><br>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<br><br>Giving young people from all backgrounds an equal opportunity<br><br>Giving charities of all sizes a fair chance at receiving support from the Group | Matching of charitable funds raised by employees<br><br>Sponsorship of major charitable events such as Cash for Kids, Pride and Kiltwalk<br><br>New apprenticeship placements provided within the Group |
| 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<br><br>We hold frequent meetings with our regulators to fully understand current practice and future developments<br><br>Trading Standards audit and review | Compliance record<br><br>Future regulatory developments | Improvements to processes and procedures<br><br>Renewal of primary authority arrangements with Trading Standards<br><br>Compliance with relevant FCA requirements |

**Principal decisions**

***Covid-19***

The Board took the following principal decisions designed to mitigate the impact of Covid-19 on the business in order to protect the group's cash position and to protect the health and safety of employees and other stakeholders:

- Adherence to the guidance of the Government, the World Health Organisation and other authorities throughout the pandemic.
- Temporary closure of our retail sites on 24 March 2020.
- Reducing capital and discretionary expenditure.
- Cancellation of proposed 1st half year bonuses, capping of salaries and agreement not to pay any dividends in 2020
- Temporary furloughing of over 12,000 of our employees with only certain key roles continuing, including those supporting the NHS and other key services noted above. The Group utilised the Coronavirus Job Retention Scheme to support payroll costs for furloughed employees Our last furloughed employee returned to work in October.
- Accelerated roll out of Click and Collect & Click & Deliver services.
- The gradual return of the majority of our furloughed employees following the reopening of our sites and the related decision to reduce our overall level of headcount as a result of the changed working practices.
- Leaving six smaller branches closed, reflecting the new market conditions, whilst continuing to open three new branches that were in development before lockdown.
- Other Government support by way of the deferral of VAT payments and a business rates relief for retail premises has been utilised.
- With agreement of our hire purchase funding providers, monthly instalment payments due between April and June 2020 were deferred. The majority of deferred amounts are being repaid over extended contract periods.
- Not furloughing any staff as a result of the second lockdown in November and December 2020 as our financial position and revised operations were considered to be capable of continuing without additional UK Government support.

***Brexit***

Prior to the end of the transition period, and following discussion with key manufacturers and distributors, the Board agreed to increase the level of certain parts stocks held This was to mitigate any post transition availability issues.

This report was approved by the Board of Directors on 2 March 2021 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

# Directors' Report

Arnold Clark Automobiles Limited

The Directors present their report for the year ended 31 December 2020.

**Results and dividends**

The profit on ordinary activities before taxation amounted to £156.5m (2019 - £117.0m). The profit for the year, after taxation, amounted to £125.1m (2019 - £94.8m).

An ordinary interim dividend was not paid during the year (2019 - £16.5m). The Directors recommend that no final dividend be paid, which leaves a profit of £125.1m (2019 - £78.3m) to be retained.

A further review of the business and its principal risks is provided in the Chief Executive's Statement on pages 2 to 4 and in the Strategic Report on pages 5 to 11. 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 our environmental impact and contribution to climate change through increased energy management and awareness and changes to operational procedures. During the reporting period, detailed energy audits, as part of the ESOS regulations, were commissioned to establish an energy-saving action plan.

The Group has opened a £5m Alternative Fuel Vehicle (AFV) Innovation Centre in late 2020, which aims to educate motorists on the benefits of AFVs in partnership with Transport Scotland, Office for Low Emission Vehicles, Scottish Power, Energy Saving Trust, Go Ultra Low, Strathclyde University and The NVT Group. Customers can test-drive a vehicle of their choice as the UK heads towards a 2030 ban on the sale of new purely petrol and diesel-powered internal combustion-engine cars.

The Group currently has 60 vehicles on-site including fully electric, plug-in hybrids, hybrids and commercial vehicles that are also alternatively fuelled. As well as providing a vital resource for motorists looking to make the switch to an AFV, the new Glasgow Innovation Centre will also benefit our employees, providing them with an opportunity to learn about advancing technology through on-site training.

The Group has embarked on a fast-track programme in 2020 and installed over 100 chargers at 34 different sites. This will continue in 2021 with over 250 additional chargers being installed across 80 sites.

The Group will continue to ensure that all new build/refurbishment projects have LED lighting installed and insulation to ensure that each site minimises its heating requirements and has engaged with our suppliers during the course of 2020 to change all remaining non-smart meters for gas and electricity to smart meters to allow the Group to monitor usage more efficiently.

**Greenhouse gas emissions**

In our principal activities of hiring, selling and servicing of motor vehicles we have no manufacturing footprint to minimise. We collect data for all material emissions, arising in qualifying entities, 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.

| **Energy use table** | 2020 |
|---|---|
| Energy use KWh (scope 1 and 2) | 186,392,057 |
| **Carbon emissions (tonnes of CO2)** | |
| Scope 1 (direct emissions from combustion of fuels) | 30,904 |
| Scope 2 (electricity purchased for own use) | 10,743 |
| | 41,647 |
| **Intensity ratio** | |
| Revenue (£m) | £3,798.2 |
| Total Scope 1 and 2 emissions (tonnes CO2) | 41,647 |
| Emissions per £m | 10.96 |

Our methodology to calculate our greenhouse gas emissions is based on the 'Environmental Reporting Guidelines, including mandatory greenhouse gas emissions reporting guidance' issued by DEFRA using DEFRA's 2020 conversion factors In some cases, we have extrapolated total emissions by utilising available data from part of the reporting period, and extending it to apply to the full reporting period. The Group's intensity ratio is tonnes of CO2 per £million of Revenue. This allows for a fair comparison over time taking into account growth and cyclical variations.

**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 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

# Directors' Report

Arnold Clark Automobiles Limited

**Directors**

The Directors who served during the year, and to the date of this report, were as follows:

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

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

**Directors' statement as to disclosure of information to the auditors**

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

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

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

**Auditors**

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

This report was approved by the Board of Directors on 2 March 2021 and signed on its behalf by

E Hawthorne
Chief Executive and Group Managing Director

# Statement of Directors' Responsibilities

Arnold Clark Automobiles Limited

The Directors are responsible for preparing the 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 international accounting standards in conformity with the requirements of the Companies Act 2006.
- 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, International Accounting Standard or United Kingdom Generally Accepted Accounting Practice, as appropriate, requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

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 company 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 2020 and of the Group's profit for the year;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 A24.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. 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" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

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.

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.

# Independent Auditor's Report

to the members of Arnold Clark Automobiles Limited

**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 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 Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**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.

# 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 (continued)**

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.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

**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.

# Independent Auditor's Report

to the members of Arnold Clark Automobiles Limited

**Use of our report**

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

David Mitchell

David Mitchell CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
2 March 2021

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| **Revenue** | 8 | 3,798.2 | 4,463.1 |
| Cost of sales | | (3,169.3) | (3,739.7) |
| **Gross profit** | | 628.9 | 723.4 |
| Distribution expenses | | (250.5) | (337.8) |
| Administrative expenses | | (220.8) | (259.6) |
| Other operating income | 9 | 11.9 | 5.3 |
| **Operating profit** | | 169.5 | 131.3 |
| Finance costs | 10 | (14.6) | (16.9) |
| Finance income | 11 | 1.6 | 2.6 |
| **Profit before tax from continuing operations** | | 156.5 | 117.0 |
| Income tax expense | 16 | (31.4) | (22.2) |
| **Profit for the year** | | 125.1 | 94.8 |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | 125.1 | 94.8 |

All operations were classed as continuing operations during the year.

# Consolidated Statement of Financial Position

## at 31 December 2020

Arnold Clark Automobiles Limited

| | Notes | 2020 £m | Restated * 2019 £m | Restated * 2018 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17 | 1,252.4 | 1,278.6 | 1,131.1 |
| Investment properties | 18 | 69.3 | 78.7 | 61.1 |
| Intangible assets | 19 | 10.0 | 10.1 | 10.1 |
| | | 1,331.7 | 1,367.4 | 1,202.3 |
| **Current assets** | | | | |
| Inventories | 20 | 516.8 | 610.3 | 582.0 |
| Trade and other receivables | 21 | 122.8 | 153.4 | 139.7 |
| Financial assets | 22 | 288.7 | 100.2 | 115.6 |
| Cash and cash equivalents | 23 | 513.9 | 456.5 | 443.6 |
| | | 1,442.2 | 1,320.4 | 1,280.9 |
| **Total assets** | | 2,773.9 | 2,687.8 | 2,483.2 |
| **Equity and liabilities** | | | | |
| Issued share capital | 24 | 1.0 | 1.0 | 1.0 |
| Profit and loss account | | 1,224.1 | 1,099.0 | 1,020.7 |
| **Total equity** | | 1,225.1 | 1,100.0 | 1,021.7 |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | 27 | 322.7 | 298.8 | 225.0 |
| Provisions | 26 | 8.4 | 7.0 | 5.4 |
| Trade and other payables | 28 | 14.2 | 21.4 | 25.5 |
| Deferred tax liabilities | 16 | 9.1 | 11.6 | 18.4 |
| | | 354.4 | 338.8 | 274.3 |
| **Current liabilities** | | | | |
| Interest-bearing loans and borrowings | 27 | 605.3 | 659.7 | 633.9 |
| Trade and other payables | 28 | 583.7 | 565.8 | 527.7 |
| Income taxes payable | | - | 19.2 | 21.5 |
| Provisions | 26 | 5.4 | 4.3 | 4.1 |
| | | 1,194.4 | 1,249.0 | 1,187.2 |
| **Total liabilities** | | 1,548.8 | 1,587.8 | 1,461.5 |
| **Total equity and liabilities** | | 2,773.9 | 2,687.8 | 2,483.2 |

*Details of the restatements due to presentational changes are disclosed within note 2.6

Approved by the Board on 2 March 2021 and signed on its behalf by

E Hawthorne
Chief Executive and Group
Managing Director

# Consolidated Statement of Changes in Equity
## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

| | Share capital | Profit and loss account | Total |
|---|---|---|---|
| | £m | £m | £m |
| **As at 1 January 2019** | 1.0 | 1,020.7 | 1,021.7 |
| Total comprehensive income | - | 94.8 | 94.8 |
| Dividends to shareholders (note 25) | - | (16.5) | (16.5) |
| **As at 31 December 2019** | 1.0 | 1,099.0 | 1,100.0 |
| | | | |
| **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 |

# Consolidated Statement of Cash Flows

## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| **Net cash flows from operating activities** | 31 | 300.8 | 16.7 |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 7.0 | 6.4 |
| Purchase of property, plant and equipment | | (28.9) | (43.2) |
| Proceeds from sale of assets held for sale | | - | 0.2 |
| Purchase of investment properties | | - | (27.8) |
| Acquisitions, net of cash acquired | | - | (1.7) |
| Proceeds from sale of investments | | 10.8 | 41.9 |
| Purchase of investments | | (199.1) | (26.1) |
| Income from investments | | 0.1 | 0.5 |
| **Net cash flows used in investing activities** | | (210.1) | (49.8) |
| **Financing activities** | | | |
| Proceeds from borrowings | | 250.9 | 379.5 |
| Repayment of borrowings | | (268.5) | (385.0) |
| Proceeds from new hire purchase contracts | | 347.1 | 439.9 |
| Repayment of capital element of hire purchase contracts | | (312.4) | (371.8) |
| Repayment of capital element of other lease contracts | | (3.6) | (3.6) |
| Dividends paid to equity holders of the parent | | - | (16.5) |
| **Net cash flows from financing activities** | | 13.5 | 42.5 |
| Net increase in cash and cash equivalents | | 104.2 | 9.4 |
| Net cash and cash equivalents at 1 January | | 131.1 | 121.7 |
| **Net cash and cash equivalents at 31 December** | 23 | 235.3 | 131.1 |

# Notes to the Consolidated Financial Statements
## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

**1. Corporate Information**

Arnold Clark Automobiles Limited is a privately owned company limited by shares and incorporated in Scotland under the Companies Act 2006. The address of the registered office is 454 Hillington Road, Glasgow, G52 4FH. Information on the Group's operations and its principal activities are set out in the Strategic Report on pages 5 to 11.

**2. Accounting policies**

**2.1 Basis of preparation**

The financial statements of the Group have been prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets, which have been measured at fair value. The consolidated financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates, and rounded to the nearest £0.1 million, except where otherwise indicated.

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

In the current year, the Group has adopted the following new 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 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform - effective date 1 January 2020

Standards and amendments to standards that have been issued but are not effective for 2020 and have not been early adopted are:

- IFRS 17 Insurance Contracts - effective date 1 January 2021
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9 - effective date 1 January 2021
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform- Phase 2 - effective date 1 January 2021

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

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

### 2.4 Going concern

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

The Directors have taken into consideration that, since the balance sheet date, there has been a tightening of Covid-19 restrictions throughout the country, instructing people to stay at home wherever possible. It is the Directors' priority to continue to keep our business, our employees, and our customers safe and to ensure that we can continue to operate our business, within all existing or new Government guidelines, whilst doing so.

The Directors have reviewed Group cash flow forecasts to the end of the 2022 financial year which take into account the mitigating actions taken during 2020, reflect that the Group can still operate under the current guidance and that, from a financial standpoint, the Group is in a far stronger position now than it was this time last year. This reflects that, at 31 December 2020, the Group had net cash and readily realisable financial assets of £524m compared with £228m at 31 December 2019.

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 2022. The forecast also 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 believe that the Group has adequate resources to meet their liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

### 2.5 Summary of significant accounting policies

**Business combinations and goodwill**

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

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

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

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

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

**Property, plant and equipment**

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

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

| | | |
|---|---|---|
| Land and buildings | : Freehold | - 1% - 16.7% |
| | : Leasehold | - as freehold or over the lease term where shorter |
| Plant and equipment | : General | - 8.5% to 25% |
| | : Computer equipment | - 25% to 33% |
| Motor vehicles | : Own use | - 12.5% to 42% |
| | : Contract Hire vehicles | - straight line over the term of the hire contract to residual value |

**Investment properties**

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

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

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

**Leases**

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

*Group as a lessee*

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

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

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

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

*Group as a lessor*

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

**Intangible assets**

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

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

**Impairment of non-financial assets**

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

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

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

**Financial assets**

*Initial recognition and measurement*

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

*Subsequent measurement*

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

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

*Impairment of financial assets*

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

**Financial liabilities**

*Initial recognition and measurement*

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

**Cash and short-term deposits**

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

For the purpose of the consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, 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 for liabilities**

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

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

**Revenue recognition**

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

Revenue is principally generated from the sale of new and used motor vehicles, servicing and repair activities and the supply of parts for these activities and those sold on their own right. 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 works, revenue is recognised on completion of the service.

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

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

*Vehicle warranty*

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

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

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

**2.5 Revenue recognition (continued)**

*Other*

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

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

Where vehicles are supplied to third parties and the Group undertakes to repurchase the vehicle at a predetermined date and value, the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset and, in accordance with IFRS 16 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the third party are held as deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the related lease term. These vehicles are held within property, plant and equipment at their cost to the Group and are depreciated to their residual values over the terms of the leases.

**Taxes**

*Current income tax*

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

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

*Deferred tax*

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

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

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

**Pension costs**

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

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

**Insurance contracts**

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

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

**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

### 2.6 Prior period adjustments

During the preparation of the financial statements for the year ending 31 December 2020 the Group identified a prior period adjustment relating to the application of appropriate accounting standards resulting in the grossing up and restatement of elements within the Statement of Financial Position.

Historically, in interpretation of the requirements of IAS 32 Financial Instruments: Presentation, financial assets and liabilities were presented net for cash balances and overdrafts held with the same counterparty where there was a legal right to offset. A review of the interpretation of IAS 32 identified that the appropriate treatment was to separately present the overdrafts and cash held where there is no historic evidence to illustrate that we intend to settle amounts net. Whilst the Group performs a daily overnight offset procedure for interest calculation purposes this does not involve the physical transfer of cash to pay down overdraft balances. This has led to the restatement of Cash and Cash Equivalents and Overdrafts within Financial Liabilities, resulting in an increase to both Cash and Cash Equivalents and Overdrafts at 31 December 2019 of £325.4m (1 January 2019: £321.9m). Further details of the amounts involved are disclosed in notes 23 and 27.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

**3. Significant accounting judgements, estimates and assumptions**

**Judgements**

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

*Goodwill*

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

*Consignment Stocks*

The Group holds new vehicles on a sale or return basis and recognises as inventory those vehicles where the risk and rewards of ownership are considered to lie with the Group. The remaining vehicles are considered to be assets of the manufacturer. This is due to the Group primarily retaining the right to return the stock to the manufacturer without significant penalty, and/or, has a limited ability to prevent the stock being allocated to third parties, and/or, the final price payable has not yet been determined. Due to the complex nature of the stocking arrangements, judgement is often required when assessing whether the risk and rewards of ownership lie with the Group.

**Estimates**

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

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

*Used vehicle inventory valuation*

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

*Contract Hire vehicles residual value*

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

*Sensitivity*

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

**4. Capital management**

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

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

*Analysis of net debt*

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash and cash equivalents | 513.9 | 456.5 |
| Bank overdraft | (278.6) | (325.4) |
| Hire purchase contracts | (570.9) | (536.1) |
| Other loans | (45.9) | (63.5) |
| Other lease contracts | (32.6) | (33.5) |
| | (414.1) | (502.0) |

**5. Financial instruments risk management**

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

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

*Market risk*

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

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

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

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

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

*Credit risk*

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

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

*At 31 December 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 |
| Total | | | | | | | | 524.0 |

*At 31 December 2019*

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

*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 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 |

*At 31 December 2019 (restated)*

| | 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 | 388.9 | 281.3 | 281.3 | 80.5 | 1,032.0 |
| Trade and other payables | - | 454.1 | 21.4 | - | 475.5 |
| | 388.9 | 735.4 | 302.7 | 80.5 | 1,507.5 |

*Interest rate risk*

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

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

| | + 50 basis points | | - 50 basis points | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Effect on profit or loss | (0.3) | (2.1) | 2.4 | 2.7 |

6. **Group Information**

The consolidated financial statements of the Group include:

| Name | Principal activity | Country of incorporation | Equity interest 2020 % | Equity interest 2019 % |
|---|---|---|---|---|
| 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 | Insurance services | Malta | 100 | 100 |
| Arnold Clark Insurance Services Ltd | Insurance services | Scotland | 100 | 100 |
| Artex Insurance (ACA7) IC Ltd | Insurance services | Guernsey | 100 | 100 |
| Assure Alarms Ltd | Intruder alarm installation and maintenance | Scotland | 100 | 100 |
| GTG Training Ltd | Provision of education and training | Scotland | 100 | 100 |
| Harry Fairbairn Ltd | Sale and servicing of motor vehicles | Scotland | 100 | 100 |
| Arnold Clark Vehicle Management Ltd | Dormant | Scotland | 100 | 100 |
| A Clark's West End Motors Ltd | Dormant | Scotland | 100 | 100 |
| Arnold Clark (Bearsden) Ltd | Dormant | Scotland | 100 | 100 |
| Arnold Clark (Birtley) Ltd | Dormant | England & Wales | 100 | 100 |
| Arnold Clark (Dumfries) Ltd | Dormant | Scotland | 100 | 100 |
| Arnold Clark (Paisley) Ltd | Dormant | Scotland | 100 | 100 |
| Arnold Clark (Stirling) Ltd | Dormant | Scotland | 100 | 100 |
| Calterdon Ltd | Dormant | Scotland | 100 | 100 |
| Dane County Holdings Ltd | Dormant | England & Wales | 100 | 100 |
| Dane County Ltd | Dormant | England & Wales | 100 | 100 |
| Delmore Cars Ltd | Dormant | Scotland | 100 | 100 |
| Glasgow Training Group (Motor Trade) Ltd | Dormant | Scotland | 100 | 100 |
| Glasgow Training Group Ltd | Dormant | Scotland | 100 | 100 |
| Grangemouth Motor Group Ltd | Dormant | Scotland | 100 | 100 |
| Grant, Melrose & Tennent Ltd | Dormant | Scotland | 100 | 100 |
| Harpers (Aberdeen) Ltd | Dormant | Scotland | 100 | 100 |
| Hintonmead Ltd | Dormant | England & Wales | 100 | 100 |
| Hobin Group Ltd | Dormant | England & Wales | 100 | 100 |
| Hobin of Preston Ltd | Dormant | England & Wales | 100 | 100 |
| John R Weir (Inverness) Ltd | Dormant | Scotland | 100 | 100 |
| John R Weir Ltd | Dormant | Scotland | 100 | 100 |
| Macharg Rennie & Lindsay Ltd | Dormant | Scotland | 100 | 100 |

6. **Group information (continued)**

| Name | Principal activity | Country of incorporation | Equity Interest 2019 % | 2018 % |
|---|---|---|---|---|
| Maclaren Automotive Ltd | Dormant | England & Wales | 100 | 100 |
| Ness Motors (Holdings) Ltd | Dormant | Scotland | 100 | 100 |
| Ness Motors Ltd | Dormant | Scotland | 100 | 100 |
| Patterson Leasing Ltd | Dormant | England & Wales | 100 | 100 |
| Pattersons (Berwick) Ltd | Dormant | England & Wales | 100 | 100 |
| Pattersons Training Ltd | Dormant | England & Wales | 100 | 100 |
| R H Patterson & Co Ltd | Dormant | England & Wales | 100 | 100 |
| R H Patterson (Motor Finance) Ltd | Dormant | England & Wales | 100 | 100 |
| R H Patterson (Ponteland) Ltd | Dormant | England & Wales | 100 | 100 |
| RHP (Hire) Ltd | Dormant | England & Wales | 100 | 100 |
| Scotiaford Ltd | Dormant | Scotland | 100 | 100 |
| Strathford (Ayrshire) Ltd | Dormant | Scotland | 100 | 100 |
| Strathford Motor Company Ltd | Dormant | Scotland | 100 | 100 |
| The Harper Motor Company Ltd | Dormant | Scotland | 100 | 100 |
| The Park Automobile Company Ltd | Dormant | Scotland | 100 | 100 |
| Tomkins (Glasgow) Ltd | Dormant | Scotland | 100 | 100 |
| Towquest Ltd | Dormant | England & Wales | 100 | 100 |

The share capital of Arnold Clark (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 have a registered office address of 405-409 Scotswood Road, Newcastle Upon Tyne, NE4 7BP. 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 | |
|---|---|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| *Assets measured at fair value:* | | | | | | |
| Financial assets (note 22) | | | | | | |
| Certificates of deposit | | - | 285.7 | 97.3 | 285.7 | 97.3 |
| Quoted equity shares | 3.0 | 2.9 | - | - | 3.0 | 2.9 |
| Cash equivalents (note 23) | | | | | | |
| Certificates of deposit | - | - | 28.8 | 28.2 | 28.8 | 28.2 |
| | 3.0 | 2.9 | 314.5 | 125.5 | 317.5 | 128.4 |

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 2020 and 31 December 2019 are being categorised as level 2.

There were no transfers between levels during 2020. 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:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Used motor vehicles | 2,659.3 | 3,020.3 |
| New motor vehicles | 737.9 | 969.2 |
| Vehicle rental | 192.8 | 204.9 |
| Aftersales & other | 208.2 | 268.7 |
| | 3,798.2 | 4,463.1 |

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

**9. Other operating income**

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Net gain on disposal of property, plant and equipment | 11.6 | 5.1 |
| Miscellaneous other income | 0.3 | 0.2 |
| | 11.9 | 5.3 |

**10. Finance costs**

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Finance charges payable under hire purchase agreements | 9.5 | 11.1 |
| Finance charges payable in regard to other lease liabilities | 1.0 | 1.1 |
| Other interest payable | 4.1 | 4.6 |
| Unwinding of discount and effect of changes in discount rate on provisions (note 26) | - | 0.1 |
| | 14.6 | 16.9 |

**11. Finance income**

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Income from investments | 0.1 | 0.5 |
| Net gain on financial assets at fair value through profit and loss | 0.2 | 0.4 |
| Bank interest receivable | 1.2 | 1.7 |
| Other interest receivable | 0.1 | - |
| | 1.6 | 2.6 |

**12. Operating profit**

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Depreciation of property, plant and equipment | 58.8 | 63.3 |
| Depreciation of right-of-use assets | 125.8 | 116.6 |
| Depreciation of investment properties | 0.9 | 0.8 |
| Impairment of property, plant and equipment | 1.2 | - |
| Impairment of investment properties | 3.2 | 3.8 |
| Amortisation of intangible assets | 0.1 | 0.2 |
| Costs of inventories recognised as an expense | 3,078.0 | 3,649.8 |
| Insurance claims paid as insurer | 1.4 | 1.9 |
| Gain on disposal of property, plant and equipment | (11.6) | (5.1) |

**13. Auditor's remuneration**

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the: | | |
| Company's annual accounts | 0.1 | 0.1 |
| Subsidiaries' annual accounts | 0.1 | 0.1 |
| Total audit fees | 0.2 | 0.2 |
| | | |
| Tax compliance and other advisory | 0.2 | 0.1 |
| Total non-audit fees | 0.2 | 0.1 |

**14. Employee benefits expense**

The analysis of the employee benefits expense is as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Wages and salaries | 353.5 | 361.0 |
| Social security costs | 33.4 | 36.5 |
| Pension costs | 12.8 | 12.4 |
| Total employee benefits expense | 399.7 | 409.9 |

During the year ended 31 December 2020, the Group, through its utilisation of the Coronavirus Job Retention Scheme, received government grants totalling £64.3m by way of contributions towards the cost of employee wages and salaries.

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

| | 2020 No. | 2019 No. |
|---|---|---|
| Office and management | 2,103 | 2,170 |
| Sales | 3,643 | 4,014 |
| Technicians | 6,770 | 6,681 |
| | 12,516 | 12,865 |

**15. Key management remuneration**

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Short-term employee benefits | 8.6 | 13.8 |

The Directors' emoluments were as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Emoluments | 7.0 | 12.0 |
| Emoluments of the highest paid Director | 3.0 | 5.4 |

**16. Income tax**

The major components of income tax expense are:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| *Current income tax:* | | |
| Corporation tax charge | 33.7 | 30.2 |
| Adjustments in respect of corporation tax charge of prior years | 0.2 | (1.2) |
| *Deferred tax:* | | |
| Relating to origination and reversal of temporary differences | (3.5) | (4.5) |
| Effect of changes in tax rates | 1.2 | (0.1) |
| Adjustment in respect of previous years | (0.2) | (2.2) |
| Income tax expense reported in the Statement of Profit or Loss | 31.4 | 22.2 |

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

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

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Accounting profit before income tax | 156.5 | 117.0 |
| At UK corporation tax rate of 19% (2019 - 19%) | 29.7 | 22.2 |
| Tax effect of non-deductible expenses and non-taxable income | 3.8 | 2.9 |
| Effect of changes/differences in tax rates | (2.1) | 0.4 |
| Adjustments in respect of current income tax of prior periods | 0.2 | (1.2) |
| Adjustments in respect of deferred tax of prior periods | (0.2) | (2.1) |
| At the effective income tax rate of 19% (2019 - 19%) | 31.4 | 22.2 |

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. However, the budget on 11 March 2020 confirmed the Government's intention that the corporation tax rate will remain at 19% and was substantively enacted as at the balance sheet date. The deferred tax assets and liabilities have been measured using the rates that apply in the periods when the underlying timing differences, on which deferred tax is recognised, are expected to unwind.

**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 2020 is 19.0% (2019 - 17.2%).

| | Consolidated Statement of Financial Position | | Consolidated Statement of Profit or Loss and Other Comprehensive Income | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Accelerated capital allowances | 6.8 | 8.7 | (1.9) | (7.0) |
| Other temporary differences | 2.3 | 2.9 | (0.6) | 0.2 |
| Deferred tax expense | | | (2.5) | (6.8) |
| Net deferred tax liability | 9.1 | 11.6 | | |

Reflected in the Statement of Financial Position as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Deferred tax assets | - | - |
| Deferred tax liabilities | 9.1 | 11.6 |
| Net deferred tax liability | 9.1 | 11.6 |

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

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | 11.6 | 18.4 |
| Charged to the Statement of Profit or Loss and Other Comprehensive Income | (2.5) | (6.8) |
| At 31 December | 9.1 | 11.6 |

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

### 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 2020 | 525.6 | 66.2 | 32.5 | 110.1 | 959.3 | 1,693.7 |
| Additions | 25.9 | 0.3 | 1.8 | 8.5 | 366.9 | 403.4 |
| Disposals | (11.8) | (0.1) | (0.4) | (7.4) | (372.9) | (392.6) |
| Transfers | 26.6 | (1.9) | (20.4) | 1.1 | - | 5.4 |
| Assets classified as held for sale | (4.1) | - | - | - | - | (4.1) |
| At 31 December 2020 | 562.2 | 64.5 | 13.5 | 112.3 | 953.3 | 1,705.8 |
| *Depreciation.* | | | | | | |
| At 1 January 2020 | 96.0 | 11.3 | - | 76.9 | 230.9 | 415.1 |
| Provided during the year | 14.0 | 2.9 | - | 12.6 | 155.1 | 184.6 |
| Impairment charge | 0.5 | 0.7 | - | - | - | 1.2 |
| Disposals | (1.2) | - | - | (6.8) | (138.2) | (146.2) |
| Transfers | 0.5 | (0.5) | - | - | - | - |
| Assets classified as held for sale | (1.3) | - | - | - | - | (1.3) |
| At 31 December 2020 | 108.5 | 14.4 | - | 82.7 | 247.8 | 453.4 |
| *Net book value:* | | | | | | |
| At 31 December 2020 | 453.7 | 50.1 | 13.5 | 29.6 | 705.5 | 1,252.4 |
| At 31 December 2019 | 429.6 | 54.9 | 32.5 | 33.2 | 728.4 | 1,278.6 |

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £846.0m (2019 - £759.6m) and related accumulated depreciation of £204.8m (2019 - £147.8m), 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 £332.3m (2019 - £473.1m) 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 2020 are presented by class of underlying asset in note 29.

**18. Investment properties**

| | |
|---|---|
| *Cost:* | £m |
| At 1 January 2020 | 85.0 |
| Additions | - |
| Transfers to property, plant and equipment | (5.4) |
| At 31 December 2020 | 79.6 |
| *Depreciation and impairment:* | |
| At 1 January 2020 | 6.3 |
| Depreciation charge for the year | 0.9 |
| Impairment charge | 3.2 |
| Transfers to property, plant and equipment | (0.1) |
| At 31 December 2020 | 10.3 |
| *Net book value:* | |
| At 31 December 2020 | 69.3 |
| At 31 December 2019 | 78.7 |

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 2020, investment properties carried at cost had an estimated FVLCD of £72.0m (2019 - £82 7m) The FVLCD has been arrived at on the basis of valuations carried out by Colliers International Property Consultants Limited or J & E Shepherd, independent valuers not connected with the Group On the basis of the valuations received, an impairment charge of £3.2m 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 £5.7m (2019 - £4.8m)

**19. Intangible assets**

| | Goodwill £m | Other intangibles £m | Total £m |
|---|---|---|---|
| *Cost:* | | | |
| At 1 January 2020 | 10.0 | 1.2 | 11.2 |
| Acquisitions | - | - | - |
| At 31 December 2020 | 10.0 | 1.2 | 11.2 |
| *Amortisation:* | | | |
| At 1 January 2020 | - | 1.1 | 1.1 |
| Provided during the year | - | 0.1 | 0.1 |
| At 31 December 2020 | - | 1.2 | 1.2 |
| Net book value: | | | |
| At 31 December 2020 | 10.0 | - | 10.0 |
| At 31 December 2019 | 10.0 | 0.1 | 10.1 |

The goodwill of £10.0m (2019 - £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% (2019 - 8.0%)

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 1.5% (2019 - 1.5%).

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

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

**20. Inventories**

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Motor vehicles | 417.7 | 521.4 |
| Parts and accessories | 21.9 | 21.5 |
| Work in progress and other stocks | 2.9 | 3.5 |
| Consignment stocks | 74.3 | 63.9 |
| | 516.8 | 610.3 |

Included in motor vehicles is £54.1m (2019 - £75.2m) that is pledged as security for the other loans disclosed in note 27. At 31 December 2020, the Group held vehicles on sale or return with a wholesale value of £122.5m (2019 - £134.7m) excluding Value Added Tax. Included in stocks is £74.3m (2019 - £63.9m) 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 £48.2m (2019 - £70 8m) 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

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade receivables | 69.6 | 91.1 |
| Other receivables | 17.6 | 15.6 |
| Prepayments and accrued income | 32.5 | 46.7 |
| Income tax recoverable | 0.3 | - |
| Assets classified as held for sale | 2.8 | - |
| | 122.8 | 153.4 |

At 31 December 2020, trade receivables with an initial carrying value of £2.3m (2019 - £1.1m) were impaired and fully provided for. The movements in the provision were as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | 1.1 | 1.3 |
| Charge for the year | 2.4 | 1.3 |
| Utilised | (1.2) | (1.5) |
| At 31 December | 2.3 | 1.1 |

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 |
| 2020 | 59.3 | 6.4 | 1.4 | 2.5 | 69.6 |
| 2019 | 78.8 | 7.3 | 2.3 | 2.7 | 91.1 |

### 22. Financial assets

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

| | 2020 £m | 2019 £m |
|---|---|---|
| *Fair value through profit and loss* | | |
| Certificates of deposit | 285.7 | 97.3 |
| Listed equities | 3.0 | 2.9 |
| | 288.7 | 100.2 |

Movements in financial assets during the year were as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | 100.2 | 115.6 |
| Net additions/(disposals) | 188.3 | (15.8) |
| Net fair value gains recognised in the profit and loss account | 0.2 | 0.4 |
| At 31 December | 288.7 | 100.2 |

### 23. Cash and cash equivalents

| | 2020 £m | 2019 (restated) £m | 2018 (restated) £m |
|---|---|---|---|
| Cash at bank and in hand | 485.1 | 428.3 | 422.6 |
| Certificates of deposit | 28.8 | 28.2 | 21.0 |
| | 513.9 | 456.5 | 443.6 |
| Bank overdraft | (276.6) | (325.4) | (321.9) |
| Net cash and cash equivalents | 235.3 | 131.1 | 121.7 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group invests surplus cash in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents. Restatement explained in note 2 6.

### 24. Issued share capital

The share capital at 31 December 2020 and 31 December 2019 is analysed as follows:

| | Authorised | | Allotted, called up and fully paid | |
|---|---|---|---|---|
| | 2020 No. | 2019 No. | 2020 £m | 2019 £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.

### 25. Dividends

| | 2020 £m | 2019 £m |
|---|---|---|
| *Cash dividends on ordinary shares declared and paid:* | | |
| Interim dividend: £Nil per share (2019 - £16.50 per share) | - | 16.5 |

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

**26. Provisions**

| | Commission clawback | |
|---|---|---|
| | 2020 £m | 2019 £m |
| At 1 January | 11.3 | 9.5 |
| Amounts utilised in the period | (4.5) | (5.9) |
| Amounts charged to the profit and loss account | 7.0 | 7.6 |
| Unwinding of discount | - | 0.1 |
| At 31 December | 13.8 | 11.3 |
| Amounts included in current liabilities | 5.4 | 4.3 |
| Amounts included in non-current liabilities | 8.4 | 7.0 |
| | 13.8 | 11.3 |

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 0.01% (2019 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.7m and a 1% increase in the risk-free discount rate would reduce the provision by £0.2m.

**27. Financial liabilities**

*Interest-bearing loans and borrowings*

| | 2020 £m | 2019 (restated) £m | 2018 (restated) £m |
|---|---|---|---|
| Current interest-bearing loans and borrowings: | | | |
| Other loans | 45.9 | 63.5 | 69.0 |
| Bank overdraft | 278.6 | 325.4 | 321.9 |
| Lease liabilities: obligations under hire purchase agreements | 278.5 | 268.2 | 243.0 |
| Lease liabilities: obligations under other lease contracts | 2.3 | 2.6 | - |
| | 605.3 | 659.7 | 633.9 |
| Non-current interest-bearing loans and borrowings: | | | |
| Lease liabilities: obligations under hire purchase agreements | 292.4 | 267.9 | 225.0 |
| Lease liabilities: obligations under other lease contracts | 30.3 | 30.9 | - |
| | 322.7 | 298.8 | 225.0 |
| Total interest-bearing loans and borrowings | 928.0 | 958.5 | 858.9 |

Other loans are in regard to a stocking facility with Lombard North Central plc (£36.4m, 2019: £56.0m) and other non-hire purchase funding for Contract Hire vehicles (£9.5m, 2019: £7.5m), both of which are secured on the vehicles funded and are repayable on demand.

Future minimum payments under hire purchase agreements and other lease contracts, together with the present value of the net minimum lease payments, are set out in note 29.

**28. Trade and other payables**

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade payables | 209.6 | 229.4 |
| Other taxes and social security costs | 52.4 | 24.2 |
| Other creditors | 53.6 | 58.2 |
| Insurance liabilities | 7.5 | 6.4 |
| Accruals and deferred income | 190.9 | 192.1 |
| Consignment stock creditor | 74.3 | 63.9 |
| Buyback creditor | 9.6 | 13.0 |
| | 597.9 | 587.2 |
| Amounts included in current liabilities | 583.7 | 565.8 |
| Amounts included in non-current liabilities | 14.2 | 21.4 |
| | 597.9 | 587.2 |

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

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

| | 2020 £m | 2019 £m |
|---|---|---|
| VSI: claims outstanding | 0.8 | 0.5 |
| VSI: claims outstanding - incurred but not reported | 0.3 | 0.1 |
| | 1.1 | 0.6 |
| Self-insured: claims outstanding | 6.4 | 5.8 |
| Total insurance liabilities | 7.5 | 6.4 |

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 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.

**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 is 68 years for property. Contracts for plant and motor vehicles are substantially complete.

**29. Amounts recognised in the Statement of Profit or Loss**

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

**Right-of-use assets**

| | Land and buildings £m | Plant and equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| Carrying value at 1 January 2020 | 32.8 | 0.1 | 612.0 | 644.9 |
| Carrying value at 31 December 2020 | 31.9 | - | 641.2 | 673.1 |
| Additions to right-of-use assets | 7.6 | - | 332.6 | 340.2 |
| Depreciation charge for the year | (2.6) | (0.1) | (123.1) | (125.8) |

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** | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Amounts payable: | | | | |
| Within one year | 286.3 | 277.7 | 278.5 | 268.2 |
| After one year but not more than five years | 297.4 | 273.4 | 292.4 | 267.9 |
| | 583.7 | 551.1 | 570.9 | 536.1 |
| Less: future finance charges | (12.8) | (15.0) | | |
| Present value of hire purchase obligations | 570.9 | 536.1 | | |

| | 2020 | 2019 |
|---|---|---|
| Current interest-bearing borrowings: | 278.5 | 268.2 |
| Non-current interest-bearing borrowings | 292.4 | 267.9 |
| | 570.9 | 536.1 |

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 | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Amounts payable: | | | | |
| Within one year | 3.2 | 3.6 | 2.3 | 2.6 |
| After one year but not more than five years | 8.6 | 7.9 | 5.6 | 4.1 |
| More than five years | 66.5 | 80.5 | 24.7 | 26.8 |
| | 78.3 | 92.0 | 32.6 | 33.5 |
| Less: future finance charges | (45.7) | (58.5) | | |
| Present value of hire purchase obligations | 32.6 | 33.5 | | |
| Current interest-bearing borrowings: | | | 2.3 | 2.6 |
| Non-current interest-bearing borrowings | | | 30.3 | 30.9 |
| | | | 32.6 | 33.5 |

*Group as a lessor*

The Group has entered into operating leases as lessor in respect of Contract Hire vehicles and in respect of investment properties. The Contract Hire vehicles are leased for periods of between 12 and 60 months and the investment properties are on lease terms of up to 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 | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Within one year | 117.2 | 120.3 | 5.3 | 5.3 |
| After one year but not more than five years | 108.5 | 115.3 | 18.4 | 19.6 |
| More than five years | - | - | 17.1 | 19.3 |
| | 225.7 | 235.6 | 40.8 | 44.2 |

**30. Capital commitments**

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Contracted but not provided for | 0.2 | 4.5 |

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

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Profit for the year | 125.1 | 94.8 |
| Adjustment for taxation | 31.4 | 22.2 |
| Adjustment for net financing costs | 13.0 | 14.3 |
| | 169.5 | 131.3 |
| Depreciation of property, plant and equipment | 58.8 | 63.3 |
| Depreciation of right-of-use assets | 125.8 | 116.6 |
| Depreciation of investment property | 0.9 | 0.8 |
| Impairment of property, plant and equipment | 1.2 | - |
| Impairment of investment property | 3.2 | 3.8 |
| Amortisation of intangibles | 0.1 | 0.2 |
| Profit on disposal of property, plant and equipment | (11.6) | (5.1) |
| Decrease/(increase) in receivables | 33.5 | (13.8) |
| Decrease/(increase) in inventories | 103.9 | (31.5) |
| Increase in trade and other payables | 0.4 | 37.3 |
| Increase in provisions | 2.5 | 1.8 |
| Unwinding of discount on provisions | - | (0.1) |
| Additions to motor vehicles | (366.8) | (520.2) |
| Proceeds from disposal of motor vehicles | 245.2 | 278.0 |
| Taxation paid | (53.5) | (31.2) |
| Interest received | 1.3 | 1.7 |
| Interest paid | (13.6) | (16.2) |
| Net cash flows from operating activities | 300.8 | 16.7 |

## 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 2020

Arnold Clark Automobiles Limited

| | Notes | 2020 £m | Restated * 2019* £m | Restated * 2018 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | A5 | 570.3 | 565.1 | 511.6 |
| Investment properties | A6 | 69.3 | 78.7 | 61.1 |
| Intangible assets | A7 | 7.5 | 7.5 | 7.4 |
| Investments | A8 | 71.6 | 71.6 | 71.6 |
| | | 718.7 | 722.9 | 651.7 |
| **Current assets** | | | | |
| Inventories | A9 | 508.2 | 556.5 | 537.5 |
| Trade and other receivables | A10 | 107.7 | 138.2 | 122.8 |
| Financial assets | A11 | 278.0 | 81.0 | 55.2 |
| Cash and cash equivalents | A12 | 447.5 | 431.2 | 426.6 |
| | | 1,341.4 | 1,206.9 | 1,142.1 |
| **Total assets** | | 2,060.1 | 1,929.8 | 1,793.8 |
| **Equity and liabilities** | | | | |
| Issued share capital | A13 | 1.0 | 1.0 | 1.0 |
| Profit and loss account | | 1,082.8 | 968.6 | 856.7 |
| **Total equity** | | 1,083.8 | 969.6 | 857.7 |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | A17 | 30.1 | 30.3 | - |
| Provisions | A15 | 8.4 | 7.0 | 5.4 |
| Trade and other payables | A18 | 10.0 | 16.3 | 20.5 |
| Deferred tax liabilities | A16 | 10.0 | 9.4 | 10.5 |
| | | 58.5 | 63.0 | 36.4 |
| **Current liabilities** | | | | |
| Interest-bearing loans and borrowings | A17 | 316.9 | 365.6 | 377.8 |
| Trade and other payables | A18 | 595.5 | 517.3 | 499.8 |
| Income tax payable | | - | 10.0 | 18.0 |
| Provisions | A15 | 5.4 | 4.3 | 4.1 |
| | | 917.8 | 897.2 | 899.7 |
| **Total liabilities** | | 976.3 | 960.2 | 936.1 |
| **Total equity and liabilities** | | 2,060.1 | 1,929.8 | 1,793.8 |

*Details of the restatements due to presentational changes are disclosed within note A3.

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 £114.2m (2019: £128.4m).

Approved by the Board on 2 March 2021 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 2020

Arnold Clark Automobiles Limited

| | Share Capital | Profit and loss account | Total |
|---|---|---|---|
| | £m | £m | £m |
| **As at 1 January 2019** | 1.0 | 856.7 | 857.7 |
| Total comprehensive income | - | 128.4 | 128.4 |
| Dividends to shareholders (note A14) | - | (16.5) | (16.5) |
| **As at 31 December 2019** | 1.0 | 968.6 | 969.6 |
| | | | |
| **As at 1 January 2020** | 1.0 | 968.6 | 969.6 |
| Total comprehensive income | - | 114.2 | 114.2 |
| Dividends to shareholders (note A14) | - | - | - |
| **As at 31 December 2020** | 1.0 | 1,082.8 | 1,083.8 |

# Notes to the Company Financial Statements

## for the year ended 31 December 2020

Arnold Clark Automobiles Limited

**A1. Statement of compliance with FRS 101**

The results of Arnold Clark Automobiles Limited ("the Company") are included in the consolidated financial statements on pages 20 to 53.

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

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

The accounting policies that follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020. The consolidated financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates, and rounded to the nearest £0.1 million, except where otherwise indicated.

**A2. Accounting policies**

**A2.1 Basis of preparation**

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

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

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

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

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

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

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

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

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

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

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

f. the requirements of IAS 7 Statement of Cash Flows;

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

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

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

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

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

## A2.2 Summary of significant accounting policies

### Business combinations and goodwill

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

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

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

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

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

### Property, plant and equipment

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

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

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

**A2.2 Summary of significant accounting policies (continued)**

**Leases**

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

*Company as a lessee*

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

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

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

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

*Company as a lessor*

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

**Intangible assets**

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

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

**Impairment of non-financial assets**

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

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

**A2.2 Summary of significant accounting policies (continued)**

**Financial assets**

*Initial recognition and measurement*

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

*Subsequent measurement*

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

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

*Impairment of financial assets*

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

**Financial liabilities**

*Initial recognition and measurement*

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

**Inventories**

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

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

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

**A2.2 Summary of significant accounting policies (continued)**

**Cash and short-term deposits**

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

**Provisions for liabilities**

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

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

**Taxes**

*Current income tax*

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

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

*Deferred tax*

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

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

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

**A3. Prior period adjustments**

During the preparation of the financial statements for the year ending 31 December 2020, the Company identified a prior period adjustment relating to the application of appropriate accounting standards resulting in the grossing up and restatement of elements within the Statement of Financial Position.

On previous interpretation of the requirements of IAS 32 Financial Instruments: Presentation, financial assets and liabilities were presented net for cash balances and overdrafts held with the same counterparty where there was a legal right to offset. A review of the interpretation of IAS 32 identified that the appropriate treatment was to separately present the overdrafts and cash held where there is no intention to settle amounts net. Whilst the Company performs a daily overnight offset procedure for interest calculation purposes, this does not involve the physical transfer of cash to pay down overdraft balances. This has led to the restatement of cash and cash equivalents and interest-bearing loans and borrowings resulting in an increase to both elements at 31 December 2019 of £307.7m (1 January 2019: £308.8m). Further details of the amounts involved are disclosed in notes A12 and A17.

**A4. Significant accounting judgements, estimates and assumptions**

**Judgements**

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

*Goodwill*

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

*Consignment Stocks*

The Company holds new vehicles on a sale or return basis and recognises as inventory those vehicles where the risk and rewards of ownership are considered to lie with the Company. The remaining vehicles are considered to be assets of the manufacturer. This is due to the Company primarily retaining the right to return the stock to the manufacturer without significant penalty, and/or, has a limited ability to prevent the stock being allocated to third parties, and/or, the final price payable has not yet been determined. Due to the complex nature of the stocking arrangements, judgement is often required when assessing whether the risk and rewards of ownership lie with the Company.

**Estimates**

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

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

*Used vehicle inventory valuation*

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

*Sensitivity*

The principal sensitivity underpinning the above estimate is the level of reasonably possible movements in average used car market prices. A 1% change in average used vehicle market values could result in an adjustment of £3.3m to the carrying value of used vehicle inventory.

### A5. Property, plant and equipment

| | Freehold land and buildings £m | Leasehold property £m | Assets under construction £m | Plant and equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|---|---|
| *Cost:* | | | | | | |
| At 1 January 2020 | 475.4 | 64.3 | 32.5 | 96.8 | 79.2 | 748.2 |
| Additions | 43.1 | 0.6 | 1.8 | 8.9 | 33.9 | 88.3 |
| Disposals | (10.3) | (0.1) | (0.4) | (6.8) | (44.0) | (61.6) |
| Transfers | 26.6 | (1.9) | (20.4) | 1.1 | - | 5.4 |
| Assets classified as held for sale | (4.1) | - | - | - | - | (4.1) |
| At 31 December 2020 | 530.7 | 62.9 | 13.5 | 100.0 | 69.1 | 776.2 |
| *Depreciation:* | | | | | | |
| At 1 January 2020 | 87.5 | 10.7 | - | 67.2 | 17.7 | 183.1 |
| Provided during the year | 12.5 | 2.9 | - | 11.4 | 20.8 | 47.6 |
| Impairment charge | 0.5 | 0.7 | - | - | - | 1.2 |
| Disposals | (0.9) | - | - | (6.4) | (17.5) | (24.8) |
| Transfers | 0.6 | (0.5) | - | - | - | 0.1 |
| Assets classified as held for sale | (1.3) | - | - | - | - | (1.3) |
| At 31 December 2020 | 98.9 | 13.8 | - | 72.2 | 21.0 | 205.9 |
| *Net book value:* | | | | | | |
| At 31 December 2020 | 431.8 | 49.1 | 13.5 | 27.8 | 48.1 | 570.3 |
| At 31 December 2019 | 387.9 | 53.6 | 32.5 | 29.6 | 61.5 | 565.1 |

The net book value of right-of-use assets at 31 December 2020 are presented by class of underlying asset in note A19.

**A6. Investment properties**

| | |
|---|---|
| *Cost:* | £m |
| At 1 January 2020 | 85.0 |
| Additions | - |
| Transfers to property, plant and equipment | (5.4) |
| At 31 December 2020 | 79.6 |
| *Depreciation and impairment:* | |
| At 1 January 2020 | 6.3 |
| Depreciation charge for the year | 0.9 |
| Impairment charge | 3.2 |
| Transfers to property, plant and equipment | (0.1) |
| At 31 December 2020 | 10.3 |
| *Net book value:* | |
| At 31 December 2020 | 69.3 |
| At 31 December 2019 | 78.7 |

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 2020, investment properties carried at cost had an estimated FVLCD of £72.0m (2019 - £82.7m). The FVLCD has been arrived at on the basis of valuations carried out by Colliers International Property Consultants Limited or J & E Shepherd, independent valuers not connected with the Group. On the basis of the valuations received, an impairment charge of £3.2m 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 £5.7m (2019 - £4.8m).

**A7. Intangible assets**

| | |
|---|---|
| | £m |
| Goodwill as at 31 December 2020 and 31 December 2019 | 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% (2019 - 8.0%)

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 1.5% (2019 - 1.5%)

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

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

**A8. Investments**

| | £m |
|---|---|
| *Cost of investment in subsidiaries as at 31 December 2020 and 31 December 2019* | 71.6 |

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

**A9. Inventories**

| | 2020 £m | 2019 £m |
|---|---|---|
| Motor vehicles | 409.1 | 471.6 |
| Parts and accessories | 21.9 | 20.6 |
| Work in progress and other stocks | 2.9 | 3.5 |
| Consignment stocks | 74.3 | 60.8 |
| | 508.2 | 556.5 |

Included in motor vehicles is £46.6m (2019 - £67.7m) that is pledged as security for the other loans (see note A17). At 31 December 2020, the Company held vehicles on sale or return with a wholesale value of £122.5m (2019 - £131.6m) excluding Value Added Tax. Included in stocks is £74.3m (2019 - £60.8m) 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 £48 2m (2019 - £70.8m) 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.

**A10. Trade and other receivables**

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade receivables | 49.3 | 68.0 |
| Other receivables | 17.0 | 14.5 |
| Prepayments and accrued income | 26.5 | 34.4 |
| Income tax recoverable | 5.9 | - |
| Assets classified as held for sale | 2.8 | - |
| Amounts due from group undertakings (receivable on demand) | 6.2 | 21.3 |
| | 107.7 | 138.2 |

### A11. Financial assets

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

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| *Fair value through profit and loss* | | |
| Certificates of deposit | 275.0 | 78.1 |
| Listed equities | 3.0 | 2.9 |
| | 278.0 | 81.0 |

Movements in financial assets during the year were as follows:

| | £m |
|---|---|
| At 1 January 2020 | 81.0 |
| Net additions | 196.8 |
| Net fair value gains recognised in the profit and loss account | 0.2 |
| At 31 December 2020 | 278.0 |

### A12. Cash and cash equivalents

| | 2020<br>£m | 2019<br>(restated)<br>£m | 2018<br>(restated)<br>£m |
|---|---|---|---|
| Cash at bank and in hand | 418.7 | 404.7 | 405.6 |
| Certificates of deposit | 28.8 | 26.5 | 21.0 |
| | 447.5 | 431.2 | 426.6 |
| Bank overdraft | (278.6) | (307.7) | (308.8) |
| Net cash and cash equivalents | 168.9 | 123.5 | 117.8 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company invests surplus cash in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents. Restatement explained in note 2.6.

### A13. Issued share capital

The share capital at 31 December 2020 and 31 December 2019 is analysed at follows:

| | Authorised | | Allotted, called up and fully paid | |
|---|---|---|---|---|
| | 2020<br>No. | 2019<br>No. | 2020<br>£m | 2019<br>£m |
| Ordinary shares of £1 each | 1,000,000 | 1,000,000 | 1.0 | 1.0 |

No shares were authorised or issued in either period.

## A14. Dividends

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash dividends on ordinary shares declared and paid: | | |
| Interim dividend: £Nil per share (2019 - £16.50 per share) | - | 16.5 |

## A15. Provisions

| | Commission clawback | |
|---|---|---|
| | 2020 £m | 2019 £m |
| At 1 January | 11.3 | 9.5 |
| Amounts utilised in the period | (4.5) | (5.9) |
| Amounts charged to the profit and loss account | 7.0 | 7.6 |
| Unwinding of discount | - | 0.1 |
| At 31 December | 13.8 | 11.3 |
| Amounts included in current liabilities | 5.4 | 4.3 |
| Amounts included in non-current liabilities | 8.4 | 7.0 |
| | 13.8 | 11.3 |

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 0.01% (2019 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £0.7m and a 1% increase in the risk-free discount rate would reduce the provision by £0.2m

## A16. Deferred tax liabilities

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 19.0% (2019 - 17.2%).

| | 2020 £m | 2019 £m |
|---|---|---|
| Accelerated capital allowances | 7.5 | 6.4 |
| Other timing differences | 2.5 | 3.0 |
| Deferred tax liability | 10.0 | 9.4 |

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020 However, the budget on 11 March 2020 confirmed the Government's intention that the corporation tax rate will remain at 19% and was substantively enacted as at the balance sheet date. The deferred tax asset at 31 December 2020 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.

### A17. Financial liabilities

*Interest-bearing loans and borrowings*

| | 2020 £m | 2019 (restated) £m | 2018 (restated) £m |
|---|---|---|---|
| Current interest-bearing loans and borrowings: | | | |
| Other loans | 36.4 | 56.0 | 69.0 |
| Bank Overdraft | 278.6 | 307.7 | 308.8 |
| Lease liabilities: obligations under other lease contracts | 1.9 | 1.9 | - |
| | 316.9 | 365.6 | 377.8 |
| Non-current interest-bearing loans and borrowings: | | | |
| Lease liabilities: obligations under other lease contracts | 30.1 | 30.3 | - |
| Total interest-bearing loans and borrowings | 347.0 | 395.9 | 377.8 |

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

### A18. Trade and other payables

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade payables | 196.7 | 181.0 |
| Other taxes and social security costs | 65.3 | 21.1 |
| Other creditors | 38.7 | 43.7 |
| Insurance liabilities | 6.4 | 5.8 |
| Accruals and deferred income | 139.2 | 147.8 |
| Consignment stock creditor | 74.3 | 60.8 |
| Amounts due to group undertakings (payable on demand) | 75.3 | 60.4 |
| Buyback creditor | 9.6 | 13.0 |
| | 605.5 | 533.6 |
| Amounts included in current liabilities | 595.5 | 517.3 |
| Amounts included in non-current liabilities | 10.0 | 16.3 |
| | 605.5 | 533.6 |

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

**A19. Leases**

*Company as a lessee*

The Company has entered into leases contracts in regard to property. The average remaining lease term is 68 years.

**Amounts recognised in the Statement of Profit or Loss**

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

**Right-of-use assets**

| | Land and buildings £m | Plant and equipment £m | Total £m |
|---|---|---|---|
| Carrying value at 1 January 2020 | 31.9 | 0.1 | 32.0 |
| Carrying value at 31 December 2020 | 31.3 | - | 31.3 |
| Additions to right-of-use assets | 7.4 | - | 7.4 |
| Depreciation charge for the year | (2.2) | (0.1) | (2.3) |

| | Minimum payments | | Present value of payments | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Amounts payable: | | | | |
| Within one year | 2.8 | 2.9 | 1.9 | 1.9 |
| After one year but not more than five years | 8.5 | 7.4 | 5.5 | 3.7 |
| More than five years | 66.2 | 80.2 | 24.5 | 26.6 |
| | 77.5 | 90.5 | 31.9 | 32.2 |
| Less: future finance charges | (45.6) | (58.3) | | |
| Present value of other lease obligations | 31.9 | 32.2 | | |
| Current interest-bearing borrowings | | | 1.9 | 1.9 |
| Non-current interest-bearing borrowings | | | 30.0 | 30.3 |
| | | | 31.9 | 32.2 |

### A19. 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:

| | 2020 £m | 2019 £m |
|---|---|---|
| Within one year | 5.3 | 5.3 |
| After one year but not more than five years | 18.4 | 19.6 |
| More than five years | 17.1 | 19.3 |
| | 40.8 | 44.2 |

### A20. Capital commitments

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Contracted but not provided for | 0.2 | 4.5 |

### A21. Other financial commitments

The Company has undertaken to repurchase certain motor vehicles throughout 2021. 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.

### A22. Contingent liabilities

Under a group registration for Value Added Tax, the companies within the Group are jointly and severally liable for Value Added Tax due by any member of the group registration. At 31 December 2020, the Value Added Tax recoverable by other members of the group registration amounted to £13.2m (2019 - Value Added Tax payable £2.6m).

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 2020, the other companies included in the guarantee had net funds of £64.5m (2019 - £4.4m) due from The Royal Bank of Scotland plc.

### A23. Directors emoluments

The Directors' emoluments were as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Emoluments | 6.5 | 11.3 |
| Emoluments of the highest paid Director | 3.0 | 5.4 |

### A24. 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