ARNOLD CLARK AUTOMOBILES LIMITED
ANNUAL REPORT 2017

SC36386

Directors, Principal Officers and Advisers

Arnold Clark Automobiles Limited

Directors

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

Operations Board

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

Company Secretary

S K Thorpe BA (Hons) FCA

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Principal Bankers

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

Auditors

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

Tax Advisers

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

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Chief Executive's Statement

Arnold Clark Automobiles Limited

In what has been a challenging period for UK motor retailers, I am pleased to report a strong full year performance for the Group.

The year in review presented a unique set of challenges following the democratic vote for the United Kingdom to leave the European Union in 2016. A weakened pound against the euro has resulted in less available new car stock being imported into the UK marketplace and, in general, a higher base cost for imported units. New car registrations for the UK as a whole are down 5.7% to 2.54m units in 2017 from 2.69m units in 2016. For the Group, this has resulted in a decrease in new car sales to 70,167 units in 2017 along with a significant decline in new car profitability. Our proficiency in used car retailing allowed us to increase our used units retailed; 218,188 used cars were sold in 2017 compared to 197,842 units in 2016. This contributed to Group revenue increasing by 7.3% to £3.93bn, but a combination of decreased new car profitability and an increasing cost base led to a 13.2% reduction in group operating profit to £117.9m.

In addition to the challenges imposed by the trading conditions observed in the new car market, the business has also been impacted by a sharp increase in property rates levied, with the additional cost for the year totalling £3.06m. The motor retail industry also typically experiences average transaction values greater than most other retail sectors. The decision to remove the cap on debit card interchange fees has resulted in increased transaction charges to the Group of £1.3m. Additionally, the introduction of the apprenticeship levy resulted in increased costs of £1.2m in 2017. Through our commitment to our own apprenticeship programmes and supply of external training, we expect the apprenticeship levy impact to be partially offset by income receivable in the short to medium term. Given the magnitude of these additional expenses in the period, a profit before tax of £106.6m is a significant achievement for the Group.

Arnold Clark Finance Limited, our vehicle management and daily rental business, has continued to contribute significantly to Group profits through what has been a challenging year. Revenue reported in 2017 is relatively static compared to the prior year at £544.4m (2016: £547.3m). Profit before tax decreased to £9.7m in 2017 from £12.5m in 2016.

Expansion of our branch network

The Group further expanded its franchise offering in October 2017 through the acquisition of the trade and assets of a Mitsubishi dealership in Stirling. The deal marks the first engagement between the Group and Mitsubishi and increases the total number of represented manufacturers within the Group to 25.

We have continued to invest heavily in our Motorstore brand with the opening of four newly constructed showrooms in 2017. Two of these sites provide greatly improved offerings within key Scottish locations and the other two sites form part of our strategic drive to expand our footprint and strengthen our brand within the English market place.

York Motorstore opened in February and has an offering of over 250 nearly new and used cars on site, full servicing facilities, and car and van rental. This is a new territory for the Group and it is pleasing to note the strong results contributed to operating performance since opening. The construction of Wakefield Motorstore was completed in November 2017. Located in Calder Park, the branch sits on a four acre site and carries a significant stock with over 450 nearly new and used cars.

In December, the Group transferred its Motorstore branch in Perth to a significantly larger purpose-built facility at the Inveralmond roundabout. Our existing Fiat Abarth operation in St. Leonard's Bank has relocated to the new facility to sit alongside our Motorstore brand. The prominently positioned five and a half acre site offers a choice of over 300 new and used cars. In Dundee, we redeveloped our existing premises at Balfield Road to create a larger, modern Motorstore to service the local area.

The Group also invested in the construction of a bespoke Volkswagen service centre at South Street, Glasgow to accommodate increasing consumer demand and improve customer service. Relocating the Volkswagen service facility allowed for the complete refurbishment of our existing branch at Crow Road, Glasgow. A significant investment was made to alter the layout of the existing building to maximise the available space and reflect the latest manufacturer standards.

We will continue to pursue our expansion plans in England in 2018 with the redevelopment of a site in Doncaster. The existing retail property contains significant ground space which offers excellent potential as a Motorstore.

Chief Executive's Statement

Investment in infrastructure

During 2017 the Group has continued to develop our corporate and logistics infrastructure. Following the success of bringing previously segregated business units together under one roof at the new purpose built head office building at Hillington, Glasgow, we applied the same blueprint and developed another key site to house other core business units at Kilbirnie Street, Glasgow as well as a bodyshop facility, vehicle preparation centre and heavy goods vehicle training facility. Opening in October 2017, the nine and a half acre site is branded to match our head office at Hillington and is visible from the M74 and M8 motorways. The £17m investment illustrates the Board's commitment to continually aim to improve the way we conduct business.

To support the expansion of the Group over the years, we have also invested considerably in logistics infrastructure. An eight acre storage and distribution compound was purchased at Kidsgrove, Staffordshire in August 2016 and, in 2017, significant ground works were carried out to support the volume and load of traffic passing through the site. A PDI centre was also constructed to alleviate time constraints at destination branches. The Group further added to its logistics infrastructure with the development of an eleven acre storage compound at Duffshill, Aberdeen which completed in July 2017. In December 2017, two separate sites were acquired for additional storage and retail display on Harbour Road, Inverness. These sites are currently under development and will be fully operational by June 2018.

Other notable projects completed in the year included the enhancement of our Skoda facility in Inverness by moving the franchise into its own premises on Harbour Road. We also converted the previous Motorstore site in Perth into a Renault/Dacia dealership, giving the branch a more prominent position on Dunkeld Road with a much greater vehicle display area. At the balance sheet date, construction was complete on the Dacia building with the Renault building due to be fully converted in the first quarter of 2018.

Business development

Sir Arnold passionately believed in investment in people through training which is a philosophy the Board and I continue to support fully. In 2017 the Arnold Clark Group employed 861 apprentices across a range of disciplines with a further 300 planned for 2018. We recently launched a custom built, interactive apprentice van which will be touring schools, colleges and events to promote work-based learning and showcase the many different apprenticeships that the Group has to offer. Our award-winning Accounts Academy programme currently supports 70 graduate accountants towards achieving ACCA accreditation. Our bespoke training scheme - awarded Platinum status by ACCA - will support an additional 20 graduates in 2018.

The Group has continued its digital transformation strategy through further development of our industry renowned website; arnoldclark.com. Our in-house Digital Development team now employs 80 developers implementing leading edge design to our digital platform and bringing ideas to life. Our website now has the functionality to allow customers to browse vehicles located throughout the country, view a personalised video showing the vehicle in detail and then transport the car to their nearest delivery centre for collection. The website achieved record levels of traffic in 2017, hosting over 31 million visitors - an increase of 25.9% on the prior year. Online sales enquires increased by 17% as a direct result. We are continuing the evolution of the website in 2018 with the launch of our Deal Builder product, which allows the customer to construct the financial side of their purchase on the go or in the privacy of their own home.

Chief Executive's Statement

Community engagement

Recognising the importance of the communities in which we operate and supporting them is a core part of the culture of our organisation. There are many charitable causes that we have supported over the years including national headline events and smaller community based projects - 2017 was no exception to this.

In support of the Kiltwalk, 147 Arnold Clark employees pulled on their trainers and covered almost 3,000 miles across four events for charitable causes close to their hearts. As a business, we are delighted to be able to sponsor the Kiltwalk directly and match donations for our employees. We look forward to our continued partnership with the Kiltwalk in 2018.

Our popular 'Gear up for Sport' competition offers children's sports teams the opportunity to win team sports kits. In 2017, an additional £2,000 cash prize was awarded for best team spirit photo. Recognising the positive impact of sport in young people's lives and the commitment of volunteers in providing these opportunities is extremely important and we are very proud to be able to support them in this way.

In 2017 we supported several LGBT+ Pride events throughout the UK including those in Glasgow, Newcastle, Liverpool and Birmingham. Our employees were invited to walk in the parades alongside our custom-designed rainbow Hilux with Directors and senior management turning out to show their support. 2017 also saw the Arnold Clark Group become a Stonewall Diversity Champion. We look forward to celebrating Pride in 2018 and continuing to work closely with Stonewall as we embrace diversity in our organisation.

Future prospects

In 2018, we anticipate modest growth in used car sales and are confident that our continued investment in both physical premises and on-line retailing will yield positive results. We expect that the new car market will continue to decline and anticipate a decrease in the number of new car registrations.

The core of the Arnold Clark business model is to provide our customers with the best value for money and a positive experience in all of our interactions. The Board and I are proud of the effort demonstrated by all our staff to promote this in our daily operations. The commitment and effort shown by our employees is exemplary and on behalf of the Board I would like to take this opportunity to express our sincere gratitude.

The current political and economic landscape is changing the dynamics of the motor industry, both at manufacturer and retail levels. We do not expect these challenges to lessen in 2018 but, as in the past, the Group continues to adapt and embrace the opportunities that present themselves in such times. The Group's financial strength and resilience positions it well to succeed.

E Hawthorne
Chief Executive and Group Managing Director
28 March 2018

The Directors present their Strategic Report for the year ended 31 December 2017.

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:

	2017	2016	Change
Group turnover	£3,931m	£3,662m	7.3%
Used car sales (units)	218,188	197,842	10.3%
New car sales (units)	70,167	80,203	(12.5)%
Group operating profit	£117.9m	£135.8m	(13.2)%

Used car sales units increased by 10.3% due to the opening of new branches and like for like sales increasing by 7.5%. New car sales units fell by 12.5% on the prior year. While the used car market remains positive, it is expected that the new car market in 2018 will continue to be challenging.

Turnover rose by 7.3% to a record £3,931m, primarily as a result of the increase in used car sales. Group operating profit decreased to £117.9m, mainly due to the challenges observed in the new car market and an increase in overheads. Early trading conditions in 2017 have been challenging. The Board predicts both turnover and profitability will remain in line with the excellent results achieved in 2017.

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

Principal risks and uncertainties

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

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

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

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

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

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

Principal risks and uncertainties (continued)

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

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

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

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

On behalf of the Board

E Hawthorne
Chief Executive and Group Managing Director
28 March 2018

Directors' Report

Arnold Clark Automobiles Limited

The Directors present their report for the year ended 31 December 2017.

Results and dividends

The profit on ordinary activities before taxation amounted to £106,605,000 (2016 - £125,350,000). The profit for the year, after taxation, amounted to £85,595,000 (2016 - £101,911,000).

An ordinary interim dividend of £3,497,000 was paid during the year (2016 - £2,498,000). The Directors recommend that no final dividend be paid, which leaves a profit of £82,098,000 (2016 - £99,413,000) to be retained. The 2018 interim dividend of £5,370,000 has been declared prior to the signing of these accounts.

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

Employees

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

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

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

Directors

The Directors who served during the year were as follows:

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

Sir Arnold Clark served as a Director of the Company during the year, until 10 April 2017.

Lady Clark accepted the position of Chairman with effect from 1 October 2017.

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

Directors' statement as to disclosure of information to the auditors

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

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

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

Auditors

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

E Hawthorne
Chief Executive and Group Managing Director
28 March 2018

Statement of Directors' Responsibilities

Arnold Clark Automobiles Limited

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

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

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

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

Independent Auditors' Report

to the members of Arnold Clark Automobiles Limited

Opinion

We have audited the financial statements of Arnold Clark Automobiles Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidate Statement of Cash Flows, Company Statement of Financial Position and Company Statement of Changes in Equity and the related notes 1 to 32 and A1 to A23, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance in with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 61, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

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

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

Independent Auditors' Report

to the members of Arnold Clark Automobiles Limited

Auditor's responsibilities for the audit of the financial statements

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

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

Ernst + Young LLP

Mark Harvey
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP,
Statutory Auditor, Glasgow
28 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

Arnold Clark Automobiles Limited

	Notes	2017 £000	2016 £000
Revenue	9	3,931,414	3,662,455
Cost of sales		(3,310,127)	(3,066,740)
Gross profit		621,287	595,715
Distribution expenses		(299,438)	(274,554)
Administrative expenses		(206,620)	(189,517)
Other operating income	10	2,653	4,173
Operating profit		117,882	135,817
Finance costs	11	(12,444)	(12,436)
Finance income	12	1,167	1,969
Profit before tax from continuing operations		106,605	125,350
Income tax expense	17	(21,010)	(23,439)
Profit for the year		85,595	101,911
Other comprehensive income		-	-
Total comprehensive income for the year		85,595	101,911

All operations were classed as continuing operations during the year.

Consolidated Statement of Financial Position

at 31 December 2017

Arnold Clark Automobiles Limited

	Notes	2017 £000	2016 £000
Assets			
Non-current assets			
Property, plant and equipment	18	1,021,221	970,196
Investment properties	19	66,696	55,534
Intangible assets	20	9,931	10,285
Investments		10	10
Deferred tax assets	17	204	1,630
		1,098,062	1,037,655
Current assets			
Inventories	21	560,954	474,033
Trade and other receivables	22	121,619	113,044
Financial assets	23	103,959	109,615
Cash and cash equivalents	24	131,842	127,453
		918,374	824,145
Total assets		2,016,436	1,861,800
Equity and liabilities			
Issued share capital	25	999	999
Other capital reserves		1	1
Profit and loss account		936,955	854,857
Total equity		937,955	855,857
Non-current liabilities			
Interest-bearing loans and borrowings	28	176,845	178,668
Provisions	27	4,523	3,746
Trade and other payables	29	4,823	6,283
Deferred tax liabilities	17	19,756	23,163
		205,947	211,860
Current liabilities			
Interest-bearing loans and borrowings	28	296,918	283,239
Trade and other payables	29	550,603	480,603
Income taxes payable		21,352	27,248
Provisions	27	3,661	2,993
		872,534	794,083
Total liabilities		1,078,481	1,005,943
Total equity and liabilities		2,016,436	1,861,800

Approved by the Board on 28 March 2018

E Hawthorne
Chief Executive and Group
Managing Director

K J McLean
Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

Arnold Clark Automobiles Limited

	Share Capital	Other capital reserves	Profit and loss account	Total
As at 1 January 2016	999	1	755,444	756,444
Total comprehensive income	-	-	101,911	101,911
Dividends to shareholders	-	-	(2,498)	(2,498)
As at 31 December 2016	999	1	854,857	855,857
As at 1 January 2017	999	1	854,857	855,857
Total comprehensive income	-	-	85,595	85,595
Dividends to shareholders	-	-	(3,497)	(3,497)
As at 31 December 2017	999	1	936,955	937,955

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

Arnold Clark Automobiles Limited

	Notes	2017 £000	2016 £000
Net cash inflow from operating activities	31	62,273	83,837
Investing activities			
Proceeds from sale of property, plant and equipment		1,478	1,413
Purchase of property, plant and equipment		(61,682)	(57,613)
Purchase of investment properties		(12,211)	(6,528)
Acquisition, net of cash acquired		(150)	(1,596)
Proceeds from sale of investments		10,476	628
Purchase of investments		(4,401)	(19,896)
Income from investments		247	485
Net cash flows used in investing activities		(66,243)	(83,107)
Financing activities			
Proceeds from borrowings		336,132	303,750
Repayment of borrowings		(322,750)	(283,841)
Proceeds from new hire purchase contracts		386,922	386,841
Repayment of capital element of hire purchase contracts		(388,448)	(399,556)
Dividends paid to equity holders of the parent		(3,497)	(2,498)
Net cash flows from financing activities		8,359	4,696
Net increase in cash and cash equivalents		4,389	5,426
Cash and cash equivalents at 1 January		127,453	122,027
Cash and cash equivalents at 31 December	24	131,842	127,453

1. Corporate information

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

Information on the Group's operations and its principal activities are set out in the Strategic Report on pages 2 - 4.

2. Accounting policies

2.1 Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets, which have been measured at fair value. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand (£000), except where otherwise indicated.

2.2 Standards issued but not yet effective

Three new accounting standards and amendments are applicable for the Group for the first time in 2017. However, they do not impact the annual consolidated financial statements of the Group. These are:

- Amendment to IAS 7: Disclosure Initiative - effective date 1 January 2017
- Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses - effective date 1 January 2017
- Annual improvements to IFRS 2014-2016 cycle - effective date 1 January 2017

Standards and amendments to standards that have been issued but are not effective for 2017 and have not been early adopted are:

- IFRS 9 Financial Instruments - effective date 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective date 1 January 2018
- IFRS 16 Leases - effective date 1 January 2019
- IFRIC 23 Uncertainty over Income Tax Treatments(i) - effective date 1 January 2019
- Annual improvements to IFRS 2015-2017 cycle(i) - effective date 1 January 2019
- Amendment to IAS 19(i) - effective date 1 January 2019

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

Management have conducted a review of the requirements of accounting standard IFRS 15 Revenue from Contracts with Customers, and assessed the impact expected in the period of initial application, being the year ending 31 December 2018. The review has indicated that the implementation of the standard will not have a significant impact on the results of operations and financial position in the period of initial application.

Management have conducted a review of lease contracts entered into by Group companies to assess the potential impact of the implementation of IFRS 16 Leases in the period of initial application. The assessment thus far has indicated a significant gross up of the Statement of Financial Position through the recognition of a new right of use asset and lease liability. The impact will continue to be assessed in 2018.

The remainder of the pronouncements listed above are not expected to have a significant impact on Group results in the period of initial application.

2.3 Basis of consolidation

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

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

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

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

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

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

2.4 Going concern

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

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

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

2.5 Summary of significant accounting policies

Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 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 IAS 39, 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.

2.5 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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 separately charged delivery or installation costs.

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

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

Investment properties

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

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

2.5 Summary of significant accounting policies (continued)

Leases

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

Group as a lessee

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

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

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

Group as a lessor

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

Intangible assets

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

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

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) 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, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income. Interest income (recorded as finance income in the Statement of Profit or Loss and Other Comprehensive Income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

Financial liabilities

Initial recognition and measurement

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

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

Cash and short-term deposits

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

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

2.5 Summary of significant accounting policies (continued)

Inventories

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

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

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

Provisions for liabilities

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Sales of goods are recognised when the goods are delivered, sales of services are recognised when the service has been provided and finance commissions are recognised on delivery of the related vehicles.

Rentals receivable on vehicles held for use in operating leases are recognised on a straight-line basis over the term of the lease.

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.

Premiums are earned proportionally over the period of cover. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as a provision for unearned premium. Premium income is shown net of insurance premium tax.

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

2.5 Summary of significant accounting policies (continued)

Taxes

Current income tax

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

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

Deferred tax

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

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

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

Pension costs

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

Insurance contracts

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

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

Provisions

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

The timing and quantum of the amounts due to the finance companies is inherently uncertain and the amounts provided are based on prior years' experience and on expectations for the future. The calculation of the provision requires the exercise of significant judgement by management and the key assumption is that a similar percentage of commissions will be clawed back in each future accounting periods. The provision has been discounted at the risk-free discount rate of 1% (2016 - 1%). Significant unforeseen changes in the wider economy or changes to the UK Gilt rates could result in the provision being misstated.

Goodwill and other intangible assets

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

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

The Group estimates discounted rates based on pre-tax rates that reflect the Group's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Group. The WACC used in the calculation is 8.6% (2016 - 8.5%).

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 2.0% (2016 - 2.0%).

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

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

4. Capital management

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

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

Analysis of net debt

	2017 £000	2016 £000
Cash and cash equivalents	131,842	127,453
Hire purchase contracts	(422,448)	(423,974)
Loans	(51,315)	(37,933)
	(341,921)	(334,454)

5. Financial instruments risk management

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

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

Market risk

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

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

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

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

5. Financial instruments risk management (continued)

Credit risk

The Group has exposure to credit risk, which is the risk that a counter-party 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 2017	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£000
Cash and cash equivalents	-	4%	1%	3%	1%	91%	-	131,842
Financial assets at fair value through profit and loss	-	27%	61%	6%	3%	-	3%	103,959
Total								235,801

At 31 December 2016	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the Statement of Financial Position
								£000
Cash and cash equivalents	1%	-	5%	2%	5%	87%	-	127,453
Financial assets at fair value through profit and loss	9%	15%	40%	33%	1%	-	2%	109,615
Total								237,068

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

5. Financial instruments risk management (continued)

Liquidity risk

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

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

At 31 December 2017

	On demand £000	In less 1 year £000	In 1 - 5 years £000	Total £000
Interest-bearing loans and borrowings	51,315	251,754	179,978	483,047
Trade and other payables	-	453,701	4,823	458,524
	51,315	705,455	184,801	941,571

At 31 December 2016

	On demand £000	In less 1 year £000	In 1 - 5 years £000	Total £000
Interest-bearing loans and borrowings	37,921	251,255	181,432	470,608
Trade and other payables	-	393,336	6,283	399,619
	37,921	644,591	187,715	870,227

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	
	2017 £000	2016 £000	2017 £000	2016 £000
Effect on profit or loss	(1,119)	(1,380)	1,081	1,407

6. Group information

The consolidated financial statements of the Group include:

Name	Principal activity	Country of incorporation	Equity interest 2017 %	Equity interest 2016 %
Arnold Clark Finance Ltd	Hiring of motor vehicles	Scotland	100	100
Arnold Clark Holdings (Malta) Ltd	Intermediate holding company	Malta	100	100
Arnold Clark Insurance (Malta) Ltd	Insurance services	Malta	100	100
Arnold Clark Insurance Services Ltd	Insurance services	Scotland	100	100
Arnold Clark Life Insurance (Malta) Ltd	Insurance services	Malta	100	100
Assure Alarms Ltd	Intruder alarm installation and maintenance	Scotland	51	51
GTG Training Ltd	Provision of education and training	Scotland	100	100
Harry Fairbairn Ltd	Sale and servicing of motor vehicles	Scotland	100	100
Towquest Ltd	Provision of specialist computer software	England & Wales	100	100
Arnold Clark Vehicle Management Ltd	Dormant	Scotland	100	100
A Clark's West End Motors Ltd	Dormant	Scotland	100	100
Arnold Clark (Bearsden) Ltd	Dormant	Scotland	100	100
Arnold Clark (Birtley) Ltd	Dormant	England & Wales	100	100
Arnold Clark (Paisley) Ltd	Dormant	Scotland	100	100
Arnold Clark (Stirling) Ltd	Dormant	Scotland	100	100
Calterdon Ltd	Dormant	Scotland	100	100
Dane County Holdings Ltd	Dormant	England & Wales	100	100
Dane County Ltd	Dormant	England & Wales	100	100
Delmore Cars Ltd	Dormant	Scotland	100	100
Glasgow Training Group (Motor Trade) Ltd	Dormant	Scotland	100	100
Glasgow Training Group Ltd	Dormant	Scotland	100	100
Grangemouth Motor Group Ltd	Dormant	Scotland	100	100
Grant, Melrose & Tennent Ltd	Dormant	Scotland	100	100
Harpers (Aberdeen) Ltd	Dormant	Scotland	100	100
Hintonmead Ltd	Dormant	England & Wales	100	100
Hobin Group Ltd	Dormant	England & Wales	100	100
Hobin of Preston Ltd	Dormant	England & Wales	100	100
John R Weir (Inverness) Ltd	Dormant	Scotland	100	100
John R Weir Ltd	Dormant	Scotland	100	100
Macharg Rennie & Lindsay Ltd	Dormant	Scotland	100	100

6. Group information (continued)

Name	Principal activity	Country of incorporation	Equity interest 2017 %	Equity interest 2016 %
Maclaren Automotive Ltd	Dormant	England & Wales	100	100
Ness Motors (Holdings) Ltd	Dormant	Scotland	100	100
Ness Motors Ltd	Dormant	Scotland	100	100
Patterson Leasing Ltd	Dormant	England & Wales	100	100
Pattersons (Berwick) Ltd	Dormant	England & Wales	100	100
Pattersons Training Ltd	Dormant	England & Wales	100	100
R H Patterson & Co Ltd	Dormant	England & Wales	100	100
R H Patterson (Motor Finance) Ltd	Dormant	England & Wales	100	100
R H Patterson (Ponteland) Ltd	Dormant	England & Wales	100	100
RHP (Hire) Ltd	Dormant	England & Wales	100	100
Scotiaford Ltd	Dormant	Scotland	100	100
Strathford (Ayrshire) Ltd	Dormant	Scotland	100	100
Strathford Motor Company Ltd	Dormant	Scotland	100	100
The Harper Motor Company Ltd	Dormant	Scotland	100	100
The Park Automobile Company Ltd	Dormant	Scotland	100	100
Tomkins (Glasgow) Ltd	Dormant	Scotland	100	100

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

The limited companies listed above which were incorporated in Scotland have a corresponding registered office address of 454 Hillington Road, Glasgow, Scotland, G52 4FH. Those listed above that were incorporated in England have a corresponding registered office address of 405-409 Scotswood Road, Newcastle Upon Tyne, NE4 7BP. The remainder, which were incorporated in Malta, have a corresponding registered office address of The Landmark, Level 1, Suite 2, Triq L -Iljun, Qormi QRM38800, Malta.

7. Business combinations

During the year the Group acquired the trade and assets of a Mitsubishi Dealership in Stirling.

	Fair value at acquisition £000
Property, plant and equipment	54
Intangible assets	8
Vehicles and other inventories	8
Payables	(16)
	54
Goodwill	96
Consideration in cash	150

The goodwill of £96,000 represents the excess of consideration paid over fair value of identifiable assets and liabilities and represents the expected benefits from expanding the existing representation in the relevant market territories.

From the date of acquisition, the businesses acquired contributed £1,376,000 of revenue and a loss of £134,000 to profit before tax from continuing operations to the Group's results.

8. Fair value measurement

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

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

	Level 1		Level 2		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Assets measured at fair value:						
Financial assets (note 23)						
Certificates of deposit	-	-	101,145	106,992	101,145	106,992
Quoted equity shares	2,814	2,623	-	-	2,814	2,623
Cash equivalents (note 24)						
Certificates of deposit	-	-	7,252	15,760	7,252	15,760
	2,814	2,623	108,397	122,752	111,211	125,375

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 these investments as at 31 December 2017 and 31 December 2016 are being categorised as level 2.

There were no transfers between levels during 2017. All valuations have been carried out as at 31 December in the relevant year.

9. Revenue

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

	2017 £000	2016 £000
Distributing and retailing of motor vehicles	3,630,964	3,366,007
Servicing of motor vehicles	94,883	91,754
Hiring of motor vehicles	179,627	180,646
Insurance premiums receivable	8,969	9,207
Rental income from investment properties	4,294	3,726
Other	12,677	11,115
	3,931,414	3,662,455

99.8% of all activities take place within the United Kingdom. 0.2% of activities take place in Malta.

10. Other operating income

	2017 £000	2016 £000
Net gain on disposal of property, plant and equipment	2,454	4,022
Miscellaneous other income	199	151
	2,653	4,173

11. Finance costs

	2017 £000	2016 £000
Finance charges payable under hire purchase agreements	7,784	8,601
Other interest payable	4,597	3,783
Unwinding of discount and effect of changes in discount rate on provisions (note 27)	63	52
	12,444	12,436

12. Finance income

	2017 £000	2016 £000
Income from investments	247	485
Net gain on financial assets at fair value through profit and loss	419	548
Bank interest receivable	501	936
	1,167	1,969

13. Operating profit

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

	2017 £000	2016 £000
Depreciation of property, plant and equipment	157,957	151,110
Amortisation of intangible assets	244	263
Impairment of goodwill (note 20)	206	-
Costs of inventories recognised as an expense	3,119,182	2,894,948
Insurance claims paid as insurer	1,259	1,261
Operating lease rentals - land and buildings	4,145	3,784
Operating lease rentals - plant and equipment	396	198
Gain on disposal of property, plant and equipment	2,454	4,022

14. *Auditor's remuneration*

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

	2017 £000	2016 £000
Fees payable to the company's auditor for the audit of the:		
Company's annual accounts	150	140
Subsidiaries' annual accounts	70	70
Total audit fees	220	210
Tax compliance	38	35
Other advisory	7	9
Total non-audit fees	45	44

15. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2017 £000	2016 £000
Wages and salaries	309,755	287,195
Social security costs	29,148	27,095
Pension costs	5,341	5,205
Total employee benefits expense	344,244	319,495

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

	2017 No.	2016 No.
Office and management	1,989	1,883
Sales	3,472	3,302
Technicians	5,966	5,487
	11,427	10,672

16. Key management remuneration

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

	2017 £000	2016 £000
Short-term employee benefits	8,426	11,552

The Directors' emoluments were as follows:

	2017 £000	2016 £000
Emoluments	7,510	10,064
Emoluments of the highest paid Director	3,553	3,514

17. Income tax

The major components of income tax expense are:

	2017 £000	2016 £000
Current income tax:		
Corporation tax charge	23,275	27,591
Adjustments in respect of corporation tax charge of prior years	(284)	(1,302)
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,700)	(1,899)
Effect of changes in tax rates	(266)	(890)
Adjustment in respect of previous years	(15)	(61)
Income tax expense reported in the Statement of Profit or Loss	21,010	23,439

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:

	2017 £000	2016 £000
Accounting profit before income tax	106,605	125,350
At UK corporation tax rate of 19.25% (2016 - 20.00%)	20,521	25,070
Tax effect of non-deductible expenses and non-taxable income	1,248	998
Effect of changes/differences in tax rates	(266)	(890)
Relief for overseas tax	(194)	(376)
Adjustments in respect of current income tax of prior periods	(284)	(1,302)
Adjustments in respect of deferred tax of prior periods	(15)	(61)
At the effective income tax rate of 19.7% (2016 - 18.7%)	21,010	23,439

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

17. Income tax (continued)

Deferred tax is calculated in full on temporary timing differences under the liability method at the rates in force when the difference is likely to reverse. The average tax rate for 2017 is 17.9% (2016 - 17.8%).

	Consolidated Statement of Financial Position		Consolidated Statement of Profit or Loss and Other Comprehensive Income	
	2017 £000	2016 £000	2017 £000	2016 £000
Accelerated capital allowances	16,851	20,096	(3,229)	(3,268)
Other temporary differences	2,701	1,437	1,248	418
Deferred tax expense			(1,981)	(2,850)
Net deferred tax liability	19,552	21,533		

Reflected in the Statement of Financial Position as follows:

	2017 £000	2016 £000
Deferred tax assets	(204)	(1,630)
Deferred tax liabilities	19,756	23,163
Net deferred tax liability	19,552	21,533

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

	2017 £000	2016 £000
At 1 January	21,533	24,383
Charged to the Statement of Profit or Loss and Other Comprehensive Income	(1,981)	(2,850)
At 31 December	19,552	21,533

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

18. Property, plant and equipment

Cost:	Land and buildings £000	Leasehold property £000	Assets under construction £000	Plant and equipment £000	Motor vehicles £000	Total £000
At 1 January 2017	414,560	33,834	19,898	89,385	750,798	1,308,475
Additions	17,489	21,008	9,395	14,841	515,305	578,038
Disposals	(1,159)	(81)	(80)	(4,893)	(500,544)	(506,757)
Transfers	8,392	10,844	(19,196)	(40)	-	-
Acquisitions	22	-	-	32	-	54
Assets classified as held for sale	(158)	-	-	(16)	-	(174)
At 31 December 2017	439,146	65,605	10,017	99,309	765,559	1,379,636
Depreciation:						
At 1 January 2017	65,547	5,262	-	59,432	208,038	338,279
Provided during the year	9,305	1,450	-	9,918	137,284	157,957
Disposals	(495)	-	-	(4,431)	(132,893)	(137,819)
Transfers	(23)	23	-	-	-	-
Assets classified as held for sale	(2)	-	-	-	-	(2)
At 31 December 2017	74,332	6,735	-	64,919	212,429	358,415
Net book value:						
At 31 December 2017	364,814	58,870	10,017	34,390	553,130	1,021,221
At 31 December 2016	349,013	28,572	19,898	29,953	542;760	970,196

Freehold land and building includes £1,049,000 transferred from investment properties.

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £694,215,000 (2016 - £688,457,000) and related accumulated depreciation of £197,012,000 (2016 - £195,470,000 , which are held for use in operating leases. Additions during the year include £459,962,000 (2016 - £458,475,000) of motor vehicles purchased by way of hire purchase agreements. These cashflows have been presented gross in the cashflow, which accurately reflects the timing and structure of the related funding arrangements. These vehicles are provided as security in respect of the sums outstanding on the associated hire purchase agreements.

19. Investment properties

	2017 £000	2016 £000
At 1 January	55,534	49,006
Additions	12,211	6,528
Transfers to property, plant and equipment	(1,049)	-
At 31 December	66,696	55,534

The Group's investment properties are carried at amortised cost in accordance with IAS 40. The Directors are of the opinion that the residual value of the properties is such that annual depreciation is immaterial.

20. Intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2017	9,536	1,221	10,757
Acquisition of unincorporated businesses	96	8	104
Disposals	-	(8)	(8)
Impairment recognised	(206)	-	(206)
At 31 December 2017	9,426	1,221	10,647
Amortisation:			
At 1 January 2017	-	472	472
Provided during the year	-	244	244
At 31 December 2017	-	716	716
Net book value:			
At 31 December 2017	9,426	505	9,931
At 31 December 2016	9,536	749	10,285

The goodwill of £9,426,000 (2016 - £9,536,000) arose on the acquisition of a number of dealerships; details of the movements in the year are included in note 7. As a result of sustained losses within Towquest Limited, the Directors have fully provided for the goodwill arising on the purchase of the entire share capital.

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

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

The Group estimates discounted rates based on pre-tax rates that reflect the Group's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Group. The WACC used in the calculation is 8.6% (2016 - 8.5%).

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 2.0% (2016 - 2.0%).

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

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

21. Inventories

	2017 £000	2016 £000
Motor vehicles	446,810	383,575
Parts and accessories	19,349	17,073
Work in progress and other stocks	5,157	5,447
Consignment stocks	89,638	67,938
	560,954	474,033

Included in motor vehicles is £64,743,000 (2016 - £45,701,000) that is pledged as security for the other loan (see note 28).

At 31 December 2017, the Group held vehicles on sale or return with a wholesale value of £152,081,000 (2016 - £144,685,000) excluding Value Added Tax. Included in stocks is £89,638,000 (2016 - £67,938,000) 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 £62,443,000 (2016 - £76,747,000) are assets of the manufacturers. In relation to these stocks, the Group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

22. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	74,019	71,740
Other receivables	12,890	11,694
Prepayments and accrued income	34,538	29,610
Assets classified as held for sale	172	-
	121,619	113,044

Assets classified as held for sale consists of a freehold property in East Kilbride, Glasgow, which is actively being marketed for sale, with proceeds expected to be realised in 2018.

At 31 December 2017, trade receivables with an initial carrying value of £1,589,000 (2016 - £1,239,000) were impaired and fully provided for. The movements in the provision were as follows:

	2017 £000	2016 £000
At 1 January	1,239	987
Charge for the year	3,469	2,653
Utilised	(1,262)	(719)
Unused amounts reversed	(1,857)	(1,682)
At 31 December	1,589	1,239

22. Trade and other receivables (continued)

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

	Neither past due nor impaired	Past due but not impaired			
		<30 days	30-60 days	60+ days	Total
	£000	£000	£000	£000	£000
2017	60,657	8,667	1,525	3,170	74,019
2016	59,170	7,570	1,632	3,368	71,740

23. Financial assets

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

	2017 £000	2016 £000
Fair value through profit and loss		
Certificates of deposit	101,145	106,992
Listed equities	2,814	2,623
	103,959	109,615

Movements in financial assets during the year were as follows:

	2017 £000	2016 £000
At 1 January	109,615	89,799
Net (disposals)/additions	(6,075)	19,268
Net fair value gains recognised in the profit and loss account	419	548
At 31 December	103,959	109,615

24. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	124,590	111,693
Certificates of deposit	7,252	15,760
	131,842	127,453

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 in accordance with IAS7.

25. Issued share capital

The share capital at 31 December 2017 and 31 December 2016 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2017 No.	2016 No.	2017 £000	2016 £000
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

No shares were authorised or issued in either period.

26. Dividends

	2017 £000	2016 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £3.50 per share (2016 - £2.50 per share)	3,497	2,498

The 2018 interim dividend of £5,370,000 was declared on 19 March 2018 (£5.37 per share).

27. Provisions

	Commission clawback	
	2017 £000	2016 £000
At 1 January	6,739	6,612
Amounts utilised in the period	(5,112)	(4,239)
Amounts charged to the profit and loss account	6,494	4,314
Unwinding of discount	63	52
At 31 December	8,184	6,739
Amounts included in current liabilities	3,661	2,993
Amounts included in non-current liabilities	4,523	3,746
	8,184	6,739

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

The provision has been discounted at the risk-free discount rate of 1% (2016 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £410,000 and a 1% increase in the risk-free discount rate would reduce the provision by £109,000.

28. Financial liabilities

Interest-bearing loans and borrowings

	2017 £000	2016 £000
Current interest-bearing loans and borrowings:		
Other loans	51,315	37,933
Obligations under hire purchase agreements	245,603	245,306
	296,918	283,239
Non-current interest-bearing loans and borrowings:		
Obligations under hire purchase agreements	176,845	178,668
Total interest-bearing loans and borrowings	473,763	461,907

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

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

	Minimum payments		Present value of payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts payable				
Within one year	251,754	251,243	245,603	245,306
In two to five years	179,978	181,432	176,845	178,668
	431,732	432,675	422,448	423,974
Less: future finance charges	(9,284)	(8,701)		
Present value of hire purchase obligations	422,448	423,974		
Current interest-bearing borrowings			245,603	245,306
Non-current interest-bearing borrowings			176,845	178,668
			422,448	423,974

29. Trade and other payables

	2017 £000	2016 £000
Trade payables	224,969	185,528
Other taxes and social security costs	21,949	19,253
Other creditors	57,433	56,902
Insurance liabilities	8,367	6,276
Accruals and deferred income	153,070	150,989
Consignment stock creditor	89,638	67,938
	555,426	486,886
Amounts included in current liabilities	550,603	480,603
Amounts included in non-current liabilities	4,823	6,283
	555,426	486,886

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

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

	2017 £000	2016 £000
VRI: claims outstanding	253	219
VRI: claims outstanding - incurred but not reported	1,479	658
	1,732	877
Self-insured: claims outstanding	6,635	5,399
Total insurance liabilities	8,367	6,276

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

	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
Estimate of ultimate claims cost:					
at end of accounting period	151	150	402	544	
one year later	528	572	1,277	-	
two years later	1,069	1,158	-	-	
three years later	1,143	-	-	-	
Current estimate of cumulative claims	1,143	1,158	1,277	544	4,122
Cumulative payments to date	(1,136)	(703)	(519)	(107)	(2,465)
Liability recognised in the Statement *of Financial Position*	7	455	758	437	1,657
Other technical provisions					75
					1,732

30. Commitments and contingencies

Operating lease commitments - Group as a lessee

The Group has entered into operating leases in respect of land and buildings, with lease terms from 1 to 125 years. Under some of the leases the Group and/or the landlord has the option to break the lease at specified points in time; in these cases the future minimum payments are calculated up until the specified point in time.

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

	2017 £000	2016 £000
Within one year	3,517	3,560
After one year but not more than five years	9,920	10,349
More than five years	77,852	63,197
	91,289	77,106

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

	2017 £000	2016 £000
Within one year	396	258
After one year but not more than five years	1,446	1,646
More than five years	58	254
	1,900	2,158

Operating lease commitments - Group as a lessor

The Group has entered into operating leases as lessor in respect of contract hire vehicles and in respect of investment properties. The contract hire vehicles are leased for periods of between 12 and 48 months and the investment properties are on lease terms of up to 56 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	
	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	95,626	98,252	4,384	3,618
After one year but not more than five years	90,181	88,503	15,549	12,811
More than five years	-	-	15,910	17,716
	185,807	186,755	35,843	34,145

Capital commitments

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

	2017 £000	2016 £000
Contracted but not provided for	3,979	4,384

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

	2017 £000	2016 £000
Profit for the year	85,595	101,911
Adjustment for taxation	21,010	23,439
Adjustment for net financing costs	11,277	10,467
	117,882	135,817
Depreciation	157,957	151,110
Amortisation of intangibles	244	263
Disposal of intangibles	8	80
Impairment of goodwill	206	377
Profit on disposal of property, plant and equipment	(2,454)	(4,022)
(Increase)/decrease in receivables	(8,575)	6,944
Increase in inventories	(65,043)	(56,384)
Increase in trade and other payables	46,614	22,783
Increase in provisions	1,445	127
Unwinding of discount on provisions	(63)	(52)
Additions to motor vehicles	(515,305)	(507,985)
Proceeds from disposal of motor vehicles	369,914	373,138
Taxation paid	(28,887)	(26,911)
Interest received	501	936
Interest paid	(12,171)	(12,384)
Net cash flow from operating activities	62,273	83,837

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 2017

Arnold Clark Automobiles Limited

	Notes	2017 £000	2016 £000
Assets			
Non-current assets			
Property, plant and equipment	A5	465,749	422,825
Investment properties	A6	66,696	55,534
Intangible assets	A7	7,628	7,663
Investments	A8	65,482	65,482
		605,555	551,504
Current assets			
Inventories	A9	493,297	411,115
Trade and other receivables	A10	108,360	113,071
Financial assets	A11	53,593	50,090
Cash and cash equivalents	A12	124,021	89,037
		779,271	663,313
Total assets		1,384,826	1,214,817
Equity and liabilities			
Issued share capital	A13	999	999
Capital redemption reserve		1	1
Profit and loss account		786,102	696,638
Total equity		787,102	697,638
Non-current liabilities			
Provisions	A15	4,523	3,746
Trade and other payables	A18	-	952
Deferred tax liabilities	A16	10,916	11,414
		15,439	16,112
Current liabilities			
Interest-bearing loans and borrowings	A17	51,315	37,922
Trade and other payables	A18	513,371	444,209
Income tax payable		13,938	15,943
Provisions	A15	3,661	2,993
		582,285	501,067
Total liabilities		597,724	517,179
Total equity and liabilities		1,384,826	1,214,817

Approved by the Board on 28 March 2018

E Hawthorne
Chief Executive and Group
Managing Director

K J McLean
Finance Director

Company Statement of Changes in Equity

for the year ended 31 December 2017

Arnold Clark Automobiles Limited

	Share Capital	Other capital reserves	Profit and loss account	Total
	£000	£000	£000	£000
As at 1 January 2016	999	1	616,870	617,870
Total comprehensive income	-	-	82,266	82,266
Dividends to shareholders	-	-	(2,498)	(2,498)
As at 31 December 2016	999	1	696,638	697,638
As at 1 January 2017	999	1	696,638	697,638
Total comprehensive income	-	-	92,961	92,961
Dividends to shareholders	-	-	(3,497)	(3,497)
As at 31 December 2017	999	1	786,102	787,102

Notes to the Company Financial Statements

for the year ended 31 December 2017

Arnold Clark Automobiles Limited

A1. Statement of compliance with FRS 101

The results of Arnold Clark Automobiles Limited ("the Company") are included in the consolidated financial statements on pages 13 to 45.

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 2017. The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

A2. Accounting policies

A2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

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

f. the requirements of IAS 7 Statement of Cash Flows

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

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

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

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

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

A2.2 Summary of significant accounting policies

Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the Company will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

Property, plant and equipment

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

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

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

Investment properties

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

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

A2.2 Summary of significant accounting policies (continued)

Leases

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Financial assets

Initial recognition and measurement

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

Subsequent measurement

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

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

A2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income. Interest income (recorded as finance income in the Statement of Profit or Loss and Other Comprehensive Income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

Financial liabilities

Initial recognition and measurement

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

Inventories

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

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

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

Cash and short-term deposits

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

Provisions for liabilities

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

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

Arnold Clark Automobiles Limited

A2.2 Summary of significant accounting policies (continued)

Taxes

Current income tax

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

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

Deferred tax

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

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

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

A3. Significant accounting judgements, estimates and assumptions

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

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

Provisions

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

The timing and quantum of the amounts due to the finance companies is inherently uncertain and the amounts provided are based on prior years' experience and on expectations for the future. The calculation of the provision requires the exercise of significant judgement by management. The provision has been discounted at the risk-free discount rate of 1% (2016 - 1%). Significant unforeseen changes in the wider economy or changes to the UK Gilt rates could result in the provision being misstated.

Goodwill and other intangible assets

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

The Company estimates discount rates based on pre-tax rates that reflect the Company's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Company. The WACC used in the calculation is 8.6% (2016 - 8.5%)

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 2.0% (2016 - 2.0%).

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

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

A4. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £92,961,000 (2016 - £82,266,000).

A5. Property, plant and equipment

Cost:	Land and buildings £000	Leasehold property £000	Assets under construction £000	Plant and equipment £000	Motor vehicles £000	Total £000
At 1 January 2017	367,075	32,925	19,855	77,136	53,000	549,991
Additions	17,114	20,415	9,395	13,633	42,604	103,161
Disposals	(1,102)	(80)	(494)	(2,174)	(38,907)	(42,757)
Transfers	8,349	10,430	(18,739)	(40)	-	-
Acquisitions	22	-	-	32	-	54
At 31 December 2017	391,458	63,690	10,017	88,587	56,697	610,449
Depreciation:						
At 1 January 2017	60,300	4,795	-	50,679	11,392	127,166
Provided during the year	8,480	1,444	-	8,776	11,456	30,156
Disposals	(496)	-	-	(1,800)	(10,326)	(12,622)
Transfers	(23)	23	-	-	-	-
At 31 December 2017	68,261	6,262	-	57,655	12,522	144,700
Net book value:						
At 31 December 2017	323,197	57,428	10,017	30,932	44,175	465,749
At 31 December 2016	306,775	28,130	19,855	26,457	41,608	422,825

Freehold land and building additions includes £1,049,000 transferred from investment properties.

A6. Investment properties

	£000
At 1 January 2017	55,534
Additions	12,211
Transfers	(1,049)
At 31 December 2017	66,696

The Company's investment properties are carried at amortised cost in accordance with IAS 40. The Directors are of the opinion that the residual value of the properties is such that annual depreciation is immaterial.

A7. Intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2017	7,252	657	7,909
Acquisition of unincorporated businesses	96	8	104
Disposals	-	(8)	(8)
At 31 December 2017	7,348	657	8,005
Amortisation:			
At 1 January 2017	-	246	246
Provided in the year	-	131	131
At 31 December 2017	-	377	377
Net book value:			
At 31 December 2017	7,348	280	7,628
At 31 December 2016	7,252	411	7,663

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

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

The Company estimates discount rates based on pre-tax rates that reflect the Company's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Company. The WACC used in the calculation is 8.6% (2016 - 8.5%).

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 2.0% (2016 - 2.0%).

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

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

Arnold Clark Automobiles Limited

A8. Investments

	Investment in subsidiaries £000	Other investments £000	Total £000
Cost of investments as at 31 December 2017 and 31 December 2016	65,472	10	65,482

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

A9. Inventories

	2017 £000	2016 £000
Motor vehicles	394,955	328,603
Parts and accessories	18,265	16,207
Work in progress and other stocks	5,058	5,351
Consignment stocks	75,019	60,954
	493,297	411,115

Included in motor vehicles is £64,743,000 (2016 - £45,701,000) that is pledged as security for the other loan (see note A17).

At 31 December 2017, the Company held vehicles on sale or return with a wholesale value of £137,462,000 (2016 - £137,702,000) excluding Value Added Tax. Included in stocks is £75,019,000 (2016 - £60,954,000) 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 £62,443,000 (2016 - £76,748,000) are assets of the manufacturers. In relation to these stocks, the Group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

A10. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	56,014	55,449
Other receivables	11,660	11,050
Prepayments and accrued income	29,118	25,830
Amounts due from group undertakings	11,568	20,742
	108,360	113,071

A11. Financial assets

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

	2017 £000	2016 £000
Fair value through profit and loss		
Certificates of deposit	50,779	47,467
Listed equities	2,814	2,623
	53,593	50,090

Movements in financial assets during the year were as follows:

	£000
At 1 January 2017	50,090
Net additions	3,144
Net fair value gains recognised in the profit and loss account	359
At 31 December 2017	53,593

A12. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	116,769	73,277
Certificates of deposit	7,252	15,760
	124,021	89,037

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 counter-parties and certificates of deposit issued by approved counter-parties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents in accordance with IAS7.

A13. Issued share capital

The share capital at 31 December 2017 and 31 December 2016 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2017 No.	2016 No.	2017 £000	2016 £000
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

No shares were authorised or issued in either period.

A14. Dividends

	2017 £000	2016 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £3.50 per share (2016 - £2.50 per share)	3,497	2,498

The 2018 interim dividend of £5,370,000 was declared on 19 March 2018 (£5.37 per share).

A15. Provisions

	Commission clawback	
	2017 £000	2016 £000
At 1 January	6,739	6,612
Amounts utilised in the period	(5,112)	(4,239)
Amounts charged to the profit and loss account	6,494	4,314
Unwinding of discount	63	52
At 31 December	8,184	6,739
Amounts included in current liabilities	3,661	2,993
Amounts included in non-current liabilities	4,523	3,746
	8,184	6,739

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

The provision has been discounted at the risk-free discount rate of 1% (2016 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £410,000 and a 1% increase in the risk-free discount rate would reduce the provision by £109,000.

A16. Deferred tax liability

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 17.1% (2016 - 17.7%).

	2017 £000	2016 £000
Accelerated capital allowances	8,038	8,426
Other timing differences	2,878	2,988
Deferred tax liability	10,916	11,414

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

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

A17. Financial liabilities

Current interest-bearing loans and borrowings:

	2017 £000	2016 £000
Other loans	51,315	37,922

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

A18. Trade and other payables

	2017 £000	2016 £000
Trade payables	187,576	147,584
Other taxes and social security costs	18,962	18,375
Other creditors	41,556	40,051
Insurance liabilities	6,635	-
Accruals and deferred income	123,244	96,271
Consignment stock creditor	75,019	60,954
Amounts due to group undertakings	60,379	81,926
	513,371	445,161
Amounts included in current liabilities	513,371	444,209
Amounts included in non-current liabilities	-	952
	513,371	445,161

A19. Operating lease commitments

Company as a lessee

The Company has entered into operating leases in respect of land and buildings, with lease terms from 1 to 125 years. Under some of the leases the Company and/or the landlord has the option to break the lease at specified points in time, in these cases the future minimum payments are calculated up until the specified point in time.

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

	2017 £000	2016 £000
Within one year	3,050	3,122
After one year but not more than five years	8,664	8,820
More than five years	77,530	62,856
	89,244	74,798

A19. Operating lease commitments (continued)

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

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

	2017 £000	2016 £000
Within one year	396	258
After one year but not more than five years	1,446	1,646
More than five years	58	254
	1,900	2,158

Company as a lessor

The Company has entered into operating leases as lessor in respect of investment properties on lease terms of up to 56 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:

	2017 £000	2016 £000
Within one year	4,384	3,618
After one year but not more than five years	15,549	12,811
More than five years	15,910	17,716
	35,843	34,145

A20. Capital commitments

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

	2017 £000	2016 £000
Contracted but not provided for	3,979	4,245

A21. Other financial commitments

The Company has undertaken to repurchase certain motor vehicles throughout 2017. 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 2017, the Value Added Tax payable by other members of the group registration amounted to £2,519,000 (2016 - £439,000).

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 2017, the other companies included in the guarantee had net funds of £2,548,000 (2016 - £37,102,000) due from The Royal Bank of Scotland plc.

A23. Directors emoluments

The Directors' emoluments were as follows:

	2017 £000	2016 £000
Emoluments	6,963	9,513
Emoluments of the highest paid Director	3,553	3,514