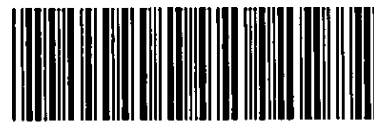


Registered in England and Wales no 00229121

**RAC GROUP LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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# RAC Group Limited

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# **RAC Group Limited**

## **Company information**

### **Directors:**

D Coughill  
R Templeman  
C Woodhouse  
M Wood

### **Company Secretary:**

S Morrison

### **Registered office:**

RAC House  
Brockhurst Crescent  
Walsall  
West Midlands  
United Kingdom  
WS5 4AW

### **Auditor:**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Four Brindleyplace  
Birmingham  
United Kingdom  
B1 2HZ

### **Company number:**

Registered in England and Wales No 00229121

### **Other information:**

"The RAC Group Limited Group", comprises RAC Group Limited and its subsidiaries (RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, Net Cars Limited and Risk Telematics UK Limited) Risk Telematics UK Limited was acquired in 2014

The 'RAC Group' ('the Group' or 'RAC') comprises RAC Group (Holdings) Limited and its subsidiaries

These Consolidated Financial Statements are presented for the year ended 31 December 2015  
Comparatives are presented for the year ended 31 December 2014

The RAC Group includes companies that are regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") RAC Insurance Limited is authorised and regulated by both bodies RAC Motoring Services and RAC Financial Services Limited are authorised by the FCA in respect of insurance and mediation activities

# **RAC Group Limited**

## **Strategic report**

**For the year ended 31 December 2015**

The Directors present their Strategic Report for the year ended 31 December 2015

The Directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006. This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to RAC Group Limited and its subsidiary undertakings when viewed as a whole.

### **Principal activities**

The RAC Group is primarily UK based and offers an increasingly diverse range of breakdown and other motoring services directly to Individual Members, as well as indirectly through a number of Corporate Partner relationships. The Group also has operations in Ireland.

### **Strategic Management**

#### **Strategy and objectives**

The Group's vision is to be the leading motoring services brand in the UK, building on a reputation underpinned by an iconic, trusted brand and leading motoring-related product offering. The Board believes that the Group is well positioned to continue to develop its business through four key strategic objectives:

- maintain and grow the Individual Member base,
- strengthen relationships with existing Corporate Partners and win contracts with new Corporate Partners,
- increase cross-selling to address a wider range of Members' motoring and related needs through an integrated multi-product, multi-channel approach, and
- leverage recent investments in its brand and data capabilities to drive growth in revenue and improvements in profitability.

#### **Retain and grow the Individual Member base**

The Group's Individual Members form a core and crucial part of its business. RAC is focused on retaining its existing resilient base of Individual Members, as well as gaining new Individual Members, by (i) continuing to deliver a market-leading roadside assistance service and (ii) engaging in effective contact with existing and potential Individual Members at various stages of the membership cycle.

The Board believes that its Members' experiences at the roadside are a key factor distinguishing RAC from its competitors. In particular, RAC has found that a high roadside repair rate is correlated with high levels of customer satisfaction, as measured by the Group's Net Promoter Score. RAC seeks to maintain its high roadside repair rate by ensuring that Patrols are equipped with the latest technology, tools and vehicle parts to support the expertise of its Patrol Specialists and to enable them to carry out effective repairs at the roadside. This enhances customer satisfaction, which ultimately drives renewal rates and creates a solid foundation for maintaining and growing the Individual Member base.

# **RAC Group Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2015**

### **Strategic Management (continued)**

#### **Retain and grow the Individual Member base (continued)**

In order to pursue the acquisition of new Individual Members, the Group has access to a large number of consumers through various sales channels, including online, mobile applications, digital magazine, third-party search engines and aggregator websites. RAC also conducts seasonal sales campaigns, recruits and trains sales and marketing staff and develops relationships with Affinity Partners (organisations with membership models and complementary customer bases). RAC is also able to offer direct, targeted marketing through its customer database, utilising, for example, renewal data, to trigger timely and relevant marketing campaigns.

Following acquisition of Individual Members, and throughout the membership lifecycle, RAC engages with Individual Members through various forms of communication to nurture loyalty to the RAC brand and help maintain high renewal rates.

#### **Strengthen relationships with existing Corporate Partners and win contracts with new Corporate Partners**

The Group continues to pursue medium-term contracts for roadside assistance services with current and future Corporate Partners, including banks, insurance companies, motor manufacturers and fleet and leasing companies. While new Corporate Partner contracts are typically obtained through competitive tender processes, the Board believes that service quality and product innovation are key differentiating factors alongside price in such tenders. The Group seeks to win and renew contracts with Corporate Partners by combining its technical excellence in roadside assistance with complementary products and services that add value to its Corporate Partners.

As part of this strategy, RAC is continuing to enhance the suite of solutions it offers to existing and new Corporate Partners.

#### **Increase cross-selling to address a wider range of Members' motoring and related needs through an integrated multi-product, multi-channel approach**

One of the Group's key priorities is to promote its various motoring solutions to its large customer base by transforming its business from a product-centric to a customer-centric one. The Group's sales, marketing and customer relationship strategy is now multi-product and multi-channel, providing a significant opportunity to address a wider range of Members' motoring and related needs and increase the number of products per Member among both existing and new Members. The Group's significant data capability provides it with operational insight that it leverages to personalise its acquisition, retention and cross-selling efforts. The sale of additional products and services to new and existing Members drive increased revenue per Member and profitability of the business.

# **RAC Group Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2015**

### **Strategic Management (continued)**

#### **Leverage recent investments in its brand and data capabilities to drive growth and improvements in revenue and profitability**

RAC has invested significantly in its brand and data capabilities over the past two to three years and intends to leverage this investment to grow revenue and to grow profitability across its business to existing Members as well as create new opportunities with non-Members. RAC seeks to leverage this capability to

- attract new Individual Members by targeting certain demographic groups and utilising data from Affinity Partners,
- cross-sell to existing Members by direct marketing through a personalised approach and a "next best action" tool, which identifies the most appropriate product for sales agents to cross-sell at the point of sale during a customer call,
- support Corporate Partners' businesses by providing relevant vehicle and driver demographics data, and
- leverage the RAC brand and develop new opportunities with Members and non-Members for motoring-related services not currently provided by RAC

#### **The business model**

RAC is the second-largest roadside assistance provider in the UK, representing approximately a quarter of the UK roadside assistance market by value and by number of members and responding to approximately 2.2 million breakdowns in 2015 (2014: 2.3 million). With 119 years of operating history, RAC has established itself as one of the most widely-recognised brands in the UK and one of the most trusted in automotive services in the UK, with a stable core membership base, and has successfully leveraged its brand to provide insurance broking, motoring and other products and services.

The Group offers an increasingly diverse range of breakdown and other motoring services directly to Individual Members, as well as indirectly through a number of Corporate Partner relationships.

As of 31 December 2015, RAC had approximately 8.6 million Members (2014: 8.2 million) – the equivalent to over one out of every four (2014: one out of four) motorists in the UK – comprising approximately 2.2 million (2014: 2.2 million) Individual Members (being individuals subscribed for roadside assistance service with RAC directly) and approximately 6.4 million (2014: 6.0 million) Partner Members (being users or vehicles that benefitted from roadside assistance cover through arrangements between RAC and its Corporate Partners).

As "The Motorist's Champion" the Group aims to deliver products and services that enhance and support the driving experience for members and other UK motorists both at home or abroad, covering a wide variety of automotive needs from within the wider Automotive Service Market.

# RAC Group Limited

## Strategic report (continued)

For the year ended 31 December 2015

### Key Performance Indicators ("KPIs") - financial and non-financial

The KPIs set out in the table below are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve RAC's business plans, strategic aims and objectives

	2015	2014	2013
Revenue (£m)	501	498	485
EBITDA before exceptional items* (£m)	179	169	156
Roadside repair rate (%)	81	81	79
Roadside retention rate (%)	81	83	83
Net Promoter Score **	93	92	89

\* Earnings before Interest, Other gains and losses Tax Amortisation Depreciation and Exceptional items as set out on page 25

\*\* Industry-wide customer satisfaction measure

The Group also uses a range of other financial and non-financial performance indicators to monitor performance

### Market environment and outlook

As 'The "Motorist's Champion" RAC continues to campaign on behalf of its Members to ensure that the Government is aware of their priorities and concerns and that these are reflected in Transport and Roads Policy. In September, RAC published its 27<sup>th</sup> Annual Report on Motoring. This was based on research conducted in early June and therefore represented a first snapshot of how motorists were feeling after the General Election and was a timely reminder of "what's on motorists' minds" for the new Government.

During 2015 we have seen an unprecedented fall in world oil prices as a result of supply significantly exceeding demand and this has been reflected in a fall in pump prices for both petrol and diesel. In December 2015, supermarkets dropped their price for unleaded petrol to below £1 per litre and generally, retail prices were around 12% cheaper by the end of the year than 12 months earlier. Despite this, fuel prices remain a top concern for motorists, particularly those who are less affluent, live in rural areas and have no public transport alternatives to the car. RAC monitors wholesale fuel prices daily and publishes a monthly 'Fuel Watch' bulletin. This has proved popular with the media and has encouraged retailers to pass on reductions in wholesale prices to the motorists in the form of lower pump prices. At the same time RAC continues to remind the Government of the negative impact that fuel duty increases have on economic growth.

New vehicle registrations in 2015 have risen to their highest numbers for over 10 years, with 2.6 million new vehicle registrations in 2015, and motor vehicle traffic increased by 2.2% to a new high of 317.8 billion vehicle miles in 2015 compared to 2014, some 0.6% above the pre-recession peak. The Government has reaffirmed its commitment to the Roads Investment Strategy which will result in over £15 billion of investment in developing and maintaining the Strategic Network. The Office of Rail and Road (ORR) has become the regulator. Highways England and Transport Focus (formerly Passenger Focus) has been tasked with assessing road user satisfaction and priorities for improvement. RAC has developed close working relationships with both of these bodies and ensures that the views of motorists are adequately reflected in ORR and Transport Focus outputs.

# **RAC Group Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2015**

### **Market environment and outlook (continued)**

The condition of local roads is now the number one concern for motorists with the backlog of maintenance in England alone now exceeding £8 billion. RAC has been lobbying to encourage the Government to treat local roads as an essential component of the Transport infrastructure and to implement an investment strategy, with ring-fenced funding, that mirrors the funding in place for the Strategic Road Network.

RAC continues to campaign on road safety. Motorists are particularly concerned about the dangerous and often illegal behaviour of a minority of motorists that put the safety of the majority at risk. Motorists rank the use of hand-held phones whilst driving as their top road safety concern and the Government has responded to this by proposing stiffer penalties in an announcement in December. However, RAC has pointed out that with this and other offences that concern members, there is a need for effective enforcement and RAC has highlighted the year-on-year decline in the numbers of dedicated roads policing officers and the effect that this is having on such matters as the number of prosecutions and the number of fixed penalty tickets issued for breaches of traffic law.

Road Traffic accident casualty statistics showed a small increase in 2014 for the first time in many years with fatalities up 4% compared to 2013. The disproportionate number of young drivers killed or injured in road traffic accidents continues to be a concern and RAC sees telematics as contributing to the solution alongside other measures. In October, the Road Awareness Charity announced a partnership with the Scouts Association to promote road safety among their 500,000 young people. The road safety mascot Horace, created with Aardman Animations, will be visiting many Scout and Cub packs across the UK during 2016 and RAC is sponsoring the Cub's Road Safety Badge.

The Government has published plans to improve air quality to tackle Nitrogen Dioxide emissions in our city centres in order to meet EU air quality standards and to respond to the Supreme Court ruling on the subject. This has come at a time when public confidence in the environmental claims of motor manufacturers has fallen as a result of a realisation that the real world nitrogen dioxide emissions from diesel vehicles are higher than predicated by the standard emissions compliance tests. RAC has been arguing for an evidence-based approach and does not want to see owners of small modern fuel-efficient diesel vehicles penalised unfairly. Whilst Government proposals for establishment of clean air zones follow a "common sense" approach, RAC is lobbying to try to ensure that local authorities can only adopt measures that comply with the proposed clean air zone framework.

### **Review of the business**

#### **Business overview**

2015 was another outstanding year for the business, building on the achievements of the past four years under ownership of The Carlyle Group ("Carlyle") and following the strategic investment by GIC, the Singaporean Sovereign Wealth Fund, which completed in December 2014.

GIC's investment and Carlyle's continued support during the year has positioned the Group well for further growth in the future and the opportunity to deliver further value to RAC's customers through offering a broader product set whilst maintaining the high levels of customer service.

# **RAC Group Limited**

## **Strategic report (continued)**

### **For the year ended 31 December 2015**

#### **Review of the business (continued)**

##### **Business overview (continued)**

This success has attracted further investment in the business with CVC Capital Partners ("CVC"), a leading Private Equity firm, agreeing a deal with Carlyle in December 2015, to acquire its stake in RAC with completion expected to take place in March 2016. Upon completion of the transaction CVC will become joint strategic investors in the Group alongside GIC. CVC has considerable experience and interests in the world of motoring and particularly with their majority shareholding in Formula 1.

##### **Investment in further customer service improvements**

Our Members and Corporate Partner customers remain central to our investment strategy, nowhere more so than in our core roadside business. 2015 continued to see investment in service and technical developments that improve the support to our Members and enhance the breakdown experience. This investment keeps RAC in the driving seat when it comes to the highest levels of technical services provided to our Members in the breakdown industry.

The Group implemented a range of enhanced services in 2015 which will enable us to continue to respond to our Members' needs.

- **Tyre service** – Building on the investment made in 2014, RAC has continued to invest in further support for Members who have a puncture or suffer tyre damage at the roadside. We have added to our comprehensive RAC Universal Wheel capability rolled out in early 2014 by introducing to our range a four stud variant for smaller cars. In October 2014, new European legislation relating to the mandatory fitment of tyre pressure monitoring on all new cars came into effect and as a result RAC have provided new tyre pressure valve and sensor repair kits to our Tyre Patrols to help us fix issues relating to these new technologies. At the end of 2015 we placed orders to increase our Tyre Patrol Fleet increasing our service capability by 80% to be introduced in 2016.
- **Battery services** – We have totally refreshed our supply arrangements in 2015, ensuring we have the best partners and supply chain to meet the increasing challenges of modern motor vehicles and the types of batteries required to support them. This strategy has been implemented successfully and as a result we are achieving our highest levels of service to those of our Members who experience a battery fault. To increase our capability further, we have invested in the latest battery testing technology. Working with the industry leaders Midtronics, we have developed a product which specifically integrates with our Patrol Vehicle Systems. The testing equipment is designed to give the maximum confidence and assurance to Members by providing comprehensive reporting on the condition of their battery and the supporting charging systems. We believe this level of visibility will ensure that our Members not only get the best service but also the best information possible.
- **Connected Car** – In 2015 we have built a capability to integrate the RAC telematics service, into our breakdown and accident management services. This means in our model office we can see faults on vehicles that may require either a Patrol attendance, or a notification to the Member that a visit to their local garage may be required, which we can book for them. Should that customer be in an accident the crash detection system will alert our RAC Connected team and we can then help manage the incident. The service was in pilot in 2015, and with further investment in 2016 we will see it roll out to both individual Members and Corporate Partners.

# **RAC Group Limited**

## **Strategic report (continued)**

### **For the year ended 31 December 2015**

#### **Review of the business (continued)**

##### **Investment in further customer service improvements (continued)**

- **Electronic customer information** - In 2015 we developed a method whereby we can email our members a summary report of their breakdown experience live from the breakdown scene, which includes details about the fault and the repair we have carried out. It also contains the relevant fault codes and battery test results, allowing our Members to access this important information within moments of a breakdown being concluded. Our Corporate Partners can also enjoy the benefit of seeing the breakdown data within a short time of their driver's breakdown incident which is helping RAC add more value to our clients.
- **Electric vehicles** - We continue to pilot services for the all-electric vehicle operating on the road and building on from the pilot we launched in 2014, we are evaluating the latest mobile charging applications to help us develop this further in 2016.
- **Supply chain** - In 2015 we completed the strategic review we started in 2014 and implemented the majority of the focus areas identified including the supply chain for parts and batteries. We have also worked on the arrangements for RAC uniform, RAC car hire and tyre suppliers, all of which will be implemented in 2016.
- **RAC Patrols - Improving driver performance** - Our ongoing focus on fuel efficiency and the benefits for both the environment and our costs have been in our focus this year. We continue to successfully deploy RAC telematics units in our Patrol and Recovery Fleet. In 2015 we also started to provide cameras on the Patrol vehicles for the first time in our history. Forward, rear and 'in cab' cameras will be part of our strategy going forward across the fleet. This will help us further improve safety, and reduce accidents and the associated claims costs.
- **Towing equipment** - In 2015 we continued to invest in refreshing our existing towing capability, this is driven by a long term trend for motor vehicles becoming larger over time and wheel sizes to increase. We have refreshed a quarter of our rapid deployment trailers in the fleet this year and will continue this development in 2016.

##### **Research and development**

As noted above, the Group continues to invest in IT and technology in order to enhance Member service and also to continue to bring new products and services to its Members and Corporate customers. Developments in the year include new Telematics services, further investment in sales and service systems and roadside services as noted above. The Group will continue to invest in further enhancements in 2016.

##### **Risk management**

RAC operates an Enterprise Risk Management Framework which is the collection of processes and tools established to ensure that the risks to which the Group is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management policies, risk reports and the governance and oversight structure.

RAC has an established governance framework which has the following key elements:

- Defined terms of reference for the legal entity Boards and the associated executive management and other committees across the Group,
- A clear organisational structure with documented delegated authorities and responsibilities from the legal entity boards to executive management committees and senior management,
- A risk management framework which sets out risk management and control standards, and
- A formal Investment Agreement which sets out the Board terms of reference and delegated authorities and which sets out certain limited matters which require the consent of either Carlyle or GIC as major shareholders.

# **RAC Group Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2015**

### **Risk management (continued)**

RAC operates a 'Three Lines of Defence' compliance and risk management model. Primary responsibility for risk identification and management lies with business areas which forms the first line of defence. Business area management are responsible for ensuring risks are appropriately identified, monitored and managed and for reporting on this activity. Support for, and challenge on, the completeness and accuracy of risk assessment, risk reporting and the adequacy of mitigation plans is provided by a specialist risk function. This function forms the second line of defence and independently assesses all risks. The Group's internal audit function, reporting to the Group Audit, Risk and Compliance Committee, forms the third line of defence and independently reviews and challenges the Group's risk management controls, processes and systems.

The Group includes RAC Insurance Limited which is regulated by the PRA. The Group has undertaken a detailed programme of work in 2015 in order for RAC Insurance Limited to be in a position to comply with the requirements of Solvency II from 1 January 2016.

### **Financial risk management**

#### **Market risk**

The Group is exposed to risks from fluctuations in fuel prices which can lead to increased operating costs. This risk is managed by the Group through the use of forward purchases of fuel for a period of at least twelve months in order to hedge the variability of cash flows associated with the purchasing of fuel for use in the Group's operational fleet of patrols and recovery vehicles.

The Group has limited exposure to fluctuations in foreign exchange rates. However, the Group continues to monitor its exposure and will take steps to mitigate its exposure should the value and volume of foreign currency transactions increase in the future.

#### **Credit risk**

Credit risk is the risk of loss in value of financial assets due to counterparties failing to meet all or part of their obligations when they fall due.

RAC's management of credit risk is carried out in accordance with Group credit risk processes which include setting exposure limits and monitoring of exposures in accordance with ratings set by credit rating agencies such as Standard & Poor's.

#### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulties in meeting its obligations associated with its financial liabilities when they fall due.

RAC manages this risk through ensuring that it has sufficient liquid funds generated from its operations to meet its expected obligations as they fall due. This is achieved through accurate and detailed short term cash forecasting and management in addition to maintaining an agreed buffer of surplus cash. In order to further mitigate this risk, the Group maintains a significant committed but undrawn borrowing facility from its banking syndicate.

### **Capital structure**

The Group maintains an efficient capital structure comprising equity shareholders' funds and bank borrowings, consistent with the Group's overall risk profile and the regulatory and market requirements of the business (see the review of the statement of financial position on page 13).

# RAC Group Limited

## Strategic report (continued)

For the year ended 31 December 2015

### Key strategic and operational risks

Specific risks arising from the Group's operations are set out below alongside details of actions taken by the Group to mitigate them

Risk	Mitigation
By virtue of the fact that RAC has a highly visible and widely recognised brand, it is particularly exposed to reputational damage from mistakes or misconduct, or allegations thereof, by its Patrols and other employees, contractors or agents, or poor customer service. A decline in favourable recognition of RAC's brand could impact its ability to attract or retain Members or other customers, which could have a material adverse effect on its business, financial condition and results of operations.	All RAC Patrols and other employees are subject to rigorous vetting and training procedures to ensure they meet the high standards required. Where RAC engages contractors or agents, these third parties are vetted and approved before providing services to the Group's Members and customers. Service levels are regularly monitored to ensure the Group continues to deliver the high level of service expected. The Group has in place appropriate committees and other forums to ensure that risks to good customer outcomes are identified and mitigated, and that customer complaints are being addressed appropriately. In addition, a specific entity (RAC Brand Enterprises LLP) has been established with responsibility for ensuring the appropriate use of the brand.
The majority of RAC's revenue is attributable to its roadside assistance service which is the product offering most closely associated with RAC's brand. A material gap in RAC's ability to repair vehicles at the roadside could have an adverse impact on the quality of its roadside assistance services.	The Group's repair rate at roadside is a key measure monitored by its operations team and the Group continues to deliver market leading repair rates. The Group's Technical Department monitors vehicle technology developments to ensure that its patrols have the skills and equipment required to maintain the high roadside repair levels.
RAC's volume of Individual Members, both new and retained, is one of the most significant drivers of its business results. While the volume of new Individual Members acquired has a direct impact on RAC's results, the margins associated with the various acquisition channels vary, making the sales mix an important driver of profitability. If RAC's acquisition volumes are concentrated in a lower margin acquisition channel, its results may be adversely impacted.	RAC monitors acquisition and renewal performance closely through weekly and monthly reporting and reviews of performance. The Group uses a variety of acquisition channels and has flexibility to ensure that volumes are not inappropriately concentrated in any one channel.
Pricing for Individual Members in the roadside assistance segment is relatively transparent between RAC and its principal competitors, and RAC's competitors may seek to compete aggressively on the basis of price in order to protect or gain market share. Although there has been limited pricing pressure in recent years among RAC's primary competitors in the roadside assistance market, it may in the future face increased competition and price pressure.	The Group sets acquisition and renewal prices at appropriate levels in accordance with the cover provided. Prices are regularly monitored to ensure the Group remains competitive.

# RAC Group Limited

## Strategic report (continued)

For the year ended 31 December 2015

### Key strategic and operational risks (continued)

Risk	Mitigation
RAC's margins are impacted by its Members' usage levels, which are in turn, impacted by a variety of factors including Member volumes, vehicle age and type, fuel prices, weather and driving habits. RAC has access to a large volume of data about its Members and their driving habits, which it uses to make assumptions about likely usage levels. These assumptions inform the pricing of RAC's products and the allocation of its resources in providing its services. If these assumptions prove to be inaccurate or if Member usage levels increase in a way that RAC is not able to plan for or adjust to, its performance, business financial condition and results of operations could be adversely impacted.	The Group employs a specialist Demand Forecasting function to monitor usage levels and to make predictions of future usage. These predictions are used both in pricing and profitability decisions, but more importantly in the rostering and deployment of resources to ensure the Group's high customer service levels are maintained. Investment has been made in improving weather forecasting and analysis in order to better predict the impact of short term weather variations and to maintain service levels in the event of extreme weather.
RAC has a number of important Corporate Partners principally in its roadside assistance segment. The loss of one or more of these significant contracts with Corporate Partners, due to the financial difficulty of the Corporate Partner, a deterioration in the business relationship or otherwise, or the renewal of those contracts on less advantageous terms, could adversely affect RAC's business financial condition and results of operations.	RAC has a range of Corporate Partner customers across a number of sectors and the Group does not have a material dependency on any one Corporate Partner for the delivery of its overall results. Corporate Partner contracts tend to be for a period of three to five years and renewal times vary such that the Group is not overly exposed to renewals in any one year. RAC actively seeks to provide services to new corporate partners to supplement its existing customer base.
RAC depends on its IT and communication systems to conduct its business, including receiving calls from Members experiencing vehicle breakdowns and allocating the appropriate resources to assist those Members, as well as maintaining accurate customer service records and managing its fleet of Patrols. If RAC is unable to maintain and improve its IT and communication systems and infrastructure or effectively resolve any service disruption, reliability or quality issues, its business financial condition and results of operations could be adversely impacted.	The Group employs a specialist IT team who are responsible for maintaining and developing appropriate IT systems. The Group recognises the importance of maintaining viable capability to continue business processes with minimal impact in the event of an emergency incident and has appropriate business continuity and disaster recovery plans and processes in place. The Group will continue to monitor, maintain and develop appropriate IT systems.
RAC competes with global and national insurance companies, including direct writers of insurance coverage as well as non-insurance financial services companies such as banks, many of which offer alternative products or more competitive pricing for segments of the insurance market in which RAC operates. If RAC is unable to price its products competitively, its ability to cross-sell its insurance products, its margins and/or market share may suffer.	RAC operates insurance broker panels covering motor, home and other insurance products. The Group works with a panel of leading underwriters to ensure competitive and appropriate policies are offered to its customers. The Group has developed a new range of complementary products which are offered to customers where appropriate. RAC closely monitors these markets to ensure it is able to respond to industry changes or competitor activity.

# RAC Group Limited

## Strategic report (continued)

For the year ended 31 December 2015

### Key strategic and operational risks (continued)

Risk	Mitigation
<p>RAC regularly collects, processes stores and handles non-public data from its Members, Corporate Partners and others as part of the operation of its business, and therefore must comply with data protection laws in the United Kingdom and the European Union ("EU"). Failure to comply with data protection laws and data being wrongfully accessed, used, disclosed or processed, could potentially lead to regulatory censure, fines, civil and criminal liability, and reputational and financial costs</p>	<p>RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group has specialist Data, Legal and Compliance teams and appropriate forums to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations. The Group adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment</p>
<p>RAC is dependent on third party providers for many critical aspects of its business including the provision of certain IT systems and services, the provision of its insurance products and European breakdown cover, the lease of its Patrol vehicles and the supply of batteries and parts. If RAC is unable to maintain its existing contracts and agreements with suppliers of the various products and services which it relies upon or enters into new contracts on less commercially favourable terms, its business financial condition and results of operations could be adversely impacted</p>	<p>The Group maintains relationships with a number of suppliers in order to ensure there is no undue dependency on any one supplier. Supplier relationships are managed in the appropriate interests of both RAC and the suppliers themselves</p>
<p>The industries in which RAC operates are affected by government regulation in the form of national and local laws and regulations in relation to health and safety, the conduct of operations and taxation. RAC is subject to prudential and consumer protection measures imposed by insurance and financial services regulators. RAC's roadside assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business. RAC may also be subject to regulatory and governmental inquiries and investigations, the impact of which may be difficult to assess or quantify. Any negative publicity arising in connection with any inquiries and litigation or regulatory investigation affecting RAC's business could adversely affect its reputation</p>	<p>RAC has appropriate policies, processes and controls in place in order to minimise the risk of any legal/compliance failure or breach. Employees are made aware of the requirements and are given appropriate training. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes and minimise any impact. Whilst responsibility for compliance rests with business areas, the Group employs specialist Risk, Regulatory and Legal teams to provide support and oversight. The Group's Internal Audit function provides a third line of defence through undertaking periodic reviews with findings reported to the Group Audit, Risk and Compliance Committee</p>
<p>The Group's roadside operations necessarily require attendance by Patrols or third party contractors to inspect and repair Members' vehicles at the roadside. In view of this there is an inherent risk of serious injury or death of employees, members or third parties from road traffic collisions</p>	<p>RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by business activities and that effective health and safety management improves performance, reduces injuries, ill health costs and liabilities. Appropriate policies are maintained and the Group regards health and safety at work as of equal importance to profitability and business ethics, and it is an integral part of the roles of the Group's employees. The Group has a health and safety management system which is mandatory in all areas of the business and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. The Group's Health &amp; Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety</p>

# **RAC Group Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2015**

### **Financial review**

The RAC Group Limited Group's Financial Statements are set out on page 25 onwards

#### **Income statement**

The RAC Group Limited Group generated Revenue of £501 million in 2015 (2014 £498 million), reflecting growth across the business

EBITDA before exceptional items of £179 million was generated in 2015 (2014 £169 million), an increase of 7% compared to the prior year, which is an excellent achievement in a competitive market environment

There were exceptional items of £nil in 2015. In 2014, exceptional items included £1 million consisting of legal fees relating to the Joint Venture (see note 12(d))

Research and development expenditure of £nil million was incurred in 2015 (2014 £1 million) in respect of the development of products and enhanced technologies

The RAC Group Limited Group generated a profit before tax of £148 million for the year (2014 profit before tax of £127 million)

#### **Statement of financial position**

The RAC Group Limited Group had Goodwill and Intangible assets of £438 million at 31 December 2015 (2014 £436 million) and these principally represent goodwill and the RAC brand. The movement reflects new investment in the year of £28 million (2014 £30 million) in developing the business, offset by disposals of £nil (2014 £2 million) and an amortisation charge of £26 million (2014 £21 million). There were £nil impairment charges during the year (2014 £nil).

Property, plant and equipment of £15 million was held at 31 December 2015 (2014 £13 million) and includes the Group's Stretford property. The overall movement in the year reflects new investment of £6 million (2014 £4 million), offset by an annual depreciation charge of £4 million (2014 £4 million). There was £200 thousand change in the year (2014 £nil) for the revaluation of the Stretford property.

The RAC Group Limited Group had net current liabilities of £35 million at 31 December 2015 (2014 net current liabilities of £144 million) with the movement in the year reflecting an increase in amounts due from related parties.

The RAC Group Limited Group had total shareholder funds of £379 million at 31 December 2015 (2014 funds of £258 million).

#### **Statement of cash flows**

The net increase in cash and cash equivalents during the year was £34 million (2014 £nil).

The RAC Group Limited Group achieved operating cash generation in 2015 of £142 million (2014 £111 million). This was achieved through continued disciplined management of working capital and the advance payment by a major corporate partner in June 2015. In addition, RAC Group Limited Group paid interest of £73 million (2014 £nil) on bank borrowings on behalf of RAC Bidco Limited, a Parent Company. In the prior year, RAC Group Limited Group, paid interest of £45 million on bank borrowings on behalf of RAC Finance (Holdings) Limited, the RAC Group Limited Group Parent Company.

# RAC Group Limited

## Strategic report (continued)

For the year ended 31 December 2015

### General

The Group includes regulated companies which hold sufficient capital to meet acceptable solvency levels based on PRA and FCA regulations. There have not been any breaches in the reported years.

### Capital management

In managing its capital, RAC seeks to

- I Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
- II Maintain financial strength to support new business growth and to satisfy the requirements of its Members and regulators;
- III Retain financial flexibility by maintaining strong liquidity and
- IV Allocate capital efficiently to support growth and repatriate excess capital where appropriate

### Regulatory bases

Relevant capital and solvency regulations are used to measure and report on the financial strength of regulated entities. These measures are based on the FCA's and PRA's current regulatory requirements. Regulatory capital tests verify adequate excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten.

The Group will be fully compliant with the requirements of Solvency II from 1 January 2016. The Group does not anticipate any increase in regulatory capital under the new Solvency II rules.

By order of the Board on 29 February 2016



S Morrison  
Company Secretary

# **RAC Group Limited**

## **Directors' report**

**For the year ended 31 December 2015**

The Directors present their Annual Report on the affairs of the RAC Group Limited Group, together with the Audited Financial Statements and independent auditor's report for the year ended 31 December 2015

An indication of likely future developments in the business of the Group and details of research and development activities are included in the Strategic Report. Information about the use of financial instruments by the Group including objectives, risks, policies and exposures is given in note 24 to the 'Consolidated Financial Statements

### **Directors**

The names of the current directors of the Company appear on page 1. Those in office during the year have been as follows

D Cougill  
R Templeman  
C Woodhouse  
M Wood

None of the Directors had any interest in the shares of the Company during the year

### **Results & dividends**

The results of the RAC Group Limited Group for the year ended 31 December 2015 are set out on page 25 showing an EBITDA before exceptional items of £179 million (2014: £169 million) and discussed in the Strategic Report on pages 2 to 14. Interim dividends totalling £nil were paid by the Company during the year (2014: £30 million (24.5 pence per share)). The Directors do not recommend the payment of a final dividend (2014: £nil).

### **Capital Structure**

Carlyle and GIC each hold a 41% interest in the Group with the balance of 18% held by management and the RAC Employee Benefit Trust ("EBT").

### **Directors' indemnities**

RAC Group (Holdings) Limited, the ultimate Parent Company, has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity was first granted in 2011 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of the transitional provisions to the Companies Act 2006.

# **RAC Group Limited**

## **Directors' report (continued)**

**For the year ended 31 December 2015**

### **Going Concern**

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash facilities are set out in note 15 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 24 to the Consolidated Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 month period from the statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with terms of its bank debt. The Directors' assessment also included a review of any potential refinancing which may be considered post completion of the acquisition by CVC of Carlyle's shareholding in the Group.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 2 to 14. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The RAC Group Ltd Group has net assets of £379 million. This largely reflects the value of goodwill and brand within the RAC Group Ltd Group.

The Company has net assets of £314 million and net current liabilities of £27 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Finance (Holdings) Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2015 Company and RAC Group Ltd Group Financial Statements to be prepared on a going concern basis.

### **Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and their reappointment will be proposed to the Board at the AGM.

### **Disclosure of information to the auditor**

Each person who was a director of the Company on the date that this report was approved confirms that, so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

# **RAC Group Limited**

## **Directors' report (continued)**

**For the year ended 31 December 2015**

### **Corporate social responsibility**

Corporate social responsibility ("CSR") is an important part of RAC's history – and an equally important part of its future. In our efforts to drive stronger growth and enhance long-term value, RAC remains firmly committed to making a positive contribution.

Our approach to CSR covers projects and actions which are most relevant to RAC and the market in which we operate in. This section of the Annual Report takes a closer look at our commitment to our Members, our colleagues, the environment and community work.

### **Commitment to our Members**

#### **Trust and transparency**

The financial services sector in which RAC operates is being held to an increasingly high standard of conduct by our regulators the FCA and the PRA. Trust and transparency and high standards of service are crucial to ensure RAC lives up to being recognised as one of the most trusted brands in the UK.

A solid foundation of integrity, transparency and accountability helps RAC build and maintain strong, enduring relationships wherever it operates. RAC benefits from a long history of internal audit and compliance procedures and a comprehensive, risk appetite framework. It strives to reach high standards of corporate governance, and considers the interests of diverse stakeholders in a balanced way.

All RAC colleagues are asked to complete essential training modules upon their employment commencing and prior to accessing customer information and administration systems to ensure we operate above and beyond the requirements set down by the law and our regulators. We have created a requirement that these be refreshed annually and also set ourselves a 90% target for compliance and currently have completion rates of 93%. It is inevitable that not all colleagues will complete this due to maternity and sick leave but we maintain a high focus by providing updates to all business areas on a weekly basis.

### **Our Products and Services**

As the UK's oldest motoring organisation RAC continues to be at the forefront of innovation, driven by our vision to be The Motorist's Champion and the one-stop-shop for all motoring needs.

RAC's commitment to making motoring easier, safer, more affordable and more enjoyable for drivers and other road users can be seen through the continued development of the organisation's products and services.

RAC offers a wide range of products and services in a simple and convenient way to meet the needs of all our customers, which include Individual Members, small and large businesses as well as motor manufacturers. To help our Members feel confident about what they are buying, we aim to make our products, services and communications clear and deliver solutions that suit them.

All marketing communications go through an approval process which takes into account laws, regulations and relevant standards and these are subject to approval from our legal and compliance teams.

# **RAC Group Limited**

## **Directors' report (continued)**

**For the year ended 31 December 2015**

### **Our Products and Services (continued)**

In 2015 we launched a number of new products to enhance our portfolio. The RAC Cars website was re-launched to provide Members with a free to advertise proposition to sell their car, the RAC Car Passport gives would-be buyers valuable insight into a vehicle's past and RAC Insurance Telematics helps make insuring a car more affordable.

We continue to focus on maintaining high service standards to ensure we retain our valued Members. Customer advocacy levels measured by Net Promoter Score remain high with strong retention levels being seen across our Individual Membership base.

### **In Parliament**

Modern day driving as we know it is shaped by the regulatory environment. RAC's work in Parliament and beyond is to put the motorist's case forward and support the interests and issues affecting them. We know that our Annual Report on Motoring (now in its 27th year) is closely scrutinised in Whitehall and by policy makers. Acting as the voice of the motorist in Westminster we have successfully led and supported on issues such as fair fuel prices, increased funding and investment to improve the state of our road network, raised the issues on the illegal use of hand-held mobile phones at the wheel and the issue of motoring taxation.

## **Community and charitable activity**

### **Championing Road Safety**

The focus of our community and charitable activities is to make motoring safer and improve road safety for everyone. Eighteen months ago RAC committed to donate £250 thousand into a Road Safety Awareness Charity (the Charity) to help develop a Road Safety Awareness Campaign with the aim of reducing the number of children and young people injured or killed on our roads each year.

Since being granted charitable trust status, the Charity has partnered with The Scout Association to reach over 500,000 members to promote road safety training and help every Beaver, Cub and Scout learn the key skills to stay safe around our roads and to develop as responsible road users.

The Charity has also developed a range of bespoke workshops and training materials for leaders to run engaging sessions with the Cubs to build their knowledge and experience of issues including 'be bright be seen', the Highway Code and how to stay safe in the event of a vehicle breakdown. Leading this partnership for the Charity is Horace, a road safety mascot for the 21st century, created with Aardman Animations and newly enrolled into the Cubs.

In 2016 the Charity has committed to over 200 visits to cub groups to promote road safety. Horace will be supported by volunteers from RAC's 1,500 patrols acting as Ambassadors for road safety to help deliver these workshops which will also give the boys and girls the opportunity to checkout a real patrol van.

RAC office colleagues are also encouraged to participate by volunteering their time and money and have been integral in supporting fund raising initiatives raising over £10,000 to help deliver the Charity's pledge of providing 140,000 hi-vis jackets to all cubs in the UK over the next three years.

# **RAC Group Limited**

## **Directors' report (continued)**

**For the year ended 31 December 2015**

### **Community and charitable activity (continued)**

#### **Other Charitable and Community Causes**

Whilst road safety is the Group's primary community focus, our colleagues and Members work with a number of other charities on community initiatives and fundraising appeals. Here are a few examples of how RAC and our colleagues really do make a difference.

RAC's head office in Walsall is a key supporter of the National Citizens Service 'The Challenge' summer programme. Designed to provide interactive and education tools to help children aged 15 - 18 develop important life skills to build their confidence and prepare them for employment or further education. In 2015 RAC supported over 100 children through this programme through professional visits and mentoring. Colleagues support our annual RAC sponsored trek over the Shropshire hills to raise funds for Help for Heroes. RAC also provide free breakdown and European cover for the charities fleet of vehicles.

With so many people touched by cancer in one way or another, RAC colleagues are incredibly supportive of any fundraising requests and initiatives which are promoted across the business. In 2015 colleagues raised in excess of £15,000 for cancer charities through cake sales, dress down days and various fitness challenges.

The RAC Christmas Tree appeal which has been running for over 25 years, supports local hostels, and in 2015 colleagues also provided food parcels and presents for refugees.

These few examples give you an insight into how committed we are to being a responsible business and how Corporate Responsibility is more than just words.

#### **Environmental management**

As one of the largest motoring organisations in the UK with a large fleet base, RAC has both a responsibility to take action on reducing its environmental impact and an opportunity to influence environmental policies and tackle broader environmental challenges facing society as a whole.

RAC's environmental policy sets out the Group's environmental objectives, priorities and CO<sub>2</sub> reduction targets, which creates the foundation for the organisations environmental initiatives. These include driver fuel efficiency training, driving up operational efficiency through increased phone fix rates, introduction of multi-fit spare wheels in all Patrol vehicles, introduction of telematics technology in all Patrol vehicles, vehicle replacements, increases in recycling of acid batteries, and a reduction in the waste produced from our buildings through our established waste management and recycling programs.

These initiatives have not only helped to reduce CO<sub>2</sub> output from our liveried fleet and Company car fleet but also helped us to retain the Group's Environmental Management System ISO14001 accreditation by CARS QA. This global environmental management standard covers energy usage, CO<sub>2</sub> emissions, waste generation and disposal. The certification is in recognition of our commitment to a process of continuous improvement and demonstrates our plans to reduce our impact on the environment.

# **RAC Group Limited**

## **Directors' report (continued)** **For the year ended 31 December 2015**

### **Our colleagues**

At the core of our success is our people, and they are our focus. RAC strives to build strong relationships with our colleagues by providing an environment where they are respected, engaged and rewarded for their contributions and are encouraged to participate in Company and community initiatives. The Group's code of conduct describes the standards of behaviour required of all RAC colleagues and provides guidance on how to raise issues or concerns. Opportunities are available to all colleagues for training, career development and promotion. Where existing colleagues become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training and reasonable adjustments to achieve this aim.

### **Employee Engagement**

Our colleagues can expect to be treated fairly, with dignity and respect. We have a suite of HR policies and guidelines that set out how colleagues can expect to be treated and managed. These policies are reviewed on a regular basis to ensure they remain relevant.

RAC's culture encourages open, honest and direct communication. There are a variety of ways for colleagues to ask questions or say what's on their minds – from face-to-face meetings with managers to focus groups and anonymous surveys.

Our collaborative approach to treating colleagues fairly means we work in partnership with Unite, the Union and Your Forum representatives. RAC also engages and involves colleagues in the development and direction of the business through colleague forums to share information and updates and consult fully with them when decisions affect colleagues, from business strategy to projects such as a reorganisation.

### **Recruitment**

Over the last 12 months RAC has reviewed its recruitment approach and invested in recruitment tools and additional resource to ensure potential candidates experience RAC's culture and brand. We have focused on a more direct resourcing model rather than relying on an agency approach.

As an equal opportunity employer RAC encourages diverse and inclusive approaches to employment and gives full consideration to applications for employment without regard to race, colour, religion, gender identity or expression, sexual orientation, national origin, disability, age or veteran status where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.

# **RAC Group Limited**

## **Directors' report (continued)** **For the year ended 31 December 2015**

### **Our colleagues (continued)**

#### **Career Development**

RAC continues to invest in the training and development of its people. RAC encourages a blended approach to development that includes on-the-job experiences, peer and manager feedback, knowledge development and education.

Leadership is critically important to RAC. The Group's front line manager and senior leadership development programs ensure that managers have the right tools, skills and behaviours to motivate and lead their teams. During 2015 the Group has introduced a new talent management tool to identify talent, create succession plans for key roles and to commit to development action plans to support career progression and cross-departmental development opportunities.

Providing regular training and implementing new customer service solutions for our frontline colleagues to deliver an unrivalled standard of service remains a high priority for the business. The Group's internal training team were recognised for their contribution winning the 2015 Contact Centre People Development Award.

#### **Rewards and Benefits**

RAC is committed to providing a competitive total compensation package in the form of base pay (salary), incentive pay (both short- and long-term incentives), pension plan and benefits, which include health care, insurance, disability benefits and motoring services.

Compensation packages are benchmarked using independent data to ensure they remain fair, equitable and competitive and to ensure they are aligned to support business objectives. The Group continues to negotiate in good faith with its recognised union, Unite, regarding the employment terms and conditions of colleagues.

RAC takes the time to celebrate accomplishments. The annual Ambassadors Awards, a prestigious awards ceremony now in its 17th year, recognises outstanding performance. The Group also continues to recognise colleagues for their loyalty and sustained contribution through RAC's Long Service Award Scheme.

#### **Health and Safety**

RAC recognises that Health and Safety is an essential part of its responsibility towards its colleagues and all those affected by business activities, and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities.

We have a comprehensive Health and Safety Policy and Health and Safety Management System, which is mandatory in all areas of our business and enables all levels of line management to understand the Health and Safety aspects of their activities and applicable legislation. Our policies also provide information over and above our legal obligations on what our principles, protocols and procedures are to our stakeholders.

RAC holds third party certification to PAS 43 2012 Safe Working of Vehicle Breakdown, Recovery and Removal Operations - Management System Specification. This certification is supported by our ISO9001 certification and our CARSQA certificate.

# RAC Group Limited

## Directors' report (continued)

For the year ended 31 December 2015

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company for that year.

In preparing these Financial Statements, International Accounting Standard 1 requires that Directors

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

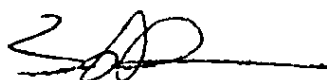
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies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

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

### Events since the statement of financial position date

There have been no events since the statement of financial position date which have a material impact on the Company's or RAC Group Ltd Group's financial position as at 31 December 2015.

On behalf of the Board on 29 February 2016



S Morrison  
Company Secretary

# **RAC Group Limited**

## **Independent auditor's report to the members of RAC Group Limited**

We have audited the Financial Statements of RAC Group Limited for the year ended 31 December 2015, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the accounting policies and the related notes 1 to 25, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cash flows, and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

### **Respective responsibilities of Directors and auditor**

As explained more fully in the Statement of Directors' responsibilities on page 22, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the Annual Report and Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# RAC Group Limited

## Independent auditor's report (continued)

To the members of RAC Group Limited

### Opinion on Financial Statements

In our opinion

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 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 with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

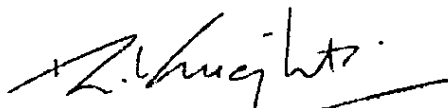
### Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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



Richard Knights (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Birmingham  
United Kingdom  
Date, 29 February 2016

**RAC Group Limited**  
**Consolidated Financial Statements 2015**  
**Consolidated income statement**  
**For the year ended 31 December 2015**

	Note	2015	2014
		£m	£m
Revenue	1	501	498
Cost of sales		(215)	(230)
Gross profit		286	268
Administrative expenses		(137)	(125)
Operating profit	2	149	143
EBITDA before exceptional items		179	169
Depreciation	2	(4)	(4)
Amortisation of customer acquisition intangible assets	2	(10)	(10)
Amortisation of non customer acquisition intangible assets	2	(16)	(11)
Exceptional items	3	-	(1)
Operating profit		149	143
Finance expenses	5	(1)	(1)
Other losses	12 (e)	-	(15)
Profit before tax		148	127
Tax charge	9	(27)	(28)
<b>Profit for the year</b>		<b>121</b>	<b>99</b>

The accounting policies and notes on pages 30 to 77 are an integral part of these Financial Statements

**RAC Group Limited****Consolidated Financial Statements 2015 (continued)****Consolidated statement of comprehensive income****For the year ended 31 December 2015**

	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>£m</b>	<b>£m</b>
Profit for the year		121	99
<b>Other comprehensive expense</b>			
<i>Other comprehensive expense not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial losses on pension schemes	23(c)(iii)	-	[2]
Aggregate tax effect	9(c)	-	-
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		-	[2]
Other comprehensive expense, net of tax		-	[2]
<b>Total comprehensive income for the year</b>		<b>121</b>	<b>97</b>

The accounting policies and notes on pages 30 to 77 are an integral part of these Financial Statements

# RAC Group Limited

## Consolidated Financial Statements 2015 (continued)

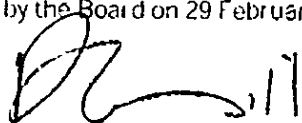
### Consolidated statement of financial position

As at 31 December 2015

	Note	2015	2014
		£m	£m
<b>ASSETS</b>			
Non current assets			
Goodwill and intangible assets	10	438	436
Property plant and equipment	11	15	13
Deferred tax assets	16	7	7
Trade and other receivables	14	3	3
		<u>463</u>	<u>459</u>
<b>Current assets</b>			
Inventories	13	3	2
Trade and other receivables	14	178	132
Cash and cash equivalents	15	88	54
		<u>269</u>	<u>188</u>
<b>LIABILITIES</b>			
Current liabilities			
Provisions	17	(1)	(1)
Current tax payable	16	(64)	(72)
Trade and other payables	18	(239)	(259)
		<u>(304)</u>	<u>(332)</u>
<b>Net current liabilities</b>		<u>(35)</u>	<u>(144)</u>
<b>Non-current liabilities</b>			
Employee benefit liability	23(c)(iv)	(6)	(7)
Trade and other payables	18	(3)	(4)
Deferred tax liability	16	(40)	(46)
		<u>(49)</u>	<u>(57)</u>
<b>Net assets</b>		<u>379</u>	<u>258</u>
<b>EQUITY</b>			
Ordinary share capital	19	31	31
Share premium	20	-	-
Other reserves	21	1	1
Retained earnings		<u>347</u>	<u>226</u>
<b>Total equity</b>		<u>379</u>	<u>258</u>

The accounting policies and notes on pages 30 to 77 are an integral part of these Financial Statements.

Approved by the Board on 29 February 2016



D Cougill, Chief Financial Officer

**RAC Group Limited**  
**Consolidated Financial Statements 2015 (continued)**  
**Consolidated statement of changes in equity**  
**For the year ended 31 December 2015**

	Note	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2014</b>		<b>31</b>	<b>153</b>	<b>1</b>	<b>6</b>	<b>191</b>
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	99	99
Other comprehensive expense		-	-	-	(2)	(2)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>97</b>	<b>97</b>
Capital reduction	20	-	(153)	-	153	-
Dividends	19	-	-	-	(30)	(30)
<b>Total movements in the year</b>		<b>-</b>	<b>(153)</b>	<b>-</b>	<b>220</b>	<b>67</b>
<b>Balance at 31 December 2014</b>		<b>31</b>	<b>-</b>	<b>1</b>	<b>226</b>	<b>258</b>
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	121	121
Other comprehensive expense		-	-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>121</b>	<b>121</b>
<b>Balance at 31 December 2015</b>		<b>31</b>	<b>-</b>	<b>1</b>	<b>347</b>	<b>379</b>

The accounting policies and notes on pages 30 to 77 are an integral part of these Financial Statements

**RAC Group Limited**  
**Consolidated Financial Statements 2015 (continued)**  
**Consolidated statement of cash flows**  
**For the year ended 31 December 2015**

	Note	2015	2014
		£m	£m
<b>Operating activities</b>			
<b>Profit before tax</b>		148	127
Adjustments to reconcile profit before tax to net cash flows			
Depreciation of owned tangible assets	11	4	4
Amortisation of intangible assets	10	26	21
Loss on disposal of intangible assets	10	-	2
Gain on disposal of investments	12(c)	-	(2)
Curtailment gains		-	(1)
Finance expenses and other losses	5 & 12	1	16
Working capital adjustments			
Increase in inventories	13	(1)	-
Increase in trade and other receivables	14	(13)	(29)
Decrease in trade and other payables	18	(23)	(24)
Decrease in provisions	17	-	(2)
Insurance policies for defined benefit schemes		-	(1)
<b>Net cash flows from operating activities</b>		<b>142</b>	<b>111</b>
<b>Investing activities</b>			
Acquisition of companies, net of cash acquired		-	(6)
Purchase of property, plant and equipment	11	(6)	(4)
Proceeds from sale of investments		-	3
Additions of intangible assets	10	(28)	(28)
<b>Net cash used in investing activities</b>		<b>(34)</b>	<b>(35)</b>
<b>Financing activities</b>			
Dividends paid	19	-	(30)
Interest paid		(74)	(46)
<b>Net cash flows used in financing activities</b>		<b>(74)</b>	<b>(76)</b>
<b>Net increase in cash and cash equivalents</b>		<b>34</b>	<b>-</b>
<b>Cash and cash equivalents brought forward</b>	15	<b>54</b>	<b>54</b>
<b>Cash and cash equivalents carried forward</b>	15	<b>88</b>	<b>54</b>

The accounting policies and notes on pages 30 to 77 are an integral part of these Financial Statements

## **RAC Group Limited**

### **Accounting policies**

#### **(A) Corporate information**

RAC Group Limited, a limited liability company incorporated and domiciled in the United Kingdom, together with its subsidiaries (collectively, the "Group" or "RAC"), provides services and benefits to Members of RAC and other motorists primarily in the UK. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, WS5 4AW in England.

Information on the RAC Group Limited Group's structure is provided in note 12. Information on other related party relationships of the Group is provided in note 25.

On 22 August 2014, the Company changed its name from RAC Limited to RAC Group Limited.

The Group and Parent Company Financial Statements of RAC Group Limited for the year ended 31 December 2015 were approved for issue by the Board on 29 February 2016.

#### **(B) Basis of preparation and basis of consolidation**

##### **Basis of preparation**

The Consolidated Financial Statements presented have been prepared for the RAC Group Limited Group, which comprises RAC Group Limited and its subsidiaries. The Financial Statements of the RAC Group Limited Group and the Parent Company have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The Financial Statements of the RAC Group Limited Group and the Parent Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The Consolidated and Parent Company Financial Statements are presented in pounds sterling, which is the Group's presentation currency. Unless otherwise noted, the amounts shown in these Financial Statements are in millions of pounds sterling ("£m").

The separate Financial Statements of the Parent Company are set out from page 78. On publishing the Parent Company Financial Statements here together with the RAC Group Limited Group Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Parent Company's profit for the year ended 31 December 2015 was £50 million (2014: £21 million loss).

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no material effect on the reported results of the RAC Group Limited Group. The amounts relate to:

- reclassifications from Administrative expenses to Cost of sales, as they directly link to generating revenue,
- certain amounts in 2014 have been reclassified from trade payables and accruals to deferred income, and
- interest paid on behalf of RAC Finance (Holdings) Limited, a Parent Company, has been reclassified from trade and other receivables to interest paid in the statement of cash flows.

These reclassified amounts have no impact on the reported profit and net assets in the Parent Company Financial Statements.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(B) Basis of preparation and basis of consolidation (continued)**

##### **Going concern**

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 24 to the financial statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 month period from the balance sheet date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with terms of its bank debt.

The Group has net assets of £379 million and net current liabilities of £35 million. This largely reflects the value of goodwill and brand within the RAC Group Ltd Group.

The Company has net assets of £314 million and net current liabilities of £27 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Finance (Holdings) Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2015 Company and Group financial statements to be prepared on a going concern basis.

##### **Basis of consolidation**

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2015.

Subsidiaries are those entities in which the Group, directly or indirectly, has power to exercise control. Control is achieved when the Group is exposed to, 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. Specifically, the Group controls an investee if and only if the Group has

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(B) Basis of preparation and basis of consolidation (continued)**

##### **Basis of consolidation (continued)**

When the Group has less than a majority of the voting or similar rights of an investee, 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
- The Group's voting rights and contractual 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 financial period are included in the statement of financial position and the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary

Profit or loss of each component of other comprehensive income ("OCI") is 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 the subsidiaries to bring their accounting policies in 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

##### **Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries

Investments in associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(B) Basis of preparation and basis of consolidation (continued)**

##### **Investments in associates (continued)**

The consolidated income statement reflects the Group's share of the results of the operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, where applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate' in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and proceeds from disposal is recognised in the consolidated income statement.

##### **Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively, and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(B) Basis of preparation and basis of consolidation (continued)**

##### **Business combinations (continued)**

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, Financial Instruments – Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(C) Revenue recognition**

Revenue is measured as the fair value of the consideration received or receivable and represents amounts receivable for services and related products provided in the normal course of business, net of rebates and discounts and excluding any sales-based taxes, duties or levies

##### **Service revenue**

Revenue represents sales of roadside assistance and services and is recognised on a straight line basis over the length of the contract, usually twelve months

Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income

##### **Products**

Revenue relating to the sale of products, such as batteries and parts, is recognised according to the terms of the sale, when the following conditions are satisfied

- the Group has transferred to the buyer the significant risks and rewards of ownership,
- the Group retains neither continuing managerial involvement nor effective control over the products sold,
- the amount of revenue and costs incurred can be measured reliably, and
- it is probable that economic benefits associated will flow to the Group

##### **Insurance brokerage**

Commission is received from insurance brokerage services for home, motor and niche insurance policies. This is recognised on the effective commencement date or renewal date of the policies sold

##### **Rental income**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease

##### **Other income**

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable

#### **(D) Exceptional items**

Items which are considered by management to be material by size and/or nature or non-recurring are presented separately on the face of the income statement. Management believe that the separate reporting of exceptional items helps provide an indication of the Group's underlying business performance. Events which may give rise to a classification of items as exceptional include costs associated with business acquisitions, gains or losses on the disposal of businesses, restructuring of businesses and asset impairments

#### **(E) Goodwill and intangible assets**

##### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the acquisition date. Goodwill is carried at cost, less any impairment subsequently incurred

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(E) Goodwill and intangible assets (continued)**

##### **Brand**

The RAC brand has been assessed as having an indefinite life due to the strength and durability of the brand that has existed since 1897

##### **Customer lists and other intangible assets**

Customer lists and other intangible assets consist of IT projects and infrastructure, and contractual relationships such as access to distribution networks and acquired customer lists. The economic lives are determined by relevant factors which include, usage of the asset, typical product life cycles, stability of the industry, competitive position and period of control over the assets. These intangibles are amortised over their useful lives, which range from two to ten years using the straight line method.

The amortisation charge for the period is included separately within the income statement in administrative expenses. A provision for impairment will be charged where evidence of such an impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

##### **Customer acquisition intangibles**

The Group expenses acquisition costs as incurred, with the exception of third party commissions and fees arising as a result of a direct sale, which are capitalised as customer acquisition intangibles.

The customer acquisition intangible is initially recognised at cost and subsequently amortised over the life of the policies, typically four to five years, which is driven by internal customer retention rate analysis.

##### **Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

##### **Impairment testing**

For impairment testing, goodwill has been allocated to one cash generating unit ("CGU") that existed as at the date of acquisition as this represents the lowest level within the Group which generates independent cash inflows. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount. Details of the testing performed and carrying values of goodwill and intangibles is shown within note 10.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(F) Property, plant and equipment**

Owner-occupied properties are carried at their revalued amounts, being the fair value at the date of revaluation, which are supported by market evidence, and movements are taken to a separate reserve within equity. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Third party valuations are obtained every three years to support management's internal valuations, carried out on an annual basis.

All other items classified as property, plant and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

Fixtures, fittings and other equipment	3-10 years
Computer equipment	4 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recorded in the income statement.

#### **(G) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. An inventory provision is held based on the age of inventory.

#### **(H) Impairment of non-financial assets**

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

#### **(I) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(J) Cash and cash equivalents**

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks and treasury bills that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values. For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities in the statement of financial position.

#### **(K) Derivative financial instruments**

The Group holds derivative financial instruments, which include interest and basis rate swaps, to hedge its interest rate exposures. Derivatives are recognised initially and subsequently at fair value. Any gains or losses arising from changes in fair value of derivative financial instruments are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs.

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 other losses (negative net changes in fair value) or other gains (positive net changes in fair value) in the income statement.

The Group also has forward contracts for fuel purchases for a period of at least twelve months in order to hedge the variability of cash flows associated with the purchasing of fuel for use in the Group's operational fleet of Patrols and recovery vehicles. These contracts are not accounted for as derivatives as they are for the Group's own use and are therefore outside the scope of IAS 39 Financial Instruments: Recognition and Measurement.

#### **(L) Provisions and contingent liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation 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 of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable yet still possible or the amount cannot be reliably estimated.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(M) Income taxes**

Income taxes include both current and deferred taxes. Income taxes are (charged)/credited to the consolidated income statement except where they relate to items (charged)/credited directly to other comprehensive income or equity. In this instance, the income taxes are also (charged)/credited directly to other comprehensive income or equity respectively.

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of 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 are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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.

Current and deferred income tax assets and liabilities are offset where taxes are levied by the same taxation authority, there is a legal right of offset between the assets and liabilities and there is an intention to settle on a net basis.

#### **(N) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(0) Employee benefits**

##### **Pension obligations and other post-retirement benefit obligations**

The Group operates two post-employment benefit plans, a funded plan (the assets of which are held in separate trustee-administered funds, funded by payments from employees and the Group), and an unfunded unapproved pension scheme

In addition the Group also provides a disability benefits scheme on a discretionary basis for certain pensioners and their dependants in the UK, and certain employees may also become eligible for this benefit on retirement, and medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. No assets are set aside in separate funds to provide for the future liability

For post-employment defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of the employees. The pension obligation is measured as the present value of the estimated future cash out flows, using a discount rate based on market yields for high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms of maturity approximate to the related pension liability. The resulting pension scheme surplus or deficit appears as an asset or liability in the statement of financial position.

Remeasurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest) are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Costs charged to the income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the schemes' administration expenses), past service cost (resulting from changes to benefits with respect to previous years' service), and gains or losses on curtailment (when the employer materially reduces the number of employees covered by the scheme) or on settlements (when a scheme's obligations are transferred from the Group).

Past service costs are recognised in the consolidated income statement on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales' and 'administrative expenses' in the consolidated income statement:

- service costs comprising current service costs, past service costs, gains and losses on curtailment and non-routine settlements, and
- net interest expense or income

##### **Termination benefits**

The Group provides termination benefits. All termination costs are charged to the income statement when constructive obligation to such costs arises.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(P) Share capital and dividends**

##### **Equity instruments**

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Accordingly, all financial instruments are treated as financial liabilities or assets unless

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- (ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets

##### **Dividends**

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

#### **(Q) Application of new and revised International Financial Reporting Standards ("IFRSs")**

The following new and amended IFRS are effective for the 2015 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Group or the Parent Company's Financial Statements.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Annual Improvements to IFRSs 2011 – 2013 Cycle

At the date of authorisation of these Financial Statements, the RAC Group Limited Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- Amendments to IFRS 11 Accounting for Acquisitions of Interest and in Joint Operations<sup>1</sup>
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation<sup>1</sup>
- Amendments to IAS 27 Equity Method in Separate Financial Statements<sup>1</sup>
- Annual Improvements to IFRSs 2012 – 2014 Cycle<sup>1</sup>
- IFRS 9 Financial Instruments<sup>2</sup>
- IFRS 15 Revenue from contracts with customers<sup>2</sup>
- IFRS 16 Leases<sup>3</sup>

The RAC Group Limited Group is currently in the process of evaluating the impact of the adoption of new and revised standards, including IFRS 9, IFRS 15 and IFRS 16 on the Group's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

<sup>1</sup> Effective for annual periods commencing on or after 1 January 2016

<sup>2</sup> Effective for annual periods commencing on or after 1 January 2018

<sup>3</sup> Effective for annual periods commencing on or after 1 January 2019

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(R) Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the Financial Statements in conformity with IFRSs requires the Group to make estimates and judgements using assumptions that affect items reported in the Consolidated statement of financial position and Consolidated income statement and the disclosure of contingent assets and liabilities at the reporting date. Estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Set out below are items where management have taken a judgement or which management consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

##### **(i) Critical judgements in applying the Group's accounting policies**

The following are the critical judgements, apart from those involving estimations [which are dealt with separately below], that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

##### **Tax provisions**

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

##### **Provisions and contingent liabilities**

Assessing the financial outcome of uncertain commercial and legal positions requires judgements to be made regarding the relative merits of each party's case and the extent to which any claim against the Group is likely to be successful. The assessments made are based on advice from the Group's internal counsel and, where appropriate, independent legal advice.

##### **Customer acquisition intangibles**

Acquisitions result in acquired third party commissions and fees being recognised as intangible assets. As an outcome of the above certain key judgements and estimates are required to be made in respect of the useful life in which the acquired asset is amortised over, this assessment is based upon internal customer retention rate analysis.

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(R) Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **(ii) Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below

##### **Fair value measurements and valuation process**

The Group measures financial instruments, such as derivatives, and non-financial assets such as owner-occupied properties, at fair value at each reporting date

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period

## **RAC Group Limited**

### **Accounting policies (continued)**

#### **(R) Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **(ii) Key sources of estimation uncertainty (continued)**

###### **Employee benefit obligations**

Determining the amount of the Group's employee benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning inflation, salary and pension increases, investment returns and expected mortality of scheme members. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance from independently qualified actuaries. Details of the assumptions made are set out in note 23 to the Consolidated Financial Statements.

###### **Impairment of goodwill and indefinite lived intangible assets**

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating unit to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at both 31 December 2015 and 31 December 2014 was £354 million. No impairment loss of goodwill or the brand has been recognised in any periods reported on.

# RAC Group Limited

## Notes to the Consolidated Financial Statements

### 1 Revenue

	2015	2014
	£m	£m
Sale of products	24	25
Sale of services	477	473
<b>Total revenue</b>	<b>501</b>	<b>498</b>

### 2 Operating items

The following items have been included in arriving at the result

	2015	2014
	£m	£m
Depreciation of owned tangible assets (note 11)	4	4
Amortisation of customer acquisition intangible assets (note 10)	10	10
Amortisation of non customer acquisition intangible assets (note 10)	16	11
Employee costs (note 7)	145	145
Operating lease rentals paid	13	14
Rental income	(1)	(1)

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 3 Exceptional items

	2015	2014
	£m	£m
Legal fees in respect of Joint Venture	-	1
	-	1

In 2014, the Group incurred £1m of legal fees in relation to the formation and subsequent exit from the Joint Venture with Connected Car Solutions. See note 12(d) for further detail on the Joint Venture.

### 4 Operating segments

The Group is primarily UK based and offers an increasing range of breakdown and other motoring services directly to Individual Members and other motorists, as well as indirectly through a range of Corporate Partner relationships. Management has determined the operating segments based on the monthly management accounts reviewed by the Board of Directors, which is used to assess the performance of the business. The board of directors has been identified by management to reflect the chief operating decision maker in accordance with the requirements of IFRS 8 Operating Segments. The four operating and reportable segments of the Group are described below.

#### Roadside

Roadside assistance is the largest operating segment of the business, offering breakdown cover and related products to Individual Members and Corporate Partners.

#### Insurance broking

The insurance division predominantly acts as an insurance intermediary with minimal underwriting risk. A range of insurance products are offered and the majority of the revenue generated from this operating segment is driven by motor insurance products.

#### Motoring services

The motoring services division includes a range of established products such as legal and motor claims services and new business areas such as retail online, garage services, SME business club and RAC Cars.

#### Telematics and Data services

The telematics and data services division focuses on the sale of telematics devices to Individual Members, Corporate Partners and SME businesses as well as the monetisation of data assets held by the Group.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 4 Operating segments (continued)

The following is an analysis of the RAC Group Limited Group's revenue and results by operating segment. During all years reported on, there were no inter segment sales and no individual customer contributed 10% or more to the RAC Group Limited Group's revenue.

	Year ended 31 December 2015	Year ended 31 December 2014
	£m	£m
<b>Revenue of products</b>		
Roadside	24	25
<b>Revenue of services</b>		
Roadside	395	388
Insurance broking	56	54
Motoring services	21	20
Telematics and Data services	5	11
<b>Group Revenue</b>	<b>501</b>	<b>498</b>
<b>Segment EBITDA before exceptional items and head office costs</b>		
Roadside	187	170
Insurance broking	31	30
Motoring services	3	4
Telematics and Data services	3	1
<b>Group EBITDA before exceptional items and head office costs</b>	<b>224</b>	<b>205</b>
Head office costs**	(45)	(36)
<b>Group EBITDA before exceptional items</b>	<b>179</b>	<b>169</b>
Amortisation of intangible assets	(26)	(21)
Depreciation	(4)	(4)
Exceptional items**	-	(1)
<b>Operating profit</b>	<b>149</b>	<b>143</b>
Finance expenses	(1)	(1)
Other losses	-	(15)
<b>Profit before tax from continuing operations</b>	<b>148</b>	<b>127</b>

\*\*These costs are not internally analysed into separate operating segments

#### Assets and liabilities

For the purpose of monitoring segment performance, working capital analysis is presented to and monitored by the Board on a Group level, to enable a meaningful review of the economic environment of the business as a whole. As the Group's financial information is reviewed by type, segmental analysis of assets and liabilities by function is not regularly provided to management and has not been presented within the financial information.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 5 Finance expenses

	2015	2014
	£m	£m
Interest payable - third parties	1	1
	<u>1</u>	<u>1</u>

### 6 Auditor's remuneration

The total remuneration payable by the Group, excluding VAT, to its auditor, Deloitte LLP, is shown below

	2015	2014
	£000	£000
<b>Audit Services</b>		
Audit of financial statements	45	45
Audit of subsidiaries	191	168
	<u>236</u>	<u>213</u>
<b>Other Services</b>		
Taxation compliance services	77	43
<b>Total remuneration payable to Deloitte LLP</b>	<u>313</u>	<u>256</u>

### 7 Employee information

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a wholly owned subsidiary.

The average number of persons employed during the year was

	2015	2014
	Number	Number
Roadside	3,020	3,062
Insurance and claims	133	132
Support	285	253
	<u>3,438</u>	<u>3,447</u>

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 7 Employee information (continued)

Total staff costs were

	2015	2014
	£m	£m
Wages and salaries	124	124
Social security costs	12	13
Pension costs	8	8
Termination benefits	1	-
	<u>145</u>	<u>145</u>
These costs were charged within		
Cost of sales	100	104
Administrative expenses	45	41
	<u>145</u>	<u>145</u>

### 8 Directors

Details of the aggregate remuneration of the Directors of the Company for qualifying services in respect of the RAC Group comprise

	2015	2014
	£000	£000
Fees and benefits	1,691	1,060
Contributions paid into money purchase pension schemes	-	8
	<u>1,691</u>	<u>1,068</u>
Emoluments of the highest paid Director		
Fees and benefits	824	493
	<u>824</u>	<u>493</u>

- (a) Fees and benefits include Directors' bonuses
- (b) Retirement benefits are accruing to no Directors (2014: 1 director) under a money purchase scheme
- (c) During the year no Directors (period ended 31 December 2014: none) were awarded shares under long-term incentive schemes

## RAC Group Limited

### Notes to the Consolidated Financial Statements (continued)

#### 9 Tax

##### (a) Tax charged to the income statement

The total tax charge comprises

	2015	2014
	£m	£m
<b>Current tax:</b>		
For the year	29	24
Adjustment in respect of prior years	4	1
Total current tax	33	25
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	2	4
Change in tax rates	(4)	-
Adjustment in respect of prior years	(4)	(1)
Total deferred tax (credit)/charge	(6)	3
<b>Total tax charged to the income statement</b>	<b>27</b>	<b>28</b>

##### (b) Tax reconciliation

The tax on the Group's result before tax differs from the theoretical amount that would arise using the tax rate in the UK as follows

	2015	2014
	£m	£m
Profit before tax	148	127
Tax calculated at standard UK corporation tax rate of 20.25% (2014: 21.5%)	30	27
Recognition of previously unrecognised deferred tax	-	1
Effect of change in tax rate	(4)	-
Prior year adjustment	1	-
<b>Total tax charged to the income statement (note 9(a))</b>	<b>27</b>	<b>28</b>

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **9 Tax (continued)**

##### **(b) Tax reconciliation (continued)**

The headline rate of UK corporation tax reduced from 21% to 20% on 1 April 2015, and will reduce further to 19% from 1 April 2017 and 18% from 1 April 2020

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date

Accordingly, as the future reductions of the corporation tax rate to 19% and 18% was substantively enacted on 26 October 2015, the deferred tax balances at 31 December 2015 have been reflected at the tax rates they are expected to be realised or settled

##### **(c) Tax charged to other comprehensive income**

Tax charged directly to other comprehensive income in the year amounted to £nil, (2014: £nil) and is in respect of the tax impact on actuarial gains in employee benefit schemes

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 10 Goodwill and intangible assets

					Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	Goodwill	Brand	Customer List	Other			
	£m	£m	£m	£m	£m	£m	£m
<b>Cost</b>							
At 1 January 2014	153	201	52	38	444	37	481
Additions	-	-	-	11	11	14	25
Acquired through business combinations	12(c)	-	-	5	5	-	5
Disposals	-	-	-	(2)	(2)	-	(2)
At 31 December 2014	153	201	52	52	458	51	509
Additions	-	-	-	11	11	17	28
At 31 December 2015	153	201	52	63	469	68	537
<b>Amortisation</b>							
At 1 January 2014	-	-	28	7	35	17	52
Charge for the year	-	-	2	9	11	10	21
At 31 December 2014	-	-	30	16	46	27	73
Charge for the year	-	-	2	14	16	10	26
At 31 December 2015	-	-	32	30	62	37	99
<b>Net book value.</b>							
At 31 December 2015	153	201	20	33	407	31	438
At 31 December 2014	153	201	22	36	412	24	436

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **10 Goodwill and intangible assets (continued)**

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the income statement.

No impairment losses have been recognised in 2015 or 2014. During 2014, intangible assets relating to software development were disposed of resulting in a £2 million loss. On 1 September 2014 the RAC Group Limited Group acquired the trade and assets of Risk Telematics UK Limited, which consisted of £5 million of intangible assets.

#### **Impairment testing of goodwill and intangible assets with indefinite lives**

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the one cash generating unit ('CGU') that existed as at the date of acquisition for the purpose of impairment testing. The carrying value of the goodwill and indefinite-lived intangible assets allocated to the CGU is £153 million and £201 million respectively.

The Group performs impairment testing annually in October and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of the unit has been determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2019. The growth rate used to extrapolate revenue beyond the Group's forecasts for the CGU is 2% (2014: 2%), based on the expected average long term growth rate of the UK economy. The pre-tax discount rate applied to the cash flow projections is based on the Group Weighted Average Cost of Capital ('WACC') which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36. Impairment of non-current assets.

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **10 Goodwill and intangible assets (continued)**

Key assumptions used in management forecasts include

- Individual Members having high customer loyalty and retention rates resulting in a stable and predictable revenue stream,
- success rates for contract renewals based on historical experience, and
- cost discipline and operational efficiencies

The above assumptions are calculated based on recent performance, adjusted for expected future cash flows. The calculation of the value-in-use is most sensitive to the assumptions in the discount rate, the growth rate and the customer retention rate. Retention rates are derived from internal retention rate analysis and are considered by management to be a best estimate.

With regard to the assessment of value-in-use, management believes that no reasonably foreseeable change in any of the above key assumptions would cause the carrying value of the intangibles to materially exceed its recoverable amount, and consequently no impairment has been recognised.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 11 Property, plant and equipment

	Owner-occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m	£m
<b>Cost or valuation:</b>				
At 1 January 2014	6	29	60	95
Additions	-	4	-	4
At 31 December 2014	6	33	60	99
Additions	-	2	4	6
Disposals	-	(23)	(39)	(62)
At 31 December 2015	6	12	25	43
<b>Depreciation:</b>				
At 1 January 2014	3	26	53	82
Charge for the year	-	2	2	4
At 31 December 2014	3	28	55	86
Charge for the year	-	2	2	4
Disposals	-	(23)	(39)	(62)
At 31 December 2015	3	7	18	28
<b>Net book value:</b>				
At 31 December 2015	3	5	7	15
At 31 December 2014	3	5	5	13

The carrying value of all other plant and equipment shown in the table above is consistent with disclosure on a historical cost basis

In line with the Group accounting policy, the owner-occupied property has been revalued during 2015 by Colliers International, an accredited independent valuer. The valuation performed by the valuer was based on active market prices, adjusted for any differences in the nature, location or condition of the specific property. There has been no material change in the fair value of the property. The date of the revaluation was 30 October 2015 and no significant change in value has occurred between this date and the year end. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2015 and 31 December 2014 would be £6 million.

# **RAC Group Limited**

## **Notes to the Consolidated Financial Statements (continued)**

### **12 Group information**

#### **(a) Information about subsidiaries**

The Consolidated Financial Statements of the RAC Group Limited Group include the following subsidiaries

<b>Company</b>	<b>Type of business</b>	<b>Class of share</b>	<b>Proportion held</b>
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (Incorporated in Ireland)	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland

In 2013 the RAC Group Limited Group acquired a 15% interest in, (and significance influence over) Risk Telematics UK Limited. The company is involved in the development of Telematics software. Risk Telematics UK Limited is a private entity that is not listed on any public exchange, and is incorporated in England and Wales. Under the shareholders agreement the Group had an option to purchase the remaining shares up to the end of 2018. On 1 September 2014, the option was exercised at which point the Group acquired the remaining 85% (and control) of Risk Telematics UK Limited that it did not previously own. See further details in section (c) below.

Net Cars Limited (Company No 08370931) and Risk Telematics UK Limited (Company No 08580115) are exempt from audit by virtue of s479a of the Companies Act 2006 and have both been provided with a statutory guarantee by the Company as required by s479c of the Companies Act 2006. As a consequence, Net Cars Limited and Risk Telematics UK Limited have both taken advantage of the available exemption for audit.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 12 Group Information (continued)

#### (b) Ultimate controlling entity

The immediate Parent Company of the RAC Group Limited Group is RAC Finance (Holdings) Limited, registered in England and Wales

The ultimate controlling entity of the RAC Group Limited Group is RAC Group (Holdings) Limited

Until 17 December 2014, the controlling entity of the RAC Group Limited Group was RAC Limited and the ultimate controlling entity was CEP III Investment 16 S a r l registered in Luxembourg

#### (c) Business combinations

On 1 April 2014 the Group sold its 15% investment in Risk Telematics UK Limited to Connected Car Solutions for £1.5 million when it entered into a Joint Venture in Connected Car Solutions Limited (see 11(d)), resulting in a £1.5 million credit to the income statement on disposal of the investment

On 1 September 2014, the RAC Group Limited Group repurchased the previously held 15% stake in Risk Telematics UK Limited from Connected Car Solutions for £1.5 million in addition to acquiring the remaining 85% of issued share capital that it did not previously own, obtaining control of Risk Telematics UK Limited. The remaining 85% of issued share capital was acquired for £3.5 million of which £2.5 million was paid in cash with the balance of £1 million contingent on successful completion of terms as specified in the contract. The RAC Group Limited Group has licensed aspects of Risk Telematics UK technology back to its former joint venture partner in return for a royalty payment of £3.5 million recognised in Risk Telematics UK Limited.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below

	Fair value recognised on acquisition
	£000
Trade and other receivables	21
Trade and other payables	(3)
Tax liabilities	(4)
<b>Net assets acquired</b>	<b>14</b>
Intangibles arising on acquisition	4,986
<b>Purchase consideration transferred</b>	<b>5,000</b>
<b>Cash flow on acquisition</b>	<b>£000</b>
Net cash acquired with Risk Telematics UK Limited	-
Cash paid	2,500
Contingent consideration	1,000
<b>Net cash flow on acquisition</b>	<b>3,500</b>

# **RAC Group Limited**

## **Notes to the Consolidated Financial Statements (continued)**

### **12 Group information (continued)**

#### **(c) Business combinations (continued)**

The intangibles of £4,986 thousand arising on acquisition consisted of Telematics software

The fair value of the financial assets included receivables with a fair value of £21 thousand and a gross contractual value of £21 thousand. The best estimate at acquisition date of the contractual cashflows not to be collected were £nil.

Acquisition-related costs (included in administrative expenses) were negligible and considered to be immaterial.

From acquisition through to 31 December 2014, Risk Telematics UK Limited had negligible profits.

#### **(d) Joint Venture**

In April 2014 the Group entered into a Joint Venture in Connected Car Solutions Limited, acquiring 49% of the share capital. The company is involved in the distribution of connected car capabilities within the UK and Canada, which complemented the Group's operations.

Due to changes in market conditions the RAC Group Limited Group exited the Joint Venture on 1 September 2014, selling its interest in Connected Car Solutions.

The joint venture had negligible revenue, losses or other comprehensive income, and cash flows in the prior period to the point of exit.

Connected Car Solutions Limited was incorporated on 14 March 2014 with a financial year end of 31 December. For the purposes of applying the equity method of accounting, significant transactions since incorporation to the date of exit on 1 September 2014 were taken into account.

#### **(e) Warrants**

During 2013, the RAC Group Limited Group entered into a contract with an AIM listed company, to which the RAC Group Limited Group had outsourced its accident management services. As part of the contract the RAC Group Limited Group acquired warrants to purchase 16.67 million shares in the AIM listed company at a subscription price of 195p, which expire in June 2015. Deferred income equal to the fair value of the warrants at acquisition of £10 million is being recognised in the income statement over the life of the related accident management contract. The warrants are derivative financial instruments and are revalued at each reporting date with any subsequent movement in fair value being taken to the income statement in full at that reporting date.

The warrants were held at fair value of £nil as at 31 December 2015 (2014: £nil) with a loss of £nil (2014: £15 million) being taken to the income statement.

# **RAC Group Limited** **Notes to the Consolidated Financial Statements (continued)**

## **13 Inventories**

	2015	2014
	£m	£m
Inventories	3	2

The cost of inventories recognised as an expense and included within Cost of sales in the year ended 31 December 2015 amounted to £10 million (2014 £11 million)

## **14 Trade and other receivables**

	2015	2014
	£m	£m
Trade receivables	37	32
Amounts due from related parties [note 25(a)(i)]	123	80
Prepayments and accrued income	20	22
Other receivables	1	1
<b>Total</b>	<b>181</b>	<b>135</b>
Expected to be recoverable within one year	178	132
Expected to be recoverable in more than one year	3	3
<b>Total</b>	<b>181</b>	<b>135</b>

All receivables and other financial assets other than prepayments are carried at amortised cost

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value

The balance above of £181 million (2014 £135 million) is considered to be neither past due nor impaired

# **RAC Group Limited** **Notes to the Consolidated Financial Statements (continued)**

## **15 Cash and cash equivalents**

Cash and cash equivalents in the Consolidated statement of cash flows comprise

	2015	2014
	£m	£m
Unrestricted cash at bank and in hand	76	42
Restricted cash at bank	12	12
<b>Total</b>	<b>88</b>	<b>54</b>

Restricted cash is the amount of cash the RAC Group Limited Group is required to hold to meet regulatory Solvency requirements

## **16 Tax assets and liabilities**

	2015	2014
	£m	£m
Current tax payable	(64)	(72)
Deferred tax assets	7	7
Deferred tax liability	(40)	(46)
	<b>(97)</b>	<b>(111)</b>

# **RAC Group Limited** **Notes to the Consolidated Financial Statements (continued)**

## **16 Tax assets and liabilities (continued)**

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Other temporary differences	Total
	£m	£m	£m	£m	£m
At 1 January 2014	6	(45)	2	1	(36)
Charge to income statement	(1)	-	(1)	(1)	(3)
At 31 December 2014	5	(45)	1	-	(39)
[Charge]/credit to income statement	(1)	6	-	1	6
At 31 December 2015	4	(39)	1	1	(33)

	2015 £m	2014 £m
The movement in the net deferred tax liability was as follows		
Net deferred tax liability brought forward	(39)	(36)
Deferred tax credited/(charged) to the income statement (note 9(a))	6	(3)
Net deferred tax liability carried forward	(33)	(39)

The RAC Group Limited Group has unrecognised capital losses of £146 million (2014: £147 million) to carry forward indefinitely against future taxable income. The capital losses arose from past transactions in which the RAC Group Limited Group disposed of investments. These losses can be used to offset tax arising on future capital gains. No asset has been recognised as there are no capital gains expected in the foreseeable future.

Liabilities for corporation tax include amounts to be settled by group relief of £42 million (2014: £61 million) and are payable within one year.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 17 Provisions

	Other	Total
	£m	£m
At 1 January 2015	1	1
Utilised during the year	-	-
At 31 December 2015	1	1

#### Other provisions

Other provisions include amounts payable at the end of Patrol vehicle leases to correct modifications made and are expected to be utilised at the end of each vehicle's lease term (usually five years). There has been no material expenditure nor additional provision in the year.

### 18 Trade and other payables

	2015	2014
	£m	£m
Trade payables and accruals	50	49
Amounts due to related parties	3	24
Deferred income	151	159
Other payables	38	31
<b>Total</b>	<b>242</b>	<b>263</b>
Expected to be payable within one year	239	259
Expected to be payable in more than one year	3	4
<b>Total</b>	<b>242</b>	<b>263</b>

All payables other than deferred income are financial liabilities and are carried at amortised cost which is considered to be a reasonable approximation of the relevant fair value basis.

## RAC Group Limited

### Notes to the Consolidated Financial Statements (continued)

#### 19 Ordinary share capital

Details of the RAC Group Limited Group's ordinary share capital are as follows

	2015	2014
	£m	£m
Allotted, called up and fully paid		
122,590,168 (2014: 122,590,168) ordinary shares of £0.25 each	31	31

The Companies Act 2006 abolished the requirement for a Company to have an authorised share capital and the articles of association adopted by the Company on 11 February 2011 reflect this. Directors may exercise any power of the Company to allot shares or grant rights to subscribe for or to convert any security into such shares and are authorised to do so under the Company's articles of association. Ordinary shares in issue in the Company rank *pari passu*. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

Interim dividends totalling £nil were paid by the Company during the year (2014: £30 million (24.5 pence per share)).

#### 20 Share premium account

In August 2014, a capital reduction was approved by the Board, transferring £153 million from the share premium account to retained earnings in the Company. This resulted in an increase in distributable reserves in the Company.

#### 21 Other reserves

	Capital redemption reserve
	£m
Balance at 31 December 2015 and 31 December 2014	1

# **RAC Group Limited** **Notes to the Consolidated Financial Statements (continued)**

## **22 Commitments**

### **Operating lease commitments**

Future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2015	2014
	£m	£m
Within 1 year	11	11
Later than 1 year and not later than 5 years	25	25
Later than 5 years	66	68
	102	104

Operating lease commitments arise in respect of property leases and the Patrol fleet

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **23 Employee benefit obligations**

This note describes the RAC Group Limited Group's employee benefit arrangements for its employees and explains how the obligations to these schemes are calculated

##### **(a) Introduction**

The RAC Group Limited Group operates a number of employee benefit schemes as follows

##### **RAC Group Personal Pension Plan ("RAC GPP Plan")**

The RAC GPP Plan is a defined contribution pension plan open to all RAC employees

##### **Unfunded Unapproved Pension Scheme ("UUP Scheme")**

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2015 was 8 (2014: 8)

##### **Post-Retirement Medical Benefits Scheme ("PRMB Scheme")**

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2015 was 139 (2014: 139)

##### **Auto Windscreens Pension Scheme ("AW Scheme")**

In March 2013, the Group secured an insurance policy from Pension Insurance Corporation Ltd ('PIC') under which PIC took on responsibility for making payments to members of the legacy Auto Windscreens Pension scheme. Whilst this buy-in transferred the liability to PIC and meant that no further legacy payments were expected to be made by the RAC Group Limited Group, the RAC Group Limited Group continued to recognise the liability as the formal buy-out of the scheme liabilities was outstanding.

This buy-out process was completed in August 2014 and the RAC Group Limited Group has no further obligations under this legacy scheme.

##### **Disability Benefit Scheme ("DB Scheme")**

Under the DB Scheme, the RAC Group Limited Group provides disability benefits on a discretionary basis for certain former employees in the UK. Currently the RAC Group Limited Group contributes a flat rate per person to the scheme dependent on their individual circumstances.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 23 Employee benefit obligations (continued)

#### (b) Charges to the Consolidated income statement

The total costs of the RAC Group Limited Group's employee defined benefit schemes and defined contribution schemes were

	2015	2014
	£m	£m
Employee benefit schemes	-	1
Defined contribution schemes	8	8
Curtailment gain	-	(2)
<b>Total</b>	<b>8</b>	<b>7</b>

#### (c) Employee benefit scheme assumptions and disclosures

Disclosures under IAS 19 Employee Benefits are given below and on the following pages on a consolidated basis for the UUP Scheme, the PRMB Scheme and the DB Scheme ("the Schemes"), unless where otherwise stated

##### (i) Assumptions on the liabilities of the Schemes

###### The projected unit credit method

The inherent uncertainties affecting the measurement of the liabilities of the Schemes require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the Schemes using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowances for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to economic conditions, and changes in these assumptions can materially affect the measurement of the employee liability obligations.

###### Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2015. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2015.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 23 Employee benefit obligations (continued)

#### (c) Employee benefit scheme assumptions and disclosures (continued)

##### (i) Assumptions on the liabilities of the Schemes (continued)

##### Valuations and assumptions (continued)

The main actuarial assumptions used to calculate the UUP Scheme, the PRMB Scheme and the DB Scheme liabilities under IAS 19 are

	2015	2014
	%	%
Inflation rate	2.90	2.90
Pension increases	2.90	2.90
Deferred pension increases	2.90	2.90
Discount rate	3.70	3.40

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £507 thousand and £nil respectively (2014: £485 thousand and £nil respectively).

##### Mortality assumptions of the Schemes

Mortality assumptions are significant in measuring the RAC Group Limited Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2015 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances for future improvements	65.0	88.3 (23.3)	90.4 (25.4)	90.0 (25.0)	91.9 (26.9)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming all members were one year younger would increase the Schemes' liabilities by £391 thousand (2014: £289 thousand).

# **RAC Group Limited** **Notes to the Consolidated Financial Statements (continued)**

## **23 Employee benefit obligations (continued)**

### **(c) Employee benefit scheme assumptions and disclosures (continued)**

#### **(ii) Employee defined benefit expense**

The total employee defined benefit expense for the Schemes comprise

	2015	2014
	£m	£m
<b>Recognised in the income statement</b>		
Included within administrative expenses		
Net interest expense	-	(1)
Gain from curtailment and special termination benefits	-	2
Included within exceptional items		
Administration costs	-	-
<b>Total employee benefit gain/(losses) credited within RAC Group Limited Group profit or loss</b>	<b>-</b>	<b>1</b>
	2015	2014
	£m	£m
<b>Recognised in other comprehensive income</b>		
Gains on plan asset	-	1
Experience losses on liabilities	-	(2)
Loss on change of assumptions	-	(1)
<b>Total losses recognised in other comprehensive income</b>	<b>-</b>	<b>(2)</b>

## RAC Group Limited

### Notes to the Consolidated Financial Statements (continued)

#### 23 Employee benefit obligations (continued)

##### (c) Employee benefit scheme assumptions and disclosures (continued)

##### (iii) Experience gains and losses

The following table shows the experience gains and losses of the Schemes

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Fair value of the Scheme assets at the end of the year	-	-	19	27	27
Restriction on asset recognised	-	-	(2)	-	-
Present value of the Schemes' liabilities at the end of the year	(6)	(7)	(24)	(24)	(25)
<b>Net (deficit)/surplus in the Schemes</b>	<b>(6)</b>	<b>(7)</b>	<b>(7)</b>	<b>3</b>	<b>2</b>

Estimated employer contributions for the year ending 31 December 2016 are £1 million in respect of the defined benefit schemes and £8 million in respect of the defined contribution scheme

## RAC Group Limited

### Notes to the Consolidated Financial Statements (continued)

#### 23 Employee benefit obligations (continued)

##### (c) Employee benefit scheme assumptions and disclosures (continued)

##### (iv) Schemes' deficit

The present value of the Schemes' obligations and the fair value of the plan assets are as follows

	2015	2014
	£m	£m
Total fair value of assets	-	-
Present value of defined benefit obligations	(6)	(7)
<b>Net deficit in the Schemes</b>	<b>(6)</b>	<b>(7)</b>

Amounts recognised in the Consolidated statement of financial position

	2015	2014
	£m	£m
Deficits included in non-current liabilities	(6)	(7)
<b>Net deficit in the Schemes</b>	<b>(6)</b>	<b>(7)</b>

The deficits in non-current liabilities wholly relate to unfunded schemes

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 23 Employee benefit obligations (continued)

#### (c) Employee benefit scheme assumptions and disclosures (continued)

#### (v) Movement in the Scheme deficits and surplus comprise:

	Scheme assets 2015	Scheme liabilities 2015	Net deficit 2015
	£m	£m	£m
Balance at 1 January	-	(7)	(7)
Benefits paid	-	1	1
Balance at 31 December	-	(6)	(6)

	Scheme assets 2014	Scheme liabilities 2014	Net deficit 2014
	£m	£m	£m
Balance at 1 January	17	(24)	(7)
Employer contributions paid	1	-	1
Benefits paid	(2)	2	-
Interest expense	-	(1)	(1)
Completion of buyout	(17)	17	-
Remeasurement losses			
Gain on assets	1	-	1
Actuarial loss arising from change in assumptions	-	(3)	(3)
Curtailment gain	-	2	2
Balance at 31 December	-	(7)	(7)

# **RAC Group Limited**

## **Notes to the Consolidated Financial Statements (continued)**

### **24 Risk management**

The Group operates a risk management framework, which is the collection of processes and tools that have been put in place to ensure that the risks to which the Group is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management policies, risk reports and the governance and oversight infrastructure.

Financial risks are usually grouped by risk type: market, credit, liquidity, strategic, operational, capital and regulatory risk. Risks falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products that the Group delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation. The key risks faced by the Group are set out in this note.

The Group's measurement of risk is used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions. The Group carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to the potential conditions.

The Group has an established governance framework, which has the following key elements:

- defined terms of reference for the legal entity Boards and the associated executive management and other committees across the Group,
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and
- adoption of the risk policy framework that defines risk appetite measures and sets out risk management and control standards.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

#### **(a) Treasury**

The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group,
- Manage the interest risk of the Group's debt, and
- Ensure that the Group banking and card transmissions operate effectively.

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group.

# **RAC Group Limited**

## **Notes to the Consolidated Financial Statements (continued)**

### **24 Risk management (continued)**

#### **(a) Treasury (continued)**

##### **(i) Market risk**

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates

The RAC Group Limited Group has no borrowings based on market interest rates. Therefore there would be no impact in any reported year on profit before tax or shareholders' equity as a result of changes in market interest rate

Interest rate movements on trade payables, trade receivables and other financial instruments do not present a material exposure to the RAC Group Limited Group's statement of financial position

The RAC Group Ltd Group has no material foreign currency balances as at the statement of financial position date and therefore is not exposed to movements in foreign currency exchange rates

The RAC Group Limited Group is also exposed to risks from fluctuations in fuel prices which can lead to increased operating costs. This risk is managed by the RAC Group Limited Group through the use of forward purchases of fuel for a period of at least twelve months in order to hedge the variability of cash flows associated with the purchasing of fuel for use in the RAC Group Limited Group's operational fleet of Patrols and recovery vehicles

##### **(ii) Credit risk**

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below

	2015	2014
	£m	£m
Trade and other receivables	161	113
Cash and cash equivalents	88	54
	<u>249</u>	<u>167</u>

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **24 Risk management (continued)**

##### **(a) Treasury (continued)**

##### **(ii) Credit risk (continued)**

Management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure concerned.

The RAC Group Limited Group has not been generally exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances.

The RAC Group Limited Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the periods reported on were held with institutions who are A rated. The RAC Group Limited Group's largest cash and cash equivalent counterparty is Morgan Stanley. At 31 December 2015 the balance was £20 million (2014 Morgan Stanley £19 million).

##### **(iii) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further. The RAC Group Limited Group does not have any obligations outside of its Group for which liquidity risk would be significant.

The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements.

##### **(b) Strategic and operational risk**

The strategy (including operational risks) for the RAC Group Limited Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Strategic Report as set out on pages 2 to 14.

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **24 Risk management (continued)**

##### **(c) Capital risk management**

The RAC Group Limited Group's capital structure consists of £31 million (2014: £31 million) of funds from shareholders.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group is managed on a net debt basis. Management considers net debt to comprise external bank debt, being principal bank borrowings, associated accrued interest and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In managing its capital, the Group seeks to

- (i) match the expected cash inflows from its assets with the expected cash outflows from the Group's liabilities as they fall due,
- (ii) maintain financial strength to support new business growth and satisfy the requirements of its members and regulators,
- (iii) retain financial flexibility by maintaining strong liquidity, and
- (iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Group actively engages with external bodies to share the benefit of its expertise in supporting responses to emerging risks as well as challenging developments that could be damaging to its business and the industry as a whole.

##### **(d) Regulatory risk**

The RAC Group Limited Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA and PRA regulations. The RAC Group Limited Group's ability to transfer retained earnings to its shareholders is therefore restricted to the extent that these earnings form part of UK regulatory capital.

Relevant capital and solvency regulations ('Solvency I') continue to be used to measure and report the financial strength of regulated companies within the RAC Group Limited Group. The regulatory capital tests verify that an adequate excess of solvency capital above the required minimum level calculated is maintained using a series of prudent assumptions about the type of business that is underwritten. Regulatory requirements have been complied with throughout all periods reported.

The RAC Group Limited Group has undertaken a detailed programme of work in 2015 in order for RAC Insurance Limited to be in a position to comply with the requirements of Solvency II from 1 January 2016.

The RAC Group Limited Group is also subject to regulatory requirements, as set out by the FCA, in relation to product design, marketing materials, sales processes and data protection. Failure to comply with these requirements could result in the RAC Group Limited Group having to suspend, either temporarily or permanently, certain activities. To mitigate these risks the RAC Group Limited Group employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are fully understood and adhered to.

# RAC Group Limited

## Notes to the Consolidated Financial Statements (continued)

### 25 Related party transactions

(a) The RAC Group Limited Group had the following related party transactions in 2015 and 2014:

- (i) In 2015, the Group was recharged £6 million (2014: £nil) in respect of a Management Services Agreement. This Management Services Agreement allocates the strategic and governance costs of the group and recharges them to the trading entities where appropriate.
- (ii) The RAC Group Limited Group had the following net amounts due from related parties at year end:

	2015	2014
	£m	£m
Other Group companies - current accounts	120	77
Other Group companies - loan accounts	3	3
	<u>123</u>	<u>80</u>

During the year, RAC Group Limited Group, paid interest of £73 million in respect of bank borrowings on behalf of RAC Bidco Limited, a Parent Company, and these are included as amounts due from Group companies (2014: £nil). During the prior year, RAC Group Limited Group, paid interest of £45 million in respect of bank borrowings on behalf of RAC Finance (Holdings) Limited, a Parent Company. These balances have been included as amounts due from Group companies.

Loans receivable as at 31 December 2015 from RAC Finance Limited were £3 million (2014: £3 million).

(iii) The Group had the following total net amounts due to related parties at year end:

	2015	2014
	£m	£m
Other Group companies - current accounts	(3)	(24)

(iv) During the year, the RAC Group Limited Group paid a dividend of £nil, (2014: £30 million) to RAC Finance (Holdings) Limited.

### (b) Key management compensation

The total compensation to those employees classified as key management, being those senior managers having authority and responsibility for planning, directing and controlling the activities of the RAC Group Limited Group, including the Directors, in respect of the RAC Group is as follows:

	2015	2014
	£000	£000
Fees and benefits	4,209	2,378
Contributions paid into a pension scheme	70	84
	<u>4,279</u>	<u>2,462</u>

Fees and benefits include key management bonuses. During the year, payments of £125 thousand (2014: £nil) were made to key management for loss of office.

## **RAC Group Limited**

### **Notes to the Consolidated Financial Statements (continued)**

#### **25 Related party transactions (continued)**

##### **(c) Key management interests**

At no time during the year did any Director hold a material interest in any contract of significance with any Group company other than an indemnity provision between each Director and a Group company and service contracts between each Director and a Group company

No key management personnel held equity stakes in the business at 31 December 2015 or 31 December 2014

##### **(d) Immediate parent company**

The immediate Parent Company of the Group is RAC Finance (Holdings) Limited, registered in England and Wales

##### **(e) Ultimate controlling party**

The ultimate controlling entity of the RAC Group Limited Group is RAC Group (Holdings) Limited. Its Consolidated Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which consolidated IFRS financial statements are prepared is RAC Group Limited.

Until 17 December 2014, the controlling entity of the Group was RAC Limited and the ultimate controlling entity was CEP III Investment 16 S a r l registered in Luxembourg.

## **RAC Group Limited**

### **Company Financial Statements**

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The accounting policies on pages 30 to 44 also form an integral part of these Financial Statements

**RAC Group Limited**

Registered in England and Wales: No. 00229121

**Company Financial Statements 2015****Company statement of financial position**

As at 31 December 2015

	Note	2015	2014
		£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	4	660	660
Deferred tax assets	7	1	1
Other receivables	5	13	13
		<u>674</u>	<u>674</u>
<b>Current assets</b>			
Other receivables	5	121	77
Current tax receivable	7	7	15
Cash and cash equivalents	6	72	40
		<u>200</u>	<u>132</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	8	(219)	(268)
Current tax payable	7	(8)	-
		<u>(227)</u>	<u>(268)</u>
<b>Net current liabilities</b>		<u>(27)</u>	<u>(136)</u>
<b>Non-current liabilities</b>			
Employee benefit liability	12(iv)	(3)	(3)
Other payables	8	(330)	(271)
		<u>(333)</u>	<u>(274)</u>
<b>Net assets</b>		<u>314</u>	<u>264</u>
<b>EQUITY</b>			
Ordinary share capital	9	31	31
Share premium account	10	-	-
Other reserves	11	1	1
Retained earnings		282	232
<b>Total equity</b>		<u>314</u>	<u>264</u>

The accounting policies on pages 30 to 44 and the notes on pages 82 to 91 are an integral part of these Financial Statements

Approved by the Board on 29 February 2016

  
D Cougill, Chief Financial Officer

**RAC Group Limited**  
**Company Financial Statements 2015 (continued)**  
**Company statement of changes in equity**  
**For the year ended 31 December 2015**

	Note	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2014</b>		<b>31</b>	<b>153</b>	<b>1</b>	<b>130</b>	<b>315</b>
<b>Total comprehensive income for the year</b>						
Loss for the year		-	-	-	(21)	(21)
Other comprehensive expense		-	-	-	-	-
Total comprehensive expense		-	-	-	(21)	(21)
Capital reduction	10		(153)	-	153	-
Dividends		-	-	-	(30)	(30)
Total movements in the year		-	(153)	-	102	(51)
<b>Balance at 31 December 2014</b>		<b>31</b>	<b>-</b>	<b>1</b>	<b>232</b>	<b>264</b>
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	50	50
Other comprehensive expense		-	-	-	-	-
Total comprehensive income		-	-	-	50	50
<b>Balance at 31 December 2015</b>		<b>31</b>	<b>-</b>	<b>1</b>	<b>282</b>	<b>314</b>

The accounting policies on pages 30 to 44 and the notes on pages 82 to 91 are an integral part of these Financial Statements

**RAC Group Limited**  
**Company Financial Statements 2015 (continued)**  
**Company statement of cash flows**  
**For the year ended 31 December 2015**

	Note	2015	2014
		£m	£m
<b>Operating activities</b>			
Profit/(loss) before tax		47	(27)
Adjustments to reconcile profit before tax to net cash flows			
Gain on disposal of investments		-	(2)
Finance expenses and other gains		14	15
Working capital adjustments			
Increase in trade and other receivables		(12)	(25)
Increase in trade and other payables		56	117
Tax received		-	-
<b>Net cash flows from operating activities</b>		<b>105</b>	<b>78</b>
<b>Investing activities</b>			
Acquisition of companies, net of cash acquired		-	(6)
Proceeds from sale of investments		-	3
<b>Net cash (used in)/generated from investing activities</b>		<b>-</b>	<b>(3)</b>
<b>Financing activities</b>			
Dividends paid		-	(30)
Interest paid		(73)	(45)
<b>Net cash flows used in financing activities</b>		<b>(73)</b>	<b>(75)</b>
<b>Net increase in cash and cash equivalents</b>		<b>32</b>	<b>-</b>
Cash and cash equivalents brought forward	6	40	40
<b>Cash and cash equivalents carried forward</b>	<b>6</b>	<b>72</b>	<b>40</b>

The accounting policies on pages 30 to 44 and the notes on pages 82 to 91 are an integral part of these Financial Statements

# RAC Group Limited

## Notes to the Company Financial Statements

### 1 Auditor's remuneration

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to auditor's remuneration may be found in note 6 of the Consolidated Financial Statements.

### 2 Employee information

The Company has no employees. All employees are employed by and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in note 7 of the Consolidated Financial Statements.

### 3 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group.

Disclosures relating to Directors' remuneration may be found in the note 8 of the Consolidated Financial Statements.

### 4 Investments in subsidiaries

#### (a) Information about subsidiaries

The Company had the following directly or indirectly held investments in subsidiaries:

Company	Type of business	Class of share	Proportion held
<b>Directly owned:</b>			
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%
<b>Indirectly owned:</b>			
RAC Motoring Services Limited	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Roadside assistance	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members capital	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland.

The Company's investments in subsidiaries are held at cost less any impairment.

#### (b) The holding company

The immediate controlling entity of the Company is RAC Finance (Holdings) Limited.

The ultimate controlling entity of the Group is RAC Group (Holdings) Limited.

Until 17 December 2014, the controlling entity of the Company was RAC Limited and the ultimate controlling entity was CEP III Investment 16 S a r l registered in Luxembourg.

# RAC Group Limited

## Notes to the Company Financial Statements (continued)

### 4 Investments in subsidiaries (continued)

#### (c) Movements in the Company's investments in subsidiaries and associates

	2015	2014
	£m	£m
At 1 January	660	655
Additions	-	5
<b>At 31 December</b>	<b>660</b>	<b>660</b>

In 2013 the Company acquired a 15% interest in, (and significance influence over) Risk Telematics UK Limited. The company is involved in the development of Telematics software. Risk Telematics UK Limited is a private entity that is not listed on any public exchange, and is incorporated in England and Wales. Under the shareholders agreement the company had an option to purchase the remaining shares up to 2018.

On 1 April 2014 the Company sold its 15% investment in Risk Telematics UK Limited to Connected Car Solutions for £1.5 million when it entered into a Joint Venture arrangement in Connected Car Solutions, resulting in a £1.5 million credit to the income statement on disposal of the investment.

On 1 September 2014, the Company repurchased the 15% stake it previously held in Risk Telematics UK Limited for £1.5 million from Connected Car Solutions in addition to exercising the option to acquire the remaining 85% of issued share capital that it did not previously own, obtaining control of Risk Telematics UK Limited. The remaining 85% issued share capital was acquired for £3.5 million of which £2.5 million was paid in cash with the balance of £1 million contingent on successful completion of terms as specified in the contract.

The total additions to Investments during the year of £5 million consists of the £3.5m and £1.5m noted above relating to the acquisition of Risk Telematics UK Limited.

#### (d) Company Investments in Associates

The Company holds an investment in RAC Brand Enterprises LLP. At the end of 2014 and 2015, the Company's share of the associate was 0.5%, but indirectly the company holds 100% of the membership interest. The principal activities of the associate are the ownership and management of intangible assets, including the managing of license agreements. Summary financial information extracted from the associate's financial statements are as follows:

	2015	2014
	£000	£000
<b>Statement of financial position as at 31 December</b>		
Non-current assets	560,609	550,528
Current assets	76,641	84,459
Current liabilities	(791)	(46)
<b>Equity</b>	<b>636,459</b>	<b>634,941</b>
<b>Income statement for the year ended 31 December</b>		
Revenue	44,234	49,186
Profit for the year	4,044	4,526

## RAC Group Limited

### Notes to the Company Financial Statements (continued)

#### 5 Other receivables

	2015	2014
	£m	£m
Amounts due from related parties (see note 13)	134	90
<b>Total</b>	<b>134</b>	<b>90</b>
Expected to be recoverable within one year	121	77
Expected to be recoverable in more than one year	13	13
	<b>134</b>	<b>90</b>

All receivables and other financial assets other than prepayments are carried at amortised cost. The Directors consider that the carrying amount of other receivables is approximately equal to their fair value.

The balance above of £134 million (2014: £90 million) is considered to be neither past due nor impaired.

#### 6 Cash and cash equivalents

	2015	2014
	£m	£m
Unrestricted cash at bank and in hand	72	40
<b>Total</b>	<b>72</b>	<b>40</b>

#### 7 Tax assets and liabilities

	2015	2014
	£m	£m
Current tax receivable	7	15
Current tax payable	(8)	-
Deferred tax assets	1	1
<b>Total</b>	<b>-</b>	<b>16</b>

# **RAC Group Limited** **Notes to the Company Financial Statements (continued)**

## **7 Tax assets and liabilities (continued)**

	Retirement benefit obligations	Other temporary differences	Total
At 1 January 2014	(1)	1	-
Charge to income statement	1	-	1
At 31 December 2014	-	1	1
Credit to income statement	-	-	-
At 31 December 2015	-	1	1
		<b>2015</b>	<b>2014</b>
		<b>£m</b>	<b>£m</b>

**The movement in the net deferred tax asset was as follows:**

Net deferred tax asset brought forward	1	-
Deferred tax credited to the income statement	-	1
Net deferred tax asset carried forward	1	1

The Company has gross unrecognised temporary differences of £137 million (2014 £139 million) to carry forward indefinitely against future taxable income in the Company

Receivables for corporation tax include amounts to be settled by group relief of £7 million (2014 £15 million) within one year

The headline rate of UK corporation tax reduced from 21% to 20% on 1 April 2015, and will reduce further to 19% from 1 April 2017 and 18% from 1 April 2020

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date

Accordingly, as the future reductions of the corporation tax rate to 19% and 18% was substantively enacted on 26 October 2015, the deferred tax balances at 31 December 2015 have been reflected at the tax rates at which they are expected to be realised or settled

# **RAC Group Limited** **Notes to the Company Financial Statements (continued)**

## **8 Other payables**

	2015	2014
	£m	£m
Amounts due to related parties (see note 13)	549	539
<b>Total</b>	<b>549</b>	<b>539</b>
Expected to be recoverable within one year	219	268
Expected to be payable in more than one year	330	271
<b>Total</b>	<b>549</b>	<b>539</b>

All payables are financial liabilities and carried at amortised cost which is considered to be a reasonable approximation of the relevant fair value basis

## **9 Ordinary share capital**

Details of the Company's ordinary share capital are as follows

	2015	2014
	£m	£m
<b>Allotted, called up and fully paid</b>		
122,590,168 (2014: 122,590,168) ordinary shares of £0.25 each	31	31

## **10 Share premium account**

In August 2014, a capital reduction was approved by the Board, transferring £153 million from the share premium account to retained earnings in the Company. This resulted in an increase in distributable reserves in the Company.

## **11 Other reserves**

	Capital redemption reserve
	£m
Balance at 31 December 2015 and 31 December 2014	1

# RAC Group Limited

## Notes to the Company Financial Statements (continued)

### 12 Employee benefit obligations

#### Pension scheme assumptions and disclosures

Disclosures under IAS 19 Employee Benefits are given below and on the following pages for the PRMB Scheme

#### (i) Assumptions on the liabilities of the Schemes

The assumptions on the liabilities of the Company Schemes are the same as those applied for the Group and disclosed in note 23(c)(i)

#### (ii) Employee defined benefit expense

The total employee defined benefit expense for the Schemes comprise

	2015	2014
	£m	£m
<b>Recognised in the income statement</b>		
Included within administrative expenses		
Past service cost	-	(1)
Gain from curtailment	-	1
<b>Total employee benefit gain credited within Company profit or loss</b>	-	-
	2015	2014
	£m	£m
<b>Recognised in other comprehensive income</b>		
Gain on plan assets	-	1
Experience loss on liabilities	-	(1)
<b>Total losses recognised in other comprehensive income</b>	-	-

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 (the date of transition to IFRS) was £6 million loss at 31 December 2015 (2014: £6 million loss)

# RAC Group Limited

## Notes to the Company Financial Statements (continued)

### 12 Employee benefit obligations (continued)

#### Pension scheme assumptions and disclosures (continued)

##### (iii) Experience gains and losses

The following table shows the experience gains and losses of the Schemes over the past five years

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Fair value of the Scheme assets at the end of the year	-	-	19	27	27
Restriction on asset recognised	-	-	(2)	-	-
Present value of the Schemes' liabilities at the end of the year	(3)	(3)	(20)	(20)	(21)
<b>Net (deficit)/ surplus in the Schemes</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>7</b>	<b>6</b>

Estimated employer contributions for the financial year ending 31 December 2016 are £nil in respect of the Defined Benefit schemes and £8 million in respect of the Defined Contribution scheme

##### (iv) Schemes' deficit

The present value of the Schemes' obligations and the fair value of the plan assets are as follows

	2015	2014
	£m	£m
Present value of defined benefit obligations	(3)	(3)
<b>Net deficit in the Schemes</b>	<b>(3)</b>	<b>(3)</b>
	2015	2014
	£m	£m
Amounts recognised in the statement of financial position at 31 December are		
Deficits included in non-current liabilities	(3)	(3)
<b>Net deficit in the Schemes</b>	<b>(3)</b>	<b>(3)</b>

The deficits in the non-current liabilities wholly relate to unfunded schemes

# RAC Group Limited

## Notes to the Company Financial Statements (continued)

### 12 Employee benefit obligations (continued)

#### Pension scheme assumptions and disclosures - Company (continued)

#### (v) Movement in the Scheme deficits and surplus comprise:

	Scheme assets	Scheme liabilities	Net pension deficit
	2015	2015	2015
	£m	£m	£m
<b>Balance at 1 January 2015</b>	-	(3)	(3)
Past service cost	-	-	-
Benefits paid	-	-	-
Remeasurement losses			
Gain on assets	-	-	-
Actuarial loss arising from change in assumptions	-	-	-
<b>Balance at 31 December 2015</b>	-	(3)	(3)

	Scheme assets	Scheme liabilities	Net pension surplus/ (deficit)
	2014	2014	2014
	£m	£m	£m
<b>Balance at 1 January 2014</b>	17	(20)	(3)
Past service cost	-	(1)	(1)
Benefits paid	(1)	1	-
Completion of buy out	(17)	17	-
Remeasurement losses			
Gain on assets	1	-	1
Actuarial loss arising from change in assumptions	-	(1)	(1)
Curtailment gain	-	1	1
<b>Balance at 31 December 2014</b>	-	(3)	(3)

# RAC Group Limited

## Notes to the Company Financial Statements (continued)

### 13 Related party transactions

(a) The Company had the following related party transaction in 2015 and 2014:

(i) The Company had the following net amounts due from related parties at year end

	2015	2014
	£m	£m
Other Group companies - current accounts	121	77
Other Group companies - loan accounts	13	13
	<u>134</u>	<u>90</u>

During the year, the Company paid interest of £73 million in respect of bank borrowings on behalf of RAC Bidco Limited, a Parent Company, and these are included as amounts due from Group companies (2014: £nil). During the prior year, the Company paid interest of £45 million in respect of bank borrowings on behalf of RAC Finance (Holdings) Limited, a Parent Company. These balances have

(ii) The Company had the following net amounts due to related parties at year end

	2015	2014
	£m	£m
Other Group companies - current accounts	(219)	(268)
Other Group companies - loan accounts	(330)	(271)
	<u>(549)</u>	<u>(539)</u>

The Company has revolving credit facilities with RAC Motoring Services Limited and RAC Financial Services Limited which were renewed in the prior year. The maximum facility amount with RAC Motoring Services Limited is £300 million, with effect from 30 November 2012, and is repayable on demand or by no later than the maturity date of 30 November 2015. The year end balance is £232 million payable (2014: £219 million). The maximum facility amount with RAC Financial Services Limited is £50 million, with effect from 30 November 2012, and is repayable on demand or by no later than the maturity date of 30 November 2017. The year end balance is £44 million payable (2014: £42 million).

## **RAC Group Limited**

### **Notes to the Company Financial Statements (continued)**

#### **13 Related party transactions (continued)**

##### **(b) The Company had the following related party transactions in 2015 and 2014 (continued):**

- (i) During the year, the Company paid a dividend of £nil (2014: £30 million) to RAC Finance (Holdings) Limited
- (ii) In 2015, the Company received dividends of £60 million (2014: £nil) from RAC Motoring Services (Holdings) Limited
- (iii) During the year the Company recharged £11 million (2014: £nil) to its subsidiaries and paid £6 million (2014: £nil) to RAC Limited, in respect of the Management Services Agreement. This agreement allocates the strategic and governance costs of the RAC Bidco Limited Group and
- (iv) The Company received income on behalf of, and is party to funding arrangements with fellow RAC Group companies in the course of its business. The net income in 2015 from RAC Group companies was £2 million (2014: £8 million)

##### **(c) Key management compensation**

The Directors and key management of the Company are considered to be the same as for RAC Group Limited Group. Information on key management compensation may be found in the note 25 of the Consolidated Financial Statements.

##### **(d) Key management interests**

No key management personnel held equity stakes in the business at 31 December 2015 or 31 December 2014.

At no time during the periods did any Director hold a material interest in any contract of significance with any Group company other than an indemnity provision between each Director and a Group company and service contracts between each director and a Group company.

##### **(e) Immediate parent company**

The Company's immediate Parent Company is RAC Finance (Holdings) Limited, registered in England and Wales.

##### **(f) Ultimate controlling entity**

The ultimate controlling entity of the Company is RAC Group (Holdings) Limited. Its Consolidated Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which consolidated IFRS financial statements are prepared is RAC Group Limited.

Until 17 December 2014, the controlling entity of the Company was RAC Limited and the ultimate controlling entity was CEP III Investment 16 S a r l registered in Luxembourg.