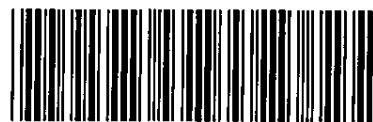


RAC INSURANCE LIMITED
FINANCIAL STATEMENTS
2007

SATURDAY



ABCBM1C7

A18

12/07/2008

172

COMPANIES HOUSE

RAC Insurance Limited

Contents	Page
Directors and officer	1
Directors' report	2
Independent auditor's report	6
Accounting policies	8
Income statement	13
Balance sheet	14
Statement of changes in shareholder's equity	15
Cash flow statement	16
Notes to the financial statements	
1 Details of income	17
2 Details of expenses	17
3 Employee information	18
4 Directors	18
5 Auditor's remuneration	18
6 Tax	18
7 Receivables and other financial assets	19
8 Deferred acquisition costs	19
9 Insurance liabilities	20
10 Financial guarantees and options	23
11 Payables and other financial liabilities	23
12 Tax assets and liabilities	24
13 Ordinary share capital	24
14 Cash flow statement	24
15 Contingent liabilities and other risk factors	25
16 Risk management policies	25
17 Capital structure	31
18 Related party transactions	33

RAC Insurance Limited

Directors and officer

Directors:

J Hunt

J R Kitson

I M Mayer

Officer:

Company Secretary

R H Spicker

Auditor:

Ernst & Young LLP

Registered Auditor

1 More London Place

London

SE1 2AF

Registered office:

8 Surrey Street

Norwich

NR1 3NG

Registered in England and Wales No 2355834

RAC Insurance Limited ("the Company") is a member of the Association of British Insurers and the Financial Ombudsman Service, and regulated by the Financial Services Authority

The Company is a member of the Aviva plc group of companies ("the Group")

RAC Insurance Limited

Directors' report

For the year ended 31 December 2007

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2007

Directors

The names of the current directors of the Company appear on page 1

J R Kitson served as a director throughout the year

P C Easter resigned as a director on 1 January 2007 and J Hunt was appointed on the same date

S C J Machell resigned as a director on 12 July 2007

I M Mayer was appointed as a director on 13 July 2007

J Seaton was appointed as an alternate director to J Hunt on 13 August 2007 and resigned on 1 September 2007

Principal activity

The principal activity of the Company is the provision of insurances relating to roadside assistance

Business review

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance and position at the current time, during the financial period and at the end of the financial period. In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business.

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements. The directors consider that the Company's principal activity will continue unchanged into the foreseeable future.

Financial key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

- increase/(decrease) in net written premiums, and
- combined operating ratio ("COR") - this comprises the sum of the following ratios:
 - net incurred claims to net earned premiums ratio,
 - net written commissions to net written premiums ratio, and
 - net written expenses to net written premiums ratio

RAC Insurance Limited

Directors' report (continued)

Business review (continued)

Financial key performance indicators (continued)

A summary of the KPIs is set out below

Measure	2007	2006
Increase/(decrease) in net written premiums	26%	(3%)
Combined operating ratio	74%	80%
Net incurred claims ratio	91%	95%
Net written commissions ratio	(19%)	(16%)
Net written expenses ratio	2%	1%

Financial position and performance

The financial position of the Company at 31 December 2007 is shown in the balance sheet on page 14, with the trading results shown in the income statement on page 13 and the cash flow on page 16

Profit before tax increased from £2,114 thousand in 2006 to £3,880 thousand in 2007. This is due to several factors as summarised by the KPIs and also detailed below

Gross written premiums ("GWP") have increased by 19.2%. This is mainly due to a new quota share agreement signed between the Company and SAGA Insurance Company Limited during the year.

Net written premiums have increased by 25.6%. This is due to the increase in GWP, and proportionally lower reinsurance written premiums and this is mainly due to the onward cover.

It is the Company's intention to achieve steady sustainable growth in net written premiums, while adhering to strict underwriting disciplines.

The Company's ultimate parent, Aviva plc, has stated its intention to meet or beat a combined operating ratio of 98% across the cycle. The Company will seek to support Aviva plc in meeting this target.

Risk management

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 16 to the financial statements.

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated include, but are not limited to

- frequency and severity of significant natural hazards,
- UK domestic economic business conditions, and
- the impact of competition, inflation and deflation

RAC Insurance Limited

Directors' report (continued)

Financial instruments

The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 16 to the financial statements.

Dividends

No interim dividend for the year was paid (2006 £ nil). The directors do not recommend the payment of a final dividend (2006 £ nil).

Major events

RAC Investments Limited transferred its entire shareholding in the issued share capital of the Company to RAC plc, a fellow Group undertaking, for a consideration equivalent to the market value of the Company as at 30 September 2007 of £16,129 thousand.

Payment policy

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all the relevant terms and conditions.

There were no amounts due to trade creditors at 31 December 2007 and 2006.

Employees

All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc.

Directors' interests

The requirement for directors to disclose their share interests in Aviva plc in the directors' report was repealed by the Companies Act 2006 (s 1195 and SI 2007/1093) with effect from 6 April 2007. None of the directors who held office at 31 December 2007 had any interest in the Company's shares.

Directors' liabilities

Aviva plc, the ultimate parent undertaking, 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 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. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

RAC Insurance Limited

Directors' report (continued)

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 his report, of which the auditor is unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the directors to

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business,
- 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

On behalf of the Board



Director

25 JUNE 2008

RAC Insurance Limited

Independent auditor's report

To the members of RAC Insurance Limited

We have audited the Company's financial statements for the year ended 31 December 2007, which comprise the Accounting Policies, the Income Statement, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

RAC Insurance Limited

Independent auditor's report (continued)

To the members of RAC Insurance Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

27 June 2008

RAC Insurance Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain. Its principal activity is the transaction of all classes of insurance relating to roadside assistance.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(A) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2007.

The IASB issued IAS 1, Presentation of Financial Statements – A Revised Presentation, and an amendment to IAS 23, Borrowing Costs, during 2007, neither of which has yet been endorsed by the EU. These are not applicable for the current accounting period and, on adoption, they will not have any material impact on the Company's financial reporting.

In accordance with Phase I IFRS 4, Insurance Contracts, the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in policy D below.

The financial statements are stated in British pounds, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of British pounds ("£000").

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. This is particularly so in the estimation of amounts for insurance liabilities, for which further details are given in policy H overleaf and in note 9 to these financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

(C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

RAC Insurance Limited

Accounting policies (continued)

(D) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts.

As noted in policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006).

(E) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are computed on either a daily or monthly pro rata basis.

(F) Fee and commission income

Fee and commission income consists primarily of commission revenue from reinsurance commission and profit participation, which is recognised when earned.

(G) Net investment income

Investment income consists of interest receivable for the year. Interest income is recognised as it accrues.

(H) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occurring during the year, whether reported or not, loss adjustment expenses, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims handling department and any part of the general administrative costs directly attributable to the loss adjustment function.

RAC Insurance Limited

Accounting policies (continued)

(H) Insurance contract liabilities (continued)

Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the balance sheet date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 9(c).

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the balance sheet.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the balance sheet.

(I) Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsurance policies.

RAC Insurance Limited

Accounting policies (continued)

(I) Reinsurance (continued)

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(J) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where

- (i) the rights to receive cash flows from the asset have expired,
- (ii) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement, or
- (iii) the Company has transferred its rights to receive cash flows from the asset and either
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(K) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

RAC Insurance Limited

Accounting policies (continued)

(L) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit.

(M) Contingent liabilities

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated, or if they are possible but not probable.

(N) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(O) 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 its liabilities. Accordingly, a financial instrument is treated as equity if:

- (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.

RAC Insurance Limited

Income statement

For the year ended 31 December 2007

	Note	2007 £000	2006 £000
Income	1		
Gross written premiums		15,842	13,287
Premiums ceded to reinsurers		(4,715)	(4,425)
Premiums written net of reinsurance		11,127	8,862
Net change in provision for unearned premiums		27	(272)
Net premiums earned		11,154	8,590
Fee and commission income		2,577	2,031
Net investment income		1,094	518
		<u>14,825</u>	<u>11,139</u>
Expenses	2		
Claims and benefits paid, net of reinsurance		(9,999)	(8,195)
Change in insurance liabilities, net of reinsurance		(127)	33
Fee and commission expenses		(543)	(740)
Other operating expenses		(276)	(123)
		<u>(10,945)</u>	<u>(9,025)</u>
Profit before tax		3,880	2,114
Tax expense	6	(1,164)	(634)
Profit for the year		<u>2,716</u>	<u>1,480</u>

The Company has no recognised income and expenses other than those included in the results above and therefore a statement of recognised income and expense has not been presented

The accounting policies on pages 8 to 12 and notes on pages 17 to 33 are an integral part of these financial statements

RAC Insurance Limited


Balance sheet

As at 31 December 2007

	Note	<u>2007</u> £000	<u>2006</u> £000
ASSETS			
Receivables and other financial assets	7	2,848	11,664
Deferred acquisition costs	8(a)	181	291
Cash and cash equivalents	14(b)	25,743	11,649
Total assets		<u>28,772</u>	<u>23,604</u>
LIABILITIES			
Insurance liabilities	9(a)	8,354	8,254
Payables and other financial liabilities	11	1,822	-
Liability for current tax	12(a)	1,164	634
Total liabilities		<u>11,340</u>	<u>8,888</u>
Net assets		<u>17,432</u>	<u>14,716</u>
EQUITY			
Ordinary share capital	13	5,500	5,500
Retained earnings		11,932	9,216
Total equity		<u>17,432</u>	<u>14,716</u>

The accounting policies on pages 8 to 12 and notes on pages 17 to 33 are an integral part of these financial statements

Approved by the Board on 25 JUNE 2008


Director

RAC Insurance Limited

Statement of changes in shareholder's equity

For the year ended 31 December 2007

	Ordinary share capital	Retained earnings	Total equity
	£000	£000	£000
Balance at 1 January 2006	5,500	7,736	13,236
Total recognised income and expense for the year	-	1,480	1,480
Total movements in the year	-	1,480	1,480
Balance at 31 December 2006	5,500	9,216	14,716
Total recognised income and expense for the year	-	2,716	2,716
Total movements in the year	-	2,716	2,716
Balance at 31 December 2007	5,500	11,932	17,432

The accounting policies on pages 8 to 12 and notes on pages 17 to 33 are an integral part of these financial statements

RAC Insurance Limited

Cash flow statement

For the year ended 31 December 2007

	Note	<u>2007</u>	<u>2006</u>
		<u>£000</u>	<u>£000</u>
Cash flows from operating activities			
Net cash inflow from operating activities	14(a)	14,094	560
<i>Net cash from operating activities</i>		<u>14,094</u>	<u>560</u>
Net increase in cash and cash equivalents		14,094	560
Cash and cash equivalents at 1 January		<u>11,649</u>	<u>11,089</u>
Cash and cash equivalents at 31 December	14(b)	<u><u>25,743</u></u>	<u><u>11,649</u></u>

The accounting policies on pages 8 to 12 and notes on pages 17 to 33 are an integral part of these financial statements

RAC Insurance Limited

Notes to the financial statements

1 Details of income

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Premiums earned		
Gross written premiums	15,842	13,287
Less premiums ceded to reinsurers	(4,715)	(4,425)
Net change in provision for unearned premiums	<u>27</u>	<u>(272)</u>
Net premiums earned	11,154	8,590
Fee and commission income		
Other commission income	<u>2,577</u>	<u>2,031</u>
Total revenue	<u>13,731</u>	<u>10,621</u>
Net investment income		
Interest and similar income	<u>1,094</u>	<u>518</u>
Total income	<u>14,825</u>	<u>11,139</u>

2 Details of expenses

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Claims paid, net of reinsurance		
Claims and benefits paid to policyholders	11,635	9,058
Less claim recoveries from reinsurers	<u>(1,636)</u>	<u>(863)</u>
	9,999	8,195
Change in insurance liabilities, net of reinsurance		
Change in insurance liabilities	<u>127</u>	<u>(33)</u>
	<u>10,126</u>	<u>8,162</u>
Fee and commission expenses		
Acquisition costs		
Commission expenses	433	614
Change in deferred acquisition costs	<u>110</u>	<u>126</u>
	<u>543</u>	<u>740</u>
Other operating expenses		
Operating expenses	<u>276</u>	<u>123</u>
Total expenses	<u>10,945</u>	<u>9,025</u>

RAC Insurance Limited

Notes to the financial statements (continued)

3 Employee information

No staff were employed by the Company during the current or previous year. Accordingly no staff related costs were incurred by the Company.

4 Directors

All directors of the Company are remunerated as employees by Aviva Employment Services Limited, a fellow Group undertaking. This remuneration is recharged to all operating divisions of the Aviva Group under management service agreements. However, no cost is borne by the Company for the services of the directors in their capacity as directors.

5 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements is shown below. The Company is exempt from disclosing other fees payable to its auditor, in respect of other work by virtue of regulation 4(1)(b) of The Companies (Disclosure of Auditor Remuneration) Regulations 2005, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (see note 18(c)).

	<u>2007</u> £000	<u>2006</u> £000
Audit services		
Statutory audit of the Company's financial statements	<u>6</u>	<u>5</u>

Auditor's remuneration is borne by Norwich Union Central Services Limited, a fellow Group undertaking.

6 Tax

(a) Tax charged to the income statement

	<u>2007</u> £000	<u>2006</u> £000
Current tax:		
For this year	<u>1,164</u>	<u>634</u>
Total current tax	<u>1,164</u>	<u>634</u>

RAC Insurance Limited

Notes to the financial statements (continued)

6 Tax (continued)

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom as follows

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Profit before tax	3,880	2,114
Tax calculated at standard UK corporation tax rate of 30% (2006 30%)	1,164	634
Tax charged for the period (note 6a)	<u>1,164</u>	<u>634</u>

7 Receivables and other financial assets

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Amounts due from reinsurers	121	150
Amounts due from intermediaries - related parties (note 18)	2,727	11,514
Total	<u>2,848</u>	<u>11,664</u>
Expected to be recovered within one year	<u>2,848</u>	<u>11,664</u>

8 Deferred acquisition costs

(a) The carrying amount comprised:

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Deferred acquisition costs	<u>181</u>	<u>291</u>

(b) The movements in deferred acquisition costs during the year were:

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Carrying amount at 1 January	291	417
Acquisition costs written during the year	433	614
Amortisation	<u>(543)</u>	<u>(740)</u>
Carrying amount at 31 December	<u>181</u>	<u>291</u>

Deferred acquisition costs are generally recoverable within one year of the balance sheet date

RAC Insurance Limited

Notes to the financial statements (continued)

9 Insurance liabilities

(a) Carrying amount

Insurance liabilities at 31 December comprised	2007 £000	2006 £000
Provision for outstanding claims	471	344
Provision for unearned premiums	7,883	7,910
Total	8,354	8,254

(b) Provisions for outstanding claims

Some delays occur in the notification and settlement of claims and a measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Outstanding claims provisions are based on undiscounted estimates of future claims payments.

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of paid and incurred losses, average costs per claim and claims numbers based on the observed development of earlier years and expected loss ratios.

(d) Movements

The following changes have occurred in the technical provisions during the year

	2007 £000	2006 £000
Carrying amount at 1 January	344	377
Claims losses and expenses incurred in the current year	11,762	9,025
Less		
Payments made on claims incurred in the current year	(11,291)	(8,681)
Payments made on claims incurred in prior years	(344)	(377)
Claims payments made in the year	(11,635)	(9,058)
Carrying amount at 31 December	471	344

RAC Insurance Limited

Notes to the financial statements (continued)

9 Insurance liabilities (continued)

(e) Loss development tables

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the accident years 2001 to 2007. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2001, by the end of 2007 £12,025 thousand had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £12,025 thousand has remained unchanged at £12,025 thousand at 31 December 2007. Any change from the original estimate could generally be a combination of a number of factors, including claims being settled for larger or smaller amounts than originally estimated. The original estimates may also be increased or decreased, as more information becomes known about the individual claims and overall claims frequency and severity patterns.

In 2005, the year of adoption of IFRS, only five years were required to be disclosed. This will be increased in each succeeding additional year, until ten years' information is included.

Accident year	All prior years £000	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	Total £000
Gross cumulative claims payments									
At end of accident year		(10,714)	(11,343)	(9,760)	(10,795)	(11,251)	(8,681)	(11,291)	
One year later		(12,025)	(12,488)	(10,655)	(11,105)	(11,627)	(9,025)		
Two years later		(12,025)	(12,488)	(10,655)	(11,105)	(11,627)			
Three years later		(12,025)	(12,488)	(10,655)	(11,105)				
Four years later		(12,025)	(12,488)	(10,655)					
Five years later		(12,025)	(12,488)						
Six years later		(12,025)							
Estimate of gross ultimate claims									
At end of accident year		12,025	12,488	10,655	11,105	11,627	9,025	11,762	
One year later		12,025	12,488	10,655	11,105	11,627	9,025		
Two years later		12,025	12,488	10,655	11,105	11,627			
Three years later		12,025	12,488	10,655	11,105				
Four years later		12,025	12,488	10,655					
Five years later		12,025	12,488						
Six years later		12,025							
Estimate of ultimate claims		12,025	12,488	10,655	11,105	11,627	9,025	11,762	
Cumulative payments		(12,025)	(12,488)	(10,655)	(11,105)	(11,627)	(9,025)	(11,291)	
Outstanding claims provisions recognised in the balance sheet		-	-	-	-	-	-	471	471

RAC Insurance Limited

Notes to the financial statements (continued)

9 Insurance liabilities (continued)

(e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is

Accident year	All prior years £000	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	Total £000
Net cumulative claims payments									
At end of accident year		(7,850)	(8,868)	(7,257)	(9,108)	(10,335)	(7,818)	(9,655)	
One year later		(9,197)	(9,983)	(8,153)	(9,418)	(10,712)	(8,162)		
Two years later		(9,197)	(9,983)	(8,153)	(9,418)	(10,712)			
Three years later		(9,197)	(9,983)	(8,153)	(9,417)				
Four years later		(9,197)	(9,983)	(8,153)					
Five years later		(9,197)	(9,983)						
Six years later		(9,197)							
Estimate of net ultimate claims									
At end of accident year		9,197	9,983	8,153	9,418	10,712	8,162	10,126	
One year later		9,197	9,983	8,153	9,418	10,712	8,162		
Two years later		9,197	9,983	8,153	9,418	10,712			
Three years later		9,197	9,983	8,153	9,418				
Four years later		9,197	9,983	8,153					
Five years later		9,197	9,983						
Six years later		9,197							
Estimate of ultimate claims		9,197	9,983	8,153	9,418	10,712	8,162	10,126	
Cumulative payments		(9,197)	(9,983)	(8,153)	(9,418)	(10,712)	(8,162)	(9,655)	
Net outstanding claims provisions recognised in the balance sheet	-	-	-	-	-	-	-	471	471

RAC Insurance Limited

Notes to the financial statements (continued)

9 Insurance liabilities (continued)

(f) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premiums during the year

	<u>2007</u> £000	<u>2006</u> £000
Carrying amount at 1 January	7,910	7,638
Premiums written during the year	15,842	13,287
Less Premiums earned during the year	(15,869)	(13,015)
Change in year	(27)	272
Carrying amount at 31 December	<u>7,883</u>	<u>7,910</u>

10 Financial guarantees and options

With the approval of the Financial Services Authority ("FSA"), Aviva International Insurance Limited and certain of its United Kingdom insurance undertakings transacting general insurance business, of which the Company is one, have mutually guaranteed to discharge all liabilities attaching to their respective policies. The guarantee enables a company, if it is unable to pay a policyholder claim, to seek financial support from one of the guarantors. The guarantors are not obliged to make the payment if in so doing they would breach their own solvency requirement. If any payments are made under the guarantee, the guarantors are entitled to seek repayment from the company benefiting from the guarantee. The guarantee cannot be relied upon by any other person, including without limitation the holder of any contracts of insurance issued by a party to the guarantee. There is no maximum amount the Company would have to pay under the guarantee but, in the opinion of the directors, the fair value of the guarantee above is not material and no material loss is expected to arise therefrom.

11 Payables and other financial liabilities

	<u>2007</u> £000	<u>2006</u> £000
Amounts due to related parties (note 18)	<u>1,822</u>	<u>-</u>
Expected to be settled within one year	<u>1,822</u>	<u>-</u>

RAC Insurance Limited

Notes to the financial statements (continued)

12 Tax assets and liabilities

(a) General

Liabilities for current tax of £1,164 thousand (2006 £634 thousand) are payable in more than one year

(b) Deferred tax

No deferred tax has been provided as no material timing differences have arisen

13 Ordinary share capital

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

	<u>2007</u> £000	<u>2006</u> £000
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
5,500,000 ordinary shares of £1 each	<u>5,500</u>	<u>5,500</u>

14 Cash flow statement

	<u>2007</u> £000	<u>2006</u> £000
(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:		
Profit before tax	3,880	2,114
Changes in working capital		
(Increase)/ decrease in deferred acquisition costs	110	126
(Increase)/ decrease in receivables and other financial assets	8,816	(1,919)
Increase/ (decrease) in insurance liabilities	100	239
Increase/ (decrease) in payables and other financial liabilities	<u>1,188</u>	<u>-</u>
Net cash inflow from operating activities	<u>14,094</u>	<u>560</u>
	<u>2007</u> £000	<u>2006</u> £000
(b) Cash and cash equivalents in the cash flow statement at 31 December comprised		
Cash at bank and in hand	<u>25,743</u>	<u>11,649</u>

RAC Insurance Limited

Notes to the financial statements (continued)

15 Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 9(c) gives details of the estimation techniques used in determining the outstanding claims provisions which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected, there is uncertainty in respect of this liability.

16 Risk management policies

The Company has established a risk management framework with the primary objective of protecting the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. This framework is operated by a group of companies, "the NUI Group" (including the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited), within the Aviva plc group ("the Group"), that are engaged in writing general insurance business and in various non-insurance activities in the United Kingdom ("UK"). Risk is categorised as follows:

- market
- credit
- insurance
- liquidity
- operational

The NUI Group recognises the critical importance of having efficient and effective risk management systems in place. To this end, the NUI Group has an established governance framework, which has three key elements:

- defined terms of reference for the legal entity Boards and the associated executive management and other committees within the NUI 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 Group policy framework that sets out risk appetite, risk management, control and business conduct standards for the Group's worldwide operations. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the NUI Group.

The NUI Group monitors risk on an ongoing basis and prepares quarterly reports identifying all material risks, along with information on likelihood, severity and mitigating actions taken or planned. The NUI Group has also developed a framework, using Individual Capital Assessment ("ICA") principles, for quantifying the impact of risks on economic capital. The ICA combines the results of financial and operating stress tests.

RAC Insurance Limited

Notes to the financial statements (continued)

16 Risk management policies (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 from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises due to credit spread widening, and fluctuations in both the value of liabilities and the value of investments held.

The NUI Group manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets. NUI's market risk appetite is set by the NUI Capital Management Committee, which also receives regular information on market risk.

The Company operates predominantly within the UK with a small proportion of premiums written in Ireland.

(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 Company's management of credit risk is carried out in accordance with the Group credit risk policy, which includes setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's. Exposure levels are reported to and reviewed by the NUI Investment Committee.

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 concerned.

The credit risk rating of cash and cash equivalents at 31 December 2007 and 31 December 2006 was 100% AAA rated.

At 31 December 2007, receivables are £2,848 thousand (2006: £11,664 thousand), of which £2,727 thousand (2006: £11,514 thousand) is in respect of amounts owed by intermediaries - related parties. Further details are included in note 18 on related parties.

There are no financial assets that are past due.

RAC Insurance Limited

Notes to the financial statements (continued)

16 Risk management policies (continued)

(iii) General insurance risk

The NUI Group considers insurance risk within its general insurance activity to be comprised of the following

- fluctuations in the timing, frequency and severity of claims and claims settlements, relative to expectations,
- unexpected claims arising from a single source,
- inaccurate pricing of risks when underwritten,
- inadequate reinsurance protection or other risk transfer techniques, and
- inadequate reserves

The majority of the insurance business underwritten by the Company is of a short tail nature such as roadside assistance. The Group's underwriting strategy and appetite is agreed by the Aviva Group Executive Committee and communicated via specific policy statements and guidelines. The NUI Group also sets its own underwriting strategy, consistent with the Group version. The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Increasingly risk-based capital models are being used to support the quantification of risk under the ICA framework. The NUI Group undertakes a quarterly review of insurance risks, the output from which is a key input into the ICA and risk-based capital assessments.

The NUI Group has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the NUI Group. The NUI Group has pioneered various developments, such as the Norwich Union UK Digital Flood Map, to manage exposures arising from specific perils effectively.

The adequacy of the NUI Group's general insurance claims provisions is overseen by the NUI Reserving Committee. Actuarial claims reserving is conducted by the NUI Group's actuaries in compliance with the Group General Insurance Reserving policy. There are periodic external reviews by consultant actuaries.

Reinsurance purchases are reviewed to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the NUI Group, including the Company. The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analysis to optimise the cost and capital efficiency benefits. This involves utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on the NUI Group's specific portfolios of business. Where external models are not available, scenarios are developed and tested using the NUI Group's data to determine potential losses and appropriate levels of reinsurance protection.

RAC Insurance Limited

Notes to the financial statements (continued)

16 Risk management policies (continued)

(iv) Liquidity risk

The Company's liquidity position is strong and is further supported through membership of the NUI Group

The following table shows the financial liabilities analysed by duration

	Total	Within 1	1-5	5-15	Over 15
	£000	year	years	years	years
	£000	£000	£000	£000	£000
31 December 2007					
Gross insurance liabilities	8,354	8,119	235	-	-
31 December 2006					
Gross insurance liabilities	8,254	7,423	831	-	-

(v) Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include the majority of risks the Company is exposed to, other than the financial risks described above and strategic and Company risks considered elsewhere. Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided.

Operational risks include information technology, information security, human resources, project management, outsourcing, tax, legal, financial crime and compliance risks. In accordance with Group policies, business unit management has primary responsibility for the effective identification, management, monitoring and reporting of risks to the business unit executive management team and to Group. The NUI Group risk management and governance function is responsible for implementing the Group risk management methodologies and frameworks to assist line management in this work. They also provide support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans. As a result, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level.

Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria.

(vi) Risk and capital management

The Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily, risk-based capital models and increasingly ICA are used. Sensitivities to economic and operating experience are regularly produced on all of the NUI Group's financial performance measurements to inform the NUI Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the NUI Group is exposed.

RAC Insurance Limited

Notes to the financial statements (continued)

16 Risk management policies (continued)

(vi) Risk and capital management (continued)

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio.

Some results of sensitivity testing for general insurance business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate of 5%, the impact of an immediate change to 4% or 6%). The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed securities.
Expenses	The impact of an increase in expenses by 10%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%.

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2007.

General insurance business - impact on profit before tax (£000)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	187	(187)	(82)	(588)
Net of reinsurance	187	(187)	(82)	(506)

General insurance business - impact on shareholder's equity (£000)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	187	(187)	(82)	(588)
Net of reinsurance	187	(187)	(82)	(506)

RAC Insurance Limited

Notes to the financial statements (continued)

16 Risk management policies (continued)

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses in addition to the increase in the loss adjustment expense provision.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty and the assumption that all interest rates move in an identical fashion.

RAC Insurance Limited

Notes to the financial statements (continued)

17 Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows where this is employed.

(a) General

IFRS underpins the Company's capital structure and, accordingly, the capital structure is analysed on this basis. Increasingly, the Company uses an ICA measure, described in note 16, to assess its own internal economic capital requirements.

(b) Capital management

In managing its capital, the Company seeks to

- (i) match the profile of its assets and liabilities, taking account of the risks inherent in each business,
- (ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders 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 Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are -

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory bases

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the FSA's current regulatory requirements and the ICA regime. The regulatory capital tests verify that the Company retains an 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 Company fully complied with these regulatory requirements during the year.

RAC Insurance Limited

Notes to the financial statements (continued)

17 Capital structure (continued)

(iii) Economic bases

Notwithstanding the required levels of capital laid out by the FSA, the NUI Group also measures its capital using various risk-based capital models that take into account a more realistic set of financial and non-financial assumptions. These models have been under considerable development over the past few years and have become more relevant in the internal assessment of the NUI Group's financial strength. Note 16, Risk management policies, gives further details.

(d) Capital structure

	IFRS net assets 2007 £m	IFRS net assets 2006 £m
General insurance	17,432	14,716
Total capital employed	17,432	14,716
Financed by		
Equity shareholder's funds	17,432	14,716

RAC Insurance Limited

Notes to the financial statements (continued)

18 Related party transactions

(a) The Company had the following related party transactions in 2007 and 2006.

(i) Services provided to related parties

	2007		2006	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£000	£000	£000	£000
Fellow subsidiaries	-	2,727	-	11,514

(ii) Other services provided by related parties

	2007		2006	
	Expense in year	Payable at year end	Expense in year	Payable at year end
	£000	£000	£000	£000
Fellow subsidiaries	-	1,822	-	-

(iii) Transfer of income and expenses from R A.C. Motoring Services

The Company has entered into an agreement with R A C Motoring Services, a fellow subsidiary undertaking, where income, claims costs and other expenses for certain products are initially recorded by R A C Motoring Services and then transferred to the Company through an intercompany account. The net value of these transfers was £ 2,910k of net costs in the year (2006 £1,787k)

(iv) Compensation to those employees classified as key management

The directors and key management of the Company are considered to be the same as for RAC plc, a parent undertaking. Information on key management compensation may be found in the Related Party Transactions of the RAC plc financial statements.

(b) Immediate parent undertaking

RAC Investments Limited transferred its entire shareholding in the issued share capital of the Company to RAC plc for a consideration equivalent to the market value of the Company as at 30 September 2007 of £16,129,000.

(c) Ultimate controlling entity

The ultimate controlling entity is Aviva plc. Its consolidated Report and Accounts are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ.