

Registered in England and Wales: No. 05171817

RAC FINANCIAL SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



RAC Financial Services Limited

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RAC Financial Services Limited

Company information

Directors:

J Baker
P Gale
D Hobday
R Templeman
G M Wood

Company Secretary:

P Barrett

Auditor:

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

Registered office:

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

Company number:

Registered in England and Wales: No. 05171817

Other information:

RAC Financial Services Limited ("Company") is a member of the RAC Group of Companies ("the Group"), which includes RAC Group (Holdings) Limited and its subsidiaries, which during 2018 included RAC Midco Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited, RAC Midco II Limited, Nebula Systems Limited (until 25 January 2018), Maverick Technology (UK) Limited (until 25 January 2018), RAC Bidco Limited, RAC Bond Co plc, RAC Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, RAC Cars Limited (formerly Net Cars Limited) and Risk Telematics UK Limited.

These Financial Statements are presented for the year ended 31 December 2018. Comparatives are presented for the year ended 31 December 2017.

RAC Financial Services Limited

Strategic report

For the year ended 31 December 2018

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 and performance during the financial year. 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.

Principal activity

The principal activity of the Company is the provision of insurance broking and ancillary financial services including the arrangement of roadside assistance policies.

Review of the business including major events

During the year the business has operated in line with the Directors' expectations and there have been no significant changes in the business model.

During the year the Company changed its accounting framework from International Financial Reporting Standards (IFRS) to FRS 101. This transition has not had a material effect on the financial statements.

Objectives and future developments

The strategy for the Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and is disclosed in the Financial Statements of that company.

Key Performance Indicators ("KPIs")

The Directors consider that the Company's KPIs that communicate its financial performance are as follows:

	2018	2017
Revenue £000	148,864	119,277
EBITDA £000 ¹	64,656	46,247
Operating profit £000	44,026	29,293

¹ Earnings before Interest, Tax, Depreciation, Amortisation and Exceptional items. The Board believes that the use of EBITDA pre-exceptional items gives a better indication of the underlying performance of the Company. This is consistent with how business performance is measured internally.

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

Financial review

The financial position of the Company at 31 December 2018 is shown in the Statement of financial position on page 11, with the trading results shown in the Income statement on page 10 and the Statement of cash flows on page 13.

The profit before tax for the year ended 31 December 2018 is £48,152 thousand (2017: £30,650 thousand).

Revenue increased to £148,864 thousand (2017: £119,277 thousand). Administrative charges have increased to £83,978 thousand (2017: £72,287 thousand). The increase in revenue mainly reflects the arrangement and administration fee payable by Individual Members.

RAC Financial Services Limited

Strategic report (continued)

Principal risks and uncertainties

The Company's principal risks and uncertainties include credit risk and liquidity risk as set out below:

Credit & Liquidity Risk Management

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.

Cash and cash equivalents throughout the periods reported on were held with institutions who are A rated. The Company's largest cash and cash equivalent counterparty is Barclays Bank PLC (2017: Barclays Bank PLC). At 31 December 2018 the balance held by this counterparty was £2,980 thousand (2017: £3,428 thousand).

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due.

The Company does not have any obligations outside of the Group for which liquidity risk would be significant.

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

The Company is a FCA regulated company which holds sufficient capital to meet acceptable solvency levels based on applicable FCA regulations. There have not been any breaches in the reported periods.

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

As approved by the Board on 26 February 2019.



P Barrett
Company Secretary

RAC Financial Services Limited

Directors' report

For the year ended 31 December 2018

The Directors present their Annual Report on the affairs of RAC Financial Services Limited, together with the Financial Statements and independent auditor's report for the year ended 31 December 2018.

Directors

The names of the current Directors of the Company appear on page 1.

Those in office during the year and up to the date of signing have been as follows:

J Baker (appointed 2 July 2018)

R Fairman (resigned 27 February 2018)

P Gale

D Hobday

R Templeman

G M Wood

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

Objectives and future developments

The strategy for the Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and is disclosed in the Financial Statements of that company.

Results and dividends

No interim dividends were paid during the year (2017: £nil). The Directors do not recommend the payment of a final dividend (2017: £nil).

Employees

All employees of RAC Group are employed and remunerated by RAC Motoring Services, which acts as the employment company for the Group. Disclosures relating to employees engaged in activities for the Company may be found in note 6 to the Financial Statements.

Directors' indemnities

RAC Group (Holdings) Limited, the Company's ultimate Parent Company, has granted an indemnity to all RAC Company Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. 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 section 236 of the Companies Act 2006. 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.

Strategic Report

The Companies Act 2006 requires the Company to prepare a Strategic Report, set out on pages 2 to 3. The Strategic Report includes information about the Company's operations and business model, financial performance throughout the year, financial instruments and risk management, likely future developments, key performance indicators, and principal risks.

RAC Financial Services Limited

Directors' report (continued)

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit of £38,663 thousand for the year ended 31 December 2018 (2017: £24,258 thousand) and at 31 December 2018 had net assets of £113,863 thousand (2017: £75,200 thousand) and net current assets of £37,507 thousand (2017: £8,410 thousand). The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 and 3. Details of its cash and cash equivalents are set out in note 14 to the Financial Statements.

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 Company'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 the Strategic Report.

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 the terms of its bank debt. The Directors also considered what mitigating actions the Group and Company could take to limit any adverse consequences.

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, at least 12 months from the date of this report. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

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 forthcoming 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 his 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 Financial Services Limited

Directors' report (continued)

Directors' responsibilities statement

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

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 financial position as at 31 December 2018.

As approved by the Board on 26 February 2019.



P Barrett
Company Secretary

RAC Financial Services Limited

Independent auditor's report to the members of RAC Financial Services Limited

Report on the audit of the Financial Statements

Opinion

In our opinion the Financial Statements of RAC Financial Services Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which comprise:

- the Income statement;
- the Statement of financial position;
- the Statement of changes in equity;
- the Statement of cash flows;
- the Accounting policies; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

RAC Financial Services Limited

Independent auditor's report to the members of RAC Financial Services Limited (continued)

Other information (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

RAC Financial Services Limited

Independent auditor's report to the members of RAC Financial Services Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Andrew Halls FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom
Date: 26 February 2019

RAC Financial Services Limited

Financial Statements 2018

Income statement

For the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Revenue	1	148,864	119,277
Cost of sales		(20,860)	(17,697)
Gross profit		128,004	101,580
Administrative expenses		(83,978)	(72,287)
Operating profit	2	44,026	29,293
EBITDA		64,656	46,247
Depreciation	11	(1,178)	(437)
Amortisation		(19,452)	(16,517)
Operating profit		44,026	29,293
Investment income	12	3,778	599
Finance income	3	498	908
Finance expenses	4	(150)	(150)
Profit before tax		48,152	30,650
Tax charge	8	(9,489)	(6,392)
Profit for the year		38,663	24,258

All activities relate to continuing operations.

The Company has no comprehensive income other than that included in the results above and therefore a separate statement of comprehensive income has not been presented.

The accounting policies and notes on pages 14 to 28 are an integral part of these Financial Statements.

RAC Financial Services Limited

Financial Statements 2018 (continued)

Registered in England and Wales: No. 05171817

Statement of financial position

As at 31 December 2018

	Note	2018 £000	2017 £000
ASSETS			
Non-current assets			
Intangible assets	9	795	43,548
Contract costs	10	48,167	-
Plant and equipment	11	2,515	1,478
Investment in associates	12	5	5
Deferred tax asset	15	8,899	6,133
Trade and other receivables	13	25,975	25,626
		86,356	76,790
Current assets			
Trade and other receivables	13	70,762	49,293
Cash and cash equivalents	14	2,980	3,428
		73,742	52,721
LIABILITIES			
Current liabilities			
Provisions	17	-	(170)
Trade and other payables	16	(23,977)	(34,781)
Current tax payable	15	(12,258)	(9,360)
		(36,235)	(44,311)
Net current assets		37,507	8,410
Non-current liabilities			
Trade and other payables	16	(10,000)	(10,000)
Net assets		113,863	75,200
EQUITY			
Ordinary share capital	18	28,000	28,000
Retained earnings		85,863	47,200
Total equity		113,863	75,200

The accounting policies and notes on pages 14 to 28 are an integral part of these Financial Statements.

Approved by the Board on 26 February 2019.



J Baker
Chief Financial Officer

RAC Financial Services Limited

Financial Statements 2018 (continued)

Statement of changes in equity **For the year ended 31 December 2018**

	Ordinary share capital	Retained earnings	Total equity
	£000	£000	£000
Balance at 1 January 2017	28,000	22,942	50,942
Profit for the year	-	24,258	24,258
Other comprehensive income	-	-	-
Total comprehensive income	-	24,258	24,258
Balance at 31 December 2017	28,000	47,200	75,200
Profit for the year	-	38,663	38,663
Other comprehensive income	-	-	-
Total comprehensive income	-	38,663	38,663
Balance at 31 December 2018	28,000	85,863	113,863

The accounting policies and notes on pages 14 to 28 are an integral part of these Financial Statements.

RAC Financial Services Limited

Financial Statements 2018 (continued)

Statement of cash flows

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Operating activities			
Profit before tax		48,152	30,650
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation		19,452	16,517
Depreciation of plant and equipment	11	1,178	437
Finance expenses	4	150	150
Finance income	3, 12	(4,276)	(1,507)
(Decrease) / increase in provisions	17	(170)	170
Working capital adjustments:			
Increase in trade and other receivables		(30,677)	(18,699)
Decrease in trade and other payables		(10,655)	(2,187)
Net cash flows from operating activities		23,154	25,531
Investing activities			
Investment income received	12	3,778	599
Purchase of intangible assets	9	(941)	(24,431)
Purchase of contract costs	10	(24,224)	-
Purchase of plant and equipment	11	(2,215)	(1,752)
Net cash used in investing activities		(23,602)	(25,584)
Net increase / (decrease) in cash and cash equivalents		(448)	(53)
Cash and cash equivalents brought forward		3,428	3,481
Cash and cash equivalents carried forward	14	2,980	3,428

The accounting policies and notes on pages 14 to 28 are an integral part of these Financial Statements.

RAC Financial Services Limited

Accounting policies

(A) Corporate information

RAC Financial Services Limited is a private limited liability company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England & Wales. The principal activity of the Company is the provision of insurance broking and ancillary financial services to members of RAC and other motorists primarily in the UK and the arrangement of roadside assistance policies. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

The Financial Statements of RAC Financial Services Limited for the year ended 31 December 2018 were approved for issue by the Board on 26 February 2019.

(B) Basis of preparation

The Financial Statements of the Company have been prepared on the historical cost basis. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

The Company meets the definition of a qualifying entity under FRS 100 'Application on Financial Reporting Requirements' issued the FRC. Accordingly in the year ended 31 December 2018 the Company has undergone transition from reporting under IFRSs adopted by the EU to FRS 101 'Reduced Disclosure Framework'. This transition has not had a material effect on the financial statements.

In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of IFRSs as adopted by the EU but has made amendments where necessary in order to comply with the Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard as detailed below.

The principal accounting policies adopted in the preparation of these Financial Statements are also set out below.

Application of new Standards

The following new IFRSs are effective for the 2018 Financial Statements. The adoption of these Standards has not had a material impact on the amounts reported in the Financial Statements.

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from contracts with customers*
- IFRS 16 *Leases*

The transition to IFRS 15 has resulted in "Contract Costs" being recognised in the Statement of Financial Position, which previously were recognised as an Intangible Asset (see note 10). In accordance with IFRS 15, as at 1 January 2018 the cumulative effect method has been applied (including adoption of all applicable practical expedients). The application of this method means that comparatives are not restated. The transition has not had a material impact on the Income statement as there is not a significant change in the timing of revenue recognition.

Disclosure exemptions applied

- (i) The requirements of IFRS 7 *Financial Instruments: Disclosures* and IAS 1 paragraphs 134 to 136;
- (ii) The requirements of IAS 24 *Related Party Disclosure*; and
- (iii) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Financial Statements are presented in pounds sterling, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these Financial Statements are in thousands of pounds sterling ("£000").

The Company is exempt from preparing group financial statements by virtue of Section 400 of the Companies Act 2006, as it is a subsidiary of an EU parent, RAC Group (Holdings) Limited. The Financial Statements present information about the Company as an individual company and not about its group.

RAC Financial Services Limited

Accounting policies (continued)

(B) Basis of preparation (continued)

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit of £38,663 thousand for the year ended 31 December 2018 (2017: £24,258 thousand) and at 31 December 2018 had net assets of £113,863 thousand (2017: £75,200 thousand) and net current assets of £37,507 thousand (2017: £8,410 thousand). The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 and 3. Details of its cash and cash equivalents are set out in note 14 to the Financial Statements.

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 Company'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 the Strategic Report.

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 the terms of its bank debt. The Directors also considered what mitigating actions the Group and Company could take to limit any adverse consequences.

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, at least 12 months from the date of this report. For these reasons, they continue to adopt the going concern basis in

(C) Investments in associates

An associate is an entity over which the Company 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 cost method on the basis of the exemption available in IAS 28 Investments in Associates.

The Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company 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 Income statement.

Upon loss of significant influence over the associate, the Company 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 Income statement.

(D) Revenue recognition

Revenue is measured in accordance with relevant accounting standards. For all contracts within the scope of IFRS 15, the Company determines whether enforceable rights and obligations have been created with the customer and recognises revenue based on the total transaction price as estimated at the contract inception, being the amount which the Company expects to be entitled and has present enforceable rights under the contract. Revenue is allocated proportionally across the contract performance obligations and recognised either over time or at a point in time as appropriate.

RAC Financial Services Limited

Accounting policies (continued)

(D) Revenue recognition (continued)

Commission and arrangement fees

Income is received from insurance brokerage services for the arrangement and administration of roadside assistance, motor, home and other insurance policies on behalf of the underwriter. Revenue is recognised over time at the effective commencement date or renewal date of each policy. The transaction price is variable and based on the number of policies sold.

Interest income

Interest income is recognised in accordance with IFRS 9 when it is probable that the economic benefits will flow to the Company 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.

Investment income

Investment income is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefit will flow to the Company and the amount can be reliably measured).

(E) Intangible assets

Non customer acquisition intangibles

Non customer acquisition intangibles 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.

(F) Contract Costs

Contract Costs represent incremental costs to obtain contracts which are third party commissions and fees arising as a result of a direct sale of a non-insurance product. These costs are amortised on a straight-line method over the life of the policies, typically 2 to 5 years, which is driven by internal customer retention rate analysis.

(G) Plant and equipment

All items classified as 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	2-10 years
Computer equipment	3-5 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 equipment are determined by reference to their carrying amount and are recorded in the Income statement.

(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.

RAC Financial Services Limited

Accounting policies (continued)

(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 recognised on trade receivables if there is considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income statement in other operating expenses.

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand and deposits held at call with banks, 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) Provisions and contingent liabilities

Provisions are recognised when the Company 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 Company 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.

(L) Income taxes

Income taxes include both current and deferred taxes. Income taxes are charged/credited to the 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.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not provided for the initial recognition of goodwill, nor the initial recognition of assets or liabilities that affect neither the accounting profit nor taxable profit or loss other than in a business combination.

RAC Financial Services Limited

Accounting policies (continued)

(L) Income taxes (continued)

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which assets 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.

(M) 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.

RAC Financial Services Limited

Accounting policies (continued)

(N) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Financial Statements in conformity with IFRSs requires the Company to make estimates and judgements using assumptions that affect items reported in the Statement of financial position and 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

There are no critical judgements apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies on the amounts recognised in the Financial Statements.

(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:

Contract costs

The acquisition of customers results in acquired third party commissions and fees being recognised as contract assets. As estimates are required to be made in respect of the useful lives over which the acquired assets are amortised. This assessment is based upon internal customer retention rate analysis. If the useful lives of the assets were to decrease on average by 1 year, the net book value of these intangible assets would reduce by approximately £6,195 thousand.

RAC Financial Services Limited

Notes to the Financial Statements

1 Revenue

The following significant categories of revenue have been recognised during the year, with revenue arising as follows:

	2018	2017
	£000	£000
Sale of services	148,864	119,277
	148,864	119,277

2 Operating items

The following items have been charged to operating profit:

	2018	2017
	£000	£000
Depreciation of plant and equipment (note 11)	1,178	437
Amortisation of contract costs	18,963	16,201
Amortisation of non customer acquisition intangible assets (note 9)	489	316
Operating lease rentals	-	83
Employee costs (note 6)	20,962	18,509

3 Finance income

	2018	2017
	£000	£000
Interest receivable - related parties	498	908
	498	908

4 Finance expenses

	2018	2017
	£000	£000
Interest payable - related parties	150	150
	150	150

RAC Financial Services Limited

Notes to the Financial Statements (continued)

5 Auditor's remuneration

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

	2018	2017
	£000	£000
Audit of financial statements	65	44
Total remuneration payable to Deloitte LLP	65	44

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. There were no fees payable to Deloitte LLP in respect of non-audit services for this Company in the current or prior year.

6 Employee information

The average number of persons employed during the year was:

	2018	2017
	Number	Number
Insurance and claims	15	11
Roadside	341	379
	356	390

Total staff costs were:

	2018	2017
	£000	£000
Wages and salaries	18,560	16,771
Social security costs	1,696	1,274
Pension costs	496	446
Termination benefits	210	18
	20,962	18,509

These costs were charged within administrative expenses within the Income statement.

All employees have their employment contracts with RAC Motoring Services, a fellow Group company.

RAC Financial Services Limited

Notes to the Financial Statements (continued)

7 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services. Management recharges for the wider executive group, which includes the executive Directors of the Company, have been charged to the main trading subsidiaries of the Group, which includes RAC Financial Services Limited. It is not deemed practical to separate the remuneration of the Executive Directors from the wider management recharges.

Disclosures relating to Directors' remuneration can be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

8 Tax

(a) Tax charged to the Income statement

The total tax charge comprises:

	2018	2017
	£000	£000
Current tax:		
For the year	12,258	9,361
Adjustment in respect of prior years	[3]	337
Total current tax	12,255	9,698
Deferred tax:		
Origination and reversal of temporary differences	(3,070)	(3,421)
Adjustment in respect of prior years	-	(353)
Change in tax rates	304	468
Total deferred tax	(2,766)	(3,306)
Total tax charged to the Income statement	9,489	6,392

(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 UK as follows:

	2018	2017
	£000	£000
Profit before tax	48,152	30,650
Tax calculated at standard UK corporation tax rate of 19.00% (2017: 19.25%)	9,149	5,900
Disallowable expenses	39	40
Effect of change in tax rate	304	468
Adjustment in respect of prior years	[3]	(16)
Total tax charged to the Income statement (note 8(a))	9,489	6,392

The headline rate of UK corporation tax is currently 19% and will reduce to 17% from 1 April 2020.

RAC Financial Services Limited

Notes to the Financial Statements (continued)

8 Tax (continued)

(b) Tax reconciliation (continued)

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 reduction of the corporation tax rate to 17% was enacted on 15 September 2016, the deferred tax balances at 31 December 2018 have been reflected at the tax rates at which they are expected to be realised or settled.

9 Intangible assets

	Customer acquisition intangibles	Non-customer acquisition intangibles	Total
	£000	£000	£000
Cost:			
At 1 January 2017	60,069	1,294	61,363
Additions	24,345	86	24,431
At 31 December 2017	84,414	1,380	85,794
Additions	-	642	642
IFRS 15 reclassification	(84,414)	-	(84,414)
At 31 December 2018	-	2,022	2,022
Amortisation:			
At 1 January 2017	25,307	422	25,729
Charge for the year	16,201	316	16,517
At 31 December 2017	41,508	738	42,246
Charge for the year	-	489	489
IFRS 15 reclassification	(41,508)	-	(41,508)
At 31 December 2018	-	1,227	1,227
Net book value:			
At 31 December 2018	-	795	795
At 31 December 2017	42,906	642	43,548

All intangible assets are stated at cost less accumulated amortisation.

On 1 January 2018 assets with a total net book value of £42,906 thousand were transferred out of customer acquisition intangibles and reclassified as contracts cost under IFRS 15 (see note 10)

No impairment losses have been recognised in 2018 or 2017. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are included within administrative expenses in the Income statement.

RAC Financial Services Limited

Notes to the Financial Statements (continued)

10 Contract costs

	2018	2017
	£000	£000
Costs to obtain contracts	48,167	-

Costs to obtain contracts relate to third party commissions and fees arising as a result of a direct sale. These costs are amortised on a straight-line method over the life of the policies, typically 2 to 5 years, which is driven by internal customer retention rate analysis.

11 Plant and equipment

	Fixtures, fittings and other equipment	Computer equipment	Total
	£000	£000	£000
Cost:			
At 1 January 2017	188	-	188
Additions	1,745	7	1,752
At 31 December 2017	1,933	7	1,940
Additions	2,162	53	2,215
At 31 December 2018	4,095	60	4,155
Depreciation:			
At 1 January 2017	25	-	25
Charge for the year	437	-	437
Disposals	-	-	-
At 31 December 2017	462	-	462
Charge for the year	1,178	-	1,178
At 31 December 2018	1,640	-	1,640
Net book value:			
At 31 December 2018	2,455	60	2,515
At 31 December 2017	1,471	7	1,478

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

12 Investment in associates

Cost

	2018	2017
	£000	£000
At 1 January and 31 December	5	5

RAC Financial Services Limited

Notes to the Financial Statements (continued)

12 Investment in associates (continued)

During 2012 the Company invested £5 thousand and transferred certain intangible assets to RAC Brand Enterprises LLP whose registered office is the same as the Company (registered in England and Wales) with a cost and book value of £nil for a 6.4% interest in its capital. The principal activities of the associate are the licensing and management of intangible assets, including the management of licence agreements. Summarised financial information extracted from the associate's financial statements is as follows:

	2018	2017
	£000	£000
Statement of financial position at 31 December:		
Non-current assets	526,983	562,951
Current assets	118,205	79,270
Current liabilities	-	(325)
Equity	645,188	641,896
Income statement for the year ended 31 December:		
Revenue	51,773	48,998
Profit for the year	12,773	9,481
Income received from RAC Brand Enterprise LLP	3,778	599

13 Trade and other receivables

	2018	2017
	£000	£000
Trade receivables	39,959	34,742
Amounts due from related parties	54,425	37,069
Prepayments and accrued income	2,315	2,970
Other receivables	38	138
Total	96,737	74,919
Expected to be recoverable within one year	70,762	49,293
Expected to be recoverable in more than one year	25,975	25,626
Total	96,737	74,919

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 £96,737 thousand (2017: £74,919 thousand) is considered to be neither past due nor impaired.

RAC Financial Services Limited

Notes to the Financial Statements (continued)

14 Cash and cash equivalents

Cash and cash equivalents at 31 December 2018 comprises £2,980 thousand cash at bank and in hand (2017: £3,428 thousand).

15 Tax assets and liabilities

	2018	2017
	£000	£000
Current tax payable	(12,258)	(9,360)
Deferred tax asset	8,899	6,133
	(3,359)	(3,227)

(a) Current tax

	2018	2017
	£000	£000
The balance at 31 December comprises:		
Current tax payable	(12,258)	(9,360)

Liabilities of £12,258 thousand (2017: £9,360 thousand), to be settled by group relief, are payable within one year.

(b) Deferred tax

(i)	Other temporary differences £000	Plant & equipment £000	Unremitted profits £000	Total £000
At 1 January 2017	-	16	2,811	2,827
(Charge)/credit to Income statement	32	(7)	3,281	3,306
At 31 December 2017	32	9	6,092	6,133
(Charge)/credit to Income statement	(32)	110	2,688	2,766
At 31 December 2018	-	119	8,780	8,899

(ii)	2018	2017
	£000	£000
The movement in the net deferred tax asset was as follows:		
Net deferred tax asset brought forward	6,133	2,827
Deferred tax credited to the Income statement (note 8(a))	2,766	3,306
Net deferred tax asset carried forward	8,899	6,133

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be used.

RAC Financial Services Limited

Notes to the Financial Statements (continued)

16 Trade and other payables

	2018	2017
	£000	£000
Trade payables and accruals	4,355	4,325
Amounts due to related parties	28,948	39,338
Deferred income	464	646
Other payables	210	472
Total	33,977	44,781
Expected to be payable within one year	23,977	34,781
Expected to be payable in more than one year	10,000	10,000
Total	33,977	44,781

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

17 Provisions

	Strategic Restructure	Total
	£000	£000
At 1 January 2018	170	170
Utilised during the year	(170)	(170)
At 31 December 2018	-	-

- During 2017 the Group conducted a strategic review of the business. This provision was utilised in 2018.

18 Ordinary share capital

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

	2018	2017
	£000	£000
Allotted, called up and fully paid:		
28,000,001 ordinary shares of £1 each	28,000	28,000

RAC Financial Services Limited

Notes to the Financial Statements (continued)

19 Related party transactions

(a) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2018 or 31 December 2017.

At no time during the reported 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 a service contract between each Director and a Group company.

(b) Immediate Parent Company

The Company's immediate Parent Company is RAC Group Limited, registered in England and Wales.

(c) Ultimate controlling party

The ultimate controlling entity of the Company is RAC Group (Holdings) Limited. Its 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 (registered office).

The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Bidco Limited.