



Annual Report & Financial Statements 2016

RAC Bidco Limited

RAC

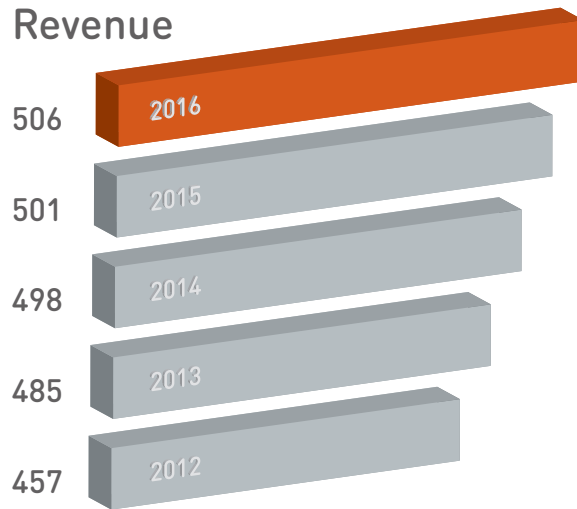
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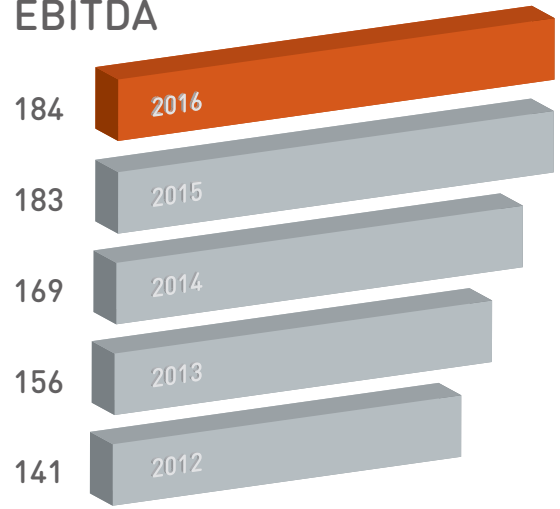


Highlights

Revenue

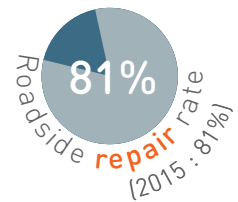


EBITDA



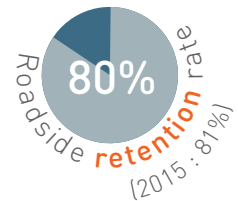
2.4 million

Breakdowns attended in 2016
(2015 : 2.2 million)



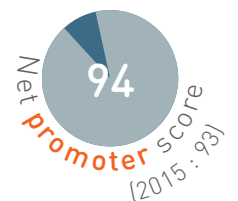
8.6 million

Members at 31 December 2016
(2015 : 8.6 million)



1.4 million

Hours at the roadside
(2015 : 1.2 million)



I am delighted to report that the RAC Bidco Limited's annual results for the year ended 31 December 2016 represented another tremendous year of development for the business. In particular we achieved important changes in our capital structure: funds managed by CVC, a leading Private Equity firm joined as shareholders and investment partners, we also successfully completed a Whole Business Securitisation ("WBS") in May 2016, including a bond listing on the Irish Stock Exchange.

The significant demand from investors in the bond issue demonstrates the continuing strength of the RAC brand, confidence in the Group and confidence over our prospective financial performance. We continue to invest in the business and product offering whilst maintaining our excellent levels of customer service and look forward to growing still further during 2017 and beyond. The current financial year has started well.

Delivering on our Strategy

RAC's Mission is to be "The Motorist's Champion." We want to be:

- The leading motoring services brand in the United Kingdom
- The voice of all Motorists
- Innovators and developers of technology to address an increasingly diverse range of motoring needs
- Builders and protectors of an established, trusted and iconic British brand

From a financial standpoint 2016 was also a successful year for the RAC Group, a strong performance was achieved against a backdrop of difficult market conditions. The Group delivered further growth in revenue whilst maintaining our earnings and most importantly, our customer base. We secured a number of new Corporate Partners over the course of 2016 and are immensely proud to have won a three year contract with Mercedes-Benz Cars UK Limited for the provision of roadside assistance services which will commence in Q2 2017. This latest deal adds to our established portfolio of well-known brands to whom we provide a range of breakdown, accident management and, increasingly, telematics and connected car services.

RAC has 8.6 million (2015: 8.6 million) individual and corporate roadside members and I would like to thank them for their continued loyalty and support to us as the oldest motoring organisation in the UK.

The company has delivered a range of new products and services to our Members and other motorists over the past few years and we see innovation and technological development as fundamental to the Group's success and progress towards our mission to be The Motorist's Champion. For example:-

In 2016 smaller towing vans that are capable of fully lifting a vehicle for short recoveries have been introduced in trial areas.

The continued development and training of the RACScan diagnostic platform provides patrols with the broadest vehicle coverage and information available to diagnose and repair issues at the roadside. This is not only critical for RAC in delivering market-leading roadside breakdown services to Members, but also for fleet managers and business owners who will benefit from more insight into the health and maintenance of their vehicles, thereby reducing downtime.

Delivering for our Members

Excellent customer service continued to be achieved in 2016, including consistently high levels of at-roadside repair rates combined with rapid arrival times to Members at the roadside. We strongly believe that fixing cars at the roadside is the most important measure in assessing customer satisfaction. Our focus on this metric is recognised by RAC Members with our Net Promoter Score increasing once again to an industry leading 94 in 2016 (2015: 93).

RAC's work in Parliament and beyond puts the motorist's case forward and supports the interests and issues affecting them. Acting as the voice of the motorist in Westminster, we have successfully led and supported on road safety issues such as making the case for increased funding and investment to improve the state of our road network and raising the issue of the illegal use of hand-held mobile phones at the wheel. On the latter in particular we have campaigned for the government to increase the penalty for this crime, and we were pleased to see that our work in the area paid off with the introduction of higher penalties in 2016.

Our Members continue to be concerned about both the state of our country's road network and the cost of motoring and we continue to play an active and vocal role in both these areas. The cost of motoring in the UK is rising year-on-year and we recognise the pressures this brings to our Members. For a number of years we have pushed for increased visibility and fairness in fuel pricing and we were pleased to see pump prices reduce in the first few months of 2016 as retailers passed on reductions in wholesale prices to customers.

Our dedicated team

I am immensely proud of the achievements of the business over the last five years and feel honoured to have led a team of such highly trained and dedicated people. RAC colleagues are passionate in delivering consistently high levels of service and continually strive for improvement in all that they do. Our patrols are the most highly trained, dedicated and professional in the industry and deliver high levels of service to our Members in their hour of need, 24 hours a day, 365 days of the year and in all weather conditions.

My colleagues in all parts of the business have yet again delivered exceptional standards against a backdrop of significant change. We simply could not deliver on our strategy and ambitions without the support of our dedicated people and so I would like to thank all RAC employees for that support, not only in 2016, but over the course of my five years as Chief Executive and I look forward to seeing the business deliver further growth in 2017 and beyond.

Chris Woodhouse
Chief Executive



"I am delighted to report that 2016 represented another tremendous year of development for the business."

Chris Woodhouse,
Chief Executive

The Consolidated Financial Statements of the RAC Group are set out from page 34 onwards. The Group has delivered strong financial performance in 2016, despite a challenging market environment and a backdrop of significant change for the Group.

CVC Investment

In December 2015, funds managed by CVC Capital Partners ("CVC"), a leading Private Equity firm, agreed a deal with The Carlyle Group ("Carlyle") to acquire its stake in RAC, with completion taking place in April 2016. We would like to thank Carlyle for their tremendous support and guidance since their investment in 2011, and welcome the strategic experience of CVC to support the development of the business going forward. CVC have considerable experience and interests in the world of motoring particularly with their previous shareholding in Formula 1.

Refinancing

The business completed a refinancing through a Whole Business Securitisation ("WBS") in May 2016. The Group repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan. In addition, RAC Limited entered into a new agreement to borrow under the Senior Term Facility, and RAC Bond Co PLC entered into agreements to issue listed bonds on the Irish Stock Exchange. Strong demand from investors led to a higher mix of institutional debt and £20 million of annual savings in interest costs. Our new debt structure comprises £280m of senior term facilities, £300m of Class A1 Notes with a seven year term and £600m of Class A2 Notes with a ten year term.

Consolidated income statement

	2016	2015
	£m	£m
Revenue	506	501
EBITDA before exceptional items	184	183
Depreciation	(5)	(4)
Amortisation of intangible assets	(102)	(181)
Exceptional items	(9)	-
Operating profit	68	(2)
Finance expenses	(129)	(83)
Loss before tax	(61)	(85)

Revenue for the Group was £506 million, an increase of £5 million on 2015. This was primarily driven by new business deals in motor claims services.

EBITDA of £184 million increased by £1 million over 2015, despite challenging market conditions, particularly in the insurance broking sector due to increased costs of acquiring new business.

Amortisation of intangible assets amounted to £102 million (2015: £181 million), representing amortisation of both acquired intangibles and separately identified intangible assets arising from the business combination in 2014, predominantly customer lists, being amortised over the useful economic lives.

Operating profit of £68 million (2015: loss £2 million) increased by £70 million, primarily due to a reduction in amortisation.

Exceptional items of £9 million have been incurred in 2016 (2015: £nil). Further details are given in note 3.

Finance expenses of £129 million have been incurred in 2016 (2015: £83million). Finance expenses in 2016 include £46 million relating to the write-off of capitalised finance costs following repayment of existing bank borrowings as part of the WBS refinancing (see note 21).

The Group's loss before tax in 2016 was £61 million (2015: £85 million), driven by the factors above.

Strategic report | CFO review (cont.)

"The Group has delivered strong financial performance in 2016, despite the challenging market conditions."

Richard Fairman
Chief Financial Officer



Strategic report | CFO review (cont.)

Consolidated statement of financial position

	2016	2015
	£m	£m
Goodwill and intangible assets	2,238	2,300
Property, plant and equipment	15	15
Trade and other receivables	66	62
Trade and other payables	(230)	(239)
Net current liabilities	(157)	(125)
Borrowings	(1,170)	(1,145)
Shareholders' equity	706	804

As at 31 December 2016, goodwill and intangible assets amounting to £2,238 million (2015: £2,300 million) primarily represented the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014.

Property, plant and equipment of £15 million as at 31 December 2016 (2015: £15 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group.

Trade and other receivables of £66 million (2015: £62 million) are primarily comprised of trade receivables of £41 million (2015: £37 million) and prepayments and accrued income of £21 million (2015: £20 million).

Trade and other payables of £230 million (2015: £239 million) predominantly represent deferred income of £149 million (2015: £151 million) relating to subscriptions revenue received in advance, and £81 million (2015: £88 million) of trade payables, accruals and other payables.

The Group has net current liabilities of £157 million as at 31 December 2016 (2015: £125 million) reflective of the negative working capital dynamics of the business.

The capital structure of the Group consists of third party borrowings amounting to £273 million (2015: £1,145 million), bonds issued of £897 million (2015: nil) and £339 million (2015: £874 million) of funds from shareholders.



Strategic report | CFO review (cont.)

A summary of the Group's funding is set out below:

	2016		2015	
	£m	%	£m	%
Third Party borrowings				
Bank borrowings	273	18.1	1,145	56.7
Bonds	897	59.4	-	-
Related Party sources				
Ordinary shares	339	22.5	874	43.3
Total sources	1,509	100.0	2,019	100.0
Undrawn Revolving Credit Facility	-		50	
Undrawn working capital facility	50		-	
Total Committed Facilities	1,559		2,069	

Consolidated statement of cash flows

	2016	2015
	£m	£m
Cash and cash equivalents	43	88
Net cash flows from operating activities	162	151
Interest paid	(84)	(73)
Net (decrease)/ increase in cash and cash equivalents	(45)	34

The RAC Bidco Limited Group generated net cash inflow from operating activities of £162 million (2015: £151 million), an increase in EBITDA conversion to 88% (2015: 83%) as a result of improved working capital dynamics of the business. Net cash flows from the issue of new debt and repayment of existing debt were broadly net neutral and interest paid of £84 million (2015: £73 million) relates primarily to the bank debt and bonds issued during the year. Dividends of £65 million (2015: £nil) were paid to the parent company, RAC Midco II Limited.

Given the robust trading performance, strong cash generation and successful whole business securitisation in 2016, I am confident that the RAC is well positioned for growth in 2017.

Richard Fairman
Chief Financial Officer

Strategic report | Strategic Management

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

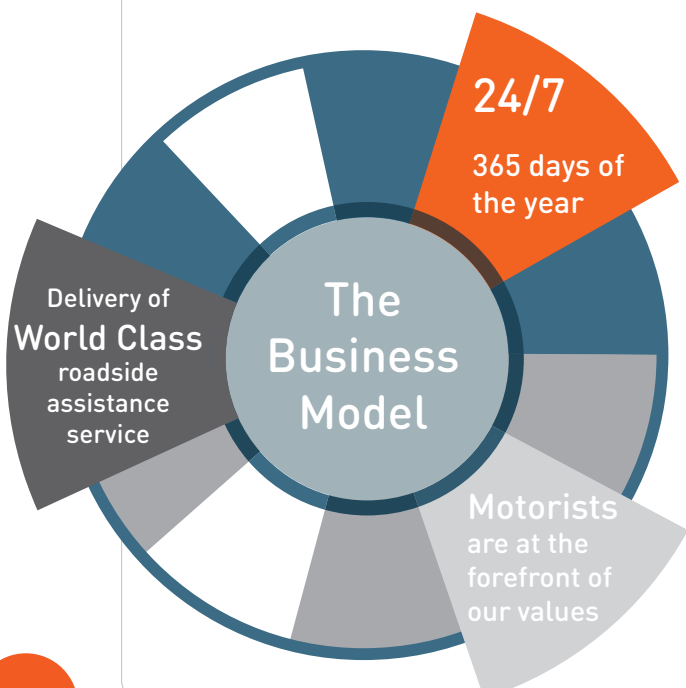
Principal activity

The RAC Group is primarily UK based and offers an increasingly diverse range of breakdown and other motoring services directly to Individual Members, as well as indirectly through a number of Corporate Partner relationships. The Group also has operations in Ireland. There were no significant changes in those activities during the year.

The Business Model

Founded in 1897, we have been consistently at the forefront of developing motoring services and have maintained this reputation to the present day. Our breakdown rescue service runs 24 hours a day, 365 days a year, whether it's the hottest day of the summer or severe storms are causing havoc across much of the UK. The continued dedication of our Patrols and other customer-facing staff enables us to maintain service levels in the face of the toughest challenges.

This reputation for service quality and dedication carries over to our other products and services, whether it's our broad comprehensive insurance range, online shop or European Breakdown Cover. It's helped us launch new facilities for our Members and the motoring community, including the introduction of RAC Cars, allowing customers to purchase used cars with confidence from our recommended dealer network, as



well as an approved garage network for vehicle repairs and our innovative universal spare wheel allowing customers to continue on their journey in the event of a puncture and not having a spare wheel.

Since 1897, we have also promoted the interests of the motorist and we continue to play an active and vocal role in this area. As the voice of motoring, we seek to analyse, lobby and comment on topical motoring issues and to stand up for our Members' interests. We constantly strive to improve our existing products and services to better meet our Members' needs and seek to develop innovative solutions to the challenges facing today's motorists.



Objectives and strategy

We believe that our vision can be achieved through continuing to focus and address our four key strategic objectives:

- Maintaining and growing the Individual Member base;
- Strengthening relationships with existing Corporate Partners and winning contracts with new Corporate Partners;
- Increasing cross-selling to address a wider range of Members' motoring and related needs through an integrated multi-product, multi-channel approach; and
- Leveraging recent investments in our brand and data capabilities to drive growth in revenue and improvements in profitability

Maintaining and growing the Individual Member base

Our core business is built around our Individual Members and we believe that the key to our success in this area is retaining our loyal base, whilst attracting new Members. The core elements to achieving this are:

- Delivery of a world-class roadside assistance service;
- Acquisition of new Members through an increasingly diverse range of channels; and
- Effective points of contact for our Members along the customer journey throughout their membership cycle.

We continue to deliver the customer experiences and services that our Members value and that distinguish us from our competitors. Our excellent, market-leading, roadside assistance service is delivered by our extremely dedicated and committed Patrols. There is

Strategic report | Strategic Management (cont.)

a strong correlation between a high roadside repair rate and enhanced levels of customer satisfaction, measured by our Net Promoter Score. Ultimately, this drives retention rates and allows us maintain our existing base of Individual Members.

Our high roadside repair rate is achieved through the excellent technical knowledge, commitment and enthusiasm of our Patrols and other customer-facing colleagues. Our Patrols are equipped with the latest technology, tools and vehicles to help them to carry out effective repairs at the roadside.

We aim to attract new customers to continually grow our Member base. We use various sales channels, such as our website, mobile phone app, third-party search engines and aggregator websites. In addition, we liaise with Affinity Partners (organisations with membership models and complementary customer bases). We conduct seasonal campaigns and promotional offers, as well as direct and targeted marketing to our existing and potential Members.

We strive to deliver informed and relevant touchpoints throughout the customer journey. We use various forms of communication to nurture loyalty to our Brand and enhancing renewal rates of our Members.

Strengthening relationships with existing Corporate Partners and winning contracts with new Corporate Partners

Our Corporate Partner business supplements our Individual Membership base. Success in this business area is measured through winning medium-term contracts for roadside assistance with current and future Corporate Partners, including banks, insurance companies, motor manufacturers and fleet and leasing companies.

Corporate Partner contracts are typically obtained through competitive tender processes. We firmly believe that the quality of the service provided is a key differentiating factor alongside price throughout the tender process. In addition, we continually strive to add value to our Corporate Partner relationships through complementary products.

We are delighted to have been awarded the contract by Mercedes-Benz Cars UK Limited, which will commence in 2017. We strive to offer all our Corporate Partners a comprehensive and bespoke roadside assistance, hire car and repair management service. Our approach is focussed on improving the customer experience, increasing customer satisfaction, fixing more vehicles at the roadside and harnessing innovation and IT integration.

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

One of our key priorities is to put the needs of our Members and other motorists at the forefront of our values. This means adding value to the customer through an enhanced range of products that address their motoring needs.

We have transformed our business from a product-centric one to a customer-centric one. This means we are able to sell a complementary range of appropriate products to our Members, which has been driven by our sales, marketing and customer relationship strategy and our investment in our technological capabilities.

One of our key strategic visions of the future relates to Connected Car – a solution which integrates our key products which we believe add value to the motorist. Our Connected Car solution allows the use of telematics to predict breakdowns, as well as responding to road traffic accidents, and our Accident Management offering provides complete end-to-end management for any car recovery, hire car provision and dispute resolution.

Leveraging recent investments in our Brand and data capabilities to drive growth in revenue and improvements in profitability

Our investment in our Brand and data capabilities has been significant in recent years, and we are leveraging this investment to drive future revenue and profit growth across our various business streams.

We've capitalised on our recent investments to:

- Attract new Individual Members through developing our relationships with Affinity Partners;
- Increase cross-sales to existing Members, through the use of our "Next Best Action" tool, which identifies complementary products to address the needs of our Members; and
- Support our Corporate Partners through data analysis on vehicle breakdowns.

The increasingly prominent use of digital technology means that we need to stay at the forefront of our communications with our Members and future customers. Improvements to the functionality of our mobile phone app means that Members can now report breakdowns through the touch of a button.

Market environment and outlook

The UK breakdown and motoring market continues to be competitive and whilst we have seen a much welcomed drop in fuel prices in 2016 we are conscious the overall cost of motoring continues to increase year on year with fuel prices rising once again.

The reduction in the cost of fuel has not translated into an overall reduction in spending on fuel, suggesting motorists have taken advantage of lower prices to use their vehicles more often. This has understandably led to our roads becoming busier and congestion is fast becoming a significant concern for motorists.

In September 2016 we published our 27th Annual Report on Motoring, highlighting “what’s on motorist’s minds” and the changing concerns of drivers against a backdrop of lower oil prices and a £15 billion package of strategic investment in road infrastructure, over 5 years.

It’s clear from our research that the state of our nations local roads has now risen to be the number one concern for motorists, closely followed by drivers’ use of hand held mobile phones whilst at the wheel. RAC has campaigned persistently to increase the punishment for these offences and were pleased to see penalties increasing as a result, however road safety will continue to be one of our highest priorities.

New vehicle registrations climbed to another record breaking year with £2.7 million new vehicles registered in 2016 versus £2.6 million in 2015. Traffic closely followed with another new high of 319.3 billion miles travelled in the UK against 317.8 billion in 2015, an increase of 1% year on year. Managing this increase and continued investment in road infrastructure is key to delivering the network the UK needs to drive economic growth and reduce congestion.

Operational overview

Innovation and technological development is fundamental to the Group’s success and vision to be The Motorist’s Champion.

During 2016 we completed the rollout of the new Battery and System tester, which is a more advanced tester and increases the accuracy of battery testing at the roadside. The new battery testing processes introduced have reduced the number of repeat breakdowns due to battery issues by completing a more comprehensive diagnosis. Documented test results are transmitted to individual customers and fleet owners to be kept for future reference.

Alongside our trials of smaller towing vans and the development of the RACScan diagnostic platform, front and rear CCTV cameras are now installed in all new vehicles, the recorded footage can be used in the event of an incident and has been used in 2016 to provide evidence of liability in the rare event of accidents to reduce claim costs.

The interior design of patrol vans has been reviewed and redesigned to maximise available storage space to increase the range of tools carried and reduce the overall weight of the vehicle improving fuel usage and in service maintenance repairs, a single vehicle design also reduces the conversion costs of the vehicle.

A number of our flatbed recovery trucks have been replaced in 2016 with smaller, more fuel and maintenance efficient vehicles contributing to both financial savings and providing environmental benefits.



Road safety

One of our top priorities

46%

Of people admit to having checked texts, emails or social media while stationary



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

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

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

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

Financial risk management

Market risks

RAC is exposed to interest rate risk arising primarily on its borrowings. This risk is managed by RAC through the use of interest rate swap agreements in order to hedge the variability of cash flows associated with changes in interest rates in relation to these borrowings as set out in note 20.

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

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

Credit risk

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

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

Liquidity risk

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

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

Strategic report | Risk Management (cont.)

Regulatory risk

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

The new 'Solvency II' requirements came into force effective 1 January 2016 to further enhance and standardise the measurement and reporting of the financial strength of regulated businesses across the European Union. Solvency II has introduced tougher, more rigorous standards for capital adequacy and the calculation thereof. The Group has undertaken a detailed programme of work in order for RAC Insurance Limited to comply with the requirements of Solvency II and has been in compliance throughout the period.

RAC is also subject to regulatory requirements, as set out by the FCA, in relation to product design, marketing materials, sales processes, as well as other regulatory requirements, such as those relating to data protection overseen by the Information Commissioner's Office. Failure to comply with these requirements could result in RAC having to suspend, either temporarily or permanently, certain activities. To mitigate these risks RAC employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are fully understood and adhered to.



Strategic report | Risk Management (cont.)

Key strategic and operational risks

The principal risks to the Group are set out below alongside details of key actions taken to mitigate them.

Principal Risk	Mitigation
<p>Damage to the RAC Brand By virtue of the fact that RAC has a highly visible and widely recognised brand, it is particularly exposed to reputational damage from mistakes or misconduct, or allegations thereof, by its Patrols and other employees, contractors or agents, or poor customer service. A decline in favourable recognition of RAC's brand could impact its ability to attract or retain Members or other customers, which could have a material adverse effect on its business, financial condition and results of operations.</p>	<p>All RAC Patrols and other employees are subject to rigorous vetting and training procedures to ensure they meet the high standards required. Where RAC engages contractors or agents, these third parties are vetted and approved before providing services to the Group's Members and customers. Service levels are regularly monitored to ensure the Group continues to deliver the high level of service expected. The Group has in place appropriate committees and other forums to ensure that risks to good customer outcomes are identified and mitigated, and that customer complaints are being addressed appropriately. In addition, a specific entity (RAC Brand Enterprises LLP) has been established with responsibility for ensuring the appropriate use of the brand.</p>
<p>Decline in Service Quality The majority of RAC's revenue is attributable to its roadside assistance service which is the product offering most closely associated with RAC's brand. A material gap in RAC's ability to repair vehicles at the roadside could have an adverse impact on the quality of its roadside assistance services.</p>	<p>The Group's repair rate at roadside is a key measure monitored by its operations team and the Group continues to deliver market leading repair rates. The Group's Technical Department monitors vehicle technology developments to ensure that its patrols have the skills and equipment required to maintain the high roadside repair levels.</p>
<p>Reduction in Acquisition & Renewal of Individual Members RAC's volume of Individual Members, both new and retained, is one of the most significant drivers of its business results. Failure to acquire new Members or retain existing Members could have an impact on its ability to execute its strategy. While the volume of Individual Members acquired and retained has a direct impact on RAC's results, the margins associated with the various acquisition channels vary, making the sales mix an important driver of profitability. If RAC's acquisition volumes are concentrated in a lower margin acquisition channel, its results may be adversely impacted.</p>	<p>RAC monitors acquisition and renewal performance closely through weekly and monthly reporting and reviews of performance.</p> <p>Marketing plans are in place to differentiate the RAC proposition and drive new routes to market to drive acquisition growth.</p> <p>The Group uses a variety of acquisition channels and has flexibility to ensure that volumes are not inappropriately concentrated in any one channel.</p>
<p>Pricing Pricing for Individual Members in the roadside assistance segment is relatively transparent between RAC and its principal competitors, and RAC's competitors may seek to compete aggressively on the basis of price in order to protect or gain market share.</p>	<p>The Group sets acquisition and renewal prices at appropriate levels in accordance with the cover provided. Prices are regularly monitored to ensure the Group remains competitive.</p>
<p>Business Performance Impacted by Usage Levels RAC's margins are impacted by its Members' usage levels, which are, in turn, impacted by a variety of factors including Member volumes, vehicle age and type, fuel prices, weather and driving habits. RAC has access to a large volume of data about its Members and their driving habits, which it uses to make assumptions about likely usage levels. These assumptions inform the pricing of RAC's products and the allocation of its resources in providing its services. If these assumptions prove to be inaccurate or if Member usage levels increase in a way that RAC is not able to plan for or adjust to, its performance, business, financial condition and results of operations could be adversely impacted.</p>	<p>The Group employs a specialist Demand Forecasting function to monitor usage levels and to make predictions of future usage. These predictions are used both in pricing and profitability decisions, but more importantly in the rostering and deployment of resources to ensure the Group's high customer service levels are maintained. Investment has been made in improving weather forecasting and analysis in order to better predict the impact of short term weather variations and to maintain service levels in the event of extreme weather.</p>
<p>Loss of/ Failure to Acquire Key Corporate Partners RAC has a number of important Corporate Partners, principally in its roadside assistance segment. The loss of one or more of these significant contracts with Corporate Partners, due to the financial difficulty of the Corporate Partner, a deterioration in the business relationship or otherwise, the renewal of those contracts on less advantageous terms, or the failure to acquire new corporate partners could adversely affect RAC's business and ability to execute its strategy, as well as its financial condition and results of operations.</p>	<p>RAC has a range of Corporate Partner customers across a number of sectors and the Group does not have a material dependency on any one Corporate Partner for the delivery of its overall results. Corporate Partner contracts tend to be for a period of three to five years and renewal times vary such that the Group is not overly exposed to renewals in any one year. RAC actively seeks to provide services to new corporate partners to supplement its existing customer base.</p>
<p>Failure of Key IT and Communication Systems RAC depends on its IT and communication systems to conduct its business, including receiving calls from Members experiencing vehicle breakdowns and allocating the appropriate resources to assist those Members, as well as maintaining accurate customer service records and managing its fleet of Patrols. If RAC is unable to maintain and improve its IT and communication systems and infrastructure, or effectively resolve any service disruption, reliability or quality issues, its business, financial condition and results of operations could be adversely impacted.</p>	<p>The Group employs a specialist IT team who are responsible for maintaining and developing appropriate IT systems. The Group recognises the importance of maintaining viable capability to continue business processes with minimal impact in the event of an emergency incident and has appropriate business continuity and disaster recovery plans and processes in place. The Group will continue to monitor, maintain and develop appropriate IT systems.</p>

Strategic report | Risk Management (cont.)

Principal Risk	Mitigation
<p>Competitive Insurance Broking Market RAC competes with global and national insurance companies, including direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, many of which offer alternative products or more competitive pricing for segments of the insurance market in which RAC operates. If RAC is unable to price its products competitively, its ability to cross-sell its insurance products, its margins and/or market share may suffer.</p>	<p>RAC utilises a variety of approaches to the structure of its branded insurance arrangements, including panel, solus insurer, and open market arrangements. The Group works with its partner firms to ensure competitive and appropriate policies are offered to its customers. The Group has developed a new range of complementary products which are offered to customers where appropriate. RAC closely monitors these markets to ensure it is able to respond to industry changes or competitor activity.</p>
<p>Data Protection RAC regularly collects, processes, stores and handles non-public data from its Members, Corporate Partners and others as part of the operation of its business, and therefore must comply with data protection laws in the United Kingdom and the EU. Failure to comply with data protection laws and data being wrongfully accessed, used, disclosed or processed, could potentially lead to regulatory censure, fines, civil and criminal liability, and reputational and financial costs.</p>	<p>RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group has specialist Data, Legal and Compliance teams and appropriate forums to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations. The Group adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment.</p>
<p>Management of Third Party Suppliers RAC is dependent on third party providers for many critical aspects of its business, including the provision of certain IT systems and services, the provision of its insurance products and European breakdown cover, the lease of its Patrol vehicles and the supply of batteries and parts. If RAC is unable to maintain its existing contracts and agreements with suppliers of the various products and services which it relies upon or enters into new contracts on less commercially favourable terms, its business, financial condition and results of operations could be adversely impacted.</p>	<p>The Group maintains relationships with a number of suppliers in order to ensure there is no undue dependency on any one supplier. Supplier relationships are managed in the appropriate interests of both RAC and the suppliers themselves.</p>
<p>Adverse Impact of Regulatory/Legal Change The industries in which RAC operates are affected by government regulation in the form of national and local laws and regulations in relation to health and safety, the conduct of operations and taxation. RAC is subject to prudential and consumer protection measures imposed by insurance and financial services regulators. RAC's roadside assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business. RAC may also be subject to regulatory and governmental inquiries and investigations, the impact of which may be difficult to assess or quantify. Any negative publicity arising in connection with any inquiries and litigation or regulatory investigation affecting RAC's business could adversely affect its reputation.</p>	<p>RAC has appropriate policies, processes and controls in place in order to minimise the risk of any legal/compliance failure or breach. Employees are made aware of the requirements and are given appropriate training. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes and minimise any impact. Whilst responsibility for compliance rests with business areas, the Group employs specialist Risk, Regulatory and Legal teams to provide support and oversight. The Group's Internal Audit function provides a third line of defence, through undertaking periodic reviews with findings reported to the Group Audit, Risk and Compliance Committee.</p>
<p>Health and Safety The Group's roadside operations necessarily require attendance by Patrols or third party contractors to inspect and repair Members' vehicles at the roadside. In view of this there is an inherent risk of serious injury or death of employees, Members or third parties from road traffic collisions.</p>	<p>RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by business activities and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities. Appropriate policies are maintained and the Group regards health and safety at work as of equal importance to profitability and business ethics, and it is an integral part of the roles of the Group's employees. The Group has a health and safety management system which is mandatory in all areas of the business and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. The Group's Health & Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety.</p>
<p>Execution of Strategic Change Programmes The Group faces the risk of loss of market share and the threat to the Group's underlying business arising from failure to effectively execute key strategic change programmes, such as Digitalisation of sales channels and 'Connected Car'.</p>	<p>RAC recognises the importance of implementing changes to its sales channels and customer management systems to keep pace with customer requirements, maintain market share and provide a platform for business growth, as well as to benefit from the operational efficiencies that can be obtained through digitalisation. The Group continues to enhance its capabilities in this area and ensure that a prioritised roadmap of digital change is in place.</p> <p>The Group is developing its Connected Car proposition and implementation programme in order to ensure that the business is well placed to benefit from changing customer requirements and technological advances in this area.</p>
<p>Impact of Brexit Following the UK referendum decision to leave the European Union there is increased uncertainty for business and consumers which may impact overall confidence in the UK economy.</p>	<p>RAC is a UK focused and robust business which has performed strongly over recent years and has a clear strategy for growth. Whilst there remains uncertainty over the ultimate Brexit deal the UK Government will negotiate, the Government and the Bank of England are taking steps to stabilise the pound and the financial markets. RAC has very limited business outside of the UK's borders. Should there be any negative impact from Brexit to growth prospects for the UK economy, our business has proved in the past to be resilient during recessionary times. We will continue to monitor the impact of Brexit and will take appropriate steps to maintain RAC's competitive position.</p>

Governance

CSR

Directors' report

Financial statements

Strategic report | Risk Management (cont.)

Capital management

RAC maintains an efficient capital structure comprising equity shareholders' funds and third party borrowings, consistent with its overall risk profile and the regulatory and market requirements of the business (see the Consolidated Statement of financial position on page 36).

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.

By order of the Board on 2 March 2017



S Morrison
Company Secretary



Governance | Governance report

RAC is committed to complying with the highest standards of good corporate governance practice. The Group recognises that strong governance is a key element underpinning the responsible, sustainable, long term growth of the business. The Directors consider that the Annual Report and Financial Statements comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

The following disclosures have been made on a voluntary basis as the Group is not required to comply with the Corporate Governance Code, hence certain disclosures required by the code have not been given in full.

A comprehensive corporate governance framework has been put in place which documents the following:

- Terms of Reference for the Board and the committees which sit under it;
- Processes for financial governance (including delegations of authority, transaction limits and treasury procedures);
- Comprehensive Group policies; and
- Registers of interests and guidance for directors on their duties and for Approved Persons (in the context of PRA and FCA authorisation).

The Board

The Board comprises the Chairman, two executive directors being the Chief Executive Officer and Chief Financial Officer, and six Non-Executive directors ('NEDs') comprising three CVC appointed NEDs, two GIC appointed NEDs and the Chair of the Group Audit, Risk and Compliance Committee.

The Board considers that the team has an appropriate balance of executive and non-executive directors and of skills, knowledge and experience commensurate with the nature and breadth of the business.

The Board provides practical leadership to the Group, setting the tone for a culture across the business committed to achieving great outcomes for customers and thereby delivering long term value both for RAC and the wider community.

The Board meets regularly and leads the strategic direction of the Group, monitors operational performance and ensures appropriate internal controls are in place. Standing topics covered at each Board meeting include Health and Safety and Treating Customers Fairly. Through the ongoing review of suitably detailed management information the Board ensures that risks are appropriately monitored and managed.

Division of responsibilities

There is a clear division of responsibility between the non-executive Chairman, the Chief Executive Officer and Chief Financial Officer and the non-executive directors.

The Chairman is responsible for:

- The leadership of the Board, ensuring its effectiveness and setting its agenda; and
- Facilitation of the effective contribution of non-executive directors and ensuring constructive relations between them and the executive Directors.

The Chief Executive Officer is responsible for:

- Overseeing day to day management of the Group;
- Allocating decision making and responsibility to the executive management team; and
- Ensuring the successful execution of the strategic objectives agreed by the Board.

As executive directors, the Chief Executive Officer and Chief Financial Officer are collectively responsible for:

- Setting the strategic direction of the Group and implementing and delivering the strategy;
- Preparing annual budgets and medium term projections for the Group and monitoring performance against these forecasts;
- Preparing Annual Financial Statements;
- Day to day management of the Group ensuring risks are appropriately managed;
- Effective communication with all stakeholders including shareholders, employees, Members and other customers; and
- Safeguarding the assets of the Group and for the prevention and detection of fraud.

The Non-Executive directors are responsible for:

- Using their wide and varied experience to offer independent advice, scrutiny and objectivity;
- Monitoring and offering objective challenge to executive management decisions where appropriate; and
- Bringing specific expertise to the Board. For example, the team includes a non-executive Director with extensive financial services experience from serving in senior positions of several major financial institutions.

The Company Secretary ensures that the RAC Bidco Limited Board (and the Boards of other companies within the Group) follows best corporate governance practice, that all discussions and decisions are properly recorded and that management information is supplied at an appropriate level to support constructive debate in Board meetings.

Board of Directors

Rob Templeman Chairman

Rob is Chairman of the Board of Directors. He joined RAC in September 2011 from Debenhams where he was Chief Executive Officer for eight years. His previous roles also include Chief Executive Officer and Chairman of Halfords, Chief Executive Officer of Homebase and Harveys Furnishing Group and Chairman of the British Retail Consortium. Rob is also Non-Executive Director of the Ladbrokes Coral Group plc and has a number of charitable interests.

Chris Woodhouse Chief Executive Officer

Chris is RAC's Chief Executive Officer. He joined RAC in February 2012 from Debenhams where he was Deputy Chief Executive Officer for six years. His previous roles also include Deputy Chairman of Halfords, Commercial Director and Deputy Chief Executive Officer of Homebase, Commercial Director of Birthdays Group and numerous Finance Director roles. Chris is a chartered accountant.

Richard Fairman Chief Financial Officer

Richard joined RAC in 2011 at the time of Carlyle's acquisition of the business and has been promoted to CFO from his former role of Director of Group Finance. Richard's previous experience includes CFO roles at Central Trust plc, a sub-prime mortgage broker/lender and Virgin Money Group, at the time a financial services intermediary business. Richard is a chartered accountant who qualified with Ernst & Young and who subsequently worked at PricewaterhouseCoopers as a Senior Manager.

Mark Wood Chair of Audit, Risk & Compliance Committee

Mark is Chairman of the Board of Directors' Audit, Risk & Compliance Committee. He joined RAC in September 2011 and was previously Managing Director for Financial Services at the AA. His prior roles also include Chief Executive Officer of AXA UK, Chief Executive Officer of Prudential UK and Europe and Chief Executive Officer of Paternoster Pension Investment Company. Mark also serves as Chief Executive Officer of Jardine Lloyd Thompson Benefit Solutions and Chairman of the Trustees of the National Society for the Prevention of Cruelty to Children.

Governance | Governance report (cont.)

Non-Executive Directors – GIC Group

Vinit Nagarajan

Vinit has been a Non-Executive Director since September 2015. He is a Vice President in GIC's Direct Investments Group. He is a Director on the Board of Rothesay HoldCo UK and was an observer on the Board of Avolon. Prior to joining GIC, he worked in investment banking at Deutsche Bank.

Henry Ormond

Henry has been a Non-Executive Director since September 2014. He is a Senior Vice President and Head of GIC's Direct Investment Group in Europe. Prior to joining GIC in 2012, Henry was a Managing Director at Leeds Equity Partners and a Principal at Quadrangle Group. Henry was formerly a Director of EduK, Protection One, Ntelos Holdings and Datanet Communications Group.

Non-Executive Directors – CVC Group

Marc Boughton

Marc has been a Non-Executive Director since April 2016. Marc is a Managing Partner at CVC Capital Partners responsible for CVC's Strategic Opportunities investment platform. Marc is also Chairman of CVC Credit Partners and main board Director of CVC. He joined CVC in 1995, set up and managed CVC's Financing Team, and founded in 2006 CVC Credit Partners as an independent private credit business. Marc has held Director roles in CVC's investments including, among others, Acordis, Armacell, Amatek, Building & Property, Flint, Trench, and Wavin. Prior to CVC, Marc worked for Electra Partners and at Deloitte Haskins & Sells (now PricewaterhouseCoopers) where he qualified as a Chartered Accountant and specialised in corporate recovery and investigations.

Tim Gallico

Tim has been a Non-Executive Director since April 2016. Tim is a Managing Director of CVC Capital Partners, where he has worked since 2005 and has held Director roles in CVC's investments at Formula One, Hozelock, Merlin Entertainments and Virgin Active. Prior to joining CVC, Tim worked as a consultant for Bain & Company.

Pev Hooper

Pev has been a Non-Executive Director since April 2016. Pev is a Partner at CVC Capital Partners, and currently sits on the boards of Domestic & General and SkyBet. He was also responsible for CVC's prior investments in the AA, Saga, Merlin Entertainments and Virgin Active, and has sat on the board of these and other CVC portfolio companies. He joined CVC in 2003 after working in mergers and acquisitions at Citigroup and Schroders.



Governance | Governance report (cont.)

Board committees

Specific written Terms of Reference are in place which set out clearly the responsibilities, membership and workings of the Board committees.

Group risk, audit and compliance committee

This committee is chaired by Mark Wood. It is attended by the Board members, the external auditors, the Director of Group Finance, the Director of Legal, Risk and Compliance and also members of the RAC senior management team as required.

The Committee assists the Board in discharging its responsibilities for the integrity of the Group's Financial Statements and the effectiveness of the systems of risk management and internal controls and also monitors the effectiveness, performance and objectivity of the internal and external auditors.

Key areas for which the committee is responsible include:

- Reviewing the Group's Financial Statements prior to approval on behalf of the Board and reviewing the external auditor's reports thereon;
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately;
- Reviewing, as appropriate the design and implementation of the risk management framework, assessing the effectiveness of the Group's management of risk and regulatory compliance, and reviewing the specific risk appetite for each area;
- Ensuring that the principles of Treating Customers Fairly are understood by all staff and embedded consistently across the business;
- Reviewing internal controls and approving the internal audit plan to monitor the effectiveness of those controls;
- Considering the consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where judgement has to be applied; and
- Assessing the independence and objectivity of the external auditors.

Remuneration committee

This committee is chaired by the Chairman of the Board, and is attended by the Chief Executive Officer, at least one non-executive Director from CVC and GIC and members of the senior management team as required. It is responsible for the following key areas:

- Determining the participation of Directors and employees in any equity holding or other long term incentive schemes operated by the Group;
- Agreeing the framework for the remuneration of the executive Directors and other senior executives, and determining their total individual remuneration packages including pension arrangements (the Chief Executive Officer is not present when his remuneration package is determined);
- Determining specific incentives for the executive Directors and senior management in order to encourage enhanced performance and to ensure fair reward for individual contributions to the success of the Group;
- Ensuring contractual terms are adhered to on termination and that any payments made are fair to both the individual concerned and the Group, and that failure is not rewarded; and
- Evaluating the performance of the executive Directors against challenging objectives, including non-financial objectives.

Other committees and working groups

A number of other committees and working groups operate across the Group which meet regularly in order to oversee various aspects of the business and to ensure appropriate safeguards are in place and that detailed management information is produced and monitored. These include a Conduct Risk Committee, a Quality Assurance and Financial Incentives Committee, a Complaints Action Group Committee and various Health and Safety Committees.



Corporate Social Responsibility report

Sustainability

At RAC, being a sustainable and responsible business is an important part of our history – and an equally important part of our future.

Our approach to sustainability covers projects and actions which are most relevant to RAC and the market in which we operate. We have set ourselves four priorities and work to manage these effectively which will support the business to achieve its vision:

- Manage the environmental impacts of our business operations;
- Building an organisation of brand ambassadors whilst ensuring safe, equal and fair employment conditions;
- Protect RAC's brand trust and confidence with our customers; and
- Champion road safety and deliver social benefits to the communities we serve.

We have set ourselves a number of sustainability targets to drive improvements. In addition to these targets, our policies and codes of conduct set out RAC's commitment and approach to responsibly managing our impacts on, and relationships with, our people, customers, communities and environment.

This section of the report provides an overview of our priorities and:

- Showcases our commitment to our Members to ensure we are being efficient, competitive and they can be confident that their personal data is protected;
- Showcases our commitment to our colleagues so they are treated well, engaged and know that their health, safety and wellbeing is a key priority for us; and
- Demonstrates how we effectively manage our environmental impacts and explains the initiatives we deliver to support our local communities.

Environmental management

The nature of our business entails managing and maintaining a large vehicle fleet. We recognise as The Motorist's Champion we have a responsibility to take action on reducing our environmental impact and to promote efficient vehicle management for both commercial and individual vehicles to help reduce the broader environmental consequences of being on the road.

Our environmental policy sets out environmental objectives, priorities and CO2 reduction targets, which creates the foundation for the organisation's environmental initiatives. These include driver fuel efficiency training; improved operational efficiency through increased phone fix rates, introduction of multi-fit spare wheels in all patrol vehicles; introduction of telematics technology in all patrol vehicles; vehicle replacements, increased recycling of acid batteries and a reduction in the waste produced from our buildings through our established waste management and recycling programs.

RAC is certified to ISO14001 Environmental Management System. The global environmental management standard covers energy usage, CO2 emissions, waste generation and disposal.

The certification is recognition of our commitment to a process of continuous improvement and demonstrates our plans to reduce our environmental impact.

The scope of RAC's Environmental Management System (EMS) relates to the delivery of our roadside recovery, repair, and incident management services, and the management of associated technical and call centre activities. Where RAC utilises third party contractors to deliver service to its customers, we will endeavour to raise awareness of our own Environmental Policy and also seek to encourage our suppliers to develop their own through the introduction of our new supplier policy and governance process.

RAC's strategy to meet our environmental objectives has three component parts:

- Colleagues: RAC actively educates its workforce so that they understand their responsibilities for minimising their environmental impact in their day to day activities in order to assist RAC to achieve its environmental objectives and targets.
- Members: RAC will continually improve its service offerings to reduce the impact it has on the environment through everyday trading and through this process support its financial plans by becoming more efficient.
- Contractors and Suppliers: We require our contractors and suppliers to support us in delivering our environmental objectives and our expectation is that they will have their own environmental plans in place, demonstrating their commitment to greener trading.

Corporate Social Responsibility report | (cont.)

Environmental Targets and Carbon Emissions

Our transport operations represent our biggest challenge and an opportunity to reduce our environmental impacts. To minimise the impacts of transport, we look at every opportunity to reduce the number of miles we travel and adopt more efficient modes of transport.

Over the last few years, we have been working closely on a vehicle replacement programme to replace all Euro 4/5 vehicles with Euro 6 technology for our liveried fleet.

We are at the forefront of telematics technology and have installed telematics technology into 1,500 liveried patrol Vehicles. This along with our "Smarter Driving Training programme" for all company drivers is helping to improve driver efficiency and skills leading to lower emission from our fleet.

We have made positive progress against our environmental targets and have successfully achieved the following:

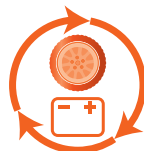
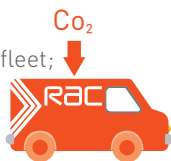
➤ Reduced CO₂ output from our liveried fleet;

➤ Reduced the average CO₂ g/km for our company car fleet;

➤ Reduced the levels of waste produced in our buildings taken to landfill;

➤ Improved our recycling rates for tyres and batteries; and

➤ Delivered a year on year reduction in buildings energy consumption.



Implementing iCloud technology and Skype for Business, has helped us reduce the amount of travelling in between our sites. We have also implemented a new company car policy to ensure company car drivers opt for more energy efficient vehicles.

Our colleagues

Our continued success is built around our people. RAC strives to create brand ambassadors in all colleagues by providing an environment where they are respected, engaged, and rewarded for their contributions and are encouraged to participate in company and community initiatives.

Human Rights

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

meet the universal standard for fundamental social and human rights.

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

Our collaborative approach to treating colleagues fairly means we work in partnership with Unite, the union and colleague representatives from an elected forum. RAC engages and involves colleagues in the development and direction of the business through colleague forums to share information and updates from business strategy to innovative projects that will impact the organisation.

RAC adheres to the principles and practices set out in the Declaration of the International Labour Organization (ILO) of 1998, relating to the basic principles and rights at work and Universal principles related to human rights set out in the United Nations (Global Compact).

Equality and Diversity

RAC is committed to promoting equality and diversity and creating a culture that respects, celebrates and harnesses differences, which we believe benefits customers, colleagues, shareholders, business partners and the wider communities within which we operate.

Our equality and diversity policy makes sure that everyone employed by RAC has equality of opportunity open to them.

RAC is committed to making equal access to employment, training, promotion and the day to day management of individuals making sure that employment is:

➤ Free from discrimination on the grounds of gender, sexual orientation, race, colour, religion or belief, marital status, disability, age or union status.





➤ Based solely on the objective assessment of ability and job related criteria.

➤ Based on the principle of equal opportunities for everyone in employment which is an important part of RAC's working culture. Our standards go beyond the legal requirements so that RAC can benefit fully from the competitive advantage that comes from business teams that include people with different backgrounds, experiences and perspectives.

Corporate Social Responsibility report | (cont.)

Our code of conduct describes the standards of behaviour required of all RAC colleagues and provides guidance on how to raise issues or concerns. Opportunities are available to all colleagues for training, career development and promotion. Where existing colleagues become disabled, it is the Group's policy to provide continuing employment wherever practical in the same or alternative position and to provide appropriate training and reasonable adjustments to achieve this aim.

Gender diversity

	2016			2015		
			Total			Total
At 31 December						
Director	-	9	9	1	10	11
Senior Manager	11	27	38	8	22	30
Employee	1,031	2,666	3,697	1,034	2,612	3,646
Total	1,042	2,702	3,744	1,043	2,644	3,687

Zero Tolerance to Modern Slavery

RAC is committed to acting ethically and with integrity in all its business dealings and relationships. We also recognise the need to implement and enforce effective systems and controls to ensure modern slavery is not taking place anywhere in the business or in our supply chains. For this reason, all colleagues are encouraged to read the RAC Modern Slavery Policy published in November 2016 which provides rules and principles we must adhere to, to make sure that no colleague is directly or indirectly involved in an offence under the Modern Slavery Act. We have also included modern slavery in our essential learning models which colleagues complete on an annual basis.

Investing in Skills (Training, Personal and Career Development)

We recognise the important role our colleagues have in all aspects of our operations. We place a great deal of emphasis on having skilled labour and see training either on the job or at formal courses as essential. Our development adopts the 70/20/10 principle (70% on the job learning / 20% coaching and support / 10% formal training). We are particularly careful not to place an individual in a situation where they would not have the skills to work safely or provide customers with a positive customer experience. Our approach ensures we deliver not only against our legislative requirements but also against our standards and values. We manage our training and development through a competency framework which sets out the skills and behaviours required for each role and business area.

Managing and Recruiting Talent

We strive to ensure that our recruitment results in us having the right people, in the right place at the right time. Our recruitment and selection policy aims to ensure that we attract and appoint applicants with the right skills, knowledge, behaviours and experience to meet the needs of all our vacancies. In light of this we ensure that we appoint on the basis of merit and without discrimination.

We continue to review our approach to recruitment to ensure potential candidates experience RAC's positive culture and brand. We are aiming to reduce our reliance on agencies as we believe a more direct resourcing model is more effective and provides the candidate with a better experience.

Colleague Health and Safety

RAC recognises that Health and Safety is an essential part of its responsibility towards its colleagues and all those affected by business activities, and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities. We regard Health and Safety at work with equal importance as profitability and business ethics, and it is an integral part of the roles of our employees.

We have a Health and Safety Policy and Health and Safety Management System which is mandatory in all areas of our business and enables all levels of line management to understand the Health and Safety aspects of their activities and applicable legislation.

Corporate Social Responsibility report | (cont.)

We support the aims of this policy through adequate time and money resources, competent professional advice and commitment from the RAC Board of Directors.

In accordance with our Health and Safety duties, we;

- Are compliant with all relevant Health and Safety legislation;
- Have established arrangements for the effective organisation, planning, measuring and review of Health and Safety;
- Have established objectives, standards, targets and procedures to maintain a safe working environment, to reduce injuries and ill health and monitor and review compliance and progress against these;
- Assess risks to Health and Safety and identify ways to overcome them;
- Promote high standards of Health and Safety throughout our business;
- Consult with our colleagues, their representatives and the Unite Trade Union on matters affecting their Health and Safety;
- Provide suitable and adequate information, instruction and training for our colleagues to ensure they are competent to complete their tasks;
- Maintain a clearly documented Health and Safety Management System; and
- Implement the principles of continuous improvement.

RAC holds third party certification to PAS 43 2015 Safe Working of Vehicle Breakdown, Recovery and Removal Operations - Management System Specification. This certification is supported by our ISO9001 certification and our CARSQA certificate covers both elements. RAC has a Health and Safety Management System (Based on HSG 65 - Successful Health and Safety Management).

Senior management staff review the Quality Management System ("QMS") quarterly. These reviews assess the continuing suitability, adequacy and effectiveness of the QMS including the Quality Policy and objectives to identify opportunities for improvement and any required changes.

Brand Trust and Confidence

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

The strength of our RAC brand is our greatest asset, as evidenced by our near universal levels of awareness amongst consumers (96% based on our latest survey). Since 1897, we've been coming to the rescue of Britain's motorists and it is that strong service ethic that still drives us today. Our ambition is to make driving safer, easier, more affordable and enjoyable - to be the champion for the 21st century motorist. Given 94% of Members would recommend us to their friends and family, we think customers appreciate our efforts.



Corporate Social Responsibility report | (cont.)

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

As the UK's oldest motoring organisation RAC continues to be at the forefront of innovation, driven by our vision to be the motorist's champion and the one-stop-shop for all motoring needs. RAC offers a wide range of products and services in a simple and convenient way to meet the needs of all our customers. To help our Members feel confident about what they are buying, we aim to make our products, services and communications clear and deliver solutions that suit them.

Ethical Business Practices, Code of Conduct. Zero tolerance to Bribery and Corruption

RAC is committed to ensuring that all business is conducted according to rigorous ethical, professional and legal practices. We have various policies and codes of practices that we require all colleagues to sign up to which set out our stance. We have a strict zero tolerance towards bribery and corruption and to ensure all colleagues understand their role and responsibilities, we provide compulsory anti-bribery and anti-corruption training for all our colleagues which includes our conflicts of interest, whistle blowing and gift and hospitality policies and procedures.

Customer Privacy and Data Protection

Data and customer information is fundamental to the day to day of our operation. Our commitment to data protection and customer privacy promotes trust and confidence in the RAC brand, encourages efficient business practices and mitigates risks associated with inappropriate and illegal use of data. All colleagues must complete mandatory training on data protection, confidentiality of information, accurate and honest reporting, data processing and the customer rights on data usage and requests.

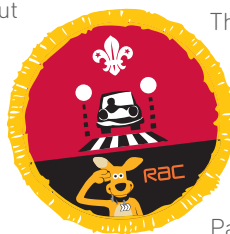
Responsible Procurement

RAC operates clear and open procurement practices that drive transparency and value. We have a set of "golden rules" which are embedded into our tendering process and referenced in all contracts. All suppliers go through a due diligence process before being approved to work with RAC and we reserve the right to terminate contracts with suppliers if they fail to comply with our standards.

Championing Road Safety and Community Involvement

Making motoring safer for communities throughout the UK is a key component of RAC's brand values. Delivering value to the communities in which we operate is an important element of our business.

The focus of our community and charitable activities is to make motoring safer and improve road safety for everyone. In 2015, RAC's Road Safety Awareness Initiative applied for and gained charitable trust status. In the same year the charity partnered The Scout Association with the aim of educating children to help reduce the number of children and young people injured or killed on our roads each year.



Through our partnership with the Scouts with a particular focus around the Cubs road safety badge, our colleagues have visited over 100 groups to deliver road safety workshops. We sponsored a road safety treasure trail at the Cubs 100 Funday at their headquarters in Gilwell Park attended by over 5,000 children.

We have also developed training materials for leaders to run engaging sessions to build knowledge and experience of issues including 'be bright be seen', the Highway Code, In Car Safety, Recognising road signs and how to stay safe in the event of a vehicle breakdown.

Colleagues and our Corporate Partners and suppliers have backed a variety of fundraising appeals this year including; the Charity's inaugural Golf Charity Day at the Celtic Manor's 2010 Ryder Cup course, our second colleague charity Christmas auction and to celebrate the European Football Championship, colleagues raised funds to help deliver our pledge of providing 140,000 Cubs with hi-visibility jackets.

The Scouting group have seen a 35% uplift in Cubs learning about road safety with almost 30,000 Cubs obtaining their road safety badge in 2016.

Alongside this, RAC is also a member of 'SURVIVE', which involves working with other organisations (e.g. breakdown organisations, Highways Authorities, Police, and Recovery Associations) to improve road safety.

Corporate Social Responsibility report | (cont.)

Additional activity that RAC contributes to promote road safety includes:

- Driver Training Programmes
- Actively supported Project Pictogram – Driving Safer Roads Campaign
- Vehicle accident prevention and management through RAC telematics and dash-cam technology.



Supporting other causes close to colleagues hearts

Whilst road safety is RAC's primary community focus, we support other national and local causes on community initiatives and fundraising appeals.

This year we were delighted to re-engage with the Children In Need Appeal with our colleagues volunteering to provide telephony support on their National Appeal day whilst also taking part in fun fund raising activities.

Master bakers came out in force to support Macmillan Coffee Morning and colleagues continue to support our annual RAC sponsored trek over the Shropshire hills to raise funds for Help for Heroes. RAC also provide free breakdown and European cover for the Charity's fleet of vehicles.

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

Nurturing Future Talent

Apprenticeships and work experience initiatives encourage young people from all backgrounds to pursue careers in our industry. Our initiatives help build skills among young people entering the job market and supports efforts to tackle youth unemployment.

We are a key supporter of the National Citizens Service 'The Challenge' summer programme. Designed to provide interactive and education tools to help children aged 15 – 18 develop important life skills to build their confidence and prepare them for employment or further education. RAC has supported this programme for the past 2 years supporting over 100 children each year through this programme through professional visits and mentoring.

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and independent auditor's report for the year ended 31 December 2016.

Under the terms of the Companies Act 2006, the Directors report is required to contain certain statutory, regulatory and other information. The Directors have incorporated the business review by cross-reference, as permitted by the Companies Act 2006.

Directors

The names of the current Directors are set out on page 31. Those who have served in office during the year have been as follows:

- M Boughton (appointed 12 April 2016)
- A Burgess (resigned 12 April 2016)
- D Cougill (resigned 5 September 2016)
- R Fairman (appointed 5 September 2016)
- R A Jarratt (resigned 15 April 2016)
- T Gallico (appointed 12 April 2016)
- P Hooper (appointed 12 April 2016)
- V Nagarajan
- H C Ormond
- F Robson (resigned 12 April 2016)
- A Stirling (resigned 12 April 2016)
- R Templeman
- M Wood
- C Woodhouse

Directors' indemnities

The Company has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and was novated to the Directors of this Company in December 2014. 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 of the Companies Act 2006.

Results and dividends

The results of the Group for the year ended 31 December 2016 are set out on page 34, and discussed in the Strategic Report on pages 4 to 18.

The Group paid an interim dividend of £65 million during the year, amounting to 19.02 pence per share (2015: £nil). The Directors do not recommend the payment of a final dividend (2015: £nil).

On 29 February 2016, a capital reduction of £535 million was completed, reducing ordinary share capital but increasing retained earnings.

Capital structure

CVC and GIC have equal control of the Group by virtue of their indirect shareholding in the Company.

Political donations

The Group did not make any political donations during the year (2015: £nil).

Financial risk management

Details of the Group's use of financial instruments, together with information on risk objectives and policies and exposure to market, credit, liquidity and interest rate risks, can be found on pages 10 to 18 of the Strategic Report.

Directors' report | (cont.)

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 16 and 21 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 26 to the Consolidated Financial Statements.

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

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 4 to 18. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net assets of 706 million, however this largely reflects the value of separately identified intangible assets of £2,238 million, offset by issued bonds of £897 million and outstanding third party borrowings of £273 million.

The Company has net assets of £1,068 million and net current liabilities of £34 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Midco II Limited in order to ensure it is able to pay its liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2016 Group and Company Annual Report and Financial Statements to be prepared on a going concern basis.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor of the Group and 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.

Statement of Directors' responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain 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.

Directors' report | (cont.)

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

Events since the statement of financial position date

There have been no events since the statement of financial position date which have a material impact on the Company's or RAC Bidco Limited Group's financial position as at 31 December 2016.

By order of the Board on 2 March 2017



S Morrison
Company Secretary

Company information

Directors: M Boughton, R Fairman, T Gallico, P Hooper, V Nagarajan, H C Ormond, R Templeman, M Wood & C Woodhouse

Company Secretary: S Morrison

Registered office: RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW

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

Company number: Registered in England and Wales: No. 09229824

The RAC Bidco Limited group of companies ("RAC Bidco Limited Group" or "RAC") comprises RAC Bidco Limited ("Company") and its subsidiaries, as set out on page 58. RAC Bond Co PLC was incorporated on 24 March 2016 as RAC Bond Co Limited. On 14 April 2016, RAC Bond Co Limited was re-registered as a plc, changing its name to RAC Bond Co PLC. Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which are registered in England and Wales. As part of a refinancing in the period, these companies were sold to RAC Midco Limited, an indirect Parent Company of the Group.

The Company is a member of the RAC Group (Holdings) Limited group of companies ("Group") whose subsidiaries include RAC Midco Limited, RAC Midco II Limited, Nebula Systems Limited, Maverick Technology (UK) Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited and the RAC Bidco Limited Group.

These Consolidated Financial Statements are presented for the year ended 31 December 2016. Comparatives are presented for the year ended 31 December 2015.

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



Independent Auditor's Report to the members of RAC Bidco Limited

We have audited the Financial Statements of RAC Bidco Limited Group for the year ended 31 December 2016, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the accounting policies and the related notes 1 to 28, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cash flows and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

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

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

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

Opinion 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.

Independent Auditor's Report to the members of RAC Bidco Limited (continued)

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 and the Directors' Report.

Matters on which we are required to report by exception

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

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

Andrew Halls FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
United Kingdom
Date: 2 March 2017

Consolidated Financial Statements

Consolidated income statement For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Revenue	1	506	501
Cost of sales		(230)	(215)
Gross profit		276	286
Administrative expenses		(208)	(288)
Operating profit/(loss)	2	68	(2)
EBITDA		184	183
Depreciation	12	(5)	(4)
Amortisation of customer acquisition intangibles	11	(14)	(10)
Amortisation of non customer acquisition intangible assets	11	(88)	(171)
Exceptional items	3	(9)	-
Operating profit/(loss)		68	(2)
Finance expenses	6	(129)	(83)
Loss before tax		(61)	(85)
Tax credit	10	22	39
Loss for the year		(39)	(46)

The accounting policies and notes on pages 39 to 73 are an integral part of these Financial Statements.

Consolidated Financial Statements (cont.)

Consolidated statement of comprehensive income For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Loss for the year		(39)	(46)
Other comprehensive income/(expense)			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Net movement on cash flow hedges	20(b)	7	(1)
Aggregate tax effect	10(c)	(1)	-
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods		(6)	1
Total comprehensive expense for the year		(33)	(47)

The accounting policies and notes on pages 39 to 73 are an integral part of these Financial Statements.

Consolidated Financial Statements (cont.)

Consolidated statement of financial position

As at 31 December 2016

	Note	2016	2015
		£m	£m
ASSETS			
Non-current assets			
Goodwill and intangible assets	11	2,238	2,300
Property, plant and equipment	12	15	15
Investments in joint ventures and associates		2	-
Deferred tax assets	17	12	9
		2,267	2,324
Current assets			
Inventories	14	2	3
Trade and other receivables	15	66	62
Cash and cash equivalents	16	43	88
		111	153
LIABILITIES			
Current liabilities			
Borrowings	21(a)	(7)	(13)
Provisions	18	(6)	(1)
Trade and other payables	19	(227)	(236)
Current tax payable	17	(28)	(28)
		(268)	(278)
Net current liabilities		(157)	(125)
Non-current liabilities			
Borrowings	21(a)	(1,163)	(1,132)
Employee benefit liability	25(c)(iv)	(6)	(6)
Trade and other payables	19	(3)	(3)
Derivative tax liability	17	(217)	(244)
Derivative financial instruments	20	(15)	(10)
		(1,404)	(1,395)
Net liabilities		706	804
EQUITY			
Ordinary share capital	22	339	874
Hedging instruments reserve		(2)	(8)
Retained earnings		369	(62)
Total equity		706	804

The accounting policies and notes on pages 39 to 73 are an integral part of these Financial Statements.
Approved by the Board on 2 March 2017.



R Fairman
Chief Financial Officer

Consolidated Financial Statements (cont.)

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Note	Ordinary share capital	Hedging instruments reserve	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 1 January 2015		874	(7)	(16)	851
Loss for the year		-	-	(46)	(46)
Other comprehensive expense		-	(1)	-	(1)
Total comprehensive expense		-	(1)	(46)	(47)
Balance at 31 December 2015		874	(8)	(62)	804
Loss for the year		-	-	(39)	(39)
Other comprehensive expense		-	6	-	6
Total comprehensive expense		-	6	(39)	(33)
Dividends paid	4	-	-	(65)	(65)
Capital reduction		(535)	-	535	-
Balance at 31 December 2016		339	(2)	369	706

The accounting policies and notes on pages 39 to 73 are an integral part of these Financial Statements.

Consolidated Financial Statements (cont.)

Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Operating activities			
Loss before tax		(61)	(85)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	12	5	4
Amortisation of intangible assets	11	102	181
Exceptional costs	3	1	-
Finance expenses	6	129	83
Increase in provisions	18	5	-
Working capital adjustments:			
Decrease/(increase) in inventories		1	(1)
Increase in trade and other receivables		(5)	(3)
Decrease in trade and other payables		(15)	(28)
Net cash flows from operating activities		162	151
Investing activities			
Purchase of property, plant and equipment	12	(5)	(6)
Purchase of intangible assets	11	(41)	(28)
Net cash flows used in investing activities		(46)	(34)
Financing activities			
Repayment of bank debt	21	(1,188)	(10)
New bank loans raised	21	280	-
Proceeds from bond issuance	21	896	-
Dividends paid	4	(65)	-
Interest paid and debt issue cost		(84)	(73)
Net cash flows used in financing activities		(161)	(83)
Net (decrease)/increase in cash and cash equivalents		(45)	34
Cash and cash equivalents brought forward	16	88	54
Cash and cash equivalents carried forward	16	43	88

The accounting policies and notes on pages 39 to 73 are an integral part of these Financial Statements.

Accounting policies

(A) Corporate information

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

Information on RAC Bidco Limited Group's structure is provided in note 13. Information on other related party relationships of the RAC Bidco Limited Group is provided in note 27.

The Consolidated and Parent Company Financial Statements of RAC Bidco Limited for the year ended 31 December 2016 were approved for issue by the Board on 2 March 2017.

(B) Basis of preparation and basis of consolidation

Basis of preparation

The Consolidated Financial Statements presented have been prepared for the RAC Bidco Limited Group, which comprises RAC Bidco Limited and its subsidiaries. The Financial Statements of the RAC Bidco Limited Group and the Company have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets. The Financial Statements of the RAC Bidco Limited Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

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

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

The separate Financial Statements of the Company are set out from page 74. On publishing the Company Financial Statements here together with the RAC Bidco Limited Group Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Company's profit for the year ended 31 December 2016 was £324 million (2015: loss of £53 million).

Going concern

The Directors have assessed the financial position and the future funding requirements of the RAC Bidco Limited Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 16 and 21 to the Consolidated Financial Statements. The RAC Bidco Limited Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 26 to the Consolidated Financial Statements.

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

The RAC Bidco Limited Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 4 to 18. The Directors also considered what mitigating actions the RAC Bidco Limited Group could take to limit any adverse consequences.

The Company has net assets of £1,068 million and net current liabilities of £34 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Midco II Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2016 Annual Report and Financial Statements.

The RAC Bidco Limited Group has net assets of £706 million. This largely reflects the value of separately identifiable intangible assets on the business combination, offset by the gross debt of £1,170 million. The Directors have considered the financial position and future prospects of the RAC Bidco Limited Group.

Accounting policies (cont.)

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

Going concern (continued)

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Bidco Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2016 Company and Consolidated Financial Statements to be prepared on a going concern basis.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2016.

Subsidiaries are those entities in which the RAC Bidco Limited Group, directly or indirectly, has power to exercise control. Control is achieved when the RAC Bidco Limited Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the RAC Bidco Limited Group controls an investee if and only if the RAC Bidco Limited Group has:

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

When the RAC Bidco Limited Group has less than a majority of the voting or similar rights of an investee, the RAC Bidco Limited Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The RAC Bidco Limited Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the RAC Bidco Limited Group obtains control over the subsidiary and ceases when it loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the Consolidated statement of financial position and the Consolidated statement of comprehensive income from the date the RAC Bidco Limited Group gains control until the date the RAC Bidco Limited Group ceases to control the subsidiary.

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

The acquisition method of accounting is used for business combinations. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The excess of the consideration transferred over the fair value of the net assets and liabilities of the subsidiary acquired is recorded as goodwill. Acquisition related costs are expensed as incurred.

Investments in associates

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

Accounting policies (cont.)

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

Investments in associates (continued)

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

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

The aggregate share of the RAC Bidco Limited Group's share of profit or loss of an associate is shown on the face of the Consolidated income statement and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

Business combinations

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

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

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

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

Accounting policies (cont.)

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

Business combinations (continued)

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

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

(C) Revenue recognition

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

Service revenue

Revenue represents sales of roadside assistance subscription services and is recognised on a straight-line basis over the length of the contract, usually twelve months. For non-subscription income, revenue is recognised on provision of the service. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income.

Products

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

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

Insurance brokerage

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

Rental income

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

Other income

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

Dividend income

Dividend income from investments 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).

Accounting policies (cont.)

(D) Exceptional items

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

(E) Goodwill, acquired value-in-force and intangible assets

Goodwill

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

Brand

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

Acquired value-in-force business

The acquired value-in-force represents future margins in deferred income in the statement of financial position at the date of acquisition. This intangible asset is amortised over its useful life of less than twelve months.

Customer lists and other intangible assets

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

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

Customer acquisition intangibles

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

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

Intangible assets acquired in a business combination

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

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

Impairment testing

For impairment testing, goodwill has been allocated to the four cash generating units ("CGU") that existed as at the date of acquisition as these represent the lowest level within the RAC Bidco Limited Group which generates independent cash inflows. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount. Details of the testing performed and carrying values of goodwill and intangibles is shown within note 11.

Accounting policies (cont.)

(F) Property, plant and equipment

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

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

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

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

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

(G) Inventories

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

(H) Impairment of non-financial assets

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

(I) Trade receivables

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

(J) Cash and cash equivalents

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

(K) Borrowings

Borrowings are recognised initially at their issue proceeds net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest rate method.

Accounting policies (cont.)

(K) Borrowings (continued)

Upon extinguishment of borrowings, any remaining related transaction costs are charged to finance expenses in the Income statement. If the terms of a debt instrument are modified the remaining fees are amortised over the life of the instrument. When the terms of a debt instrument are amended it is treated as an extinguishment rather than a modification if the revised terms are substantially different.

Borrowings are classified as current liabilities unless the RAC Bidco Limited Group has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of financial position date.

(L) Derivative financial instruments

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

Financial assets at fair value through profit or loss are carried in the Consolidated statement of financial position at fair value with net changes in fair value presented as other losses (negative net changes in fair value) or other gains (positive net changes in fair value) in the Consolidated income statement.

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

(M) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the RAC Bidco Limited Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(N) Provisions and contingent liabilities

Provisions are recognised when the RAC Bidco Limited Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

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

Accounting policies (cont.)

(O) Income taxes

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

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 liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction, that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

(P) Leases

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

(Q) Employee benefits

Pension obligations and other post-retirement benefit obligations

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

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

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

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

Accounting policies (cont.)

(Q) Employee benefits (continued)

Pension obligations and other post-retirement benefit obligations (continued)

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

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

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

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

Termination benefits

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

(R) 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:

- 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
- 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.

(S) Application of new and revised International Financial Reporting Standards ("IFRSs")

The following new and amended IFRS are effective for the 2016 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the RAC Bidco Limited Group or the Parent Company's Financial Statements.

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11 Accounting for Acquisitions of Interest and in Joint Operations
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012 – 2014 Cycle

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

- Amendments to IAS 7 Disclosure Initiative¹
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses¹
- IFRS 9 Financial Instruments²
- IFRS 15 Revenue from contracts with customers²
- Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions²
- IFRS 16 Leases³

Accounting policies (cont.)

(S) Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

The RAC Group (Holdings) Limited Group is currently in the process of evaluating the impact of the adoption of the above new and revised standards on the Group's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

- ¹ Effective for annual periods commencing on or after 1 January 2017
- ² Effective for annual periods commencing on or after 1 January 2018
- ³ Effective for annual periods commencing on or after 1 January 2019

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

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

(i) Critical judgements in applying the RAC Bidco Limited Group's accounting policies

The Directors do not believe there are any critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that they have made in the process of applying the RAC Bidco Limited Group's accounting policies and that have the most significant effect on the amounts recognised in the Consolidated 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:

Fair value measurements and valuation process

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

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

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

The principal or the most advantageous market must be accessible to the RAC Bidco Limited Group.

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

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

Tax provisions

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

Accounting policies (cont.)

(T) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Key sources of estimation uncertainty (continued)

Fair value measurements and valuation process (continued)

Provisions and contingent liabilities

Assessing the financial outcome of uncertain commercial and legal positions requires judgements to be made regarding the relative merits of each party's case and the extent to which any claim against the Group is likely to be successful. The assessments made are based on advice from the Group's internal counsel and, where appropriate, independent legal advice. The Group is working with the FCA to quantify the exact amount of refunds due to customers but has used all available information at the Statement of financial position date to assess the provision at that date.

Customer acquisition intangibles

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

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

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

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

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

Employee benefit obligations

Determining the amount of the RAC Bidco Limited Group's employee benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning inflation, salary and pension increases, investment returns and expected mortality of scheme members. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The RAC Bidco Limited Group makes assumptions concerning these matters with the assistance from independent qualified actuaries. Details of the assumptions made are set out in note 25 to the Consolidated Financial Statements.

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at both 31 December 2016 and 31 December 2015 was £906 million and £872 million respectively. No impairment loss of goodwill or the brand has been recognised in the reported periods.

Notes to the Consolidated Financial Statements

1 Revenue

	2016	2015
	£m	£m
Sale of products	23	24
Sale of services	483	477
Total revenue	506	501

2 Operating items

The following items have been charged/(credited) to operating profit:

	Note	2016	2015
		£m	£m
Depreciation of owned tangible assets	12	5	4
Amortisation of customer acquisition intangible assets	11	14	10
Amortisation of non customer acquisition intangible assets	11	88	171
Employee costs	8	144	145
Operating lease rentals paid		13	13
Rental income		(1)	(1)

3 Exceptional items

		2016	2015
		£m	£m
Impairment of intangible assets	11	1	-
Restructuring costs		3	-
Customer refund costs	18	5	-
		9	-

During the year, the RAC Bidco Limited Group incurred a total of £3 million (2015: £nil) of restructuring costs in respect of the realignment of non-customer facing staff. The RAC Bidco Limited Group also made a provision of £5 million (2015: £nil) for the estimated costs of providing refunds to customers, further detail of which are given in note 18.

The impairment of intangible assets is in respect of intangible assets arising on acquisition of Risk Telematics (UK) Limited.

4 Dividends

The Group paid interim dividends of £65 million during the year, amounting to 19.02 pence per share (2015: £nil). No interim or final dividend was paid in the year ended 31 December 2015.

5 Operating segments

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

Notes to the Consolidated Financial Statements (cont.)

5 Operating segments (continued)

Roadside

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

Insurance broking

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

Motoring services

The motoring services division includes a range of established products such as legal and motor claims services and new business areas such as Retail Online, Garage Services, SME Business Club and RAC Cars.

Telematics and Data services

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

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

	2016	2015
	£m	£m
Revenue of products		
Roadside	23	24
Revenue of services		
Roadside	394	395
Insurance broking	57	56
Motoring services	27	21
Telematics and Data services	5	5
Group Revenue	506	501
Segment EBITDA before head office costs		
Roadside	187	187
Insurance broking	30	31
Motoring services	5	3
Telematics and Data services	1	3
Group EBITDA before head office costs	223	224
Head office costs*	(39)	(41)
Group EBITDA	184	183
Amortisation of intangible assets	(102)	(181)
Depreciation	(5)	(4)
Exceptional items*	(9)	-
Operating profit/(loss)	68	(2)
Finance expenses	(129)	(83)
Loss before tax from continuing operations	(61)	(85)

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

Notes to the Consolidated Financial Statements (cont.)

5 Operating segments (continued)

Assets and liabilities

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

6 Finance expenses

	Note	2016	2015
		£m	£m
Interest payable - third parties		67	77
Amortisation of capitalised finance costs		4	6
Write off capital finance costs		46	-
Recycle of hedged items previously classified through other comprehensive income		12	-
		129	83

Interest payable to third parties relates to finance expenses in respect of third party borrowings.

7 Auditor's remuneration

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

	2016	2015
	£000	£000
Audit services		
Audit of Financial Statements	19	8
Audit of subsidiaries	269	250
	288	258
Other services		
Taxation compliance services	282	77
Other non-audit services	337	-
Total remuneration payable to Deloitte LLP	907	335

8 Employee information

The Company has no employees. All employees of the RAC Bidco Limited Group are employed and have their employment contracts with RAC Motoring Services, a wholly owned subsidiary.

The average number of persons employed during the year/period was:

	2016	2015
	Number	Number
Roadside	3,007	3,020
Insurance and claims	135	133
Support	324	285
	3,466	3,438

Notes to the Consolidated Financial Statements (cont.)

8 Employee information (continued)

Total staff costs were:

	2016	2015
	£m	£m
Wages and salaries	124	124
Social security costs	12	12
Pension costs	8	8
Termination benefits	3	1
Those costs were charged within:	147	145
	2016	2015
	£m	£m
Cost of sales	102	100
Administrative expenses	42	45
	144	145

9 Directors

Executive Directors are remunerated as employees by RAC Motoring Services, a wholly owned subsidiary. Details of the aggregate remuneration of the Directors of the Company for qualifying services in respect of the RAC Bidco Limited Group comprise:

Disclosures relating to directors' remuneration can be found in the Consolidated Annual Report and Accounts of RAC Group Limited (formerly RAC Limited).

	2016	2015
	£000	£000
Fees and benefits	1,087	1,691
Contributions paid into money purchase pension schemes	-	-
	1,087	1,691
Emoluments of the highest paid director:		
Fees and benefits	516	824

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to 1 Director (2015: none) under a money purchase scheme. During the year no Directors (2015: none) were awarded shares under long-term incentive schemes.

Notes to the Consolidated Financial Statements (cont.)

10 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2016	2015
	£m	£m
Current tax:		
For the year	7	13
Adjustment in respect of prior periods	-	4
Total current tax	7	17
Deferred tax:		
Origination and reversal of temporary differences	(18)	(30)
Adjustment in respect of prior periods	-	(4)
Change in tax rates	(11)	(22)
Total deferred tax	(29)	(56)
Total tax credited to the Consolidated income statement	(22)	(39)

(b) Tax reconciliation

The tax on the RAC Bidco Limited Group's loss before tax differs from the theoretical amount that would arise using the tax rate in the UK as follows:

	Note	2016	2015
		£m	£m
Loss before tax		(61)	(85)
Tax calculated at standard UK corporation tax rate of 20.00% (2015: 20.25%)		(12)	(17)
Disallowable expenses		1	-
Effect of tax rate change		(11)	(22)
Total tax credited to the Consolidated income statement	10(a)	(22)	(39)

The headline rate of UK corporation tax will reduce from 20% to 19% from 1 April 2017, and will reduce further to 17% from 1 April 2020.

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

Accordingly, as the future reductions of the corporation tax rate to 19% and 17% were substantively enacted on 26 October 2015 and 6 September 2016 respectively, the deferred tax balances at 31 December 2016 have been reflected at the tax rates at which they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax credited directly to other comprehensive income in the year amounted to £1 million in respect of tax on movements in hedging instrument fair values and actuarial gains and losses on pension schemes (2015: £nil in respect of tax on movements in hedging instrument fair values).

Notes to the Consolidated Financial Statements (cont.)

11 Goodwill and intangible assets

	Goodwill	Brand	Acquired value-in-Force	Customer List	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost:								
At 1 January 2015	906	872	89	536	37	2,440	24	2,464
Additions	-	-	-	-	11	11	17	28
At 31 December 2015	906	872	89	536	48	2,451	41	2,492
Additions	-	-	-	-	21	21	20	41
At 31 December 2016	906	872	89	536	69	2,472	61	2,533
Amortisation:								
At 1 January 2015	-	-	7	3	1	11	-	11
Charge for the year	-	-	82	75	14	171	10	181
At 31 December 2015	-	-	89	78	15	182	10	192
Charge for the year	-	-	-	75	13	88	14	102
Impairment	-	-	-	-	1	1	-	1
At 31 December 2016	-	-	89	153	29	271	24	295
Net book value:								
At 31 December 2016	906	872	-	383	40	2,201	37	2,238
At 31 December 2015	906	872	-	458	33	2,269	31	2,300

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated income statement. An impairment of £1 million (2015: nil) was recognised in respect of the impairment of intangibles relating to Risk Telematics UK Limited. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated income statement.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the four cash generating units ("CGU") that existed as at the date of acquisition. The carrying value of the goodwill and indefinite-lived intangible assets allocated across the four CGUs is £906 million and £872 million respectively.

Notes to the Consolidated Financial Statements (cont.)

11 Goodwill and intangible assets (continued)

Impairment testing of goodwill and intangible assets with indefinite lives (continued)

	Goodwill	Indefinite-lived intangibles
	£m	£m
Roadside	693	666
Insurance broking	130	126
Motoring services	55	53
Telematics and Data services	28	27
	906	872

The RAC Bidco Limited Group performs impairment testing annually in October and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU.

The recoverable amount of each unit is determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2021. The growth rate used to extrapolate revenue beyond the Group's forecasts for all CGUs is 2%, based on the expected average long term growth rate of the UK economy. The pre-tax discount rate applied of 9% to the cash flow projections is based on the Group Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key assumptions used in management forecasts include:

- Individual Members having high customer loyalty and retention rates resulting in a stable and predictable revenue stream;
- Success rates for contract renewals based on historical experience; and
- Cost discipline and operational efficiencies.

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

With regard to the assessment of value-in-use, the recoverable amount of each CGU at the year end exceeds the carrying value of goodwill, and consequently no impairment losses have been recognised.

As at 17 December 2014, goodwill of £28 million and indefinite lived intangible assets of £27 million were allocated to the Telematics and Data services CGU. This CGU focuses on the sale of telematics devices as well as the monetisation of data assets held by the Group, and is operating in an emerging market. Since the allocation of goodwill and indefinite lived intangibles in December 2014, the Directors have revised the cash flow forecasts for this CGU to reflect changes to the profile of expected future cash flows.

No impairment loss of the goodwill or indefinite lived intangibles associated with the Telematics and Data Services CGU has been recognised as the CGU's recoverable amount exceeds its carrying value by more than £4 million, however the revised cash flows, under certain of the Group's reasonably possible sensitivity scenarios, would result in an impairment. The key assumption is EBITDA growth and if EBITDA growth in this CGU were to reduce from the CAGR of 24.5% forecasted for the 5 year period to 21.6% the CGU's recoverable amount would be equal to its carrying amount. The Directors believe that this scenario reflects a pessimistic view and that, should this scenario become more likely, there are options available to proactively minimise the risk of impairment.

Notes to the Consolidated Financial Statements (cont.)

11 Goodwill and intangible assets (continued)

Impairment testing of the Brand

The impairment of the RAC Brand is tested using the Royalty Relief Methodology to forecast future cash flows based on management forecasts up to 2019.

The calculation is most sensitive to assumptions in the growth rate, the discount rate and the royalty rate. The assumptions in relation to growth rate and discount rate are consistent with those utilised within the goodwill impairment testing. The royalty rate is based on an assessment of the appropriate market rate as demonstrated by current third party licensing agreements or other evidence from arrangements and contracts entered into by the RAC Group.

12 Property, plant and equipment

	Owner-occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost or valuation:				
At 1 January 2015	3	5	5	13
Additions	-	2	4	6
At 31 December 2015	3	7	9	19
Additions	-	5	-	5
Disposals	-	-	(1)	(1)
Transfer	-	4	(4)	-
At 31 December 2016	3	16	4	23
Depreciation:				
At 1 January 2015	-	-	-	-
Charge for the year	-	2	2	4
At 31 December 2015	-	2	2	4
Charge for the year	-	3	2	5
Disposals	-	-	(1)	(1)
At 31 December 2016	-	5	3	8
Net book value:				
At 31 December 2016	3	11	1	15
At 31 December 2015	3	5	7	15

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

In line with the Group accounting policy, the owner-occupied property was revalued on 30 October 2015 by Colliers International, an accredited independent valuer. The valuation performed by the valuer was based on active market prices, adjusted for any differences in the nature, location or condition of the specific property. On 31 December 2016, Commercial Real Estate Services performed a high level valuation of the property following a tenant vacating. There was no material change in the fair value of the property at this date. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2016 and 31 December 2015 would be £3 million.

Notes to the Consolidated Financial Statements (cont.)

13 Group information

(a) Information about subsidiaries

The Consolidated Financial Statements of the RAC Bidco Limited Group includes the following subsidiaries:

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 31. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

RAC Bond Co PLC was incorporated on 24 March 2016 as RAC Bond Co Limited. On 14 April 2016, RAC Bond Co Limited was re-registered as a plc, changing its name to RAC Bond Co PLC.

Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which were registered in England and Wales. As part of a refinancing in the period (see note 21), these companies were made dormant and sold to RAC Midco Limited, an indirect Parent Company of the Group.

The Consolidated Financial Statements of the RAC Bidco Limited Group also include the financial performance and position of the RAC Employee Benefit Trust ("EBT"). In accordance with IFRSs, the RAC Bidco Limited Group is deemed to control the EBT by virtue of RAC Limited, a direct subsidiary of the Company, having power over the EBT.

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

(b) The Parent company

The immediate controlling entity of the RAC Bidco Limited Group is RAC Midco II Limited. The ultimate controlling entity of the RAC Bidco Limited Group is RAC Group (Holdings) Limited.

Notes to the Consolidated Financial Statements (cont.)

14 Inventories

	2016	2015
	£m	£m
Inventories	2	3

All inventories are classified as finished goods. The cost of inventories recognised as an expense and included within Cost of sales in the year ended 31 December 2016 amounted to £11 million (2015: £10 million).

15 Trade and other receivables

	Note	2016	2015
		£m	£m
Trade receivables		41	37
Amounts due from related parties	27(a)(i)	1	4
Prepayments and accrued income		21	20
Other receivables		3	1
Total		66	62
Expected to be recoverable within one year		66	62

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 £66 million (2015: £62 million) is considered to be neither past due nor impaired.

16 Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	2015
	£m	£m
Unrestricted cash at bank and in hand	31	76
Restricted cash at bank	12	12
Total	43	88

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

Notes to the Consolidated Financial Statements (cont.)

17 Tax assets and liabilities

	2016	2015
	£m	£m
Current tax payable	(28)	(28)
Deferred tax assets	12	9
Deferred tax liability	(217)	(244)
	(233)	(263)

Current tax payable includes amounts to be settled by group relief of £6 million (2015: £6 million) within one year. The Group's Statement of financial position current tax provision includes £22m relating to uncertain tax positions currently under discussion with HM Revenue & Customs ("HMRC"), which arose in prior periods. Based on professional advice, the Group claimed tax deductions in its returns for several years and reduced its tax payments accordingly. HMRC have indicated that they do not agree with the Group's interpretation of the relevant tax legislation. The Group has provided HMRC with all information requested in support of the deductions claimed, and discussions continue in order to reach a conclusion on the differing interpretations. It cannot currently be reliably estimated how long it will take to reach an agreed resolution of this issue.

(a) Deferred tax

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Revaluation of financial assets	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2015	5	(298)	1	2	(1)	(291)
(Charge)/credit to Consolidated income statement	(1)	55	-	-	2	56
At 31 December 2015	4	(243)	1	2	1	(235)
(Charge)/credit to Consolidated income statement	-	26	-	-	3	29
Credit to other comprehensive income	-	-	-	1	-	1
At 31 December 2016	4	(217)	1	3	4	(205)

The movement in the net deferred tax liability was as follows:

	2016	2015
	£m	£m
Net deferred tax liability brought forward	(235)	(291)
Deferred tax credited to the Consolidated income statement	29	56
Deferred tax credited to other comprehensive income	1	-
Net deferred tax liability carried forward	(205)	235)

The RAC Bidco Limited Group has unrecognised capital losses of £147 million to carry forward indefinitely against future capital gains (2015: £146 million). No asset has been recognised as there are no capital gains expected in the foreseeable future.

Notes to the Consolidated Financial Statements (cont.)

18 Provisions

	Customer Refunds	Other	Total
	£m	£m	£m
At 1 January 2016	-	1	1
Provided during the year	5	-	-
At 31 December 2016	5	1	1

Customer refunds

We have identified that some of our Individual Members may also have roadside cover with RAC in the event of a breakdown as a result of other financial arrangements. Some customers choose to have these cover arrangements in order to benefit from a full range of services. However, we are undertaking a correction programme for those customers for whom the benefits of holding these separate covers are not clear.

We have provided for our best estimate of the cost of providing possible refunds and associated costs. This provision is by its nature an estimate and includes significant management judgement about the number of customers who may be impacted. The actual costs will be dependent on the individual circumstances of each relevant customer. We anticipate this provision being utilised over the course of the next 12 to 18 months.

Other provisions

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

19 Trade and other payables

	2016	2015
	£m	£m
Trade payables and accruals	41	50
Deferred income	149	151
Other payables	40	38
Total	230	239
Expected to be payable within one year	227	236
Expected to be payable in more than one year	3	3
Total	230	239

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

Notes to the Consolidated Financial Statements (cont.)

20 Derivative financial instruments

	2016	2015
	£m	£m
Cash flow hedge liabilities	(15)	(10)
Warrants		
	(15)	(10)

(a) Hedging

The RAC Bidco Limited Group uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 26).

The Group has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

(b) Cash flow hedges

The RAC Bidco Limited Group has used interest rate swap agreements in order to hedge the cash flows associated with its variable rate borrowings. The notional value and fair value of these are as follows:

	2016	2015
	£m	£m
Contract/notional amount	280	800
Total derivative financial instrument liability	(15)	(10)

The hedges were effective in the reported periods and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income.

The hedges are achieved through using interest rate swap contracts to pay fixed and receive three month LIBOR. The interest rate swaps settle on a quarterly basis.

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing (see note 21). On inception of the Initial Senior Term Facility, a new hedge was undertaken. The fixed element of the hedge has been set to 2.025% per annum until 6 May 2021. The floating rate is calculated on a notional principal amount.

Prior to the refinancing, four hedges were undertaken (each with a separate counterparty). The fixed element of the swaps was set to 1.5692%, 1.5747%, 1.5830% and 1.5889% respectively for the period from 31 March 2015 to 31 December 2017. The floating rate was calculated on a notional principal amount. The notional principal amount for each hedge was variable over its life as follows; £131,250 thousand between 31 March 2015 and 30 December 2015; and £200 million between 31 December 2015 and 31 December 2017. As a result of the refinancing, the four existing hedges were novated to a single counterparty and restructured into the single hedge.

Notes to the Consolidated Financial Statements (cont.)

21 Borrowings

(a) Analysis of borrowings

	Bonds		Bank Debt			Total
	Class A1 Notes	Class A2 Notes	First Lien Loan	Second Lien Loan	Initial Senior term facility	
Interest rate	+4.565%	+4.870%	LIBOR +4.750%	LIBOR +7.250%	LIBOR +2.750%	
At 31 December 2016						
Fair value (£m)	302	605	-	-	280	1,187
Amounts due within one year (£m)	2	5	-	-	-	7
Amounts due in more than one year (£m)	297	593	-	-	273	1,163
Book value (£m)	299	598	-	-	273	1,170
At 31 December 2015						
Fair value (£m)	-	-	955	238	-	1,193
Amounts due within one year (£m)	-	-	10	3	-	13
Amounts due in more than one year (£m)	-	-	907	225	-	1,132
Book value (£m)	-	-	917	228	-	1,145

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing through a Whole Business Securitisation ("WBS") under which it:

- repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan;
- drew-down a new £280m Initial Senior Term Facility provided by a syndicate of banks; and;
- issued £900m of bonds on the Irish Stock Exchange.

(b) Bank debt

The Initial Senior Term Facility is for an amount of £280 million at a floating rate of 2.750% plus LIBOR, incorporates a LIBOR floor and matures on 6 May 2021.

The RAC Bidco Limited Group also entered into agreements for an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million, neither of which has been drawn. The Initial Working Capital Facility is subject to interest of LIBOR plus 2.750% and also matures on 6 May 2021. The Initial Liquidity Facility is subject to interest of LIBOR plus 2.250% and is subject to annual renewal.

(c) Bonds

The bonds comprise two tranches: Class A1 Notes and Class A2 Notes. £300 million of Class A1 Notes were issued at a coupon of 4.565%, and have an initial period to 6 May 2023, after which interest will be charged at 5.065% per annum. £600 million of Class A2 Notes were issued at a coupon of 4.870%, and have an initial period to 6 May 2026, after which interest will be charged at 5.370% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November.

Notes to the Consolidated Financial Statements (cont.)

22 Ordinary share capital

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

	2016	2015
	£m	£m
Allotted, called up and fully paid:		
Authorised:		
80,120,000 ordinary shares of £0.01 each	801	801
Allotted, called up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2015: 874,131,773 of £1.00 each)	339	874
	339	874

On 29 February 2016, a capital reduction of £535 million was completed, reducing ordinary share capital but increasing retained earnings.

23 Hedging instrument reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transactions impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

24 Commitments

Operating lease commitments

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

	2016	2015
	£m	£m
Within 1 year	11	11
Later than 1 year and not later than 5 years	29	25
Later than 5 years	63	66
	103	102

Operating lease commitments arise in respect of property leases and the Patrol fleet. The Company leases two properties on which the leases are subject to an annual rent review with increases in the principal rent linked to movements in the Retail Price Index.

As at 31 December 2016, the RAC Bidco Limited Group had committed to spend £4 million for the acquisition of intangible assets (2015: £2 million).

25 Employee benefit obligations

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

(a) Introduction

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

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

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

Notes to the Consolidated Financial Statements (cont.)

25 Employee benefit obligations (continued)

Unfunded Unapproved Pension Scheme ("UUP Scheme")

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2016 was 8 (2015: 8).

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

Under the PRMB Scheme the RAC Bidco Limited Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2016 was 139 (2015: 139).

Disability Benefit Scheme ("DB Scheme")

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

(b) Charges to the Consolidated income statement

During the year, £8 million (2015: £8 million) was charged to the RAC Bidco Limited Group's Consolidated income statement in respect of the employee defined contribution schemes and £234 thousand (2015: £236 thousand) in respect of employee defined benefit schemes.

(c) Employee benefit scheme assumptions and disclosures

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

(i) Assumptions on the liabilities of the Schemes

The projected unit credit method

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

Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2016. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2016.

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

	2016	2015
	%	%
Inflation rate	3.20	2.90
Pension increases	3.20	2.90
Deferred pension increases	3.20	2.90
Discount rate	2.60	3.70

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £87 thousand and £nil respectively (2015: £507 thousand and £nil respectively).

Notes to the Consolidated Financial Statements (cont.)

25 Employee benefit obligations (continued)

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

Mortality assumptions of the Schemes

Mortality assumptions are significant in measuring the RAC Bidco Limited Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2016 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances for future improvements	65.0	88.3 (23.3)	90.5 (25.5)	90.1 (25.1)	92.0 (27.0)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming all members were one year younger would increase the Schemes' liabilities by £391 thousand (2015: £391 thousand).

(ii) Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprise £234 thousand (2015: £236 thousand) in respect of net interest expense recognised in the Consolidated income statement and £442 thousand (2015: £455 thousand) recognised in other comprehensive income.

(iii) Experience gains and losses

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

	2016	2015
	£m	£m
Fair value of the Scheme assets at the end of the year/period	-	-
Present value of the Schemes' liabilities at the end of the year/period	(6)	(6)
Net deficit in the Schemes	(6)	(6)

Estimated employer contributions for the year ended 31 December 2017 are £1 million in respect of the defined benefit schemes and £8 million in respect of the defined contribution scheme.

Notes to the Consolidated Financial Statements (cont.)

25 Employee benefit obligations (continued)

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

(iv) Schemes' deficit

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

	2016	2015
	£m	£m
Total fair value of assets	-	-
Present value of defined benefit obligations	(6)	(6)
Net deficit in the Schemes	(6)	(6)

Amounts recognised in the Consolidated statement of financial position:

	2016	2015
	£m	£m
Deficits included in non-current liabilities	(6)	(6)
Net deficit in the Schemes	(6)	(6)

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

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

	2016	2016	2015	2015
	Scheme liabilities	Net deficit	Scheme liabilities	Net deficit
	£m	£m	£m	£m
Balance at 1 January	(6)	(6)	(7)	(7)
Benefits paid	1	1	1	1
Remeasurements losses				
Actuarial loss arising from change in assumptions	(1)	(1)	-	-
Balance at 31 December	(6)	(6)	(6)	(6)

Notes to the Consolidated Financial Statements (cont.)

26 Risk management

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

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

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

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

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

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

(a) Treasury

The RAC Bidco Limited Group's Treasury department's main responsibilities are to:

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the RAC Bidco Limited Group's current borrowing facilities are disclosed in note 21.

(i) Market risk

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

The RAC Bidco Limited Group is exposed to interest rate risk arising primarily on external borrowings. The Group's policy aims to manage its interest cost within the constraint of its Business Plan and its financial covenants. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings. If market interest rates were to increase or decrease by 1%, the impact on the profit/(loss) before tax would be a decrease/increase of £4 million (2015: £4 million). The impact on shareholders' equity would be a decrease/increase of £3 million (2015: £3 million).

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

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

Notes to the Consolidated Financial Statements (cont.)

26 Risk management (continued)

(a) Treasury (continued)

(i) Market risk (continued)

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

(ii) Credit risk

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

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

	2016	2015
	£m	£m
Trade and other receivables	45	42
Cash and cash equivalents	43	88
	88	130

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

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

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

The RAC Bidco Limited Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the reported periods were held with institutions who are A rated. The RAC Bidco Limited Group's largest cash and cash equivalent counterparty is Barclays (2015: Morgan Stanley). At 31 December 2016 the balance was £20 million (2015: £20 million).

(iii) Liquidity risk

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

The RAC Bidco Limited Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The RAC Bidco Limited Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 21).

The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements. The RAC Bidco Group Limited Group also monitors covenants on a regular basis to ensure there are no breaches, That would lead to an "Event of Default". There have been no breaches of covenants during the reported periods.

Notes to the Consolidated Financial Statements (cont.)

26 Risk management (continued)

(a) Treasury (continued)

(iii) Liquidity risk (continued)

The following table shows the RAC Bidco Limited Group's contractual maturity of borrowings, including estimated interest, analysed by duration:

	2016	2015
	£m	£m
Bonds		
Less than 1 month	4	-
1 to 3 months	10	-
3 months to 1 year	29	-
1 to 5 years	172	-
5 to 10 years	1,045	-
Total bonds	1,260	-
External bank debt		
Less than 1 month	1	5
1 to 3 months	3	16
3 months to 1 year	9	67
1 to 5 years	325	342
5 to 10 years	-	1,135
Total external bank debt	338	1,565
Total borrowings	1,598	1,565

(b) Strategic and operational risk

The strategy (including operational risks) for the RAC Bidco Limited Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the annual report and financial statements of that company.

(c) Capital risk management

The RAC Bidco Limited Group's capital structure consists of third party borrowings amounting to £1,187 million (2015: £1,193 million), and £339 million (2015: £874 million) of funds from shareholders.

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external bank debt, being principal bank borrowings, associated accrued interest and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In May 2016, the RAC Bidco Limited Group managed its capital structure through undertaking refinancings (see note 21).

Until May 2016, under the terms of the bank debt, the RAC Bidco Limited Group was required to comply with financial covenants upon drawing more than 30% of the Revolving Credit Facility. The RAC Bidco Limited Group did not draw down upon this facility during the reported periods and consequently did not have to test any of its covenants.

Notes to the Consolidated Financial Statements (cont.)

26 Risk management (continued)

(c) Capital risk management

In managing its capital, the Group 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 satisfy the requirements of its Members and regulators;
- (iii) retain financial flexibility by maintaining strong liquidity; and
- (iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

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

(d) Regulatory risk

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

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

Following a detailed programme of preparatory work in 2015 undertaken by the RAC Bidco Limited Group, RAC Insurance Limited has transitioned to comply with the requirements of Solvency II from 1 January 2016.

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

27 Related party transactions

(a) The RAC Bidco Limited Group had the following transactions with related parties in 2016 and 2015:

(i) Amounts due related parties

	2016	2015
	£m	£m
Amounts due from Group companies	1	4

Of amounts due from Group companies, £nil (2015: £3 million) was due from RAC Midco Limited, £1 million (2015: £nil) was due from RAC Midco II Limited and £nil (2015: £1 million) was due from RAC Group (Holdings) Limited, all parent companies of the Company.

Notes to the Consolidated Financial Statements (cont.)

27 Related party transactions

(a) The RAC Bidco Limited Group had the following transactions with related parties in 2016 and 2015:

(ii) Transactions with related parties

- In May 2016, RAC Bidco Limited paid dividends of £25 million to RAC Midco II Limited, its immediate Parent Company as part of the WBS, followed by further dividends of £20 million each in November and December 2016 (2015: £nil).
- On 6 May 2016, RAC Limited sold its direct subsidiary, RAC Finance Limited, and its indirect subsidiaries, RAC Finance Group Limited and RAC Finance (Holdings) Limited, to RAC Midco Limited, an indirect Parent Company for consideration of £1.
- During the year, the RAC Bidco Limited Group paid £250 thousand (2015: £1 million) in respect of a monitoring fee to The Carlyle Group and GIC. Until 12 April 2016, The Carlyle Group owned 41% of the RAC Group, which was then sold to CVC Capital Partners.
- In June 2016, Nebula Systems Limited paid £500 thousand to the RAC Bidco Limited Group (2015: £nil) in respect of a brand license fee. In addition, Nebula Systems Limited paid £25 thousand during the year to the RAC Bidco Limited Group for support costs (2015: £nil). Nebula Systems Limited is a related party as it is owned by RAC Midco Limited, an indirect Parent Company of the RAC Bidco Limited Group.

GIC, CVC and senior management are all related parties of the RAC Bidco Limited Group by virtue of their shareholdings in the RAC Group. Orange Investment S.à.r.l (formerly CEP III Investment 17 S.à.r.l.) is a related party as it is controlled by GIC and CVC. Until 12 April 2016, Carlyle was a related party of the RAC Bidco Limited Group.

(b) Key management compensation

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

	2016	2015
	£000	£000
Fees and benefits	2,695	4,209
Contributions paid into a pension scheme	79	70
	2,774	4,279

Fees and benefits include key management bonuses. During the year, payments of £118 thousand (2015: £125 thousand) were made to key management for loss of office.

(c) Key management interests

No key management personnel held equity stakes in the RAC Bidco Limited Group at 31 December 2016 or 31 December 2015.

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

(d) Immediate Parent Company

The immediate controlling entity of the Company is RAC Midco II Limited, registered in England and Wales.

(e) Immediate and ultimate controlling party

The ultimate controlling entity of the Group 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. The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Bidco Limited.

Notes to the Consolidated Financial Statements (cont.)

28 Fair value of financial assets and liabilities

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset/liability	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy
	£m	£m	
Cash flow hedge liability (note 20)	(15)	(10)	Level 2
The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.			



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The accounting policies on pages 39 to 49 also form an integral part of these Financial Statements.

Company Financial Statements (cont.)

Company statement of financial position

As at 31 December 2016

	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Investments in subsidiaries and associates	4	1,102	1,102
Other receivables	5	-	922
Deferred tax asset	6	-	2
		<u>1,102</u>	<u>2,026</u>
Current assets			
Other receivables	5	-	4
Current tax receivable	6	11	14
		<u>11</u>	<u>18</u>
LIABILITIES			
Current liabilities			
Borrowings	9	-	(13)
Other payables	7	(45)	(88)
		<u>(45)</u>	<u>(101)</u>
Net current liabilities		<u>(34)</u>	<u>(83)</u>
Non-current liabilities			
Borrowings			
Derivative financial instruments	9	-	(1,132)
	8	-	(10)
		<u>-</u>	<u>(1,142)</u>
Net assets		<u>1,068</u>	<u>801</u>
EQUITY			
Ordinary share capital	10	339	874
Hedging instruments reserve		-	(8)
Retained earnings		729	(65)
Total equity		<u>1,068</u>	<u>801</u>

The accounting policies on pages 39 to 49 and the notes on pages 78 to 86 are an integral part of these Financial Statements.

The Company's profit for the year was £324 million (2015: Loss 53 million).

Approved by the Board on 2 March 2017



R Fairman
Chief Financial Officer
Company registration number: 09229824

Company Financial Statements (cont.)

Company statement of changes in equity

For the year ended 31 December 2016

	Note	Ordinary share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 22 September 2015		874	(7)	(12)	855
Loss for the year		-	-	(53)	(53)
Other comprehensive expense		-	(1)	-	(1)
Total comprehensive expense		-	(1)	(53)	(54)
Balance at 31 December 2015		874	(8)	(65)	801
Profit for the year		-	-	324	324
Other comprehensive expense		-	8	-	8
Total comprehensive income		-	8	324	332
Capital reduction	10	(535)	-	535	-
Dividends paid		-	-	(65)	(65)
Balance at 31 December 2016		339	-	729	1,068

The accounting policies on pages 39 to 49 and the notes on pages 78 to 86 are an integral part of these Financial Statements.

The Company profit for the year was £324 million (2015: loss £53 million).

Company Financial Statements (cont.)

Company statement of cash flows

For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Operating activities			
Profit/(loss) before tax		306	(66)
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Finance expenses		72	68
Dividends received		(388)	-
Working capital adjustments:			
Decrease in other receivables		-	19
Decrease in other payables		(22)	(21)
Net cash flows used in operating activities		(32)	-
Investing activities			
Dividends received		332	-
Net cash flows used in investing activities		332	-
Financing activities			
Repayment of bank debt		(1,188)	-
Settlement of related party debt		982	-
Dividends paid		(65)	-
Interest paid		(29)	-
Net cash flows used in financing activities		(300)	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents brought forward		-	-
Cash and cash equivalents carried forward		-	-

The accounting policies on pages 39 to 49 and the notes on pages 78 to 86 are an integral part of these Financial Statements.



Notes to the Company Financial Statements

1 Auditor's remuneration

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to auditor's remuneration may be found in note 7 of the Consolidated Financial Statements.

2 Employee information

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

3 Directors

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

Disclosures relating to Directors' remuneration may be found in the note 9 of the Consolidated Financial Statements.

Notes to the Company Financial Statements (cont.)

4 Investments in subsidiaries

(a) Movements in the Company's investments in subsidiaries

	2015	2014
	£m	£m
Cost		
At 1 January	1,102	1,102
Additions	-	149
Impairment	-	(149)
At 31 December	1,102	1,102

On 17 December 2014, the Company acquired the RAC Group of Companies. This was effected by the Company acquiring 100 per cent of the issued share capital of RAC Management Limited and Orange Investments S.à.r.l. (formerly CEP III Investment 16 S.à.r.l.), the owners of RAC Limited.

During December 2014, the shareholding in RAC Limited held by Orange Investments Limited S.à.r.l was distributed to the Company. The Company's direct subsidiary, Orange Investments S.à.r.l. was subsequently liquidated in January 2015 and its assets distributed to the Company.

In July 2015, the Company purchased the remaining 13.54% shareholding of RAC Limited from RAC Management Limited, a direct subsidiary of the Company, resulting in RAC Limited becoming a wholly owned subsidiary of the Company.

In November 2015, RAC Management Limited, a direct subsidiary of the Company, was dissolved and the investment in RAC Management Limited impaired.

RAC Bond Co PLC was incorporated on 24 March 2016 as RAC Bond Co Limited. On 14 April 2016, RAC Bond Co Limited was re-registered as a plc, changing its name to RAC Bond Co PLC.

Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which are registered in England and Wales. As part of a refinancing in the period (see note 9), these companies became dormant and were sold to RAC Midco Limited, an indirect Parent Company of the Group.

Notes to the Company Financial Statements (continued)

4 Investments in subsidiaries (continued)

(b) Movements in the Company's investments in subsidiaries

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

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 31. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

In accordance with IFRS, the Company is deemed to control the RAC Employee Benefit Trust ("EBT") by virtue of RAC Limited, a direct subsidiary of the Company, having power over the EBT.

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

(c) Parent company

The immediate controlling entity of the Company is RAC Midco II Limited. The ultimate controlling entity of the Company is RAC Group (Holdings) Limited.

Notes to the Company Financial Statements (continued)

5 Other receivables

	2016	2015
	£m	£m
Amounts due to related parties	-	926
Total	-	926
Expected to be recoverable within one year	-	4
Expected to be recoverable in more than one year	-	922
Total	-	926

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 £nil (2015: £926 million) is considered to be neither past due nor impaired.

6 Tax assets and liabilities

(a) Current tax

	2016	2015
	£m	£m
Current tax receivable	11	14
Total	11	14

Receivables for corporation tax include amounts to be settled by group relief of £11 million (2015: £14 million) within one year.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2016	2015
	£m	£m
Deferred tax asset	-	2
Total	-	2

(ii) The deferred tax asset arose on the following item:

	2016	2015
	£m	£m
Hedge reserve deficit	-	2
Total	-	2

Notes to the Company Financial Statements (continued)

6 Tax assets and liabilities (continued)

(b) Deferred tax (continued)

(iii) The movement in the deferred tax asset was as follows:

	2016	2015
	£m	£m
Net deferred tax asset brought forward	2	2
Deferred tax credited to other comprehensive income	(2)	-
Deferred tax asset carried forward	-	2

The headline rate of UK corporation tax will reduce from 20% to 19% from 1 April 2017, and will reduce further to 17% from 1 April 2020.

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

Accordingly, as the future reductions of the corporation tax rate to 19% and 17% were substantively enacted on 26 October 2015 and 6 September 2016 respectively, the deferred tax balances at 31 December 2016 have been reflected at the tax rates at which they are expected to be realised or settled.

7 Other payables

	2016	2015
	£m	£m
Amounts due to related parties	(45)	(88)
Total	(45)	(88)
Expected to be payable within one year	(45)	(88)

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

8 Derivative financial instruments

	2016	2015
	£m	£m
Cash flow hedge liabilities	-	(10)
	-	(10)

(a) Hedging

The Company uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy. Disclosures relating to risk management may be found in note 26 to the Consolidated Financial Statements.

The Company has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Notes to the Company Financial Statements (continued)

8 Derivative financial instruments (continued)

(b) Cash flow hedges

The Company has used interest rate swap agreements in order to hedge the cash flows associated with the Company's variable rate borrowings. The notional value and fair value of these are as follows:

	2016	2015
	£m	£m
Contract/notional value	-	800
Total derivative financial instrument liability	-	(10)

The hedges were effective in the reported periods and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income.

The hedges are achieved through using interest rate swap contracts to pay fixed and receive three month LIBOR. The interest rate swaps settle on a quarterly basis.

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing (see note 9). The existing hedge was novated to RAC Limited.

Prior to the refinancing, four hedges were undertaken (each with a separate counterparty). The fixed element of the swaps was set to 1.5692%, 1.5747%, 1.5830% and 1.5889% respectively for the period from 31 March 2015 to 31 December 2017. The floating rate was calculated on a notional principal amount. The notional principal amount for each hedge was variable over its life as follows; £131,250 thousand between 31 March 2015 and 30 December 2015; and £200 million between 31 December 2015 and 31 December 2017. As a result of the refinancing, the four existing hedges were novated to a single counterparty and restructured into the single hedge, as such the movement in the year has been taken to profit and loss.

9 Borrowings

(a) Analysis of borrowings

	Bank Debt		Total
	First Lien Loan	Second Lien Loan	
Interest rate	LIBOR + 4.750%	LIBOR + 7.250%	
At 31 December 2015			
Fair value (£m)	955	238	1,193
Amounts due within one year (£m)	10	3	13
Amounts due in more than one year (£m)	907	225	1,132
Book value (£m)	917	228	1,145

On 6 May 2016, RAC Bidco Limited completed a refinancing through a Whole Business Securitisation ("WBS") under which:

- the Company repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan;
- RAC Limited, a direct subsidiary, drew-down a new £280m Initial Senior Term Facility provided by a syndicate of banks; and
- RAC Bond Co PLC, a direct subsidiary issued £900m of bonds on the Irish Stock Exchange.

Fees relating to the First Lien Loan and Second Lien Loan were written off upon repayment of these facilities. Further details of the WBS may be found in note 21 of the Consolidated Financial Statements.

There were no borrowings at 31 December 2016.

Notes to the Company Financial Statements (continued)

10 Ordinary share capital

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

	2016	2015
	£m	£m
Allotted, called up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2015: 874,131,773 shares of £1.00 each)	339	874
	339	874

On 29 February 2016, a capital reduction of £535 million was completed, reducing ordinary share capital but increasing retained earnings.

11 Hedging instrument reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transactions impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

12 Related party transactions

(a) The Company had the following transactions with related parties in 2016 and 2015:

(i) Amounts due from related parties

	2016	2015
	£m	£m
Amounts due from Group companies	-	4
- Current loan	-	922
- Loan	-	926

(ii) Amounts due to related parties

	2016	2015
	£m	£m
Amounts due to Group companies	(45)	(88)
	(45)	(88)

(iii) Transactions with related parties

During 2015, the Company undertook the following transactions to facilitate the voluntary strike-off of RAC Management Limited, a direct subsidiary of the Company:

- The Company agreed to borrow £149 million from RAC Management Limited. The loan was interest-free and repayable on demand;
- The Company paid £149 million for the remaining 13.54% shareholding in RAC Limited from RAC Management Limited, a direct subsidiary of the Company. This resulted in RAC Limited becoming a wholly owned subsidiary of the Company; and
- The Company received a dividend of £149 million from RAC Management Limited, which was used to repay the loan balance with RAC Management Limited.

Notes to the Company Financial Statements (continued)

12 Related party transactions (continued)

(a) The Company had the following transactions with related parties in 2016 and 2015: (continued)

(iii) Transactions with related parties (continued)

In November 2015, RAC Management Limited was dissolved. The Company impaired its investment in RAC Management Limited by £149 million (see note 4(a)).

During 2016, the Company recharged £3 million (2015: £3 million) to RAC Limited, a direct subsidiary, in respect of a Management Services Agreement. This agreement allocates the strategic and governance costs of the RAC Bidco Limited Group and recharges them to the trading entities where appropriate.

During 2016, the Company paid £250 thousand (2015: £1 million) in respect of a monitoring fee to Carlyle and GIC.

GIC, CVC and senior management are all related parties of the RAC Bidco Limited Group by virtue of their shareholdings in the RAC Group. Orange Investment S.à.r.l (formerly CEP III Investment 17 S.à.r.l.) is a related party as it is controlled by GIC and CVC. Until 12 April 2016, Carlyle was a related party of the RAC Bidco Limited Group.

(iv) Amounts included in the income statement

Transactions included within the income statement that have taken place during the reported periods are as follows:

	Note	2016	2015
		£m	£m
Management charges		2	3
Impairment of subsidiary	4(a)	-	(149)
Dividends received from subsidiary (including £56 million dividend in specie)		388	149
Interest income on intercompany loans		6	13
Monitoring fee payable to shareholders		-	(1)
		396	15

(b) Key management compensation

The Directors and key management of the Company are considered to be the same as for the RAC Group (Holdings) Group. Information on key management compensation may be found in the note 27 of the Annual Report and Financial Statements.

(c) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2016 or 31 December 2015.

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 service contracts between each director and a Group company.

(d) Immediate and ultimate controlling party

The immediate controlling entity of the Company is RAC Midco II Limited.

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

Notes to the Company Financial Statements (continued)

13 Fair value of financial assets and liabilities

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the fair values of financial instruments which are not held at fair value:

Financial asset/liability	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy
	£m	£m	
Cash flow hedge liability (note 8)	-	(10)	Level 2

The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.



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