Annual Report & Accounts 2013

RAC Finance Group (Holdings) Limited

Company information

Directors: R Templeman C Woodhouse D Cougill A Burgess A Stirling Z Bain M Wood

Company Secretary: S Morrison

Registered office: RAC House, Brockhurst Crescent, Walsall WS5 4AW

Company number: 07665596 Registered in England and Wales

Auditor: Ernst & Young LLP, Statutory Auditor, 1 More London Place, London SE1 2AF

The controlling interest in RAC Finance Group (Holdings) Limited ("the Company") is owned by CEP III Participations S.à r.l. SICAR, a company owned by Carlyle Europe Partners III, L.P., all parts of the entities doing business as Carlyle. Founded in 1987 Carlyle is one of the world's largest alternative asset managers.

"The RAC Group" ("the Group", "RAC") comprises RAC Finance Group (Holdings) Limited and its subsidiaries as set out on page 44.

"The RAC Ltd Group" comprises RAC Limited and its subsidiaries (RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Motoring Services (Holdings) Limited, RAC Brand Enterprises LLP and Net Cars Limited).

These consolidated financial statements are presented for the year ended 31 December 2013.

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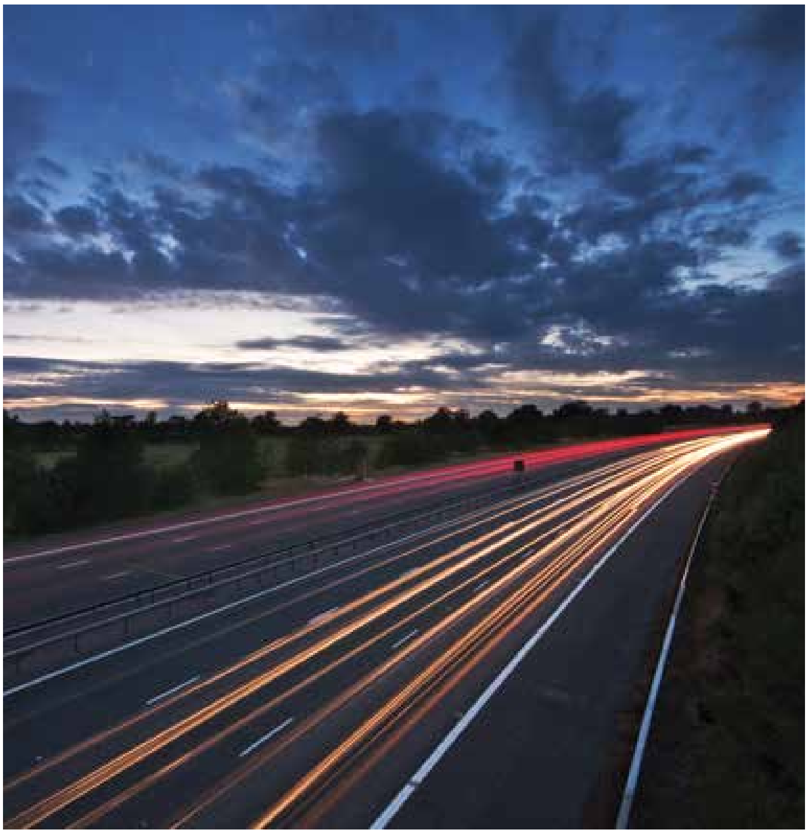


RAC
0800 550 550

RAC

CEO review

Chris Woodhouse, Group CEO

I am pleased to report on the Group's continued strong performance in 2013 with financial results meeting expectations and the foundations laid for further growth in the coming years.

Investment in customer service

2013 was an important year for the business with significant investment made in the development of new products and improvements in core systems to ensure we continue to respond to the needs of our members and corporate partners.

Our consumer proposition has been enhanced through the launch of a number of new RAC branded products and services including the introduction of an approved garage network for the repair of members' vehicles, the launch of RAC Cars allowing members to purchase used cars with confidence from our trusted dealer network, continued innovation with the roll out of a universal wheel to allow customers to continue their journeys in the event of a puncture and the launch of a number of new products to complement our core services. Feedback from our members has been very encouraging and our membership numbers have grown as a result.

We continue to develop our corporate partner business with new deals secured and a deepening of our offer across our existing portfolio of well known brands. This has been achieved by proactive development of new and innovative solutions for our corporate partners, helping them deliver improved levels of service to their end customers at the same time as driving down the overall cost of motoring.

Notwithstanding the investment made in 2013, we delivered another set of strong financial results with further growth in Revenues and EBITDA whilst maintaining our high level of Operating Cash conversion.

Delivering to our members

As the motorist's champion, RAC is renowned for high levels of customer service and I am pleased to report a continued strong performance in 2013. We delivered a new best ever Net Promoter Score of 88% for the whole of 2013, reflecting growth of three percentage points in the year. It is pleasing that our customers recognise our commitment to service quality.

In 2013 the UK experienced extremes of weather with severe October storms across much of the UK and the coldest March since 1962. The continued dedication of our patrols and other customer facing staff enabled us to maintain service levels in the face of these challenges.

RAC - the motorist's champion

Throughout the past 116 years, RAC has promoted the interests of the motorist and continued to play an active and vocal role in 2013. The cost of motoring in the UK continues to rise 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 prices and were pleased to see pump prices reduce in the final quarter as retailers responded to growing pressure to pass on reductions in wholesale prices. Furthermore, we welcomed the Chancellor's decision announced in his Autumn Statement to scrap a proposed fuel duty rise.

We continued to promote our members' interests providing comment on a number of other issues such as the state of the roads and the Ministry of Justice's proposals to take action to reduce insurance costs.

We plan to launch further products and service enhancements in 2014 and will continue to lobby for a fairer deal for all motorists.

Our dedicated people

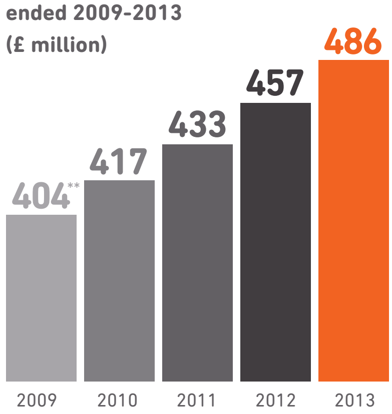
I continue to be proud to lead a team of such highly trained and dedicated people. RAC colleagues are passionate in delivering high levels of service and making continuous improvement in all that they do. As members they experience our products and services first hand and are quick to highlight areas where further improvement can be made. I would like to take this opportunity to thank them for their professionalism in 2013 and I look forward to sharing further successes in the future.

Motorists. We salute you.

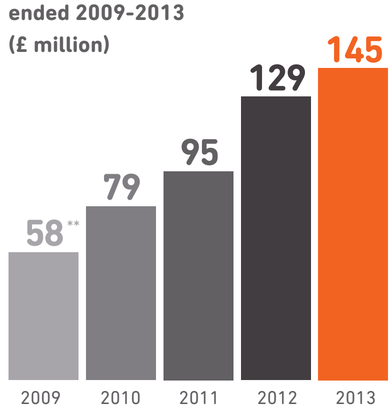

rac
0800 550 550
rac.co.uk
SOS
4x4 Team
BG60 LCT

RAC - the motorist's champion

Revenue* for the years ended 2009-2013 (£ million)



EBITDA* for the years ended 2009-2013 (£ million)



KPIs for the year ended 31 December 2013:

£486 million revenue*

£145 million EBITDA*

88% Net Promoter Score*** (2012: 85%)

*Before exceptional items (2009-2011 for the RAC Ltd Group).

**2009 unaudited proforma. ***Industry-wide customer satisfaction measure.

Further information regarding the Group's financial performance is included in the Strategic report.


RAC
For all your motoring needs
0333 2000 100

Strategic report

The directors present their Strategic report for the year ended 31 December 2013.

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

Principal activities

The RAC 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.

KPIs – financial & non-financial

The KPIs set out in the table below are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve RAC's business plans, strategic aims and objectives. 2011 comparatives are shown as if RAC Finance Group (Holdings) Limited had acquired the RAC Ltd group on 1 January 2011.

	2013	2012	2011
EBITDA (£m)*	145	129	95
Revenue (£m)*	486	457	433
Weighted average interest cost**	6.4%	7.5%	8.7%
Total net debt (£m)***	894	930	970
Total net debt/EBITDA	6.2x	7.2x	10.2x
Net third party bank debt/EBITDA	5.0x	5.0x	4.7x
Net Promoter Score (%)	88	85	85

* Before exceptional items as set out on page 25.
** Weighted average cost of total borrowings as at 31 December.
*** Total borrowings, net of unrestricted cash at bank.

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

Market environment & outlook

The UK breakdown and motoring market remains competitive with annual motoring costs continuing to increase year on year. Fuel costs continue to represent the biggest element of annual vehicle running costs and RAC has continued to campaign for more transparency and fairer pricing through its support of the FairFuelUK campaign. In response, the Government has announced a freeze in fuel duty for the remainder of this parliament. The Government has now cancelled scheduled fuel duty increases equivalent to 16p per litre, a huge saving for motorists. RAC has also campaigned for transparency in the way that retail fuel prices respond to changes in the wholesale market. By doing so, RAC has encouraged retailers to reduce their prices more quickly after a fall in wholesale prices than would otherwise have been the case.

The condition of our roads is second in the ranking of motorists' concerns. In 2013, the Government announced a new approach for development, operation and funding of the strategic roads network in "Action for Roads". This will have a strong influence on the adequacy of capacity and maintenance of roads over the next decade. RAC has contributed views on behalf of motorists at every stage and the Government's proposals recognise the role of RAC in contributing as a "watchdog" function to represent road user views.

After limited growth in the volume of traffic on our roads in the period since 2008, traffic volumes started to increase in 2013 as the economy emerged from recession. In quarter 3, 2013, traffic across all vehicle types showed a rise compared with the same period 12 months earlier. Light Goods Vehicle traffic increased by 5.1%, Heavy Goods Vehicle traffic grew by 2.7% and Car traffic increased by 1.9%. Traffic volumes rose on all road types, with a larger increase in motorway traffic (3.2%) than traffic on rural and urban roads (which both rose 2.1%). This is inevitably impacting on breakdown volumes offsetting the general improvements in vehicle reliability.

In 2013, RAC published its 25th annual Report on Motoring. Each year, the report surveys a representative cross-section of motorists on a range of topical motoring issues. To celebrate its 25th year, RAC's 2013 report looked back at motorists' forecasts from previous years on the characteristics of today's motoring and also invited motorists to speculate on what will change over the next 25 years. This stimulated media interest and allowed RAC to link these general interest aspects of the report to more immediate issues such as the growth in real terms of motoring costs over the last 25 years. The Report remains the UK's longest standing and most respected annual report on motoring opinion.

Strategic report

Review of the business

Developing, promoting & maintaining the RAC brand

The RAC brand is considered by consumers to denote trust, reliability and service. The brand is an integral part of the business and reflects a significant element of the Group's intangible asset value (see note 8). Maintaining and improving customer service and developing a wider range of relevant and reliable products for the Group's members and corporate partners has been a key area of focus in 2013 and positions RAC as 'the motorist's champion'. The Group has continued to invest significantly in promoting the brand with high profile marketing campaigns on TV and Radio, coupled with sponsorship of relevant motoring events such as the Goodwood Festival of Speed. These campaigns reflect the RAC brand promise which is encapsulated in the Group's strap line – Motorists. We Salute You.

Ownership and management of the RAC Brand and other intangible assets was centralised within RAC Brand Enterprises LLP ('RACBE') in 2012 and this entity now licenses access to the use of the brand to fellow RAC Group companies and will offer this to carefully selected third parties. Royalty fees are charged for use of the brand. The RACBE board carefully monitors and tracks a range of KPIs aimed at both protecting the brand and measuring its development. Furthermore, RACBE has taken action in the year to ensure appropriate use of the brand and to take enforcement action to prevent unauthorised third parties from using the RAC brand without express permission.

The board of RACBE are planning further investment in promoting the RAC brand in 2014 including a new integrated Radio campaign allowing the Group to promote a wider range of motoring products.

Investment in customer service & new products

RAC made significant investment in 2013 aimed at delivering further improvements to customer service in addition to the launch of new product offerings.

In 2013 RAC invested more than £5 million in refreshing technology in all patrol vehicles. Patrol PCs were replaced by the latest "toughbooks'". The patrol's PC acts as a communication hub for sending and receiving breakdown job data, for stock control and point-of-sale applications, for hosting diagnostic software and technical information and for accessing remote information held on internal intranets and externally the internet. PC reliability is therefore fundamental to delivering excellent customer service and maximising patrol efficiency and the new PCs will therefore underpin service resilience for the next 4 to 5 years.

In parallel with replacing the PCs, RAC has entered into a partnership with Würth, one of the world's leading diagnostic system manufacturers. As part of this arrangement, RAC has replaced the main diagnostic system used by all patrols to interrogate vehicles' on board systems. Increasingly, replacement batteries and parts need to be programmed into the vehicle and repair of some modern vehicle systems, such as the regeneration of diesel particulate filters, is carried out using this diagnostic equipment. The new diagnostic system provides this functionality and will enable RAC patrols to maintain and in some cases increase repair rates in the latest vehicles.

The majority of modern vehicles are supplied with a tyre repair kit rather than a spare wheel in order to save weight and improve CO_2 performance. However some punctures cannot be repaired with a repair kit and therefore RAC is receiving an increasing number of requests for roadside assistance from members with a puncture but no spare. Many members in such situation need or want a replacement tyre. In addition to the introduction of specialist tyre patrols, RAC has also introduced a universal spare wheel which fits the majority of cars and light commercial vehicles and is loaned to the customer so that they can drive to the local affiliated depot or a contractor partner and have a new tyre fitted. The customer leaves the universal spare wheel at the tyre fitting depot from which the patrol can collect it later. The wheel is a UK first and has now been issued to all patrols and is making a major contribution to customer service both for members and business partners.

Significant investment was made in 2013 in upgrading core computer systems to enhance customer service and facilitate a wider range of relevant products and services to members.

In February 2013, the Group acquired the Net Cars business and subsequently relaunched it as RAC Cars, an online car retail business, offering consumers the ability to purchase cars from a trusted UK dealer network.

RAC launched an innovative telematics solution in 2013 for fleet and other corporate partner customers. Telematics boxes have also been fitted into all the Group's own fleet of patrol vehicles and the Group has enjoyed fuel efficiency savings as a result.

Feedback from customers continues to be positive and in 2013 the Group achieved a new best ever Net Promoter Score of 88%, an increase of three percentage points from 2012. The recognition by customers of the Group's commitment to delivering customer service and relevant products resulted in a further growth in customers in 2013.

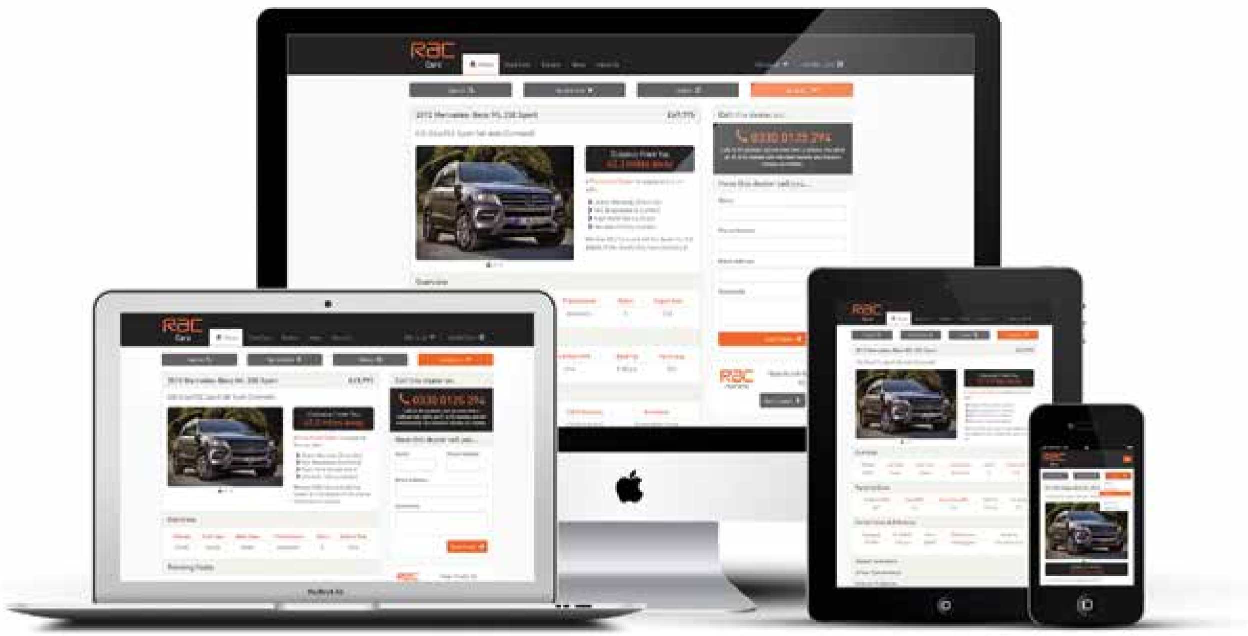
Re-financing

As a result of strong revenue growth, EBITDA and cash flow, the Group was able to launch a further refinancing in December 2013. RAC borrowed an additional £107 million from its banking syndicate and used the proceeds together with surplus retained cash to effect settlement of shareholder loan notes (see note 18(c)) and associated accrued interest totalling £159 million. The margin payable on the Group's bank debt was also reduced as a result.

Research & development

As set out above, the Group continues to invest in IT systems and technology in order to enhance customer service and to bring new relevant products to its members and other customers. Developments in the year include new IT systems, new patrol vehicle technology including enhanced vehicle diagnostics equipment, new online websites and functionality and the launch of new telematics products to corporate partners.

The Group will continue to invest in further enhancements in 2014.



Strategic report

Principal risks and uncertainties

Risk management

RAC operates a risk management framework, which is the collection of processes and tools that have been 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 infrastructure.

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
- Adoption of the risk policy framework that sets out risk management and control standards

Primary responsibility for risk identification and management lies with business management. Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions.

Financial risk management

Interest rate risk

The Group is exposed to interest rate risk arising primarily on borrowings of the Group. The risk is managed by the Group through the use of interest rate swap and basis rate swap agreements to hedge the variability of cash flows associated with the borrowings as set out in note 17.

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.

RAC's 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.

Liquidity risk

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

RAC has set its investment strategy to ensure it has sufficient liquid funds generated from its operations to meet its expected obligations as they fall due. This is achieved by accurate and detailed short term cash forecasting and management as well as through retaining sufficient available funds to meet obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further.

Strategic and operational risks

AREA	RISK	MITIGATION
Legal and compliance	A serious breach of PRA, FCA and other regulator and legal requirements could result in substantial fines and/or damage to the brand	RAC has appropriate policies, processes and controls in place in order to minimise the risk of any legal/compliance failure or breach. Staff are made aware of requirements and 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.
Information security	Data loss, unauthorised intrusion, theft or misuse of data by authorised third parties could damage reputation and customer confidence	RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment.
Health and safety	Serious injury or death of an employee or member or other person	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 enables all levels of line management to understand the Health and Safety aspects of their activities and applicable legislation.
Business continuity/ disaster recovery	Material failure of IT systems or loss of service delivery capability could result in an inability to deliver service	The Group recognises the potential strategic, operational, financial and customer support risks associated with service interruptions and the importance of maintaining viable capability to continue business processes with minimum impact in the event of an emergency incident. Appropriate policies are in place that define the principles to be followed so that the Group can maintain, or return to, business as usual after a disruption, major incident or crisis.
Investment in core infrastructure and systems	Failure to invest in new technology, infrastructure and systems could result in loss of competitive advantage	RAC recognises the importance of investing in its people, infrastructure and new IT systems to ensure that it remains competitive and adaptable to required business changes.
Operational risks	Rising fuel prices and extreme weather conditions impact on the Group's ability to maintain high service standards	A prudent fuel purchasing policy has been implemented to reduce fuel price uncertainty and de-risk the business from short term fuel price changes. The Group continues to be actively involved in the FairFuelUK campaign to champion the best interests of its members and motorists generally. RAC patrol fleets operate on a flexible basis across each region and maintain the capability to engage with pre-approved third party contractors to ensure appropriate levels of service during periods of severe weather. Investment has been made in new weather forecasting and analysis capability to better predict the impact of short term weather variations and to maintain service levels in the event of extreme weather.

Strategic report

Financial review

The RAC Group's financial statements are set out on page 25 onwards.

Income statement

The Group generated Revenue of £486 million in 2013 (2012: £457 million), an increase of 6% from 2012. This reflects growth across the business.

EBITDA before exceptional items (as set out on page 25) of £145 million was generated in 2013 (2012: £129 million), an increase of 12% reflecting the revenue growth and further cost savings.

Exceptional items of £7 million in 2013 (2012: £2 million) include £3 million of impairment costs following the revaluation of the Group Stretford property and £3 million of impairment costs following the re-evaluation of certain IT projects. Restructuring costs of £3 million were incurred to rebalance headcount in service and support teams.

Research and development expenditure of £1 million was incurred in 2013 (2012: £nil million) in respect of the development of products and enhanced technologies.

Finance expenses reduced to £82 million in 2013 (2012: £101 million). The refinancing in October 2012 and in December 2013 enabled the Group to make further repayments of shareholder debt and reduced the Group's average cost of borrowing. Further interest savings will be achieved in 2014 in light of the refinancings.

Growth in EBITDA and these savings in finance costs helped the Group to generate a profit before tax of £8 million for the year (2012: loss before tax of £54 million).

Statement of financial position

The Group had Goodwill and Intangible assets of £1,087 million at 31 December 2013 (2012: £1,101 million) and these principally represent the goodwill, brand and customer lists recognised on the acquisition of the RAC Group from Aviva in September 2011. The movement reflects new investment in the year of £29 million (2012: £9 million) in developing the business, offset by amortisation and impairment charges of £43 million (2012: £55 million).

Property, plant and equipment of £13 million was held at 31 December 2013 (2012: £12 million) and includes the Group's Stretford property. The overall movement in the year reflects new investment of £8 million (2012: £3 million), offset by a charge of £3 million (2012: £nil million) for the revaluation of the Group's Stretford property and annual depreciation of £4 million (2012: £4 million).

The Group had net current liabilities of £137 million at 31 December 2013 (2012: net current liabilities of £113 million) with the movement in the year reflecting an increase in trade and other payables due to both the growth in the Group's business and the receipt of an annual advance payment from a major corporate partner in June 2013.

The Group's capital structure consists of borrowings amounting to £936 million at 31 December 2013 (2012: £948 million) and £8 million of equity funding (2012: £8 million). The summary of the Group's funding is set out below:

	2013		2012	
	£m	**%**	**£m**	**%**
Third Party Sources				
Senior Bank Debt*	773	81.9	664	69.5
Related Party Sources				
Shareholder Loan Notes**	163	17.3	284	29.7
Ordinary Shares	8	0.8	8	0.8
Total Sources	**944**	**100.0**	**956**	**100.0**
Undrawn Revolving Credit Facility	25		25	
Undrawn Capex Facility	10		10	
Total Committed Facilities	**979**		**991**	

* Net of capitalised finance costs of £27 million (2012: £28 million)

** Net of capitalised finance costs of £3 million (2012: £6 million)

All loans have bullet repayments. The terms of the funding sources are:

- £20 million of the senior debt is repayable on 30 September 2017, £410 million is repayable on 30 September 2018 and £367 million is repayable on 29 October 2019. Interest payments are calculated based on prevailing floating LIBOR rates and hedged rates as applicable over the period, as disclosed in note 17 and note 18.
- The loan notes earn a 12% cumulative compound coupon and are redeemable on sale or listing. They can also be redeemed by the Group with the written consent of the majority of the loan note holders and the majority debt holders. Loan notes and accrued interest (primarily funded by Carlyle) are due for repayment on 31 December 2021.

The Group had a total shareholder deficit of £50 million at 31 December 2013 (2012: deficit of £59 million).

Statement of cash flows

The Group achieved continued strong operating cash generation before exceptional items in 2013 of £159 million (2012: £139 million) equating to 110% of EBITDA before exceptional items (2012: 108%). This was achieved through continued disciplined management of working capital and the advance payment by a major corporate partner in June 2013. After taking account of exceptional, restructuring and research and development spend, cash flows from operating activities amounted to £150 million (2012: £105 million).

During 2013 net financing activities amounted to a net cash out-flow of £94 million (2012: out-flow £159 million), primarily due to the further repayment of shareholder loan notes offset by the re-financing proceeds as set out on page 11.

Capital structure

The Group maintains an efficient capital structure comprising equity shareholders' funds, loan notes and borrowings, consistent with the Group's overall risk profile and the regulatory and market requirements of the business (see the review of the statement of financial position on page 14).

The Group has further reduced the average interest rate payable on its borrowings, with the weighted average cost at the end of the year being 6.4% (2012: 7.5%).

General

The Group includes regulated companies which hold sufficient capital to meet acceptable solvency levels based on applicable Prudential Regulation Authority ('PRA') regulations.

Capital management

In managing its capital, RAC seeks to:

I. Match the expected cash in-flows from its assets with the expected cash out-flows 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.

Regulatory bases

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

Events since the balance sheet date

There have been no events since the balance sheet date which have a material impact on the Group's financial position as at 31 December 2013.

By order of the Board on 24 March 2014

S Morrison
Company Secretary

Directors' report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2013.

An indication of likely future developments in the business of the Group and details of research and development activities are included in the Strategic report. Information about the use of financial instruments by the Group including objectives, risks, policies and exposures is given in note 22 to the financial statements.

Results & dividends

The results of the Group are set out on page 25 showing an EBITDA before exceptional items of £145 million (2012: £129 million). No interim dividend for the year was paid (2012: £nil). The directors do not recommend the payment of a final dividend (2012: £nil).

Capital structure

The controlling interest in RAC Finance Group (Holdings) Ltd is owned by CEP III Participations S.à r.l. SICAR, a company owned by Carlyle Europe Partners III, L.P., all parts of the entities doing business as "Carlyle". Founded in 1987 Carlyle is one of the world's largest alternative asset managers.

The Company has two classes of ordinary shares which are designated as 'A' and 'B' shares and have a nominal value of 1p each. Ordinary shares carry no rights to fixed income. The 'A' and 'B' shares have the same rights except that the 'A' ordinary shares held by employees are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

As at 31 December 2013 a total of 50 (2012: 35) senior managers, including 4 directors (2012: 4) had equity stakes in the Group (see note 23).

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 1985. The indemnity was granted in 2011 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of the transitional provisions to the Companies Act 2006.

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 13 and 18 to the 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 22 to the financial statements.

The directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 months from the balance sheet date. The directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and banking covenants.

The Group and Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 9 to 15. The directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £50 million. This reflects cumulative amortisation on intangible assets of £122 million charged to the income statement since the acquisition of the RAC Ltd Group (£40 million of amortisation in 2013, £55 million in 2012 and £27 million in 2011). Additionally it has shareholder debt of £163 million (2012: £284 million), which was used to fund the acquisition of the RAC Ltd Group.

Having undertaken this assessment, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2013 Company and Group financial statements to be prepared on a going concern basis.

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.

Corporate social responsibility

The Group has embedded Corporate Social Responsibility (CSR) throughout the business, with a continued focus in 2013 on enhancing road safety, improving fuel efficiencies and in developing innovative new products and services for members.

Motorists continue to face pressures with rising costs of motoring and the Group continues to lobby for a fairer deal for motorists. The silver anniversary edition of The RAC Report on Motoring was published in 2013 and this demonstrates RAC's commitment to making motoring safer, more affordable and enjoyable.

The overall cost of motoring is increasing and the Group continues to champion motorists' views through effective lobbying and campaigns.

RAC's involvement in the FairFuelUK campaign and lobbying of government continued in 2013 and the Group was pleased to see a reduction of pump prices in the second half of 2013 and the Chancellor's decision to scrap a proposed fuel duty rise in 2014.

Road safety is another important aspect and the Group was pleased to note recent Department of Transport statistics which reveal a 60% reduction in road fatalities over the past 30 years, despite there being 14 million more vehicles on the roads. For those members unfortunate enough to be involved in a road traffic accident, RAC amended its terms and conditions in 2013 to provide free attendance and a range of follow up support.

Trust and integrity

Ethical conduct and good governance are critical to RAC's success. The Group's governance systems are designed to manage risks, plan for long term continuity, and foster sustainable growth.

Putting members and customers first

The Group is proud of its rich history and over a century's experience of keeping the motorist moving. RAC has built its reputation as a trusted motoring organisation providing membership benefits that are relevant, informative, and affordable and which reward the Group's loyal members.

The Group continues to look for innovative and creative ways to make motoring easier, safer, more affordable and more enjoyable for members. The Group operates a Treating Customers Fairly committee to ensure fair outcomes are delivered to customers. Separately, the Group operates a Root Cause committee to review complaints with the aim of making changes to prevent re-occurrences.

Code of conduct

RAC operates a code of business conduct and an essential learning framework which sets out the Group's expectations for all colleagues to behave ethically in everything they do. Through interactive e-learning, the Group equips colleagues with the knowledge and skills to make the right decisions if they are ever confronted with an ethical dilemma.

Privacy and data protection

As data networks and web-based information systems become increasingly prevalent, the Group recognises and understands that people want to feel confident that their data, information and communications are secure.

The Group continues to invest in IT systems and processes to protect customer and colleague data, and to raise awareness about the importance of privacy and data protection. An example of the changes made to improve the security of customer data has been the introduction of iPads for the Group's external sales force which means that customer data is now transmitted through a secure network rather than relying on paper forms.

Community

Membership that makes motoring safer is a key component of RAC's community work. The Group is committed to making motoring safer in the UK and has forged strong links with the governmental and charitable associations on the issues that impact safety on the UK's roads. In 2014, RAC are planning to launch a national campaign in partnership with the Department for Transport aimed at schools to increase road safety education, bringing road safety to the forefront of people's minds.

Directors' report

RAC encourages colleagues to take part in events and initiatives that support and encourage bonds with local communities. Colleagues have generously given their time, money and in some cases sweat and tears to support numerous good causes throughout the year. Here are a few examples of the great causes that RAC and its colleagues signed up to in 2013:

- Walk for Heroes – RAC sponsored walk across the hills of Shropshire raised over £6,000. RAC also provides the Help for Heroes charity with free breakdown cover for their vehicles.
- Annual Christmas Tree Appeal (now in its 24th year) that provides toys and gifts to different hostels and refuges across the West Midlands.
- Children in Need, raising over £1,000 with colleagues giving generously, in addition to taking part in a driving simulator competition and a bake-off competition.
- Helping the Philippines after the typhoon, where RAC matched funds raised by colleagues.

Environmental management

As a responsible motoring organisation RAC recognises that its activities, products and services have an impact on the environment. The Group is committed to not only being compliant with all relevant environmental legislation and regulations, but also to the principles of prevention of pollution and to continuous improvement by introducing ISO14001 environmental management systems across all our sites and roadside operations. The Group will continue to take a lead in influencing motorist behaviour, government transport strategy and motor industry practices as together we can reduce the impact on the environment from motoring.

Emissions

The Group continues to look for ways to reduce its carbon emissions whether this is through investment in new technology, education and raising awareness or better organisation.

RAC's carbon reduction plan aims to deliver a further reduction in CO_2 output in 2014. A number of fleet initiatives that were introduced in 2013 have included "Smarter Driver Training" for all company drivers, a vehicle replacement programme and the installation of telematics units in all patrol vehicles to monitor and improve driving behaviours. To date these have resulted in a 12% reduction in fuel usage per service breakdown.

There has also been a significant investment in information technology across the business which includes cloud based collaboration solutions that will enable colleagues to operate remotely which will further reduce the need for business travel and commuting in 2014 as we embed these technology solutions into our business practices.

Waste and recycling

RAC has established business waste-management and recycling programmes at its sites and across its fleet operation. Disposal methods for waste are determined through the collaborative efforts of the Group and its waste-management partners. Working together, new opportunities have been identified for recycling waste and reducing usage of incineration and landfill. Wherever possible waste is recycled and several of the Group's waste streams are recycled in innovative ways including furniture being recycled into animal bedding, carpet underlay and note books and contaminated fuel being recycled so it can be used again.

Reducing energy, water and paper consumption

There have been various improvements introduced to reduce energy, water and paper consumption. The Group has seen an overall reduction of 12% for gas and electricity and an over 50% reduction in the amount of paper being printed in RAC offices.

Improvements to drainage and pumps that distribute water, new PC and Monitor reporting systems to ensure that PCs are switched off overnight, switching to LED when replacing or introducing new lighting and the implementation of a strict temperature control policy have all helped to reduce the Group's consumption of resources. RAC has also introduced new printers across its sites that automatically print double sided and in black and white. Printing is also controlled by colleague's security tags which has not only reduced the amount of paper and printer cartridges used but has also increased security of information.

Our people

RAC's continued growth and success depends on its ability to attract and retain skilled people who have the desire and personality to perform at their absolute best.

Recruitment

The Group strives to ensure that all employees are treated fairly and have equal opportunities to succeed. RAC is an equal opportunities employer and encourages diverse and inclusive approaches to employment.

As an equal opportunity employer the Group gives full consideration to applications for employment without regard to race, colour, religion, gender identity or expression, sexual orientation, national origin, disability, age or veteran status where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to all employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training and reasonable adjustments to achieve this aim.

As a result of the Group's desire to help young people and veterans gain employment, partnerships have been formed with local colleges and universities to provide apprenticeship and graduate opportunities and the Group has also pledged its commitment to The Armed Forces Corporate Covenant and enjoys a close working relationship with the Career Transition Partnership to raise awareness of employment opportunities within RAC. In 2014 the Group plans to launch a newly designed Career resettlement course that focuses on building technical skills associated with new vehicle technology.

Health and safety

Providing a safe and healthy environment for colleagues, members, contractors and visitors remains a priority across the organisation. RAC has well-established policies and systems in place to ensure health and safety, and to minimise risks. The Group's support to colleagues includes an array of options to suit individual needs and includes discounted gym schemes, dental cover and health care through the Group's flexible benefits scheme.

Reward and benefits

RAC offers a competitive and integrated total rewards package designed to attract, motivate and retain great colleagues. Compensation packages are benchmarked to ensure they remain fair, equitable and competitive and to ensure they are aligned to support business objectives. The Group continues to negotiate in good faith with its recognised union, Unite, regarding the employment terms and conditions of colleagues.

RAC continues to recognise and reward colleagues through two formal recognition schemes. In 2013, the annual Ambassador awards celebrated its 15 year anniversary. The awards recognise outstanding individual performance based on the achievement of key performance indicators and acting as an exemplary role model. In addition RAC's Long Service Awards recognise colleagues for their loyalty and sustained contribution to the business.

Communication

The Group recognises the importance of communications across the Group in order to engage with all colleagues through a variety of different media.

Consultation forums and a culture of two-way communication are actively promoted. The RAC engage and involve colleagues in the development and direction of the business through colleague forums and a strong partnership with UNITE, the Union. We share information and updates with UNITE and Your Forum representatives and consult fully with them when decisions affect colleagues, from business strategy to projects such as a re-organisation.

Professional development

RAC delivers a wealth of experience and expertise in support of the motorist. The Group's induction programmes and skills training ensure colleagues have the right tools and abilities to deliver unrivalled service to RAC members. The Group uses a variety of training and development tools to ensure colleagues have the knowledge base and skills required to provide a first class service, including in-house, instructor led training, e-learning instruction modules and access to a wide range of external courses.

Quality of customer service can be a critical differentiator in a competitive market place. In 2013 the Group implemented a new customer service system to ensure RAC members are offered the correct products for their needs. Extensive training on enhanced customer skills, processes and the new system was delivered to all telephone sales colleagues.

RAC has a dedicated team of trainers who deliver first class training to patrols from the day they join the Group. Training not only focuses on their technical skills but also customer service skills so that RAC keeps the motorist moving and continues to deliver a high level of service.

Directors' report

Corporate 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 following disclosures have been made on a voluntary basis as the Group is not required to comply with the Corporate Governance Code.

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, registers of interests and guidance for directors on their duties and for Approved Persons (in the context of FCA and PRA authorisation).

The Board

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 business, setting the tone for a culture across the business committed to achieving great outcomes for customers and thereby delivering long term value both for the business 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 items on the agenda of each Board meeting are Health and Safety and Treating Customers Fairly. Through ongoing review of suitably detailed management information the Board ensures that risks are appropriately monitored and managed.

Proper delegations and controls are in place providing for all the various aspects of the day-to-day management of the business to be dealt with at an appropriate level. In particular, the senior executive management team meets weekly to review the operational performance of the business in the widest sense.

Division of Responsibilities

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

The Chairman is responsible for:

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

The Chief Executive is responsible for:

- Overseeing day-to-day management of the Group
- Allocating decision making and responsibilities
- Ensuring the successful execution of the strategic objectives agreed by the Board

The executive directors are 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 plans and budgets
- Preparing annual financial statements
- Day-to-day management of the Group, ensuring risks are managed and any lessons learnt
- Effective communication with equity holders
- 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 commercial experience to offer independent advice and objectivity
- Monitoring and offering objective challenge to executive management decisions when appropriate
- Bringing specific expertise to the Board. For example, the team includes a non-executive with extensive financial services experience in senior positions of several major financial institutions

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

Board committees

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

Audit, risk & compliance committee

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

The Audit, Risk and Compliance 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, including 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, in particular 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
- Assessing the independence and objectivity of the external auditors

Remuneration committee

This committee comprises the Group's Chairman, Chief Executive and at least one of the other investor directors 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 the equity holding
- Agreeing the framework for the remuneration of the executive directors and other senior executives, and determining the total individual remuneration packages of each person, including pension arrangements. The Chief Executive is not present when his own remuneration package is determined
- Determining specific incentives for the executive directors and senior management to encourage enhanced performance by being rewarded in a fair manner for their individual contributions to the success of the Group
- Ensuring that contractual terms on termination and any payments made are fair to the individual and to the Group (and that failure is not rewarded)
- Evaluating the performance of the executive directors against challenging objectives, including non-financial objectives

Other committees and working groups

There is a structure of other Committees and Working Groups which meet regularly to oversee various aspects of the business and ensure appropriate safeguards are in place and that detailed management information is being properly monitored. For example, there is an executive Risk and Compliance Working Group, various Health and Safety Committees, and a Complaints/ Root Cause Analysis Committee.

Directors' report

Board composition

Rob Templeman
Chairman

Rob joined RAC as Chairman in September 2011 and has extensive experience in leading retail organisations – transforming their profitability and customer service following private equity transactions. Prior to joining RAC, Rob was Chief Executive of Debenhams for eight years and his previous roles also include Chief Executive and Chairman of Halfords, Chief Executive of Homebase, Chief Executive of Harveys Furnishing Group and Chairman of the British Retail Consortium. Rob is also Chairman of the Gala Coral Group, alongside his charitable interests.

Chris Woodhouse
Chief Executive Officer

Chris joined RAC as CEO in February 2012 and brings over 25 years of experience and knowledge having performed leading roles in the success and transformation of retail organisations under private equity ownership. Chris was Deputy Chief Executive of Debenhams prior to joining RAC and his previous roles include Deputy Chairman of Halfords, Commercial Director and Deputy Chief Executive of Homebase, Commercial Director of Birthdays Group and numerous Finance Director roles. Chris is also Chairman of Gondola Group.

Diane Cougill
Chief Financial Officer

Diane is a chartered accountant with extensive knowledge and experience in executive finance and commercial roles. Diane joined RAC in 2010 and led the sale of RAC by Aviva. Diane previously held senior positions in Aviva's UK General Insurance business, including Chief Risk Officer, Financial Control Director and Portfolio Director. Prior to this Diane worked in the energy sector where she held senior finance positions with TXU Europe and Yorkshire Electricity Group.

Andrew Burgess
Non-Executive Director, Carlyle Group

Andrew is a Partner of Carlyle and Managing Director of Carlyle Europe Partners, with a focus on originating and leading buy-outs for services and consumer businesses. He was formerly on the board of Britax Childcare, the market leading child safety seat manufacturer and Talaris, the cash services solutions group. Prior to joining Carlyle, Andrew was a Director of Bridgepoint, the pan-European Private Equity fund manager, where he was responsible for deal origination, execution, portfolio management and realisations.

Alex Stirling
Non-Executive Director, Carlyle Group

Alex is a Director in Carlyle's European buyout team, with a particular focus on business and consumer services sectors. Prior to joining Carlyle, Alex was previously an Investment Director with Apax Partners. Alex is currently a member of the Board of Directors of IDH, NBTY Europe, Addison Lee and was previously an observer on the Boards of Focus Wickes, PCM Uitgevers, Promethean and Orizonia.

Zeina Bain
Non-Executive Director, Carlyle Group

Zeina is a Director in Carlyle's European buyout team having joined the firm in May 2001. Prior to this Zeina was an associate at European Digital Capital, a technology venture capital fund. Before that, she was an investment banking analyst at Merrill Lynch in their Emerging Markets group. Zeina has been a Board member of Britax Childcare, AZ Electronic Materials and Stahl and an observer on the Boards of Firth Rixson and IDH.

Mark Wood
Non-Executive Director

Mark joined the RAC Board in September 2011 bringing a wealth of experience from the financial services industry. Mark's previous positions include Managing Director of AA for Financial Services, Chief Executive of AXA UK and Chief Executive of Prudential UK and Europe. Mark founded and was Chief Executive of the hugely successful Paternoster Pension Investment Company, which was acquired by Goldman Sachs in January 2011. Mark is also Chief Executive of Jardine Lloyd Thompson Benefit Solutions and Chairman of the Trustees of the National Society for the Prevention of Cruelty to Children.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law, the directors have elected to prepare the Group and Company financial statements under IFRS as adopted by the European Union.

Under Company Law the directors must not approve the Group or Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements the directors are required to:

- Present fairly the financial position and cash flows of the Group and Company and financial performance of the Group.
- Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Make judgements that are reasonable.
- Provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance.
- State whether the Group and Company financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

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

By order of the Board on 24 March 2014

S Morrison
Company Secretary

Auditor's report

Independent auditor's report to the Members of RAC Finance Group (Holdings) Limited

We have audited the Consolidated and Company financial statements of RAC Finance Group (Holdings) Limited for the year ended 31 December 2013, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated statement of changes in equity and the Consolidated statement of cash flows, the accounting policies and the related notes 1 to 23 on pages 37 to 57 and notes 1 to 4 on pages 60 to 61. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 auditors

As explained more fully in the Statement of directors' responsibilities set out on page 23, the directors are responsible for the preparation of the consolidated 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 and 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 RAC Finance Group (Holdings) Limited Annual Report and Accounts 2013 to identify material inconsistencies with the audited 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 and parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Angus Millar (Senior statutory auditor)
Date: 26 March 2014
for and on behalf of Ernst & Young LLP, Statutory Auditor, London

Consolidated financial statements 2013

Consolidated income statement

For the year ended 31 December 2013

	Note	2013	2012
		£m	**£m**
Revenue	1	486	457
Cost of sales		(233)	(222)
Gross profit		253	235
Administrative expenses		(108)	(106)
Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")		145	129
Exceptional items	2b	(7)	(2)
Restructuring costs	2b	(3)	(21)
Research and development	2b	(1)	-
Depreciation	9	(4)	(4)
Amortisation	8	(40)	(55)
Earnings Before Interest and Tax ("EBIT")		90	47
Finance expenses	3	(82)	(101)
Profit/(loss) before tax	2	**8**	**(54)**
Tax credit	7	9	18
Profit/(loss) for the year		**17**	**(36)**

All activities relate to continuing operations.

The accounting policies and notes on pages 30 to 57 are an integral part of these financial statements.

Consolidated financial statements 2013 (continued)

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	2013	2012
		£m	**£m**
Profit/(loss) for the year		**17**	**(36)**
Other comprehensive income/(expense)			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Net movement on cash flow hedges	17	2	(2)
Aggregate tax effect	7(c)	(1)	1
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		1	(1)
Other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent periods:			
Actuarial losses on pension schemes	21(c)(ii)	(12)	(1)
Aggregate tax effect	7(c)	3	-
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		(9)	(1)
Other comprehensive expense, net of tax		(8)	(2)
Total comprehensive income/(expense) for the year		**9**	**(38)**

The accounting policies and notes on pages 30 to 57 are an integral part of these financial statements.

Consolidated statement of financial position
As at 31 December 2013

	Note	2013	2012
ASSETS		**£m**	**£m**
Non-current assets			
Goodwill and intangible assets	8	1,087	1,101
Property, plant and equipment	9	13	12
Deferred tax assets	14	10	14
Employee benefit asset	21(c)(iv)	-	11
Derivative financial instruments	17	16	-
		1,126	1,138
Current assets			
Inventories	11	2	2
Trade and other receivables	12	83	84
Current tax receivable	14	-	1
Cash and cash equivalents	13	54	32
		139	119
LIABILITIES			
Current liabilities			
Provisions	15	(3)	(6)
Trade and other payables	16	(266)	(226)
Current tax payable	14	(7)	-
		(276)	(232)
Net current liabilities		**(137)**	**(113)**
Non-current liabilities			
Borrowings	18	(936)	(948)
Employee benefit liability	21(c)(iv)	(7)	(8)
Trade and other payables	16	(11)	(20)
Derivative financial instruments	17	(2)	(3)
Deferred tax liability	14	(83)	(105)
		(1,039)	(1,084)
Net liabilities		**(50)**	**(59)**
EQUITY			
Ordinary share capital	19	-	-
Share premium		8	8
Hedging instruments reserve		(1)	(2)
Retained earnings		(57)	(65)
Total equity		**(50)**	**(59)**

The accounting policies and notes on pages 30 to 57 are an integral part of these financial statements.
Approved by the Board on 24 March 2014.

D Cougill

D Cougill, Chief Financial Officer
Date: 26 March 2014

Consolidated financial statements 2013 (continued)

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Ordinary share capital	Share premium	Hedging instruments reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 January 2012	-	8	-	(29)	(21)
Total comprehensive expense for the year					
Loss for the year	-	-	-	(36)	(36)
Other comprehensive expense	-	-	(2)	-	(2)
Total comprehensive expense	-	-	(2)	(36)	(38)
Balance at 31 December 2012	**-**	**8**	**(2)**	**(65)**	**(59)**
Total comprehensive income/(expense) for the year					
Profit for the year	-	-	-	17	17
Other comprehensive income/(expense)	-	-	1	(9)	(8)
Total comprehensive income	-	-	1	8	9
Balance at 31 December 2013	**-**	**8**	**(1)**	**(57)**	**(50)**

The accounting policies and notes on pages 30 to 57 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2013

	Note	2013	2012
		£m	£m
Operating activities			
Profit/(loss) before tax		8	(54)
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Depreciation of property, plant and equipment	9	4	4
Amortisation of intangible assets	8	40	55
Exceptional expenses	2(b)	7	2
Restructuring costs	2(b)	3	21
Research and development	2(b)	1	-
Finance expenses	3	82	101
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		(14)	6
Increase in trade and other payables		28	4
Net cash inflow from operations before exceptional items and funding of defined benefit schemes		159	139
Defined benefit schemes		(3)	(1)
Tax over-payment received		1	-
Restructuring expenditure	15	(6)	(14)
Research and development	2(b)	(1)	-
Separation and completion activities		-	(19)
Net cash flows from operating activities after exceptional items		150	105
Investing activities			
Acquisition of companies	10(a)	(1)	-
Purchase of property, plant and equipment	9	(8)	(3)
Proceeds from sale of property, plant and equipment		-	30
Additions of intangible assets		(25)	(6)
Net cash flows (used in)/from investing activities		(34)	21
Financing activities			
Net proceeds from senior debt		104	268
Repayments of senior debt		-	(110)
Repayments of loan notes		(124)	(185)
Repayment of preference shares		-	(80)
Receipt of other loans		-	12
Interest paid		(74)	(64)
Net cash flows used in financing activities		(94)	(159)
Net increase/(decrease) in cash and cash equivalents		**22**	**(33)**
Cash and cash equivalents at 1 January		32	65
Cash and cash equivalents at 31 December	13	**54**	**32**

The accounting policies and notes on pages 30 to 57 are an integral part of these financial statements.

Accounting policies

(A) CORPORATE INFORMATION

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

The Consolidated financial statements of RAC Finance Group (Holdings) Limited for the year ended 31 December 2013 were approved for issue by the Board on 24 March 2014.

Information on the Group's structure is provided in note 10. Information on other related party relationships of the Group is provided in note 23.

(B) BASIS OF PREPARATION

The financial statements of the Group and Parent Company have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values, 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 Group and the Parent Company have been prepared in accordance with the IFRS as adopted by the EU.

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

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

The separate financial statements of the Company are set out from page 58. On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Parent Company's loss for the year was £393 thousand (2012: £277 thousand profit). The Company has not presented a separate cash flow statement as it does not hold any cash.

(C) APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The following new and amended IFRS are effective for the 2013 financial statements. These do not materially impact the Group or the Parent Company's financial reporting but have resulted in increased disclosures:

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- IFRS 13 Fair Value Measurement
- IAS 19 (as revised in 2011) Employee Benefits

External reporting developments effective in future years continue to be monitored proactively. The Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 9 Financial Instruments[3]
- IFRS 10 Consolidated Financial Statements[1]
- IFRS 12 Disclosure of Interests in Other Entities[1]
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
- IAS 27 (as revised in 2011) Separate Financial Statements[1]
- IAS 28 Investments in Associates and Joint Ventures[1]
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[1]
- Amendments to IAS 36 Impairment of Assets[1]
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement[1]
- IFRIC 21 Levies [1]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 January 2015
[3] Effective for annual periods beginning on or after 1 January 2018

These standards are not expected to have a material impact on the Group's or Parent Company's financial reporting.

(D) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Subsidiaries are those entities in which the Group, directly or indirectly, has power to exercise control. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and contractual voting rights

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

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

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

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.

In the Parent Company financial statement subsidiaries are stated at cost less any impairment.

Investments in associates

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

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

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

The aggregate share of the 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 Group. When necessary, adjustments are made to bring accounting policies in line with those of the Group.

Accounting policies (continued)

(D) BASIS OF CONSOLIDATION (CONTINUED)

Investments in associates (continued)

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

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

(E) USE OF ESTIMATES

The preparation of the financial statements in conformity with IFRS requires the Group to make estimates and judgements using assumptions that affect items reported in the statement of financial position and consolidated income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. 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. The table below sets out those items where a judgement has been taken which is considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy. Significant judgements and estimates made are disclosed in the relevant note to the financial statements.

Item	Accounting policy note
Goodwill, acquired value-in-force, and intangible assets	I
Derivative of financial instruments	Q
Provisions and contingent liabilities	R
Income taxes	S
Leases	T
Employee benefits	U

(F) FAIR VALUE MEASUREMENT

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data 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 financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

(G) REVENUE RECOGNITION

Revenue

Revenue comprises the fair value derived from the sale of services to customers during the year, net of rebates and discounts and excluding any sales-based taxes, duties or levies. Revenue represents sales of roadside assistance and related products and services. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income. Revenue relating to the sale of services is recognised on a straight line basis over the length of the contract, usually 12 months.

Revenue relating to the sale of goods, such as batteries and parts, is recognised according to the terms of the sale, when the significant risks and rewards of ownership have been transferred to the customer.

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

Interest income

Interest income is recognised using the effective interest rate method.

Dividend income

Dividend income from investments is recognised when the shareholders' 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).

(H) EXCEPTIONAL ITEMS

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

(I) 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 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.

Acquired value-in-force business

The acquired value-in-force represents future margins in deferred revenue 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.

Brand

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

Customer list and other intangible assets

Other intangible assets consist of IT projects and infrastructure, and contractual relationships such as access to distribution networks and 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 year is included separately within the income statement. 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.

Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to one cash-generating unit as this represents the lowest level within the Group at which goodwill is monitored for internal management purposes. 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 are shown within note 8.

Accounting policies (continued)

(J) PROPERTY, PLANT AND EQUIPMENT

Owner-occupied properties are initially recognised at cost and are subsequently measured at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Third party valuations are obtained every three years.

All other items classified as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

Motor vehicles	4 years
Fixtures and fittings	5-10 years
Computer equipment	4 years

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

(K) 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.

(L) 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.

(M) TRADE RECEIVABLES

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

(N) DEFERRED COMMISSIONS

Deferred commissions are released over the period in which the related revenues are earned. The incremental costs directly attributable to the acquisition of new business for roadside assistance are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts.

(O) 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 on the statement of financial position.

(P) BORROWINGS

Borrowings are recognised initially at their issue proceeds less 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.

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.

(P) BORROWINGS (CONTINUED)

Borrowings are classified as current liabilities unless the Group or Parent Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

(Q) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(R) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group and Parent Company has a present legal or constructive obligation as a result of a past event, it is more probable than not 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 or Parent Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

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

(S) INCOME TAXES

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

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 year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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.

(T) LEASES

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

Accounting policies (continued)

(U) EMPLOYEE BENEFITS

Pension obligations and other post-retirement benefit obligations

The Group operates three post employment benefit plans; the Auto Windscreens Pension Scheme ("AW Scheme"), a funded plan (the assets of which are held in separate trustee-administered funds, funded by payments from employees and the Group); and an unfunded unapproved pension scheme.

The Group 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 these future liabilities.

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

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

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

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

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

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

Termination benefits

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

(V) SHARE CAPITAL AND DIVIDENDS

Equity instruments

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

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

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

Notes to the consolidated financial statements

1 Revenue

	2013	2012
	£m	**£m**
Sale of goods	25	18
Sale of services	461	439
Total revenue	**486**	**457**

2 Profit/(loss)

The following items have been included in arriving at the result:

(a) Operating items

	2013	2012
	£m	**£m**
Amortisation of intangible assets (note 8)	40	55
Depreciation of owned tangible assets (note 9)	4	4
Operating lease rentals paid	15	15
Employee costs (note 5)	149	139
Cost of inventories recognised in cost of sales (note 2)	14	10

	2013	2012
	£m	**£m**
(b) Other items		
Included in exceptional items:		
Loss on valuation of property (note 9)	3	-
Impairment of intangible assets (note 8)	3	-
One off contribution DB Pension Scheme (note 21(c(ii))	1	-
Other	-	2
	7	2
Restructuring costs	3	21
Research & development	1	-
Total other items	**11**	**23**

In March 2013, the Group made a payment of £2 million to the Trustees of the Auto Windscreens Pension Scheme ('AW Scheme') (note 21), consisting of £1 million contribution charged to the Employee Benefit Liability and £1 million of fees charged to exceptional items. This payment was made to allow the Trustees to purchase a bulk annuity to cover certain future liabilities of the scheme.

Impairment losses of £3 million have been recorded against the property (note 9) and £3 million against intangible assets (note 8).

During the year, the Group incurred a total of £3 million (2012: £21 million) of restructuring costs, relating to the realignment and re-balancing of headcount in selling and support teams (2012: re-balancing of headcount in selling and support teams and a programme to implement new flexible working arrangements for patrols and separation and completion activities, comprising the costs involved in achieving standalone capabilities following the disposal of RAC Limited by Aviva in September 2011). £2 million (2012: £4 million) of this expenditure is held within provisions in the statement of financial position at 31 December 2013 and is expected to be utilised in 2014 (note 15).

Other exceptional items in 2012 include professional fees associated with the sale of property and legal entity restructure, offset by the pension curtailment gain.

Notes to the consolidated financial statements (continued)

3 Finance expenses

	2013	2012
	£m	**£m**
Interest payable - related parties	34	50
Interest payable - third parties	41	30
Preference share dividends payable	-	8
Amortisation of capitalised finance costs	4	6
Additional write-off of capitalised finance costs as a result of refinancing	3	7
	82	101

4 Auditor's remuneration

The total remuneration payable by the Group, excluding VAT, to its auditor, Ernst & Young LLP, is shown below.

	2013	2012
	£000	**£000**
Audit services		
Audit of financial statements	27	26
Audit of subsidiaries	230	220
	257	246
Other services		
Taxation compliance services	13	21
Audit related fees	30	9
Other non-audit services	173	170
Total remuneration payable to Ernst & Young LLP	**473**	**446**

5 Employee information

The average number of persons employed during the year was:

	2013	2012
	Number	Number
Breakdown services	3,036	3,142
Insurance and claims	133	151
Support areas	250	242
	3,419	3,535

Total staff costs were:

	2013	2012
	£m	£m
Wages and salaries	127	118
Social security costs	13	12
Pension costs	9	9
	149	139
These costs were charged within:		
Cost of sales	110	105
Administrative expenses	39	34
	149	139

6 Directors

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

	2013	2012
	£000	£000
Fees and benefits	2,046	1,141
Contributions paid into money purchase pension schemes	50	49
	2,096	1,190
Emoluments of the highest paid director:		
Fees and benefits	929	412
	929	412

(a) Fees and benefits include directors' bonuses.

(b) Retirement benefits are accruing to 1 director (2012: 1 director) under a money purchase scheme.

(c) During the year no directors (2012: none) were awarded shares under long-term incentive schemes.

Notes to the consolidated financial statements (continued)

7 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2013	2012
	£m	**£m**
Current tax:		
For the year	7	-
Total current tax charge	7	-
Deferred tax:		
For the year	(5)	(10)
Change in tax rates	(11)	(8)
Total deferred tax credit	(16)	(18)
Total tax credited to the income statement	**(9)**	**(18)**

£2 million of tax credited to the income statement (2012: £4 million) arises on the exceptional items and restructuring costs shown on the consolidated income statement.

(b) Tax reconciliation

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

	2013	2012
	£m	**£m**
Net profit/(loss) before tax	8	(54)
Tax calculated at standard UK corporation tax rate of 23.25% (2012: 24.5%)	2	(13)
Disallowable expenses	-	3
Effect of tax rate change	(11)	(8)
Total tax credited to the income statement (note 7(a))	**(9)**	**(18)**

The headline rate of UK corporation tax reduced from 24% to 23% on 1 April 2013, and through the enactment of Finance Act 2013 will reduce further to 21% from 1 April 2014 and 20% from 1 April 2015.

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 balance sheet date.

Accordingly, as the future reductions of the corporation tax rate to 21% and 20% were enacted on 17 July 2013, the deferred tax balances at 31 December 2013 have been reflected at the tax rates they are expected to be realised or settled.

(c) Tax credited to other comprehensive income

Tax credited directly to other comprehensive income in the period amounted to £2 million (2012: £1 million) and is in respect of the tax impact on actuarial losses in employee benefit schemes and fair value movements on the cash flow hedging derivative financial instruments, (2012: in respect of the fair value movements on the cash flow hedging derivative financial instruments).

8 Goodwill and intangible assets

	Goodwill	Brand	Acquired Value-In-Force	Customer list	Other	Total
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 January 2012	501	341	35	291	6	1,174
Additions	-	-	-	-	9	9
At 31 December 2012	501	341	35	291	15	1,183
Additions	-	-	-	1	26	27
Acquired through business combinations	-	-	-	-	2	2
At 31 December 2013	501	341	35	292	43	1,212
Amortisation:						
At 1 January 2012	-	-	18	9	-	27
Charge for the year	-	-	17	36	2	55
At 31 December 2012	-	-	35	45	2	82
Charge for the year	-	-	-	36	4	40
Impairment losses	-	-	-	-	3	3
At 31 December 2013	-	-	35	81	9	125
Net book value:						
At 31 December 2013	**501**	**341**	**-**	**211**	**34**	**1,087**
At 31 December 2012	501	341	-	246	13	1,101

All intangible assets are stated at cost less accumulated amortisation. During the year certain IT projects were re-evaluated resulting in an impairment charge of £3 million (2012: £nil). Other intangible assets comprise of 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 recognised in the income statement.

On 12 February 2013 the Group acquired the trade and assets of JLR Digital Limited which consisted of £2 million of intangible assets.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to one cash-generating unit ("CGU") for impairment testing. The carrying value of the goodwill and indefinite-lived intangible assets allocated to the CGU is £501 million and £341 million respectively.

The Group performed impairment testing as at 31 October 2013. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of the unit has been determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2017. The forecasts and budgets take into consideration the positive trading results post acquisition whilst also building in some caution as a result of difficult economic conditions in the UK. The growth rate used to extrapolate revenue beyond the Group's forecasts is 2.6% (2012: 2%), based on the historic average long term growth rate of the UK economy. The pre-tax discount rate applied to the cash flow projections is 9% (2012: 9%). The pre-tax discount rate applied to the cash flow projections is based on the Group Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Notes to the consolidated financial statements (continued)

8 Goodwill and intangible assets (continued)

Key assumptions used in management forecasts include:

- individual Members having high customer loyalty and retention rates resulting in a stable and predictable revenue stream;
- success rates for contract renewals based on historic experience; and
- cost discipline and operational efficiencies.

The above assumptions are calculated based on recent performance, adjusted for expected future events. 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. Management believe that rates used for customer retention are prudent, and evidence shows that actual persistency rates are higher.

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

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 2017.

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.

The value of the RAC Brand is further supported by strong financial performance in the current year which was ahead of management expectations and forecasts.

9 Property, plant and equipment

	Owner-occupied property	Fixtures and fittings and motor vehicles	Computer equipment	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2012	36	3	5	44
Additions	-	1	2	3
Disposals	(30)	-	-	(30)
At 31 December 2012	6	4	7	17
Additions	-	2	6	8
At 31 December 2013	6	6	13	25
Depreciation:				
At 1 January 2012	-	1	-	1
Charge for the year	-	2	2	4
At 31 December 2012	-	3	2	5
Charge for the year	-	1	3	4
Impairment losses	3	-	-	3
At 31 December 2013	3	4	5	12
Net book value:				
At 31 December 2013	**3**	**2**	**8**	**13**
At 31 December 2012	6	1	5	12

In June 2012, certain owner-occupied properties were sold for £30 million. These properties were then leased back, as part of a sale and leaseback transaction. The risks and rewards of ownership have been transferred and therefore the lease meets the criteria of an operating lease in accordance with IAS 17 Leases and therefore these properties have been disposed of from property, plant and equipment. The lease commitments are included within the table disclosed within note 20.

During the year, the remaining owner-occupied property was revalued by Colliers International, an accredited independent valuer. This resulted in an impairment loss of £3 million being recognised in the income statement. The Group determined fair value by reference to market-based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any differences in the nature, location or condition of the specific property. The date of the revaluation was 25 June 2013, no significant change in value has occurred between this date and the year end. If owner-occupied properties were measured using the cost model, the carrying amount would be £6 million. Owner-occupied property is considered to be included in level 2 of the fair value hierarchy. In arriving at the fair value included in the financial statements the independent valuer has assumed a value of circa £53.40 per square foot.

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

Notes to the consolidated financial statements (continued)

10 Group information

(a) Information about subsidiaries

The consolidated financial statements of the Group include the following subsidiaries:

Company	Type of business	Class of share	Proportion held
RAC Finance Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Supplying ancillary financial services	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online car retail	Ordinary	100%

All subsidiaries are registered in England and Wales, except RACMS (Ireland) Limited which is registered in Ireland.

On 22 January 2013 the Group incorporated Net Cars Limited in England and Wales. On 12 February 2013 Net Cars Limited acquired the trade and assets of JLR Digital Limited, for consideration of £2 million. Net Cars Limited has taken advantage of the available exemption for audit. As a consequence, a statutory guarantee has been provided by the Company as required by s479 of the Companies Act 2006.

(b) Associate

The Group has a 15% interest in (and significant influence over) Risk Telematics UK Limited, which is involved in the development of software. Risk Telematics UK Limited is a private entity that is not listed on any public exchange, and is incorporated in England and Wales. For the period to 31 December 2013, Risk Telematics UK Limited had negligible profits and the value of assets is considered to be immaterial. Under the shareholders' agreement the Group has an option to purchase the remaining shares from 2016 to 2018.

(c) The holding company

The immediate and the ultimate holding company of the Group is CEP III Investment 16 S.à r.l., registered in Luxembourg.

11 Inventories

	2013	2012
	£m	£m
Inventories	2	2

The cost of inventories recognised as an expense and included in "Cost of sales" amounted to £14 million (2012: £10 million).

12 Trade and other receivables

	2013	2012
	£m	£m
Trade receivables	37	35
Prepayments	4	5
Accrued income and deferred commissions	39	39
Other receivables	3	5
Total	**83**	**84**
Expected to be recoverable within one year	83	84

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

13 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2013	2012
	£m	£m
Unrestricted cash at bank and in hand	42	18
Restricted cash at bank	12	14
Total	**54**	**32**

As at 31 December 2013, £12 million (2012: £14 million) of the Group's cash is restricted and must be held to meet regulatory Solvency requirements.

14 Tax assets and liabilities

	2013	2012
	£m	£m
Current tax (liability)/asset	(7)	1
Deferred tax assets	10	14
Deferred tax liabilities	(83)	(105)
	(80)	(90)

Liabilities to corporation tax of £7 million are payable within one year.

	2013	2012
	£m	£m
The net deferred tax liability arises on the following items:		
Depreciation in excess of capital allowances	6	9
Intangible assets	(83)	(104)
Pensions and other post-retirement obligations	2	(1)
Cash flow hedge reserve	-	1
Provisions and other temporary differences	2	4
Total deferred tax	(73)	(91)

	2013	2012
	£m	£m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability at 1 January	(91)	(110)
Deferred tax credited to the income statement	16	18
Deferred tax credited to other comprehensive income	2	1
Net deferred tax liability at 31 December	(73)	(91)

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

The Group has unrecognised temporary differences of £nil (2012: £nil) to carry forward indefinitely against future taxable income.

Notes to the consolidated financial statements (continued)

15 Provisions

	Other	Restructuring	Total
	£m	£m	£m
At 1 January 2013	**2**	**4**	**6**
Additional provisions	-	3	3
Utilised during the year	(1)	(5)	(6)
At 31 December 2013	**1**	**2**	**3**

Restructuring provisions of £3 million were recognised in the year in respect of re-balancing headcount in sales and support teams. The proposals were announced in 2013 and the costs are expected to be paid out in 2014 (2012: restructuring relates to the re-balancing of support headcount and implementation of new working arrangements, announced in October and November 2012).

Other provisions include amounts payable at the end of patrol vehicle leases to correct modifications made.

16 Trade and other payables

	2013	2012
	£m	£m
Trade payables and accruals	55	62
Deferred income	178	153
Other payables	44	31
Total	**277**	**246**
Expected to be payable within one year	266	226
Expected to be payable in more than one year	11	20
Total	**277**	**246**

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

17 Derivative financial instruments

	2013	2012
	£m	£m
Cash flow hedge assets	1	-
Cash flow hedge liabilities	(2)	(3)
Share options	15	-
	14	(3)

(a) Hedging

The Group uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy.

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

17 Derivative financial instruments (continued)

(b) Cash flow hedges

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

	2013	2013	2012	2012
	Contract/ notional amount	**Fair value of (liability)/asset**	**Contract/ notional amount**	**Fair value of (liability)/asset**
	£m	**£m**	**£m**	**£m**
Term Loan B: Interest rate	350	(2)	350	(4)
Term Loan B: Basis rate	-	-	350	1
Term Loan C: Interest rate	-	-	150	-
Term Loan D: Interest rate	100	1	-	-
Total		**(1)**		**(3)**
Proportion of third party principal debt hedged	56%		72%	

The hedges are designated against the senior bank debt borrowings in total. Management have internally allocated these against the separate facilities within the senior bank debt agreement. The hedges were effective in the year and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income.

The hedges are considered to be included in level 2 of the fair value hierarchy. The hedges have been valued using a valuation technique with market observable inputs including the interest rate curves built using cash rates, swap rates and forward rates.

The Term Loan B hedge was achieved through using a combination of interest rate swap contracts to pay fixed and receive three month LIBOR and a basis rate swap on which RAC pays three month LIBOR and receives one month LIBOR plus a spread. From 30 December 2013 the basis rate swap contract ended and the hedge portfolio works to fix the LIBOR rate to 1.166% to 31 December 2013, and 1.166% between 1 January 2014 and 30 November 2014.

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

The hedge on Term Loan D/C was achieved by an interest rate swap contract for the Group to pay a fixed rate and receive a floating rate, i.e. three months LIBOR. The fixed element of the swap is set at 0.7825% for the period from 31 December 2012 to 30 December 2015. The floating rate is calculated on a notional principal amount. The notional principal amount is variable over the life of the hedge as follows; £150 million between 31 December 2012 and 30 December 2013; £100 million between 31 December 2013 and 30 December 2014; and £275 million between 31 December 2014 and 30 December 2015.

(c) Share options

During the year the Group entered into a contract with an AIM listed company, to which the Group has outsourced its accident management services. As part of the contract the Group has acquired the option to purchase 250,000,000 shares in the AIM listed company at a subscription price of 13p. The share options are accounted for as derivative financial instruments and are held at fair value of £15 million (2012: £nil).

The share options are considered to be included in level 2 of the fair value hierarchy. The share options have been valued using recognised models and based on market observable inputs (quoted share prices), adjusted to reflect a discount for inherent future uncertainty.

Notes to the consolidated financial statements (continued)

18 Borrowings

(a) Analysis of borrowings

	2013			2012		
	Interest rate £m	**Book value £m**	**Fair value £m**	**Interest rate £m**	**Book value £m**	**Fair value £m**
Senior debt:						
Term Loan B	LIBOR + 4.75%	398	412	LIBOR + 5.00%	394	411
Term Loan C	-	-	-	LIBOR + 5.125%	250	260
Term Loan D	LIBOR + 4.75%	355	368	-	-	-
Capex and restructuring facility	LIBOR + 4.00%	20	20	LIBOR + 4.00%	20	20
Loan notes	12%	163	166	12%	284	291
At 31 December		936	966		948	982

All borrowings are considered to be included within level 2 of the fair value hierarchy. The fair value of borrowing is included at the amount at which the instrument could be exchanged in a current transaction between willing parties.

(b) Senior debt

The senior debt now consists of three facilities; Term Loan B, Term Loan D and a Capex and restructuring facility. The terms of the original facility were amended following the inception of Term Loan C in October 2012, and again following the inception of Term Loan D in December 2013. In accordance with IAS 39, the additional fees related to the change in terms have been treated as a modification of the original facility and have therefore been capitalised. The fees relating to Term Loan B will be amortised over its remaining life.

Term Loan B is a bullet repayment, repayable on 30 September 2018.

Term Loan C was entered into on 29 October 2012, and was a bullet repayment, repayable on 29 October 2019. The associated costs incurred to raise this finance were £10 million, which were capitalised in accordance with IAS 39.

Term Loan D was entered into on 13 December 2013, and is a bullet repayment, repayable on 29 October 2019. The associated costs incurred to raise this finance were £3 million, which have been capitalised in accordance with IAS 39. The entire amount of Term Loan C was also converted to Term Loan D.

An analysis of the contractual undiscounted cash flows for senior debt is shown in note 22 (a(iii)).

The senior finance is secured by way of a fixed and floating charge over the assets of RAC Finance (Holdings) Limited and RAC Finance Group Limited.

At 31 December 2013 there were undrawn capital and revolving credit facilities of £10 million (2012: £10 million) and £25 million (2012: £25 million) respectively, which expire in 2017.

The covenants relevant to the RAC Group are Interest Cover and Debt Cover (2012: Interest Cover, Debt Cover, Cashflow Cover and Capital Expenditure).

(c) Shareholder loan notes

The 12% loan notes are repayable on 31 December 2021 or are redeemable on a sale or listing. Interest accrues at 12%, is compounded annually and is repayable on redemption. The loan notes are redeemable at the principal amount of the loan note plus any accrued and unpaid interest. They can also be redeemed by the Group with the written consent of the majority of loan note holders and of the majority of debt holders. In October 2012 loan notes and associated accrued interest totalling £210 million were repaid, followed by a further repayment of loan notes and associated accrued interest totalling £159 million in December 2013.

(d) Preference shares

In October 2012, the Group redeemed and repaid in full the preference share principal (£80 million) and associated accrued dividends (£10 million). The redeemable preference shares did not carry the right to vote and, in the event of a liquidation or return of capital, ranked above other shares with regards to the Group's residual assets. The preference shares earned a 12% fixed dividend and were redeemable on sale or listing. The preference shares were redeemable at issue price (£1) plus any accrued and unpaid dividends.

19 Ordinary share capital

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

	2013	2012
	£000	**£000**
Allotted, called up and fully paid:		
1,200,000 ordinary 'A' shares of £0.01 each	12	12
6,800,000 ordinary 'B' shares of £0.01 each	68	68
	80	80

The 'A' and 'B' ordinary shares have the same rights except that the 'A' ordinary shares held by employees are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

20 Commitments

Operating lease commitments

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

	2013	2012
	£m	**£m**
Within 1 year	11	9
Later than 1 year and not later than 5 years	31	20
Later than 5 years	51	51
	93	80

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

Certain property commitments relate to property sold and leased back in June 2012 (see note 9).

Notes to the consolidated financial statements (continued)

21 Employee benefit obligations

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

(a) Introduction

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

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

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

Unfunded Unapproved Pension Scheme ("UUP Scheme")

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2013 was 6 (2012: 8).

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependents in the UK. The number of pensioners entitled to this benefit at 31 December 2013 was 139 (2012: 139).

Auto Windscreens Pension Scheme ("AW Scheme")

Under the AW Scheme, members receive benefits on a defined benefit basis (generally related to final salary). This scheme has been closed for a number of years. The number of pensioners entitled to the defined benefit at 31 December 2013 was 161 (2012: 161).

Up until March 2013, the assets of the scheme were held in a separate trustee-administered scheme to meet long-term pension liabilities to past employees.

On 22 March 2013, the Trustees transferred the AW Scheme assets to Pension Insurance Corporation Limited ("PIC") in exchange for an insurance policy securing payment of certain future obligations of the AW Scheme. As such no further payments are expected to be made, although RAC maintains the liability. The Trustees are considering a full pension buy out of the Scheme's liabilities.

As the insurance policy covers the majority of future liabilities of the scheme, the Group bears a low investment risk, interest risk and longevity risk. As the Group has maintained full responsibility for the defined benefit obligation, the transaction has not been accounted for as a settlement and the associated loss has been recognised in other comprehensive expense. The Group therefore bears credit risk but considers this risk to be low.

Disability Benefit Scheme ("DB Scheme")

Under the DB Scheme, the Group provides disability benefits on a discretionary basis for certain former employees in the UK. Currently the Group contributes a flat rate per person to the scheme dependent on their individual circumstances. In 2012, there was a curtailment gain of £2 million arising from certain ill-health and medical benefits being insured.

(b) Charges to the income statement

The total pension costs of the Group's employee defined benefit schemes and defined contribution schemes were:

	2013	2012
	£m	£m
Employee benefit schemes	1	1
Defined contribution schemes	9	9
Curtailment gain	-	(2)
Total	10	8

21 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures

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

(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 2013. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2013.

The main actuarial assumptions used to calculate the Schemes' liabilities under IAS 19 are:

	2013	2012
	%	%
Inflation rate	3.40	3.00
General salary increases	5.20	4.80
Pension increases	3.10	2.80
Deferred pension increases	2.40	2.25
Discount rate	4.50	4.70

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 £1 million and £nil respectively (2012: £5 million and £nil respectively).

Mortality assumptions

Mortality assumptions are significant in measuring the 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 2013 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	87.9 (22.9)	90.0 (25.0)	90.1 (25.1)	92.5 (27.5)

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 decrease the Schemes' liabilities by £1 million.

21 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures (continued)

(ii) Employee defined benefit expense

The total employee defined benefit expense for the Schemes comprise:

	2013	2012
	£m	£m
Recognised in the income statement:		
Included within administrative expenses:		
Current service cost	-	(1)
Net interest expense	-	-
Included within other exceptional items:		
Administration costs	(1)	-
Gain from curtailment and special termination benefits	-	2
Total employee benefit (expense)/gain within Group profit or loss	(1)	1

	2013	2012
	£m	£m
Recognised in other comprehensive income:		
Loss on plan assets	(9)	(1)
Experience (losses)/gains on liabilities	-	1
Loss on change of assumptions	(1)	(1)
Adjustments for restrictions on defined benefit assets	(2)	-
Total losses recognised in other comprehensive income	(12)	(1)

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since acquisition is a £5 million loss at 31 December 2013 (2012: £7 million gain).

(iii) Experience gains and losses

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

	2013	2012	2011
	£m	£m	£m
Fair value of the Scheme assets	19	27	27
Restriction on asset recognised	(2)	-	-
Present value of the Schemes' liabilities	(24)	(24)	(25)
Net (deficit)/surplus in the Schemes	**(7)**	**3**	**2**
Difference between the expected and actual return on the Scheme assets:			
Amount of (losses)/gains	(9)	(1)	5
Percentage of the Scheme assets at the end of the year	(47%)	(4%)	19%
Experience gains on the Scheme liabilities (excluding changes in assumptions):			
Amount of gains	-	1	-
Percentage of the present value of the Schemes' liabilities	-	4%	-

Estimated employer contributions for the financial year ending 31 December 2014 are £1 million in respect of the Defined Benefit schemes and £9 million in respect of the Defined Contribution scheme.

21 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures (continued)

(iv) Schemes' (deficit)/surplus

The present value of the Schemes' obligations and the fair value of the plan assets are as follows:	**2013**	**2012**
	£m	**£m**
Qualifying insurance policy	19	-
Index-linked gilts	-	27
Total fair value of assets	19	27
Restriction on asset recognised	(2)	-
Present value of defined benefit obligations	(24)	(24)
Net (deficit)/surplus in the Schemes	**(7)**	**3**

	2013	**2012**
Amounts recognised in the statement of financial position at 31 December are:	**£m**	**£m**
Surplus included in non-current assets	-	11
Deficits included in non-current liabilities	(7)	(8)
Net (deficit)/surplus in the Schemes	**(7)**	**3**

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

(v) Movement in the Scheme deficits and surplus comprise:	**Scheme assets 2013**	**Scheme liabilities 2013**	**Net pension deficit 2013**
	£m	**£m**	**£m**
Balance at 1 January 2013	27	(24)	3
Employer contributions paid	3	-	3
Benefits paid	(2)	2	-
Administration costs	(1)	-	(1)
Interest cost	1	(1)	-
Remeasurement losses			
Actuarial loss on assets	(9)	-	(9)
Actuarial loss arising from change in assumptions	-	(1)	(1)
Adjustments for restrictions on defined benefit assets	(2)	-	(2)
Balance at 31 December 2013	**17**	**(24)**	**(7)**

	Scheme assets 2012	**Scheme liabilities 2012**	**Net pension surplus 2012**
	£m	**£m**	**£m**
Balance at 1 January 2012	27	(25)	2
Employer contributions paid	1	-	1
Benefits paid	(1)	1	-
Current service cost	-	(1)	(1)
Expected return on plan assets	1	-	1
Interest cost	-	(1)	(1)
Remeasurement gains/(losses)			
Actuarial losses	(1)	-	(1)
Curtailment gain	-	2	2
Balance at 31 December 2012	**27**	**(24)**	**3**

Notes to the consolidated financial statements (continued)

22 Risk management

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

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

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

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

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

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

(a) Treasury

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

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Group's current borrowing facilities are disclosed in note 18.

(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 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 and basis 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 £3 million (2012: £1 million). The impact on shareholders' equity would be a decrease/ increase of £3 million (2012: £2 million).

Interest rate movements on trade payables, trade receivables and other financial instruments do not present a material exposure to the Group's balance sheet.

22 Risk management (continued)

(a) Treasury policy (continued)

(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:

	2013	2012
	£m	£m
Trade and other receivables	40	40
Cash and cash equivalents	54	32
	94	72

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 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 Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents are held with institutions who are rated at A (2012: A). The Group's largest cash and cash equivalent counterparty is Royal Bank of Scotland (including subsidiaries) (2012: Barclays). At 31 December 2013 the balance was £16 million (2012: £11 million).

(iii) Liquidity risk

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 18).

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 Group also monitors covenants on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". There have been no breaches of covenants during the reported periods.

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

		2013			2012		
		Principal	Interest	Total	Principal	Interest	Total
		£m	£m	£m	£m	£m	£m
External bank debt	Within 1 year	-	45	45	-	39	39
	1 to 5 years	430	170	600	-	155	155
	5 to 10 years	367	19	386	690	44	734
Total external bank debt		797	234	1,031	690	238	928
Related party debt	5 to 10 years	128	283	411	252	554	806
Total related party debt		128	283	411	252	554	806
Total borrowings		**925**	**517**	**1,442**	**942**	**792**	**1,734**

The loan notes and accrued interest have been reflected as repayable on 31 December 2021 as per the terms of the loan notes. The terms also require repayment of the notes and related accrued interest on a sale or listing.

Notes to the consolidated financial statements (continued)

22 Risk management (continued)

(b) Capital risk management

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 December 2013 and October 2012, the Group managed its capital structure through undertaking refinancings, and redemption of loan notes to reduce Group borrowing costs (see note 18).

In managing its capital, the Group seeks to:

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

The Group monitors its capital using its financial covenants, Debt cover (the ratio of net external bank debt to EBITDA) and Interest cover (the ratio of EBITDA to external interest expense). The Group did not breach any of its covenants during 2013 (2012: no breaches).

(c) Regulatory risk

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

Relevant capital and solvency regulations ("Solvency I") continue to be used to measure and report the financial strength of regulated companies within the 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 the year.

23 Related party transactions

(a) 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 to the RAC Group is as follows:

	2013	2012
	£000	£000
Fees and benefits	3,895	1,976
Contributions paid into a pension scheme	125	116
	4,020	2,092

Fees and benefits include key management bonuses. During the year, no payments (2012: £nil) were made to key management for loss of office.

(b) Key management interests

A total of 10 (2012: 7) key management personnel held loan notes and equity stakes in the business at 31 December 2013.

At no time during the year did any director hold a material interest in any contract of significance with the Parent Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and service contracts between each director and a Group company.

(c) Ownership structure

The ownership structure is as follows:

Number of shares (million)	Management	Carlyle	Total
'A' Ordinary	1.2	-	1.2
'B' Ordinary	-	6.8	6.8
Sub total	1.2	6.8	8.0
Shareholder loan notes	1.3	127.1	128.4
Total	2.5	133.9	136.4

The 'A' ordinary shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

(d) Immediate and ultimate controlling party

The immediate and controlling shareholder of the Group is CEP III Investment 16 S.à r.l., registered in Luxembourg.

Company financial statements

Contents

The accounting policies on pages 30 to 35 also form an integral part of these financial statements.

Company financial statements 2013

Company statement of financial position

Registered in England and Wales: No. 07665596
As at 31 December 2013

	Note	2013	2012
		£m	**£m**
ASSETS			
Non-current assets			
Investments in subsidiaries and associates	2	8	8
		8	8
Other receivables	4	-	2
Net current assets		**-**	**2**
LIABILITIES			
Current liabilities			
Other payables	4	-	(2)
Net current liabilities		**-**	**(2)**
Net assets		**8**	**8**
EQUITY			
Ordinary share capital		-	-
Share premium		8	8
Retained earnings		-	-
Total equity		**8**	**8**

The accounting policies on pages 30 to 35 and the notes on pages 60 to 61 are an integral part of these financial statements.
Approved by the Board on 24 March 2014.

D Cougill, Chief Finance Officer
Date: 26 March 2014

Notes to the Company financial statements

1 Directors

Details of the aggregate remuneration of the directors of the Company for qualifying services in respect of the Company comprise:

	2013	2012
	£000	£000
Fees and benefits	2,046	1,141
Contributions paid into money purchase pension schemes	50	49
	2,096	1,190
Emoluments of the highest paid director: Fees and benefits	929	412
Contributions paid into money purchase pension schemes	-	-
	929	412

(a) Fees and benefits include directors' bonuses.

(b) Retirement benefits are accruing to 1 director (2012: 1 director) under a money purchase scheme.

(c) During the year no directors (2012: none) were awarded shares under long-term incentive schemes.

2 Investments in subsidiaries

	2013	2012
	£m	£m
Investment in subsidiaries and associates at cost	8	8

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

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Finance Limited	Holding company	Ordinary	100%
Indirectly held:			
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Supplying ancillary financial services	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online car retail	Ordinary	100%

All subsidiaries are registered in England and Wales, except RACMS (Ireland) Limited which is registered in Ireland.

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

On 22 January 2013 the Group incorporated Net Cars Limited in England and Wales. On 12 February 2013 Net Cars Limited acquired the trade and assets of JLR Digital Limited. The principal activity of Net Cars Limited is that of online motoring services. Net Cars Limited has taken advantage of the available exemption for audit. As a consequence, a statutory guarantee has been provided by the Company as required by s479 of the Companies Act 2006.

3 Ordinary share capital

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

	2013	2012
	£000	£000
Allotted, called up and fully paid:		
1,200,000 ordinary 'A' shares of £0.01 each	12	12
6,800,000 ordinary 'B' shares of £0.01 each	68	68
	80	80

The 'A' and 'B' ordinary shares have the same rights except that the 'A' ordinary shares held by employees are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

4 Related party transactions

(a) Key management compensation

The details of total compensation to those employees classified as key management can be found in note 23(a) to the consolidated financial statements in this report.

(b) Key management interests

A total of 10 (2012: 7) key management personnel held loan notes and equity stakes in the business at 31 December 2013.

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings, other than an indemnity provision between each director and the Company and service contracts between each director and a Group company.

(c) Amounts due from/(to) related parties

The Company had the following amounts due from/(to) related parties:

	2013	2012
	£m	£m
Other Group companies:		
Current account receivables	-	2
Current account payables	-	(2)
	-	-

In October 2012, the Company redeemed and repaid in full the preference share principal (£80 million) and accrued dividends (£10 million). The redeemable preference shares did not carry the right to vote and, in the event of a liquidation or return of capital, ranked above other shares with regards to the Group's residual assets. The preference shares earned a 12% fixed dividend and were redeemable on sale or listing. The preference shares were redeemable at issue price (£1) plus any accrued and unpaid dividends.

(d) Ownership structure

The 'A' ordinary shares are held by management and the 'B' ordinary shares are held by CEP III Investment 16 S.à r.l., registered in Luxembourg.

(e) Immediate and ultimate controlling entity

The immediate and controlling shareholder of the Group is CEP III Investment 16 S.à r.l. The lowest level at which consolidated IFRS financial statements are prepared is RAC Finance Group (Holdings) Limited.

Motorists.
We salute you.

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