Annual Report & Financial Statements 2017

RAC Group (Holdings) Limited

Contents

Highlights

£558 million
Revenue up on last year
(2016 : £507 million)

£189 million
EBITDA before exceptional items
(2016 : £183 million)

2.3 million breakdowns attended in 2017
(2016:2.2m)

1.4 million hours at the roadside
(2016: 1.4m)

£31 million Operating profit
(2016: £67m)

80% Roadside repair rate
(2016 : 80%)

80% Roadside retention rate
(2016 : 80%)

95 Net promoter score
(2016 : 94)

#OrangeHeroes

I am pleased to present my first CEO review and report that RAC continued to perform strongly in 2017. We have carried this momentum into the new financial year and the business is well invested as we continue to focus on driving growth and delivering our new "Next Chapter" objectives.

Focus on delivering growth

Group revenue increased by £51 million (10%) to £558 million, reflecting growth in our Roadside, Insurance Broking and Motoring Services businesses.

EBITDA before exceptional items increased by £6 million to £189 million reflecting the strong performance in our Insurance Broking and Motoring services businesses and a robust performance in Roadside in spite of strong competition and implementation costs for the substantial levels of new business won.

We also delivered strong operating cash flow generation, with a £15 million increase in net cash flow from operating activities to £176 million and improvement in EBITDA cash conversion to 93% (2016: 88%).

These results have been achieved by identifying clear priorities and executing against our plans, and our Consumer Roadside, Insurance Broking and Motoring Services businesses have all performed strongly as a result. In Business Roadside we have been immensely proud to welcome a number of new corporate partners, including Mercedes-Benz Cars UK Limited and eSure for both of whom we commenced provision of roadside assistance services during the second quarter.

Delivering for our Members

We continue to believe strongly that fixing cars at the roadside is the most important measure in assessing customer satisfaction. Our focus on this metric is recognised by RAC Members, with our Net Promoter Score increasing once again to an industry leading 95 (2016: 94).

In a 2017 Which? Survey of the best and worst brands for customer service, the RAC was rated sixth out of the top 100 brands, achieving a customer service score of 84%. The top scoring brands in this survey all received high scores for making customers feel valued and for the attitudes and helpfulness of their staff, something in which we can take a lot of pride.

We focus on maximising the use of our own patrols over third party contractors in order to provide our customers with an RAC patrol as often as possible and to optimise our resource utilisation. In addition, we have continued to invest in our RACScan diagnostic platform enabling our patrols to repair more complex issues at the roadside.

In our Insurance Broking business we have seen strong growth in our motor insurance members as a result of creating more bespoke pricing for our breakdown members, and also in our connected insurance proposition through creating an attractive offering for a younger demographic.

Refinancing

In July 2017 we completed a successful issue to institutional investors and listing on the Irish Stock Exchange of £275m Class B1 Notes. We were delighted by demand for these Class B1 Notes, which highlighted investor confidence in RAC's performance and prospects.

Our 120th Anniversary

In August 2017, RAC celebrated its 120th anniversary, a significant milestone, so I was very honoured to lead the celebrations to mark this historic landmark. RAC has been looking after the needs of its members and championing the interests of motorists since 1897, driving innovation for its members and making motoring easier, safer, more affordable and more enjoyable for drivers and other road users.

Our "Next Chapter"

Over the past few years, we have ensured that the Group has received the right level of investment to keep the RAC at the leading edge of our industry. We will continue to invest and innovate to deliver better member experiences, which will help us continue to deliver profitable and sustainable growth.

Our relentless focus to offer brilliant core service across the whole organisation – at the roadside, on the telephone and on the web for our members will be the key to our future success. Innovation and investment into product development such as to enhance the roadside experience will ensure that our members continue to benefit by being part of the RAC.

Our people

Key to delivering our strategy and growth are our people, the #OrangeHeroes across the RAC who make the difference. In December for example, when our Roadside business experienced some of the highest demand for our breakdown services in recent memory, our people went above and beyond to assist our members. And in our Insurance Broking business, our people continue to focus on innovation, delivering a unique connected breakdown solution embedded into our connected insurance product. These are perfect examples of what we believe encapsulates all that is RAC.

2017 was a transformative year in which we reshaped the organisation, with all areas of our business affected, and I'd personally like to extend my thanks to all RAC colleagues for continuing to passionately deliver consistently high levels of service to our Members, 24 hours a day, 365 days a year.

Outlook

We have made a strong start to 2018, with January EBITDA before exceptional items ahead of the same period last year, and we are confident of further progress in 2018. Looking further ahead, we have confidence in our strategy, our refocused organisation and our ability to grow by continuing to delight our members.

Dave Hobday
Chief Executive Officer

"I am pleased to present my first CEO review and report that RAC continued to perform strongly in 2017."

Dave Hobday
Chief Executive

The Consolidated Financial Statements of the Group are set out from page 40 onwards. The Group has performed strongly in 2017, with a significant increase in revenue driving a return to EBITDA growth in the second half of the year and an increase in operating cash flow.

Refinancing

In July 2017 the Group issued £275 million of Class B1 notes under a Class B facility, which were subsequently listed on the Irish Stock Exchange. This successful listing saw strong demand from investors, demonstrating the confidence in the RAC Brand and future financial performance of the Group. The Class B1 notes were issued at a coupon of 5.000% and have an initial period to 6 November 2022, after which interest will be charged at 4.500%.

Key Performance Indicators ("KPIs")

The financial and non-financial 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. The data provided is for the three year period to 31 December 2017

	2017	2016
Revenue	558	507
EBITDA before exceptional items (£m) *	189	183
Operating profit (£m)	31	67
Roadside repair rate (%) **	80	80
Roadside retention rate (%) ***	80	80
Net Promoter Score ****	95	94

* Earnings before interest, tax, depreciation, amortisation and exceptional items. The Board believes that the use of EBITDA pre-exceptional items gives a better indication of the underlying performance of the group. This is consistent with how business performance is measured internally.

** UK roadside repair rate excluding Road Traffic Collisions

*** The percentage of Members renewing each year as a proportion of prior year Members

**** Industry-wide customer satisfaction measure

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

Consolidated Income statement

	2017 (£m)	2016 (£m)
Revenue	558	507
EBITDA before exceptional items	189	183
Depreciation	(5)	(5)
Amortisation of intangible assets	(104)	(102)
Exceptional items	(49)	(9)
Operating profit	31	67
Finance expenses	(178)	(246)
Loss before tax	(147)	(179)

Group revenue increased by £51 million to £558 million (2016: increase of £6 million), primarily as a result of volume growth in the Roadside segment from existing and new business, including the commencement in April 2017 of our contract with Mercedes-Benz Cars UK, and strong growth in Motoring services and Insurance broking.

EBITDA before exceptionals was £189 million, an increase of £6 million in spite of competitive market conditions, costs of implementing new contracts, including the integration of Mercedes dedicated Patrols into the Group's Roadside operations, and operational challenges due to adverse weather conditions towards the end of the year.

Amortisation of intangible assets of £104 million (2016: £102 million) comprises amortisation of acquired intangibles and separately identified intangible assets arising from the business combination in 2014, predominantly customers lists, which are being amortised over their useful economic lives.

Operating profit of £31 million was £36 million lower than 2016 reflecting exceptional charges of £49 million (2016: £9 million) comprising £47 million of impairment of intangible assets, £10million of restructuring and related costs and a credit of £8 million arising from the movement in fair value of the Group's option to acquire the remaining 49% of Nebula Systems Limited.

Finance expenses of £178 million (2016: £246 million) include £65 million of third party interest expense (2016: £68 million) and £110 million (2016: £115 million) of interest expense on related party debt. In the prior year, the Group also expensed unamortised issue costs of £46 million and hedging of £12 million as a result of the refinancing by way of a whole business securitisation.

The Group's loss before tax of £147 million (2016: £179 million) reflects the above factors.

Consolidated statement of financial position

	2017	2016
	£m	£m
Goodwill and intangible assets	2,139	2,247
Property, plant and equipment	20	15
Trade and other receivables	78	64
Trade and other payables	(245)	(239)
Net current liabilities	(121)	(113)
Borrowings	(2,282)	(2,225)
Shareholders' equity	(443)	(307)

As at 31 December 2017, goodwill and intangible assets amounting to £2,139 million (2016: £2,247 million) primarily represented the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The movement of £108 million includes an impairment charge of £47 million, further details are given in note 11.

Property, plant and equipment of £20 million as at 31 December 2017 (2016: £15 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group.

Trade and other receivables of £78 million (2016: £64 million) are primarily comprised of trade receivables of £50 million (2016: £42 million) and prepayments and accrued income of £27 million (2016: £21 million).

Trade and other payables of £245 million (2016: £239 million) predominantly represent deferred income of £152 million (2016: £151 million) relating to subscriptions revenue received in advance, £53 million (2016: £41 million) of trade payables and accruals, and other payables of £40 million (2016: £47 million).

The Group has net current liabilities of £121 million as at 31 December 2017 (2016: £113 million) reflective of the working capital structure of the business.

The capital structure of the Group consists of bank borrowings amounting to £274 million (2016: £273 million), bonds issued of £1,170 million (2016: £897 million) and £838 million (2016: £1,055 million) of related party borrowings.

Consolidated statement of financial position (cont)

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

	2017		2016	%
	(£m)	%	(£m)	%
Third Party Borrowings				
Bank borrowings	274	12.0	273	12.2
Bonds	1,170	51.0	897	40.1
Related Party Sources				
Shareholder loan notes	107	4.7	400	17.9
Preference shares	731	31.9	655	29.3
Ordinary shares	10	0.4	10	0.5
Total Sources	2,292	100.00	2,235	100.00
Undrawn working capital facility	50		50	
Total Committed Facilities	2,342		2,285	

Statement of cash flows

	2017	2016
	(£m)	(£m)
Cash and cash equivalents	91	85
Net cash flows from operating activities	176	161
Interest paid	(146)	(89)
Net increase /(decrease) in cash and cash equivalents	6	(3)

The Group generated net cash inflow from operating activities of £176 million (2016: £161 million), an increase in EBITDA conversion to 93% (2016: 88%) as a result of improved working capital dynamics. Net cash flows from the issue of new debt and repayment of existing debt were broadly net neutral and interest paid of £146 million (2016: £89 million) relates primarily to the bank debt and bonds issued during the current and preceding year.

Given the strong trading performance, strong cash generation and successful Class B notes listing in 2017, I am confident that the Group is well positioned for continued growth in 2018.

Richard Fairman
Chief Financial Officer


RAC
For all your motoring needs
0333 2080 108
RAC
Motorists. We salute you.
PI RAC

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

Principal activity

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

The Business Model

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

This reputation for service quality and dedication carries over to our other products and services, whether it's our broad comprehensive insurance range, online shop or European Breakdown Cover. It's helped us launch new facilities for our Members and the motoring community, including the introduction of RAC Cars, allowing customers to purchase used cars with confidence from our recommended dealer network, as well as an approved garage network for vehicle repairs and our innovative universal spare wheel allowing customers to continue on their journey in the event of a puncture and not having a spare wheel.

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

Objectives and strategy

Our core business is built around three customer segments - Individual Members (IM), Business to Business (B2B) Customers and Insurance customers, and we believe that the key to our success in this area is retaining our loyal base, whilst attracting new Members. The core elements to achieving this are:

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

We continue to deliver the customer experiences and services that our Members value and that distinguish us from our competitors. Our excellent, market-leading, roadside assistance service is delivered by our extremely dedicated and committed Patrols. There is a strong correlation between a high roadside repair rate and enhanced levels of customer satisfaction, measured by our Net Promoter Score. Ultimately, this drives retention rates and allows us to maintain our existing base of Individual and B2B Members.

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

We aim to attract new customers to continually grow our Member base. We use various sales channels for our IM and Insurance customer acquisition, such as our website, mobile phone app, third-party search engines and aggregator websites. In addition, we liaise with Affinity Partners (organisations with membership models and complementary customer bases). We conduct seasonal campaigns and promotional offers, as well as direct and targeted marketing to our existing and potential Members. In the B2B sector, we have a dedicated account management & sales team focussed upon building and maintaining customer relationships to ensure we retain the business we have, build relationships with prospective customers and robustly manage our pipeline of new business opportunities.

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

Focus on customers

We are obsessed about delighting customers with our core services. This obsession is at the heart of our sustained success - past, present and future – and is driven by:

- Continuing to delight and demonstrate value to our customers in the policies they hold with us, so that they renew their business with us year after year;
- Improving our customer contact processes so that we deal with all customer contacts as efficiently as possible and automate where possible; and
- As with roadside, in our insurance sector, maximising our customers experience is driven through maximising retention rates, through ensuring customer experience, pricing and demonstrable value is optimised.

A clear focus in our strategy is to optimise our products, propositions, pricing and customer experiences, so that customers are more likely to buy additional products from us than simply the single product they came to us for initially.

Continuing to drive operational excellence

Operational excellence is a cornerstone in our strategic aims, and underpins both growing our customer base and maximising value per customer.

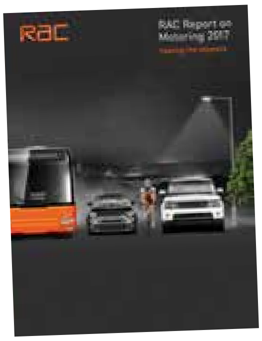
RAC prides itself on the quality of service delivered to members for over 120 years. To continue to build and improve on this we have the following priorities:

- Orange 1st – ensuring our processes and resources continue to be refined to ensure that as much as possible, customers are attended by an RAC resource. This increases the likelihood of vehicles being fixed at the roadside and customer retention; and
- Operations efficiency – whilst delivering a quality service to customers when they need us, our focus continues to be placed upon ensuring we deliver this in the most cost effective way. Hence, we continue to strive for new and better ways of doing things that deliver both enhanced customer experience/service and cost efficiency.

Over the past few years, we have ensured that the business has received the right level of investment to keep the RAC at the leading edge of our industry, and we are leveraging this investment to drive future revenue and profit growth across our various business streams. We will continue to invest and innovate to deliver better member experiences, which will help us continue to deliver profitable and sustainable growth.

Market environment and outlook

The UK breakdown and motoring market continues to be a large, stable market, with a number of leading providers.



In September we published our 28th Annual Report on Motoring, highlighting "what's on motorist's minds" and the changing concerns of drivers. The number one concern for UK motorists is now other drivers' use of handheld mobile phones while at the wheel. And whilst the state of the UK's local roads is no longer the number one concern, just over half of motorists believe the state of roads in their area has worsened in the past 12 months.

RAC has a number of 'calls to action' to address motorists key concerns over the costs of motoring, road safety and the state of the UK's roads as well as a variety of other areas. In 2017 the RAC called on the Government not to increase fuel duty for the life of the parliament to protect economic growth and avoid alienating motorists as well as campaigning for a reduction in the drink-drive alcohol limit from 80mg/100ml to 50mg/100ml, the levels currently in force across Scotland and much of Europe. We have also joined with PACTS and other road safety campaigners to push for a national road traffic investigation unit, similar to those that exist already for other modes of transport. Our work will continue in 2018 on these and a number of other of motorists concerns.

Operational overview

During 2017 we focused on maximising the use of our own 'Orange' patrols over that of third party contractors in order to provide our customers with an RAC patrol as often as possible and to optimise our resource utilisation. This initiative has delivered record breaking levels of resource utilisation, whilst providing our customers with an attendance more times than ever before.

We have continued to develop our battery testing capabilities; working with our supplier to reduce the time taken to complete a battery test and introducing motorcycle battery testing. This has meant that when our customers have a battery fault, we're spending less time diagnosing and repairing the issue.

We continue to see an increased requirement for diagnostic equipment to be used during breakdowns. We have invested in the coverage and functionality of our RACScan diagnostic software and provided all our patrols with additional training to improve competence and knowledge of vehicle systems, enabling our patrols to repair more complex issues at the Roadside. All our patrols have been issued with smartphones to improve communications and access to additional repair information from the roadside.

Technical training has been provided to many of our frontline contact centre colleagues, which has enabled an increasing proportion of our breakdowns to be resolved more quickly over the phone by following a script or passing the call to a technical engineer to advise the customer on simple repairs or advice, removing the need for a patrol to attend. We have also continued to invest in training which has seen the first of our apprentice patrols qualify and move into full patrol roles.

Our vehicle CCTV system introduced in 2016 has been further integrated into our core system in all new vans, providing the ability to remotely access footage following accidents to allow us to manage claims more effectively.

Developments

During 2017 we enabled our capability to receive breakdowns electronically using interfaces to receive breakdowns on behalf of our Corporate Customer, Mercedes Benz UK. We receive details directly into our command and control system, and manage the fulfilment of their UK breakdowns.

Environmental Targets and Carbon Emissions

We have continued to invest in an automatic van fleet throughout 2017, delivering improved fuel efficiency in support of our environmental targets. This has equally improved our drivers comfort.

We upgraded our SatNav systems within our Patrols vans to ensure optimum route planning, which reduces fuel consumption and improves operational efficiency.

No 1 concern

for motorists is the use of mobiles at the wheel

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

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

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

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

Financial risk management

Market risks

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

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

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

Credit risk

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

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

Liquidity risk

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

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

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.

The 'Solvency II' requirements came into force effective 1 January 2016 to further enhance and standardise the measurement and reporting of the financial strength of regulated businesses across the European Union. Solvency II has introduced tougher, more rigorous standards for capital adequacy and the calculation thereof. The Group has been in compliance with these requirements throughout 2017 and 2016.

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

Key strategic and operational risks

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

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

Principal Risk	Mitigation
Competitive Insurance Broking Market RAC competes with global and national insurance companies, including direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, many of which offer alternative products or more competitive pricing for segments of the insurance market in which RAC operates. If RAC is unable to price its products competitively, its ability to cross-sell its insurance products, its margins and/or market share may suffer.	RAC utilises a variety of approaches to the structure of its branded insurance arrangements, including panel, solus insurer, and open market arrangements. The Group works with its partner firms to ensure competitive and appropriate policies are offered to its customers, where possible using unique data to drive better assessment of risk by insurers and therefore prices. RAC closely monitors these markets to ensure it is able to respond to industry changes or competitor activity.
Data Protection RAC regularly collects, processes, stores and handles non-public data from its Members, Corporate Partners and others as part of the operation of its business, and therefore must comply with data protection laws in the United Kingdom and the EU. Failure to comply with data protection laws and data being wrongfully accessed, used, disclosed or processed, could potentially lead to regulatory censure, fines, civil and criminal liability, and reputational and financial costs.	RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group has specialist Data, Legal and Compliance teams and forums to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations. The Group adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment. A programme of work is in place in order to ensure that RAC is well placed to comply with the General Data Protection Regulation ("GDPR"), which comes into force in 2018.
Management of Third Party Suppliers RAC is dependent on third party providers for many critical aspects of its business, including the provision of certain IT systems and services, the provision of its insurance products and European breakdown cover, the lease of its Patrol vehicles and the supply of batteries and parts. If RAC is unable to maintain its existing contracts and agreements with suppliers of the various products and services which it relies upon or enters into new contracts on less commercially favourable terms, its business, financial condition and results of operations could be adversely impacted.	The Group maintains relationships with a number of suppliers in order to ensure there is no undue dependency on any one supplier. Supplier relationships are managed in the appropriate interests of both RAC and the suppliers themselves.
Adverse Impact of Regulatory / Legal Change The industries in which RAC operates are affected by government regulation in the form of national and local laws and regulations in relation to health and safety, the conduct of operations and taxation. RAC is subject to prudential and consumer protection measures imposed by insurance and financial services regulators. RAC's roadside assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business. RAC may also be subject to regulatory and governmental inquiries and investigations, the impact of which may be difficult to assess or quantify. Any negative publicity arising in connection with any inquiries and litigation or regulatory investigation affecting RAC's business could adversely affect its reputation.	RAC has appropriate policies, processes and controls in place in order to minimise the risk of any legal/compliance failure or breach. Employees are made aware of the requirements and are given appropriate training. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes and minimise any impact. Whilst responsibility for compliance rests with business areas, the Group employs specialist Risk, Regulatory and Legal teams to provide support and oversight. The Group's Internal Audit function provides a third line of defence, through undertaking periodic reviews with findings reported to the Group Audit, Risk and Compliance Committee.
Health and Safety The Group's roadside operations necessarily require attendance by Patrols or third party contractors to inspect and repair Members' vehicles at the roadside. In view of this there is an inherent risk of serious injury or death of employees, Members or third parties from road traffic collisions.	RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by business activities and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities. Appropriate policies are maintained and the Group regards health and safety at work as of equal importance to profitability and business ethics, and it is an integral part of the roles of the Group's employees. The Group has a health and safety management system which is mandatory in all areas of the business and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. The Group's Health & Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety.
Execution of Strategic Change Programmes The Group faces the risk of loss of market share and the threat to the Group's underlying business arising from failure to effectively execute key strategic change programmes, such as Digitalisation of sales channels.	RAC recognises the importance of implementing changes to its sales channels and customer management systems to keep pace with customer requirements, maintain market share and provide a platform for business growth, as well as to benefit from the operational efficiencies that can be obtained through digitalisation. The Group continues to enhance its capabilities in this area and ensure that a prioritised roadmap of digital change is in place.
Impact of Brexit Following the UK referendum decision to leave the European Union there is increased uncertainty for business and consumers which may impact overall confidence in the UK economy.	Whilst there remains uncertainty over the ultimate Brexit deal the UK Government will negotiate, RAC is a UK focused and robust business which has performed strongly over recent years and has a clear strategy for growth. RAC also has very limited business outside of the UK's borders. Should there be any negative impact from Brexit to growth prospects for the UK economy, our business has proved in the past to be resilient during recessionary times. We will continue to monitor the impact of the Brexit vote and will take appropriate steps to maintain RAC's competitive position.

Capital management

The Group maintains an efficient capital structure comprising equity shareholders' funds, preference share capital, loan notes and third party borrowings, consistent with the Group's overall risk profile and the regulatory and market requirements of the business (see the review of the Consolidated Statement of financial position on page 42).

In managing its capital, RAC seeks to:

(i) Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;

(ii) Maintain financial strength to support new business growth and to satisfy the requirements of its Members and regulators;

(iii) Retain financial flexibility by maintaining strong liquidity; and

(iv) Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

By order of the Board on 27 February 2018

S Morrison
Company Secretary

Governance | Governance report

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

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

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

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

The Board

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

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

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

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

Division of responsibilities

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

The Chairman is responsible for:

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

The Chief Executive Officer is responsible for:

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

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

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

The Non-Executive directors are responsible for:

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

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

Board of Directors

Rob Templeman | Chairman

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

Dave Hobday | Chief Executive Officer

Dave Hobday is RAC's Chief Executive Officer. He joined RAC in February 2017 from Worldpay UK the payments company where he was Managing Director for five years. He has previously worked at BT, Telewest, HBOS and Procter & Gamble in areas covering operations, customer service, marketing, sales and technology.

Richard Fairman | Chief Financial Officer

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

Mark Wood | Chair of Risk, Audit and Compliance Committee

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

Board of Directors

Non-Executive Directors – GIC Group

Vinit Nagarajan

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

Henry Ormond

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

Non-Executive Directors – CVC Group

Marc Boughton

Managing Partner and Chairman of CVC's Strategic Opportunities investment platform, Marc also sits on the board of CVC Capital Partners advisory business. Marc joined CVC in 1995, was a member of the Private Equity Investment and Portfolio committees and, in 2000, set up and managed CVC's Capital Markets Team. In 2006, Marc founded CVC Credit Partners as an independent private credit business. Prior to CVC, Marc worked for Electra Partners and at PricewaterhouseCoopers (formerly Deloitte Haskins & Sells) where he qualified as a Chartered Accountant and specialised in corporate recovery and investigations. Marc holds a BA (Hons) Degree in Accounting and Finance.

Tim Gallico

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

Pev Hooper

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

Board committees

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

Group risk, audit and compliance committee

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

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

Key areas for which the committee is responsible include:

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

Remuneration committee

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

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

Other committees and working groups

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

Our Sustainable Approach to Growing our Business

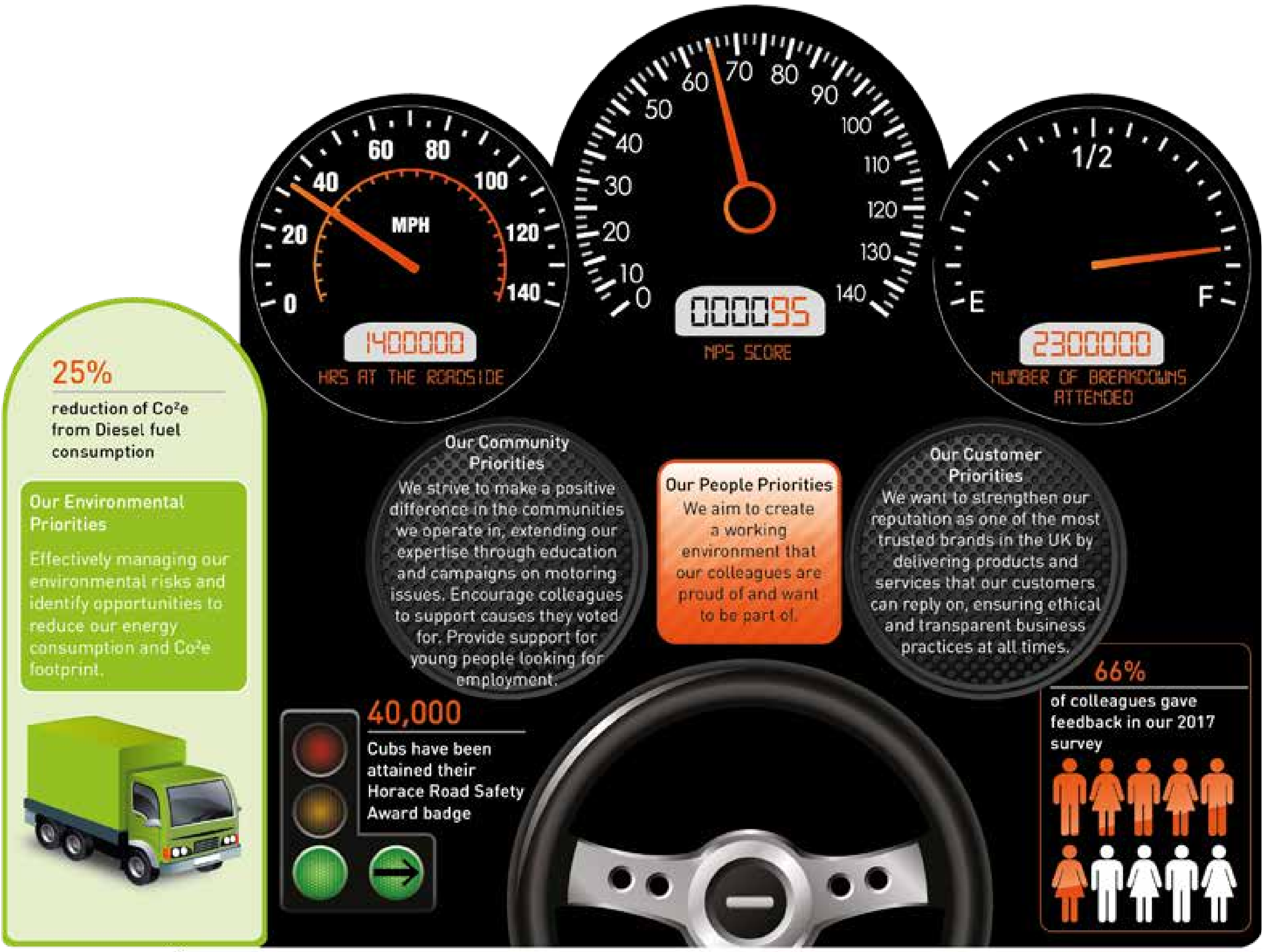
Very few businesses today can boast such a rich heritage as the RAC Group. On the 10 August 2017 RAC marked its 120th anniversary, and continues to go from strength-to-strength - even after more than a century, delivering great service with great colleagues and a great brand.

Despite all the major technological, political and cultural change of the last 120 years, the core purpose of what we do remains clear: we are here to rescue people from the headaches of everyday motoring.

RAC has an exciting and unique opportunity ahead of us as we launch into our New Chapter of delivering profitable sustainable growth by leveraging our strengths, focusing on "Brilliant basics" and reinvigorate our core business of exceptional customer service at the roadside.

With our purpose clearly set out and long term vision of transforming the RAC from a breakdown company to becoming recognised as the UK's leading consumer motoring services organisation, we know that our reputation must be protected and reinforced continuously through all our actions.

With this in mind our CSR initiatives are organised into a frame work of 4 key impacts that are most relevant to us: Brand Trust and Confidence, Environment, Our People and Our Community.

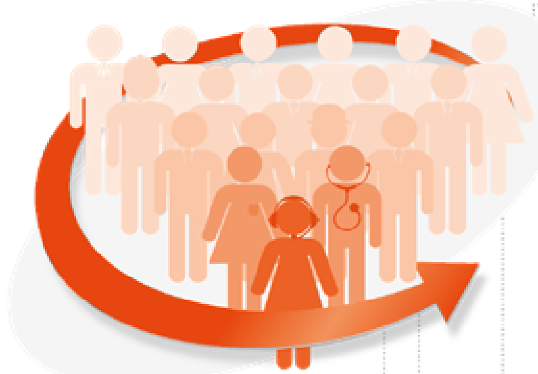


Corporate Social Responsibility report

2018 People Priorities

Create a working environment that our colleagues are proud of and want to be a part of.

- Improve our colleague engagement
- Bring #OrangeHeroes to life
- Create pride and passion
- Ensure colleagues are equipped to deliver a great member experience
- Make RAC a great and proud place to work



Our People

While strategies and products can be copied, our culture is something that cannot be duplicated. Our people's commitment, integrity, expertise and friendly manner creates the character which RAC is known for; referred affectionately by both colleagues and customers alike as #OrangeHeroes.

We are committed to creating a working environment that our colleagues are proud and want to be a part of. We know it's our 4000 colleagues who have enabled us to remain as one of the UK's most recognised motoring organisations and our investment in them is vital to our continued success.

At the start of December 2017 we launched Our Next Chapter strategy to all colleagues spending valuable time out of our day to day operations. This shared our vision, strategy, priorities and goals for the next 3 years and adopted a balanced approach of Customer, People and Financial metrics.

Maintaining a positive culture doesn't happen by chance. To understand how engaged our people feel, we have created opportunities for colleagues to share their views and opinions. Whether this be via colleague forums, manager drop in sessions and our annual and pulse check surveys we encourage open dialogue so we can identify what we are doing well and where we can improve. From feedback given by employees we are investing in a number of key people initiatives including a new recognition scheme, health and wellbeing programme, refreshed performance management and talent framework, implementation of additional personal development tool along with new communication and collaboration tools. All of these are designed to improve our colleagues experience and help us to achieve our aim.

4000

Colleagues enabling us to remain the UK's most recognised motoring organisation

Human Rights Equality and Diversity

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. We are committed to promoting equal opportunities and diversity as part of creating an inclusive working environment that attracts, develops and retains the best people. Individuals are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, reward, training and development and promotion and career development.

Our Equality and Diversity Policy ensures that every colleague is treated equally and fairly. The policy confirms that there will be no direct or indirect discrimination in respect of age, disability, religious belief, gender, sexual orientation, race, colour, marital status, political belief and nationality, or any other category defined by law in all aspects of employment including recruitment, promotion, and opportunities for training, pay and benefits.

Our inclusive approach means we work in partnership with Unite the Union and colleague representatives from an elected forum to engage and involve colleagues in the direction of the business.

The following table sets out our diversity balance as between men and women at the end of FY2017.

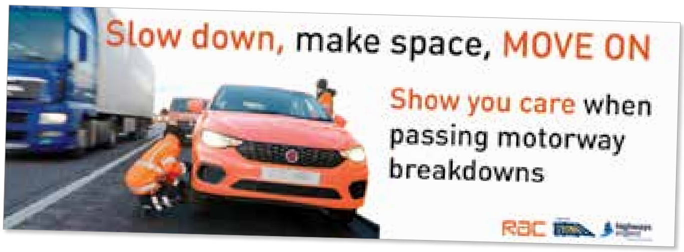
	2017			2016		
			Total			Total
At 31 December						
Director	-	8	8	-	9	9
Senior Manager	7	27	34	11	27	38
Employee	1,118	2,776	3,894	1,031	2,666	3,697
Total	**1,125**	**2,811**	**3,936**	**1,042**	**2,702**	**3,744**

Health and Safety

The RAC works hard to maintain a healthy and safe working environment for all colleagues and we are committed to preventing accidents, injuries and physical or mental illness related to work. We have an extensive suite of Health and Safety practices and policies to help our colleagues stay in good health.

Our most significant health and safety risk relates to the dangers posed to our roadside colleagues by distracted drivers and illegal driving behaviours. With three industry fatalities on motorways in 2017 along with a serious non-fatal incident involving one of our own patrols the RAC is now spearheading a campaign in conjunction with the government and industry specialists to make our motorways safer. This follows on from our Be PhoneSmart Campaign which has been adopted by the government along with increasing penalties associated with dangerous driving behaviours.

During Road Safety Week our internal road safety team took the opportunity to amplify these messages to all colleagues across the business tailoring the H&S messages for both our roadside and office colleagues. For our roadside colleagues we broadcasted five safety messages reminding them how to remain safe. A key feature for our office colleagues was our reaction time test to help drive home the message around the amount of information that is missed by people when they're looking at their phones.



Colleague Health, Wellbeing and Lifestyle Benefits

Through our Employee Assistance Programme (EAP) colleagues can be assured there is an expert team to help them plan the highs and support them through the lows.

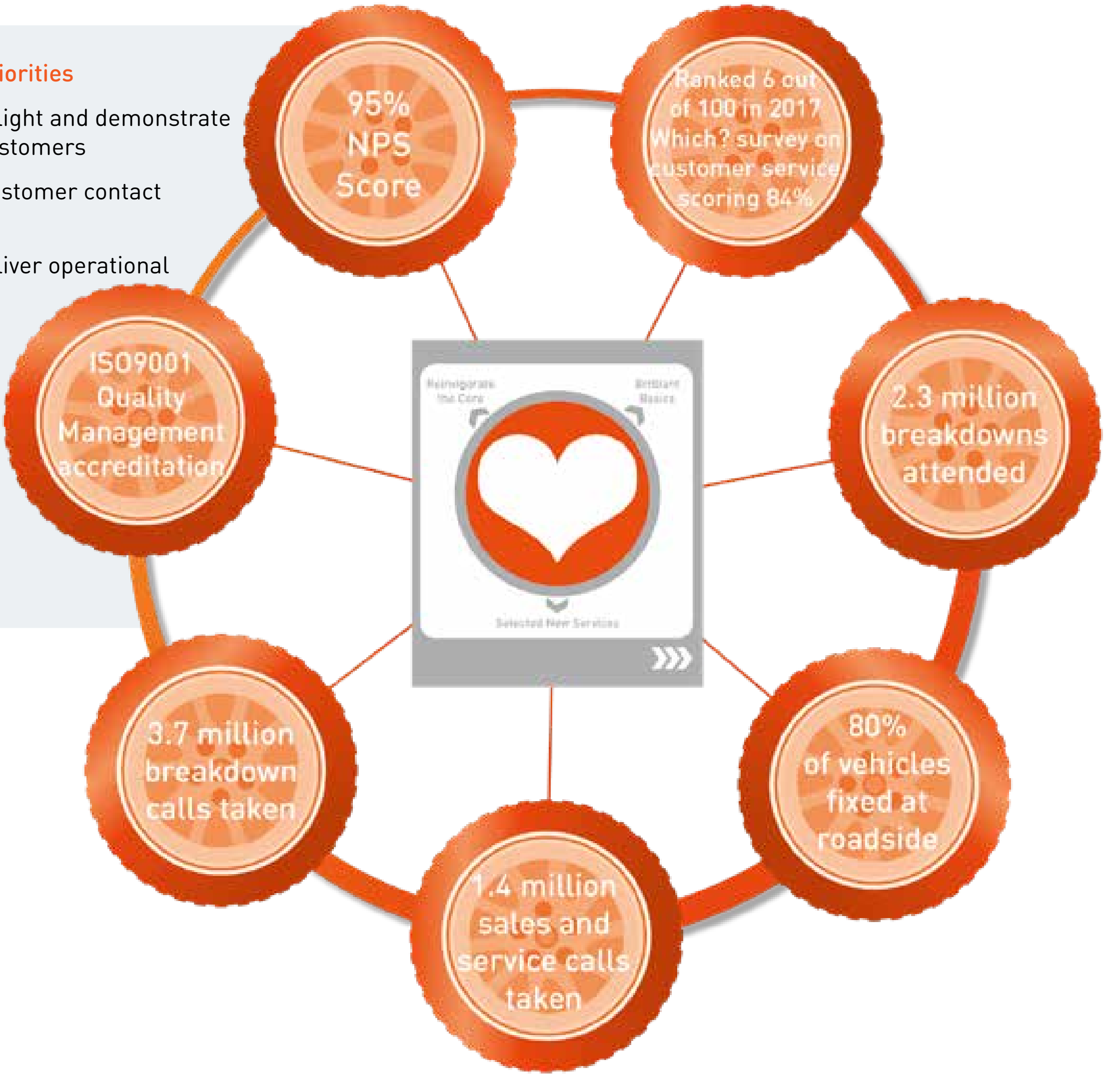
This confidential service provides colleagues with access to qualified trained advisers and counsellors who can provide support on life events that affect them or their family. The type of support ranges from help managing money, relationship issues, personal or family crisis, illness and injury, moving house and retirement.

In addition to this our flexible benefit service MyFlex, enables colleagues to tailor the benefits that suit their lifestyle. This can include additional products to protect family health for those near and dear, wellbeing options, saving money on childcare costs or using the shopping discounts. With so much choice, there is something that suits everyone.

Corporate Social Responsibility report

2018 Customer Priorities

- Continue to delight and demonstrate value to our customers
- Improve our customer contact processes
- Continue to deliver operational excellence
- Enhance our web journey
- Deliverour GDPR programme to protect our customers personal data



Customer Trust and Confidence

As outlined earlier our purpose is to rescue people from the headaches of everyday motoring and 8 million customers and members across the UK trust us to do just that.

Delivering our products and services to our members has become more complicated due to advances in vehicle technology, demand for digital solutions along with more congested roads. The environment is fiercely competitive so standing out is crucial.

As customer needs and expectations change we understand that we need to evolve to enable us to maintain high customer satisfaction and loyalty levels. We continuously review our operating structure, processes and services to ensure we are able to meet the market changes that we face and continue to provide exceptional service.

In a 2017 Which? survey of the best and worst brands for customer service, the RAC were rated sixth out of a 100 top brands achieving a customer service score of 84%. The top-scoring brands in their survey all received high scores for making customers feel valued and for the attitudes and helpfulness of their staff something we take a lot of pride in.

Over the last 6 months our customer operations teams have been working on initiatives to further enhance our service experience.

Operational efficiency, improved customer offerings and enhancements in our customer's digital experience will continue to a priority for us and is central to our strategy of putting customers at the heart of our business.

Under our Code of Conduct, every colleague of the company is tasked with safeguarding assets and resources entrusted to our care, including customer information – from loss, theft or misuse. Colleagues are requested to confirm their adherence to our code of conduct and renew their promise on an annual basis.

We take the privacy of our members seriously, underpinning the fundamental right of our members to the protection of their personal data and fair and lawful processing. Good governance and colleague training plays a vital part in upholding these rights and using InteRACt, our online intranet, we support, inform and enable colleagues, all of whom are required to complete online training to ensure they understand their obligations. Additional ad hoc training sessions and communications are delivered when necessary following the aforementioned internal initiatives of identification and evaluation.

2018 brings new challenges associated with GDPR, for data controllers and processors. Our GDPR programme is progressing well to ensure we are ready for this new data protection legislation. Of particular importance is continuing the work already started to use effective tools to minimise privacy risks and increase awareness across the business.

As supplier expenditures are second only to human resource expenses, a particular area of focus is the transparent and fair procurement of goods and services. Procurement activities are designed to deliver value for money while minimising operational risk (including legal risk) when negotiating and interacting with suppliers. All significant ongoing supplier relationships are managed in accordance with their contractual terms, to minimise risk and maximise value for the RAC and all new contacts are reviewed by our legal team and made subject to our companies golden rules which contain contractual clauses in respect of anti-corruption and bribery, human rights, zero tolerance to modern slavery and protection of any customer data.

84%

Customer satisfaction. RAC were placed 6th out of 100 in a Which? Survey of best and worst UK brands for customer service

Aspirations of the RAC

2018 Environmental Priorities

- Continue our fleet replacement programme
- Increase colleague education of environmental actions they can take
- Increase our digital capability reducing reliance on paper documentation

CHANGING THE MAKEUP OF OUR FLEET			
YEAR	EURO IV	EURO V	EURO VI
2016	0	1259	200
2017	0	869	590

Environment

The fact that we are a motoring organisation means we inevitably have a significant environmental impact.

Managing our impact is a strategic imperative for us. It helps us to control our costs, support business performance and to preserve the natural environment in which we operate.

With around 78% of our carbon emissions arising from our roadside operations, the greatest role we can play in tackling climate change is to effectively manage our fleet.

We have attained ISO14001 accreditation across the whole of our operation and use a risk management process to identify and address environmental issues resulting from our business.

Our environmental management system focuses on the following areas:

- Identify opportunities to reduce fuel consumption and cut greenhouse gas emissions from our fleet and in our offices.
- Minimise the amount of waste we create, recycle where we can and avoid waste going to landfill.
- Reducing our demand for water and the amount of water that is lost or wasted on our premises.

Fleet Performance

We continually look at technological advances and new materials to improve the performance of our vehicles so they use less fuel and produce less emissions. Our vehicle replacement programme has been in place over the last 7 years, as you can see from the graph we have been replaced our fleet with more environmentally friendly vehicles a practice which we will continue. Eco driver training, telematics deployment and refreshed roadside deployment tactics are all helping to reduce our Co²e footprint and fuel consumption.

Offices

Our environmental focus in not purely aimed at roadside, our offices have also been subject to similar scrutiny in order to reduce our environmental impacts. We have a low-energy lighting replacement programme in place and our wash room facilities have been overhauled across all sites which includes low-water usage utilities all which contribute to reduced energy and water consumption.

Waste and Recycling

All our buildings participate in our recycling scheme where everything that can be recycled is segregated into separate bins or bags. This is a key initiative enables us to declare that we have zero waste to landfill.

Community Matters

As a responsible business, we strive to create long-term benefits for the communities we serve. We do this mainly through the jobs we create across the country, and the support we provide to motorists through our products and services. We extend our positive impact through strategic community initiatives which primarily fall under three areas. Improving Motorists Experience and Safety on Our Roads, Investing in Young People and supporting Charities close to colleague's hearts.

2018 Community Priorities

- Pilot Princes Trust Get Into Customer Service Programme
- Refocus resources from individual cub visits to large scale events so we can provide road safety education to even more children
- Spearhead a road safety campaign to improve road safety for contractors working at the roadside with a specific focus on our Motorway networks
- Work closely with our charity partners to help them achieve their aims and engage our colleagues with these worthy causes

Scouting Partnership Over 40,000 Cubs have received an RAC branded road safety badge

Celebrating our RAC Academy apprenticeship scheme graduates as our newly qualified patrols complete their 2 year course

In 2017 we introduced our new community imitative called You Choose. Over 1,800 colleagues took the opportunity to vote for their charity of choice

RAC's Report on Motoring now in its 29th year, represents important insights into driver behaviours

RAC is committed to playing its part in changing driver behaviour – by encouraging all of us to Be Phone Smart

RAC is a key supporter of Walsall National Citizen Service The challenge programme

Improving Motorists Experience

The RAC uses the results of its annual Report on Motoring survey to inform its campaigning activities and identify the key issues which matter to the UK motorist experience. Here are just a few examples of how we are making a difference.

Be Phone Smart

BE PHONE SMART

Using handheld mobile phones whilst driving had reached epidemic proportions, our successful campaigning helped lead to the penalty for the offence being doubled to a £200 fine and six point penalty points. While this is clearly a step in the right direction we wanted to do more to break this habit which is the reason we launched our Be Phone Smart campaign which encourages motorists to make a personal commitment not to use their handheld phone when at the wheel. The department for transport expanded this campaign with their "Pink Kitten campaign" which helped demonstrate just how much you miss by just glancing at your phone.

RAC Pothole Index and RAC Fuel Watch

The condition of our roads and fuel prices are also a top concern for motorists, we keep a watching brief on both hot topics. We monitor both wholesale and fuel prices daily to make sure retailers are charging a fair price on the forecourt and also track faults attended by our patrols that could be attributed to potholes using the findings on a quarterly basis to highlight the scale of the problem as part of our campaign for better quality roads.

RAC Road Child Safety

The RAC thinks every child should know how to stay safe around roads and vehicles. With this aim in mind we launched our Road Safety Awareness Charity to further our community objectives which includes partnering with The Scouts Association and Sponsorship of the Cubs Road Safety Activity Badge.

Corporate Social Responsibility report

Since our partnership with the Scouts Association began over 40,000 Cubs have achieved a RAC Horace branded Road Safety Activity Badge. 172 Cub Groups have participated in an RAC Road Safety Workshop delivered by a RAC Patrols/Colleagues. 10,614 activity sheets have been downloaded by leaders to help cubs achieve their badge and over 3,000 Cubs have attended a Cubs Funday where we have kept them busy with a road safety trail. To acknowledge our support the Scouts Associated award RAC with Community Partner of the Year award during their partnership recognition event in London which we were very proud to receive.

Investing in Young People

We work with strategic partners to help young people build skills for work and life allowing them to grow in confidence by taking on new challenges with the end goal of improving young people's employability skills.

Youth unemployment is a persistent social and economic challenge in the UK, with large number of young people currently not in education, employment or training. The impact of youth unemployment on the economy and in our communities is staggering, making it an issue we cannot afford to ignore.

National Citizens Service – The Challenge

RAC have been a business supporter of the Challenge for the last 4 years and have hosted numerous professional visits over the summer months where groups of around 12 young people at a time take a tour of our site as an introduction to business life. RAC colleagues then help the young people to prepare for their dragons pitch, where they will present their idea to a panel of 'Dragons' in a bid to secure funding. RAC colleagues have regularly acted as one of the dragons on this funding panel and we will continue to support this amazing initiative in 2018.

Princes Trust

We have recently set up a partnership with the Princes Trust to support their Get Into Programme. In Q1 this year The Prince's Trust and our Bescot contact centre are piloting our own RAC Get Into Customer Service Programme. This will involve 10 -12 young people who have a desire to work in customer service taking part in a three week training and work experience programme with the aim of providing either an apprenticeship or direct employment opportunities. Attendees will get the opportunity to experience all areas of the business to help them understand how each area of the business impacts the service the customer experiences.

"You Choose" Charity of the Year

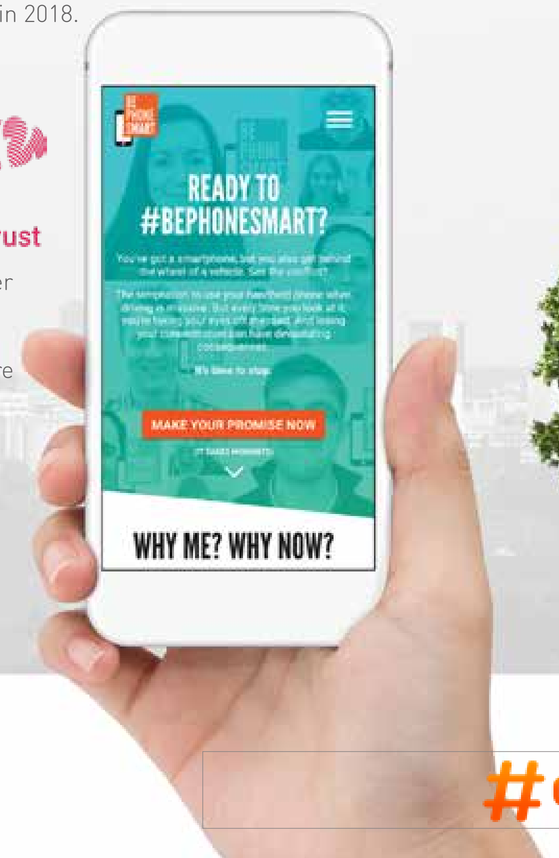
At the end of 2017 we introduced a new charity initiative called You Choose. This was in direct response to feedback received from our colleague engagement survey and is a key part of our People Agenda and the Group's corporate social responsibility (CSR) and sustainability strategy.

Colleagues told us they wanted a say in which charities to support so we asked them to send in the charity they would like us to consider which were then shortlisted for colleagues to vote on.

With 108 charities nominated and 1800 votes cast the four charities that we will be supporting as a business in additional to our own road safety charity are:

Alzheimer's Society United Against Dementia
We are Macmillan. Cancer Support
Reuben's Retreat
Birmingham Children's Hospital Charity

Planning, Education, Fundraising and Volunteering has already commenced with all charities. Ambitious fundraising targets have been set for each charity and opportunities provided for colleagues to volunteer in their local communities.



The Directors present their Annual Report on the affairs of the Group, together with the audited Financial Statements and independent auditor's report for the year ended 31 December 2017. Under the terms of the Companies Act 2006, the Directors' report is required to contain certain statutory, regulatory and other information. The Directors have incorporated the business review by cross-reference, as permitted by the Companies Act 2006.

Directors

The names of the current Directors are set out on page 1. Those who have served in office during the year have been as follows:

- M Boughton
- R Fairman
- T Gallico
- D Hobday (appointed 2 March 2017)
- P Hooper
- V Nagarajan
- H C Ormond
- R Templeman
- M Wood
- C Woodhouse (resigned on 2 March 2017)

Directors' indemnities

The Company has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and was novated to the Directors of this Company in December 2014. The provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 236 of the Companies Act 2006. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of the transitional provisions of the Companies Act 2006.

Results and dividends

The results of the Group for the year ended 31 December 2017 are set out on page 40, and discussed in the Strategic Report on pages 2 to 18.

The Group did not pay an interim dividend in 2017 or 2016. The Directors do not recommend the payment of a final dividend (2016: £nil).

Capital structure

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

Political donations

The Group did not make any political donations during the year (2016: £nil).

Financial risk management

Details of the Group's use of financial instruments, together with information on risk objectives and policies and exposure to market, credit, liquidity and interest rate risks, can be found on pages 14 to 18 of the Strategic Report.

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 15 and 20 respectively to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 25 to the Consolidated Financial Statements.

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

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 2 to 18. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £443 million and net current liabilities of £121 million, however within net current liabilities is £152 million of deferred income. The Group's net liabilities position largely reflects the value of separately identified intangible assets of £2,139 million, offset by issued bonds of £1,170 million, bank borrowings of £274 million and £838 million of related party borrowings.

The Company has net liabilities of £208 million and net current liabilities of £1 million, however this largely reflects liabilities to shareholders.

Having undertaken this assessment, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2017 Consolidated and Company Annual Report and Financial Statements to be prepared on a going concern basis.

Auditor

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

Disclosure of information to the auditor

Each person who was a director of the Company on the date that this report was approved confirms that, so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Statement of Directors' responsibilities

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

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

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

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

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

Events since the Statement of financial position date

On 25 January 2018, RAC Midco Limited sold its entire shareholding in Nebula Systems Limited for a cash consideration of £300 thousand received at completion.

On behalf of the Board on 27 February 2018.

S Morrison
Company Secretary

Company information

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

Company Secretary: S Morrison

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

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

Company number: Registered in England and Wales: No. 09229561.

Other information: The "RAC Group" ("the Group" or "RAC") comprises RAC Group (Holdings) Limited ("the Company") and its subsidiaries as set out on page 64.

These Consolidated Financial Statements are presented for the year ended 31 December2017. Comparatives are presented for the year ended 31 December 2016.

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

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of RAC Group (Holdings) Limited (the "Parent company") and its subsidiaries (the "Group") which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements;
- the statement of accounting policies; and
- the related notes on pages 56 to 81 of the consolidated financial statements and pages 86 to 90 of the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • carrying value of goodwill and other intangible assets; and • customer refunds provision
Materiality	The materiality that we used for the group financial statements was £5.6m which was determined on the basis of 3% of EBITDA before exceptional items.
Scoping	100% of the group revenue, net assets and EBITDA before exceptional items was audited to full or specific scope audit procedures.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of goodwill and other intangible assets

Key audit matters description	At 31 December 2017, the Group held goodwill of £878m (2016: £913m) and intangible assets including: £864m (2016: £872m) in relation to the value of the RAC brand and £308m (2016: £383m) in relation to customer lists. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is required to be subject to an annual impairment test by IAS 36: Impairment of Assets by comparing the value in use to the carrying value of the net assets (including tangible assets) of each cash generating unit ('CGU'). The Group's assessment of the carrying value of goodwill and intangible assets is a judgemental process which requires estimates concerning the future cash flows of each CGU and associated discount and growth rates based on management's view of future business prospects and therefore there is a potential fraud risk due to management bias. Management have recognised an impairment charge of £35.6m in the current year in respect of goodwill and other intangible assets allocated to the Telematics and Data Services CGU. As a result, we identified a risk around the adequacy or potential overstatement of this impairment charge. Furthermore, charges were recognised of £7.6m to impair the entire goodwill that arose on the acquisition of Nebula Systems Limited and £3.1m against the carrying value of intangible assets relating to capitalised development costs for which Management expected the benefit arising from these specific assets to no longer support the carrying value of these costs. Further detail on the key judgements involved is set out within the significant accounting policies in note E, the Goodwill and Intangibles note 10 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note T to the Financial Statements.

How the scope of our audit responded to the key audit matter	We assessed each of the CGUs and, on the basis of the implied headroom, focused our risk on the Telematics CGU. We challenged management's key assumptions relating to the estimated future cash flows, growth rates and the discount rates applied to each cash generating unit. Our procedures included reviewing forecast cash flows with reference to historical trading performance, assessing the Group's ability to accurately forecast business performance and consideration of future prospects of the business. We engaged our valuations experts to critically assess certain key assumptions, which included benchmarking to external macro-economic and market data. We reviewed the consistency of the key assumptions used in the business forecasts with the budget used by the Group to assess longer term-viability and going concern. We evaluated the completeness of the disclosures within the financial statements.
Key observations	The key assumptions used within the carrying value of goodwill and other intangible assets assessment are consistent with the Group's longer term forecasts and going concern assessment. We concluded that the overall carrying value of goodwill and other intangible assets and the related disclosures in the financial statements are appropriate.

Customer refunds provision

Key audit matter description	Following an approach by the Financial Conduct Authority (FCA) regarding roadside assistance customers with duplicate breakdown cover, management have performed a programme to contact customers who have potentially bought an individual member policy from RAC whilst also having cover through other financial arrangements. The total amount provided as at 31 December 2017 in respect of the Group's future obligations is £3.0m (2016: £5.0m). The valuation of the provision requires significant judgement by management to determine key assumptions, particularly regarding: customer numbers, duration of the period of dual cover and amounts payable in remediation. These take into account uncertainties around potential future redress. Therefore there is a potential fraud risk due to management bias. Further detail on the key judgements involved is set out within the significant accounting policies in note N, the provisions note 17 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note T to the Financial Statements.
How the scope of our audit responded to the key audit matter	We challenged the methodology used for calculating the customer refund provision by comparing the inputs and assumptions used in the calculation with records from policy agreements and actual results of the redress program to date. We also tested the mathematical accuracy of the provisioning model We reviewed correspondence between the FCA and the Group and assessed whether the assumptions used in the provision calculation were in line with the regulator's expectations. We assessed the Group's policy for provisions, including considering whether the policy is in accordance with current accounting standards, and considered the validity of recognition of a provision in the case of this matter.

Key observations	We were satisfied that an appropriate provision policy has been adopted in light of the correspondence with the FCA and the models used by management to determine the provision were operating as intended. We considered the Group's provision to be appropriate albeit on the prudent end of an acceptable range when compared with the historical experience levels of customer refunds.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group financial statements	Parent company financial statements
Group materiality	£5.6m	£5.3m
Basis for determining materiality	3.0% of EBITDA before exceptional items as detailed in note 3 of the financial statements. This represents 1.0% of the Group's revenue.	Materiality of £5.3m represents less than 1.0% of the carrying value of investments. When determining materiality, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into the group's results.
Rationale for the benchmark applied	We determined materiality using EBITDA before exceptional items as we considered this to be the most appropriate measure to assess the performance of the Group as it is a key measure used by stakeholders to assess performance of the business.	As the company is a holding company for the group, we determined the carrying value of investments to be the most appropriate benchmark in determining materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £280,500 for the Group and £265,000 for the Parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on all entities within the Group and covered all of the material balances in the Consolidated Income Statement and Consolidated Statement of Financial Position of the Group.

We have performed a full scope audit on all entities within the group with the exception of Nebula Systems Limited, Maverick Technology (UK) Limited, Risk Telematics UK Limited, Net Cars Limited and RAC Employee Benefits Trust where we performed limited audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the group's operations at those locations.

These audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £5.3m. These account for 100% of the group's revenue, net assets and EBITDA before exceptional items.

At the parent entity level we have performed also testing over the consolidation process of Group entities.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Andrew Halls FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
Date: 27 February 2018

Consolidated Income statement

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Revenue	1	558	507
Cost of sales		(279)	(230)
Gross profit		**279**	**277**
Administrative expenses		(248)	(210)
Operating profit	2	**31**	**67**

EBITDA before exceptional items		189	183
Depreciation	11	(5)	(5)
Amortisation of customer acquisition intangibles	10	(16)	(14)
Amortisation of non customer acquisition intangible assets	10	(88)	(88)
Exceptional items	3	(49)	(9)
Operating profit		**31**	**67**

Finance expenses	5	(178)	(246)
Loss before tax		**(147)**	**(179)**
Tax credit (charge)/credit	9	-	28
Loss for the year		**(147)**	**(151)**

The accounting policies and notes on pages 45 to 89 are an integral part of these Financial Statements.

Consolidated Statement of comprehensive income

As at 31 December 2017

	Note	2017	2016
		£m	£m
Loss for the year		(147)	(151)
Other comprehensive income			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Gain on shares and loan notes held by EBT		5	1
Aggregate tax effect		-	-
Net movement on cash flow hedges	19(b)	5	5
Aggregate tax effect	9(c)	(1)	1
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		9	7
Other comprehensive income, net of tax		9	7
Total comprehensive expense for the year		**(138)**	**(144)**

The accounting policies and notes on pages 45 to 89 are an integral part of these Financial Statements.

Consolidated Statement of financial position

As at 31 December 2017

	Note	2017	2016
		£m	£m
ASSETS			
Non-current assets			
Goodwill and intangible assets	10	2,139	2,247
Property, plant and equipment	11	20	15
Deferred tax asset	16	13	11
		2,172	2,273
Current assets			
Inventories	13	2	2
Trade and other receivables	14	78	64
Cash and cash equivalents	15	91	85
		171	151
LIABILITIES			
Current liabilities			
Borrowings	20(a)	(9)	(7)
Provisions	17	(9)	(6)
Trade and other payables	18	**(242)**	(228)
Current tax payable	16	(32)	(23)
		(292)	(264)
Net current liabilities		**(121)**	**(113)**
Non-current liabilities			
Borrowings	20(a)	(2,273)	(2,218)
Employee benefit liability	24(c)(iv)	(6)	(6)
Trade and other payables	18	(3)	(11)
Deferred tax liability	16	(202)	(217)
Derivative financial instruments	19	(10)	(15)
		(2,494)	(2,467)
Net liabilities		**(443)**	**(307)**
EQUITY			
Ordinary share capital	21	-	-
Share premium		10	10
Own shares	22	-	(1)
Hedging instruments reserve		2	(2)
Retained earnings		(455)	(314)
Total equity		**(443)**	**(307)**

The accounting policies and notes on pages 45 to 81 are an integral part of these Financial Statements.

Approved by the Board on 27 February 2018.

R Fairman
Chief Financial Officer

Consolidated Statement of changes in equity

For the year ended 31 December 2017

	Note	Ordinary share capital	Share premium	Own shares	Hedging instruments reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
Balance at 1 January 2016		**-**	**10**	**-**	**(8)**	**(163)**	**(161)**
Loss for the year		-	-	-	-	(151)	(151)
Other comprehensive income		-	-	-	6	1	7
Total comprehensive income/(expense)		-	-	-	6	(150)	(144)
Own shares acquired in the year		-	-	(1)	-	-	(1)
Balance at 31 December 2016		**-**	**10**	**(1)**	**(2)**	**(313)**	**(306)**
Loss for the year		-	-	-	-	(147)	(147)
Other comprehensive income		-	-	-	4	5	9
Total comprehensive income/(expense)		-	-	-	4	(142)	(138)
Own shares disposed of in the year	22	-	-	1	-	-	1
Balance at 31 December 2017		**-**	**10**	**-**	**2**	**(455)**	**(443)**

The accounting policies and notes on pages 45 to 81 are an integral part of these Financial Statements.

Consolidated Statement of cash flows

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Operating activities			
Loss before tax		**(147)**	**(179)**
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	11	5	5
Amortisation of intangible assets	10	104	102
Finance expenses	5	178	246
Exceptional items	3	47	1
Increase in provisions	17	3	5
Working capital adjustments:			
Decrease in inventories	13	-	1
Increase in trade and other receivables		(14)	(6)
Increase/(decrease) in trade and other payables		9	(14)
Taxation paid		(9)	-
Net cash flows from operating activities		**176**	**161**
Investing activities			
Purchase of property, plant and equipment	11	(10)	(5)
Purchase of intangible assets	10	(41)	(43)
Acquisition of subsidiary net of cash acquired		-	(1)
Net cash used in investing activities		**(51)**	**(49)**
Financing activities			
Proceeds from bank debt	20(a)	-	280
Repayment of bank debt	20(a)	-	(1,188)
Proceeds from bond issuance	20(c)	272	896
Investment income		2	-
Repayment of loan notes	20(d)	(247)	(17)
Issues of loan notes		-	3
Interest paid and debt issue costs		(146)	(89)
Net cash flows used in financing activities		**(119)**	**(115)**
Net Increase/(decrease) in cash and cash equivalents		**6**	**(3)**
Cash and cash equivalents brought forward		85	88
Cash and cash equivalents carried forward	15	**91**	**85**

The accounting policies and notes on pages 45 to 81 are an integral part of these Financial Statements.

Accounting Policies

(A) Corporate information

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

Information on the Group's structure is provided in note 12. Information on the Group's related party relationships is provided in note 26.

The Group and Parent company Financial Statements of RAC Group (Holdings) Limited for the year ended 31 December 2017 were approved for issue by the Board on 27 February 2018.

(B) Basis of preparation and basis of consolidation

Basis of preparation

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

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

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

The separate Financial Statements of the Company are set out from page 90. On publishing the 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 Company's loss for the year ended 31 December 2017 was £80 million (2016: £71 million).

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 15 and 20 respectively to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 25 to the Consolidated Financial Statements.

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

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 2 to 18. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £443 million and net current liabilities of £121 million, however within net current liabilities is £152 million of deferred income. The Group's net liabilities position largely reflects the value of separately identified intangible assets of £2,139 million, offset by issued bonds of £1,170 million, bank borrowings of £274 million and £838 million of related party borrowings.

Having undertaken this assessment, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2017 Group and Company Financial Statements to be prepared on a going concern basis.

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

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2017. 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; and
- the Group's voting rights and contractual voting rights.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the Consolidated Statement of financial position and the Consolidated 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.

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 cost method on the basis of the exemption available in IAS 28 Investments in Associates.

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

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

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

Business combinations

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

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

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

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

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

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

(C) Revenue recognition

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

Service revenue

Service revenue represents sales of roadside assistance subscription services and is recognised on a straight line basis over the length of the contract, usually twelve months. For non-subscription income, revenue is recognised on provision of this service.

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

(C) Revenue recognition (cont)

Products

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

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

Insurance brokerage

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

Rental income

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

Other income

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

Dividend income

Dividend income from investments is recognised when the 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).

(D) Exceptional items

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

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

Goodwill

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

Brand

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

Acquired value-in-force business

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

Accounting Policies (cont)

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

Customer lists and other intangible assets

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

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

Customer acquisition intangibles

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

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

Intangible assets acquired in a business combination

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

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

Impairment testing

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

(F) Property, plant and equipment

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

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

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

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

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

(G) Inventories

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

(H) Impairment of non-financial assets

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

(I) Trade receivables

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

(J) Cash and cash equivalents

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

(K) Borrowings

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

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

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

(L) Derivative financial instruments

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

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

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

Accounting Policies (cont)

(M) Cash flow hedges

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

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

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

(N) Provisions and contingent liabilities

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

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

(O) Income taxes

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

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

Deferred tax is provided using the Statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the initial recognition of goodwill, nor the initial recognitions of assets or liabilities that affect neither the accounting profit nor taxable profit or loss other than in a business combination.

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

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

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

(P) Leases

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

(Q) Employee benefits

Pension obligations and other post-retirement benefit obligations

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

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

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

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

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

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

Termination benefits

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

Accounting Policies (cont)

(R) Share capital and dividends

Equity instruments

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

(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.

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

The following new and amended IFRS are effective for the 2017 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Group or the Parent company's Financial Statements.

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Un-realised Losses
- Amendments to IAS 7 Disclosure Initiative
- Annual Improvements to IFRSs 2014 – 2016 Cycle

As at 31 December 2017, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments[1]
- IFRS 15 Revenue from contracts with customers[1]
- IFRS 16 Leases[2]
- IFRS 17 Insurance contracts[3]
- IFRIC 22 Foreign currency transactions and advance consideration[1]
- IFRIC 23 Uncertainty over income tax treatments[2]

1 Effective for annual periods commencing on or after 1 January 2018
2 Effective for annual periods commencing on or after 1 January 2019
3 Effective for annual periods commencing on or after 1 January 2021

The RAC Group (Holdings) Limited Group is currently in the process of evaluating the impact of the adoption of IFRS 16 'Leases' and IFRS 17 'Insurance contracts' on the Group's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

IFRS 9 'Financial Instruments' also comes into force for accounting periods commencing on or after 1 January 2018. The Directors have reviewed the impact of this standard and concluded that there will be no material impact on the Financial Statements for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017.

IFRS 15 'Revenue from contracts with customers' comes into force for accounting periods commencing on or after 1 January 2018. The Group has conducted a full review of all revenue streams across its operating segments in order to establish the impact of the revised accounting standard on the Group's revenue. Following this review, the Directors have concluded that there will be no material impact on the Group's revenue for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017 presented in these Financial Statements.

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

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

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

The Directors do not consider there to be any critical accounting judgements at the Consolidated Statement of financial position date.

(ii) Key sources of estimation uncertainty

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

Tax provisions

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

Provisions and contingent liabilities

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

Fair value measurements and valuation process

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

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

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

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

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

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

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

Accounting Policies (cont)

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

Fair value measurements and valuation process (cont)

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

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

For assets and liabilities that are recognised in the Consolidated Financial Statements on a recurring basis, the 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.

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at 31 December 2017 was £881 million and £872 million respectively (31 December 2016: £913 million and £872 million respectively). An impairment loss of £28 million has been recognised in respect of the goodwill and £8 million recognised in respect of the brand allocated to the Telematics and Data Services CGU and £7 million against goodwill in relation to Nebula Systems Limited, as explained in note 3. There was no impairment in relation to the brand recognised in the reported periods.

The Group performs impairment testing annually in October and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU. The recoverable amount of each unit is determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2021. The growth rate used to extrapolate revenue beyond the Group's forecasts for all CGUs is 2%, based on the expected average long term growth rate of the UK economy and the growth potential of the segment respectively. The pre-tax discount rate of 10% applied to the cash flow projections is based on the Group's 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.

This assessment was based on management's forecasts and cash flow assumptions, however the revised cash flows, under certain of the Group's reasonably possible sensitivity scenarios, would result in further impairment. The key assumption is EBITDA growth and if EBITDA growth in this CGU were to reduce from the compound annual growth rate of 26%, forecasted for the 4 year period to 2021, the CGU's recoverable amount would be less than its carrying amount. The Directors believe that this scenario reflects a pessimistic view and that, should this scenario become more likely, there are options available to proactively mitigate the risk of further impairment.

1 Revenue

	2017	2016
	£m	£m
Sale of products	24	23
Sale of services	534	484
Total revenue	**558**	**507**

2 Operating items

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

	Note	2017	2016
		£m	£m
Depreciation of owned tangible assets	11	5	5
Amortisation of customer acquisition intangible assets	10	16	14
Amortisation of non customer acquisition intangible assets	10	88	88
Employee costs	7	152	148
Operating lease rentals paid		14	13
Rental income		(1)	(1)

3 Exceptional items

		2017	2016
		£m	£m
Restructuring costs		10	3
Impairment of intangible assets	10	47	1
Revaluation of deferred consideration	18	(8)	-
Customer refunds	17	-	5
		49	**9**

During the year the Group incurred £8 million of restructuring costs following a strategic review of the business (2016: £3 million).

Impairment of intangible assets of £47 million comprises (i) an impairment charge of £36 million recognised against goodwill in relation to the Telematics & Data Services segment; (ii) an impairment charge of £8 million recognised against goodwill that arose on the acquisition of Nebula Systems Limited; and (iii) £3m against the carrying value of capitalised development costs for which the expected benefit no longer support the carrying value of these costs.

An impairment charge of £1 million was recognised in 2016 in relation to intangible assets arising on the acquisition of Risk Telematics (UK) Limited.

Deferred consideration associated with the Group's call option to acquire the remaining 49% of Nebula Systems Limited has been revalued to nil, resulting in a credit of £8 million. The Group disposed of its shareholding in Nebula Systems Limited shortly after the year end (see note 28).

In 2016, the Group made a provision of £5 million for the estimated costs of providing refunds to customers, further details of which are set out in note 17.

4 Operating segments

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

Roadside

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

Insurance broking

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

Motoring services

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

Telematics and Data services

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

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

	2017	2016
	£m	£m
Revenue of products		
Roadside	24	23
Revenue of services		
Roadside	422	394
Insurance broking	66	57
Motoring services	42	27
Telematics and data services	4	6
Group Revenue	**558**	**507**
Segment EBITDA before exceptional items and head office costs		
Roadside	180	187
Insurance broking	36	30
Motoring services	9	5
Telematics and data services	-	-
Group EBITDA before exceptional items and head office costs	**225**	**222**
Head office costs*	(36)	(39)
Group EBITDA before exceptional items	**189**	**183**
Amortisation of intangible assets	(104)	(102)
Depreciation	(5)	(5)
Exceptional items*	(49)	(9)
Operating profit/(loss)	**31**	**67**
Finance expenses	(178)	(246)
Loss before tax from continuing operations	**(147)**	**(179)**

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

4 Operating segments (cont)

Assets and liabilities

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

Impairment

An impairment loss of £28 million has been recognised in respect of the goodwill and £8 million recognised in respect of the brand allocated to the Telematics and Data Services CGU. Additionally an impairment of £2 million has been recognised in respect of other intangibles related to contracts that are due to be terminated (2016: impairment of £1 million was recognised in respect of the impairment of intangibles relating to Risk Telematics UK Limited). Other intangibles are not analysed by CGU.

5 Finance expenses

	Note	2017	2016
		£m	£m
Interest payable - related parties	26(a)(i)	110	115
Interest payable - third parties		65	68
Recycle of hedged items previously classified through other comprehensive income		-	12
Unwind of discount on financial liabilities		-	1
Write off of capitalised finance costs		-	46
Amortisation of capitalised finance costs		5	4
Investment income		(2)	-
		178	**246**

6 Auditor's remuneration

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

	2017	2016
Audit services	**£000**	**£000**
Audit of Financial Statements	31	7
Audit of subsidiaries	301	296
	332	**303**
Other services		
Taxation compliance services	-	282
Other non-audit services	200	614
Total remuneration payable to Deloitte LLP	**532**	**1,199**

7 Employee information

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

The monthly average number of persons employed during the year was:

	2017	2016
	Number	Number
Roadside	3,212	3,007
Insurance and claims	145	135
Support	342	324
	3,699	**3,466**

Total staff costs were:	2017	2016
	£m	£m
Wages and salaries	130	125
Social security costs	13	12
Pension costs	8	8
Termination benefits	1	3
	152	**148**
These costs were charged within:		
Cost of sales	113	102
Administrative expenses	39	46
	152	**148**

8 Directors

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

	2017	2016
	£000	£000
Fees and benefits	1,505	1,087
Emoluments of the highest paid Director:		
Fees and benefits	526	516

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to 1 Director (2016: 1) under a money purchase scheme. During the year no Directors (2016: none) were awarded shares under long-term incentive schemes.

9 Tax

(a) Tax charged/(credited) to the Consolidated income statement

The total tax charge/(credit) comprises:

	Note	2017	2016
		£m	£m
Current tax:			
For the year		18	-
Total current tax		18	-
Deferred tax:			
Origination and reversal of temporary differences		(18)	(18)
Effect of tax rate change		-	(10)
Total deferred tax	16	(18)	(28)
Total tax charged/(credited) to the Consolidated Income statement		**-**	**(28)**

(b) Tax reconciliation

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

	Note	2017	2016
		£m	£m
Loss before tax		(147)	(179)
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20.00%)		(28)	(36)
Disallowable expenses		14	4
Effect of tax rate change		-	(10)
Preference dividends payable		15	14
Non taxable income		(1)	-
Total tax charge/(credited) to the Consolidated Income statement	9(a)	**-**	**(28)**

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

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

Accordingly, as the future reduction of the corporation tax rate to 17% was enacted on 15 September 2016, the deferred tax balances at 31 December 2017 have been reflected at the tax rates at which they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax charged directly to other comprehensive income in the year amounted to £1 million in respect of tax on movements in hedging instrument fair values and actuarial gains and losses on pension schemes (2016: £1 million credited in respect of tax on movements in hedging instrument fair values).

Notes to the Consolidated Financial Statements (cont)

10 Goodwill and intangible assets

	Goodwill	Brand	Acquired Value-in-Force	Customer List	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost:								
At 1 January 2016	906	872	89	536	48	2,451	41	2,492
Additions	7	-	-	-	23	30	20	50
At 31 December 2016	**913**	**872**	**89**	**536**	**71**	**2,481**	**61**	**2,542**
Additions	-	-	-	-	18	18	25	43
Impairment	(35)	(8)	-	-	(5)	(48)	-	(48)
At 31 December 2017	**878**	**864**	**89**	**536**	**84**	**2,451**	**86**	**2,537**
Amortisation								
At 1 January 2016	-	-	89	78	15	182	10	192
Charge for the year	-	-	-	75	13	88	14	102
Impairment	-	-	-	-	(1)	(1)	-	(1)
At 31 December 2016	**-**	**-**	**89**	**153**	**27**	**269**	**24**	**293**
Charge for the year	-	-	-	75	13	88	16	104
Impairment	-	-	-	-	(1)	(1)	-	(1)
At 31 December 2017	**-**	**-**	**89**	**228**	**39**	**356**	**40**	**396**
Net book value:								
At 31 December 2017	**878**	**864**	**-**	**308**	**45**	**2,095**	**46**	**2,139**
At 31 December 2016	**913**	**872**	**-**	**383**	**44**	**2,212**	**37**	**2,249**

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated Income statement. Impairment losses of £36 million (2016: £nil) have been recognised in respect of goodwill allocated to the Telematics and Data Services CGU and £8 million in relation to goodwill and brand allocated to the Nebula CGU. Additionally impairment charges totalling £3 million have been recognised against the carrying value of capitalised development costs for which the expected benefit no longer support the carrying value of these costs. In 2016 impairment losses of £1 million were recognised in respect of intangibles relating to the acquisition of Risk Telematics UK Limited due to the cessation of licence income generated by that business. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated Income statement.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the four cash generating units ("CGU's") that existed as at the date of acquisition. The carrying value of the goodwill and indefinite lived intangible assets allocated across the four CGUs is £878 million and £864 million respectively.

10 Goodwill and intangible assets (cont)

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

	2017		2016	
	Goodwill	Indefinite-lived intangibles	Goodwill	Indefinite-lived intangibles
	£m	£m	£m	£m
Roadside	693	666	693	666
Insurance broking	130	126	130	126
Motoring services	55	53	55	53
Telematics and Data services	-	19	28	27
Nebula	-	-	7	-
	878	**864**	**913**	**872**

The Group performs impairment testing annually in October and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU. The recoverable amount of each unit is determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2021. The growth rate used to extrapolate revenue beyond the Group's forecasts for all CGUs is 2%, based on the expected average long term growth rate of the UK economy and the growth potential of the segment respectively. The pre-tax discount rate of 10% applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key inputs used in managements cash flow forecasts include:

Individual Members having high customer loyalty and retention rates resulting in a stable and predictable revenue stream;

- forecast telematics box installation volumes;
- success rates for contract renewals based on historical experience; and
- cost discipline and operational efficiencies.

The above assumptions are calculated based on recent performance, adjusted for expected future cash flows. The calculation of the value-in-use is most sensitive to the assumptions in the discount rate, the growth rate and the customer retention rate. Retention rates are derived from internal retention rate analysis and are considered by management to be a best estimate. With regard to the assessment of value-in-use, the recoverable amount of each CGU exceeds the carrying value of goodwill, and consequently no impairment losses have been recognised.

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

An impairment loss of £28 million has been recognised in respect of the goodwill and £8 million recognised in respect of the brand allocated to this CGU. This assessment was based on management's forecasts and cash flow assumptions, however the revised cash flows, under certain of the Group's reasonably possible sensitivity scenarios, would result in further impairment. The key assumption is EBITDA growth and if EBITDA growth in this CGU were to reduce from the compound annual growth rate of 26%, forecasted for the 4 year period to 2021, the CGU's recoverable amount would be less than its carrying amount. The Directors believe that this scenario reflects a pessimistic view and that, should this scenario become more likely, there are options available to proactively mitigate the risk of further impairment.

11 Property, plant and equipment

	Owner-occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
Cost or valuation:	£m	£m	£m	£m
At 1 January 2016	3	7	9	19
Additions	-	5	-	5
Disposals	-	-	(1)	(1)
Transfer	-	4	(4)	-
At 31 December 2016	3	16	4	23
Additions	-	8	2	10
At 31 December 2017	3	24	6	33
Depreciation:				
At 1 January 2016	-	2	2	4
Charge for the year	-	3	2	5
Disposals	-	-	(1)	(1)
At 31 December 2016	-	5	3	8
Charge for the year	-	4	1	5
At 31 December 2017	-	9	4	13
Net book value:				
At 31 December 2017	3	15	2	20
At 31 December 2016	3	11	1	15

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

In line with the Group's accounting policy, the owner-occupied property was revalued on 30 October 2015 by Colliers International, an accredited independent valuer. The valuation performed by the valuer was based on active market prices, adjusted for any differences in the nature, location or condition of the specific property. On 31 December 2016, Commercial Real Estate Services performed a high level valuation of the property following a tenant vacating. There was no material change in the fair value of the property at this date. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2017 and 31 December 2016 would be £3 million.

12 Group information

(a) Information about subsidiaries

The Consolidated Financial Statements of the Group includes the following subsidiaries:

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Midco Limited	Holding company	Ordinary	100%
Indirectly held:			
Nebula Systems Limited	Vehicle Diagnostic products and services	Ordinary	51%
RAC Finance Limited	Holding company	Ordinary	100%
Maverick Technology UK Limited	Dormant	Ordinary	51%
RAC Midco II Limited	Holding company	Ordinary	100%
RAC Bidco Limited	Holding company	Ordinary	100%
RAC Bond Co plc	Funding vehicle	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services	Roadside assistance	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

12 Group information (cont)

(a) Information about subsidiaries

On 24 February 2016, RAC Midco Limited, a direct subsidiary of the Company, acquired 51% of the issued share capital of Nebula Systems Limited for cash consideration of £4 million. The acquisition included a put and call option to acquire the remaining 49% of the issued share capital, exercisable between the three and six year anniversaries, at a value determined by future earnings.

Whilst RAC Midco Limited only owns 51% of the issued share capital, the Company is deemed to have control of Nebula Systems Limited due to the terms of the put and call option. Consequently the investment in Nebula Systems Limited is accounted for as a wholly owned subsidiary for the periods presented.

The put and call option is a financial liability and was valued at £8 million as at 31 December 2016. During the year the put and call option was revalued to £nil. Shortly after the year end, RAC Midco Limited sold its entire shareholding in Nebula Systems Limited for a cash consideration of £300 thousand received at completion (see note 28).

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

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

(b) The holding company

There is no single immediate controlling entity of the Group.

13 Inventories

	2017	2016
	£m	£m
Inventories	2	2

All inventories are classified as finished goods.

The cost of inventories recognised as an expense and included within Cost of sales in the year ended 31 December 2017 amounted to £14 million (2016: £11 million).

14 Trade and other receivables

	2017	2016
	£m	£m
Trade receivables	50	42
Prepayments and accrued income	27	21
Other receivables	1	1
Total	**78**	**64**
Expected to be recoverable within one year	78	64

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

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

The balance above of £78 million (2016: £64 million) is considered to be neither past due nor impaired.

15 Cash and cash equivalents

Cash and cash equivalents comprise:

	2017	2016
	£m	£m
Unrestricted cash at bank and in hand	78	73
Restricted cash at bank	13	12
Total	**91**	**85**

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

16 Tax assets and liabilities

	2017	2016
	£m	£m
Current tax payable	(32)	(23)
Deferred tax asset	13	11
Deferred tax liability	(202)	(217)
	(221)	**(229)**

The Group's Consolidated Statement of financial position current tax provision includes £22 million (2016: £22 million) relating to uncertain tax positions currently under discussion with HM Revenue & Customs ("HMRC"), which arose in prior periods. Based on professional advice, the Group claimed tax deductions in its returns for several years and reduced its tax payments accordingly. HMRC have indicated that they do not agree with the Group's interpretation of the relevant tax legislation. The Group has provided HMRC with all information requested in support of the deductions claimed, and discussions continue in order to reach a conclusion on the differing interpretations. It cannot currently be reliably estimated how long it will take to reach an agreed resolution of this issue.

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Revaluation of financial assets	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2016	4	(244)	1	2	2	(235)
Credit to income statement	-	27	-	1	-	28
Credit to other comprehensive income	-	-	-	1	-	1
At 31 December 2016	**4**	**(217)**	**1**	**4**	**2**	**(206)**
(Charge)/credit to income statement	(1)	15	-	-	4	18
Credit to other comprehensive income	-	-	-	(1)	-	(1)
At 31 December 2017	**3**	**(202)**	**1**	**3**	**6**	**(189)**

Notes to the Consolidated Financial Statements (cont)

16 Tax assets and liabilities (cont)

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

	2017	2016
	£m	£m
Net deferred tax liability brought forward	(206)	(235)
Deferred tax (charged)/credited to the Consolidated income statement	18	28
Deferred tax credited to other comprehensive income	(1)	1
Net deferred tax liability carried forward	**(189)**	**(206)**

The Group has unrecognised capital losses of £146 million to carry forward indefinitely against future capital gains (2016: £147 million). No asset has been recognised as there are no capital gains expected in the foreseeable future.

17 Provisions

	Customer refunds	Strategic restructure	Other	Total
	£m	£m	£m	£m
At 1 January 2017	5	-	1	6
Provided during the year	-	3	2	5
Utilised during the year	(2)	-	-	(2)
At 31 December 2017	**3**	**3**	**2**	**9**

Customer refunds

In 2016 the Group identified that some of its Individual Members may also have roadside cover with RAC in the event of a breakdown as a result of other financial arrangements. Some customers choose to have these cover arrangements in order to benefit from a full range of services. However, the Group has been undertaking a programme, which is nearing completion, for those customers for whom the benefits of holding these separate covers are not clear.

The Group continues to provide for its best estimate of the cost of providing possible refunds and associated costs to complete this programme. This provision is a management judgement on the number of customers who may be impacted. The actual costs will depend on the individual circumstances of each relevant customer. The Directors anticipate that the remainder of this provision will be utilised within the next 12 months.

Strategic restructure

During 2017 the Group conducted a strategic review of the business. As a result, the Group has provided for the best estimate of the associated restructuring costs. This provision is expected to be utilised within 12 months.

Other provisions

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

18 Trade and other payables

	2017	2016
	£m	£m
Trade payables and accruals	53	41
Deferred income	152	151
Other payables	40	47
Total	**245**	**239**
Expected to be payable within one year	242	228
Expected to be payable in more than one year	3	11
Total	**245**	**239**

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

The movement in fair value of the put option liability, which is included within other payables, is shown below:

	Total
	£m
At 1 January 2017	8
Movement in fair value	(8)
Unwind of discount on financial liabilities	-
At 31 December 2017	-

The put option arose on the acquisition of Nebula Systems Limited. Shortly after the year end RAC Midco Limited disposed of it's entire shareholding, see note 12(a) and note 28 for further details.

19 Derivative financial instruments

	2017	2016
	£m	£m
Cash flow hedge liabilities	(10)	(15)

(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 (see note 25).

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

(b) Cash flow hedges

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

	2017	2016
	£m	£m
Contract/notional value	280	280
Total fair value of liability	(10)	(15)

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

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

On 6 May 2016, the Group completed a refinancing (see note 20). On inception of the Initial Senior Term Facility, a new hedge was undertaken. The fixed element of the hedge has been set to 2.025% per annum until 6 May 2021. The floating rate is calculated on a notional principal amount.

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

20 Borrowings

(a) Analysis of borrowings

	Bonds			Bank Debt	Related Party Debt		Total
	Class A1 Notes	Class A2 Notes	Class B1 Notes	Initial Senior term facility	Shareholder loan notes	Preference shares	
Interest rate	+4.565%	+4.870%	5.000%	LIBOR +2.750%	12%	12%	
At 31 December 2017							
Fair value (£m)	302	605	277	280	108	732	**2,304**
Amounts due within one year (£m)	2	5	2	-	-	-	**9**
Amounts due in more than one year (£m)	297	593	271	274	107	731	**2,273**
Book value (£m)	299	598	273	274	107	731	**2,282**
At 31 December 2016							
Fair value (£m)	302	605	-	280	405	663	**2,255**
Amounts due within one year (£m)	2	5	-	-	-	-	**7**
Amounts due in more than one year (£m)	297	593	-	273	400	655	**2,218**
Book value (£m)	299	598	-	273	400	655	**2,225**

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

- repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan;
- drew-down a new £280m Initial Senior Term Facility provided by a syndicate of banks; and;
- issued £900m of bonds on the Irish Stock Exchange; and
- on 14 July 2017 the Group issued £275 million Class B notes on the Irish Stock Exchange

(b) Bank debt

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

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

Interest rate risk arising under the Initial Senior Term Facility is hedged using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 19 and an analysis of the contractual undiscounted cash flows for these borrowings is shown in note 25(a)(iii).

20 Borrowings (cont)

(c) Bonds

The bonds comprise three tranches: Class A1 Notes, Class A2 Notes and Class B1 Notes. £300 million of Class A1 Notes were issued at a coupon of 4.565%, and have an initial period to 6 May 2023, after which interest will be charged at 5.065% per annum. £600 million of Class A2 Notes were issued at a coupon of 4.870%, and have an initial period to 6 May 2026, after which interest will be charged at 5.370% per annum. £275 million of Class B1 Notes were issued at a coupon of 5.000% and have an initial period to 6 November 2022, after which interest will be charged at 4.500% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November.

(d) Shareholder loan notes

The 12% shareholder loan notes are repayable on 17 December 2024 or are redeemable on a sale or listing. Interest accrues at 12%, is compounded annually and is repayable on redemption. The shareholder loan notes are redeemable at the principal amount of the loan note plus any accrued and unpaid interest. The shareholder loan notes can also be redeemed by the Group with the written consent of the majority of the loan note holders. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £108 million (2016: £405 million). During 2017, £247 million of principal and £82 million of accrued interest was repaid.

(e) Preference shares

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Group's residual assets. Dividends accrue at 12% and unpaid dividends are compounded annually. The preference shares are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1), plus any accrued and unpaid dividends. The conditions attached to the preference shares result in the preference shares being treated as debt, rather than equity, for accounting purposes. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £732 million (2016: £663 million).

(f) Security, covenants and fees

The Class A Notes and Initial Senior Term Facility (together "Class A debt") are secured by way of first ranking security in respect of the undertakings and assets of RAC Bidco Limited and its subsidiaries, excluding RAC Insurance Limited and RACMS (Ireland) Limited. The Group is subject to interest cover covenants on the Class A and Class B debt.

Fees relating to the WBS and Class B facility have been capitalised and are being amortised over the lives of the borrowings to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Fees relating to the First Lien Loan and Second Lien Loan were written off upon repayment of these facilities; this charge is included in Finance expenses in 2016 (see note 5).

21 Ordinary share capital

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

	2017	2016
	£000	£000
Allotted, called up and fully paid:		
6,724,095 (2016: 6,724,095) ordinary 'A' shares of £0.01 each	67	67
2,175,905 (2016: 2,175,905) ordinary 'B' shares of £0.01 each	22	22
1,100,000 ordinary (2016: 1,100,000) 'C' shares of £0.01 each	11	11
	100	**100**

As at 31 December 2017, the total number of 'B' and 'C' ordinary shares held by the Employee Benefit Trust was 204,226 (2016: 745,111) (see note 22).

The 'A', 'B' and 'C' ordinary shares have the same rights except that the 'A' ordinary shares are the only shares which carry a right to vote. The 'B' and 'C' ordinary shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

Share awards are granted to senior management and other key employees with each award being approved by the Board of Directors. The share awards vest upon the occurrence of certain corporate transactions such as an initial public offering ('IPO').

Additionally, the Company has authorised, issued and fully paid £526 million redeemable cumulative preference shares of £1 each classified as liabilities. These shares do not carry voting rights. Further details are provided in note 20(e).

22 Own shares

	Own shares
	£m
Balance at 1 January 2017	1
Disposal of shares	(1)
Balance at 31 December 2017	-

The own shares reserve represents the cost of shares in the Company held by the Employee Benefit Trust to satisfy awards under any future share award schemes. The total number of 'B' and 'C' ordinary shares held by the EBT at 31 December 2017 was 204,226 (2016: 745,111).

23 Commitments

Operating lease commitments

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

	2017	2016
	£m	£m
Within 1 year	13	11
Later than 1 year and not later than 5 years	36	29
Later than 5 years	65	65
	114	**105**

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

As at 31 December 2017, the Group had committed to spend £6 million for the acquisition of intangible assets (2016: £4 million).

24 Employee benefit obligations

This note describes the Group's 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 2017 was 8 (2016: 8).

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2017 was 104 (2016: 139).

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.

(b) Charges to the Consolidated income statement

During the year, £8 million (2016: £8 million) was charged to the Group's Consolidated Income statement in respect of the employee defined contribution schemes and £49 thousand (2016: £234 thousand) in respect of employee defined benefit schemes.

(c) Employee benefit scheme assumptions and disclosures

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

(i) Assumptions on the liabilities of the Schemes

The projected unit credit method

The inherent uncertainties affecting the measurement of the liabilities of the Schemes require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash outflows from 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.

24 Employee benefit obligations (cont)

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

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

Valuations and assumptions

The valuation used for accounting under IAS 19 Employee Benefits 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 2017. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2017.

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

	2017	2016
	%	%
Inflation rate	3.10	3.20
Pension increases	3.10	3.20
Deferred pension increases	3.10	3.20
Discount rate	2.50	2.60

The inflation rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the inflation rate would increase liabilities and service costs by £185 thousand and £nil respectively (2016: 1% increase in discount rate would increase liabilities and service costs by £130 thousand and £nil respectively).

Mortality assumptions of the Schemes

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 2017 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances for future improvements	65.0	88.1	89.8	89.7	91.3
		(23.1)	(24.8)	(24.7)	(26.3)

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 life expectancy was one year higher would increase the Schemes' liabilities by £470 thousand (2016: £391 thousand).

(ii) Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprise £49 thousand (2016: £234 thousand) in respect of net interest expense recognised in the Consolidated Income statement and £81 thousand (2016: £442 thousand) recognised in other comprehensive income.

Notes to the Consolidated Financial Statements (cont)

24 Employee benefit obligations (cont)

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

(iii) Experience gains and losses

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

	2017	2016	2015
	£m	£m	£m
Fair value of the Scheme assets at the end of the year	-	-	-
Present value of the Schemes' liabilities at the end of the year	(6)	(6)	(6)
Net deficit in the Schemes	**(6)**	**(6)**	**(6)**

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

(iv) Schemes' deficit

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

	2017	2016
	£m	£m
Total fair value of assets	-	-
Present value of defined benefit obligations	(6)	(6)
Net deficit in the Schemes	**(6)**	**(6)**

Amounts recognised in the Consolidated statement of financial position:

	2017	2016
	£m	£m
Surplus included in non-current assets	-	-
Deficits included in non-current liabilities	(6)	(6)
Net deficit in the Schemes	**(6)**	**(6)**

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

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

	Scheme liabilities 2017	Net deficit 2017	Scheme liabilities 2016	Net deficit 2016
	£m	£m	£m	£m
Balance at 1 January	(6)	(6)	(6)	(6)
Benefits paid	1	1	1	1
Remeasurements losses				
Actuarial loss arising from change in assumptions	(1)	(1)	(1)	(1)
Balance at 31 December	**(6)**	**(6)**	**(6)**	**(6)**

25 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 Statement of financial position strength, liquidity and profit. They may also affect the performance of the products that the Group delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation. The key risks faced by the Group are set out in this note.

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

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

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

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

(a) Treasury

The Group 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 20.

(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 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 (2016: £3 million). The impact on shareholders' equity would be a decrease/increase of £2 million (2016: £2 million).

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

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

Notes to the Consolidated Financial Statements (cont)

25 Risk management (cont)

(a) Treasury (cont)

(i) Market risk (cont)

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

(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:

		2017	2016
		£m	£m
Trade and other receivables	14	51	43
Cash and cash equivalents	15	91	85
		142	**128**

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 throughout reported periods were held with institutions who are A rated. The Group's largest cash and cash equivalent counterparty is Credit Agricole (2016: Barclays). At 31 December 2017 the balance held by this counterparty was £20 million (2016: £26 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 to mitigate this risk further (see note 20).

Liquidity 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.

25 Risk management (cont)

(a) Treasury (cont)

(iii) Liquidity risk (cont)

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

	2017	2016
	£m	£m
Bonds		
Less than 1 month	5	4
1 to 3 months	9	7
3 months to 1 year	43	32
1 to 5 years	500	172
5 to 10 years	1,002	1,045
Total bonds	1,559	1,260
External bank debt		
Less than 1 month	1	1
1 to 3 months	2	2
3 months to 1 year	11	11
1 to 5 years	315	330
5 to 10 years	-	-
Total external bank debt	**329**	**338**
Related party debt		
5 to 10 years	2,321	2,863
Total related party debt	**2,321**	**2,863**
Total borrowings	**4,209**	**4,461**

The shareholder loan notes and accrued interest have been reflected as repayable on 17 December 2024 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.

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 31 December 2027. The terms require redemption of the shares and related accrued dividends on a sale or listing. In the prior year, the maturity of related party debt was assumed to align with the Group's third party borrowings, however in the current year has been recalculated on the basis of maturing 10 years from the Consolidated Statement of financial position date and as a result the comparative has been restated accordingly.

(b) Strategic and operational risk

The strategy (including operational risks) for the Group and the Company is determined by the Directors of the Company and disclosed in the Strategic report as set out on pages 2 to 18.

(c) Capital risk management

The Group's capital structure consists of borrowings amounting to £1,464 million (2016: £1,187 million) of gross third party borrowings and £840 million (2016: £1,068 million) of related party borrowings at 31 December 2017.

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.

25 Risk management (cont)

(c) Capital risk management (cont)

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

In managing its capital, the Group seeks to:

(i) match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;

(ii) maintain financial strength to support new business growth and satisfy the requirements of its members and regulators;

(iii) retain financial flexibility by maintaining strong liquidity; and

(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

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

(d) Regulatory risk

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

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

26 Related party transactions

(a) The Group had the following transactions with related parties in 2017 and 2065:

(i) Transactions with related parties

- In July 2017, RAC Bidco Limited paid dividends of £269 million (2016: £65 million) to RAC Midco II Limited, its immediate Parent company as part of the issue of Class B bonds, followed by further dividends of £19 million in December 2017.
- During the year, the Group paid £nil (2016: £250 thousand) in respect of a monitoring fee to The Carlyle Group and GIC. Until 12 April 2016, The Carlyle Group owned a minority stake in the Group, which was then sold to CVC Capital Partners.
- Nebula Systems Limited paid £100 thousand during the year to the RAC Bidco Limited Group for support costs (2016: £25 thousand). Nebula Systems Limited is a related party as it is owned by RAC Midco Limited, an indirect Parent company of the RAC Bidco Limited Group.
- Audit fees of £332 thousand were borne by RAC Motoring Services, a subsidiary of RAC Group (Holdings) Limited, on behalf of the RAC Group.

26 Related party transactions (cont)

(a) The Group had the following transactions with related parties in 2017 and 2016: (cont)

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

	2017	2016
	£m	£m
Cumulative accrued dividends on preference shares	173	108
Cumulative accrued interest on loan notes	26	10
	199	**118**

(ii) Amounts due to related parties

	2017	2016
	£m	£m
Cumulative accrued dividends on preference shares	732	663
Cumulative accrued interest on loan notes	108	405
	840	**1,068**

b) Key management compensation

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

	2017	2016
	£000	£000
Fees and benefits	3,596	2,695
Contributions to defined contribution pension scheme	78	79
	3,674	**2,774**

Fees and benefits include key management bonuses. During the year, payments of £714 thousand (2016: £118 thousand) were made to key management for loss of office.

(c) Key management interests

A total of 10 key management personnel held preference shares, shareholder loan notes and equity stakes in the business at 31 December 2017 (2016: 11).

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

(d) Immediate and ultimate controlling entity

There is no single immediate or ultimate controlling entity of the Group.

27 Fair value of financial assets and liabilities

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

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

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

Financial asset/liability	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Fair value hierarchy
	£m	£m	
Cash flow hedge liability (note 19)	(10)	(15)	Level 3
The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.			

On 25 January 2018, RAC Midco Limited sold its entire shareholding in Nebula Systems Limited for a cash consideration of £300 thousand received at completion.

The accounting policies on pages 45 to 55 also form an integral part of these Financial Statements.

Company Statement of financial position

As at 31 December 2017

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Investments in subsidiaries and associates	4	535	535
		535	535
LIABILITIES			
Current liabilities			
Other payables	5	(1)	(1)
Net current liabilities		**(1)**	**(1)**
Non-current liabilities			
Borrowings	6	(742)	(662)
		(742)	(662)
Net assets		**(208)**	**(128)**
EQUITY			
Ordinary share capital	7	-	-
Share premium		10	10
Retained earnings		(218)	(138)
Shareholders deficit		**(208)**	**(128)**

The accounting policies on pages 45 to 55 and the notes on pages 86 to 89 are an integral part of these Financial Statements.

The Company's loss for the year was £80 million (2016: £71 million).

Approved by the Board on 27 February 2018

R Fairman
Chief Financial Officer
Company registration number: 09229561

Company statement of changes in equity

For the year ended 31 December 2017

	Ordinary share capital	Share premium	Retained earnings	Total equity
	£m	£m	£m	£m
Balance at 1 January 2016	-	10	(67)	(57)
Loss for the year	-	-	(71)	(71)
Other comprehensive income	-	-	-	-
Total comprehensive expense	-	-	(71)	(71)
Balance at 31 December 2016	**-**	**10**	**(138)**	**(128)**
Loss for the year	-	-	(80)	(80)
Other comprehensive income	-	-	-	-
Total comprehensive expense	-	-	(80)	(80)
Balance at 31 December 2017	**-**	**10**	**(218)**	**(208)**

The accounting policies on pages 45 to 55 and the notes on pages 86 to 89 are an integral part of these Financial Statements.

Company Statement of cash flows

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Operating activities			
Loss before tax		(80)	(71)
Adjustments to reconcile loss before tax to net cash flows:			
Interest expense on borrowings		80	71
Net cash flows from operating activities		-	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents brought forward		-	-
Cash and cash equivalents carried forward		-	-

The accounting policies on pages 45 to 55 and the notes on pages 86 to 89 are an integral part of these Financial Statements.

1 Auditor's remuneration

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

2 Employee information

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

3 Directors

Executive directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group. Disclosures relating to Directors' remuneration may be found in the note 8 of the Consolidated Financial Statements.

4 Investments in subsidiaries

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

	Note	2017	2016
		£m	£m
At 1 January and 31 December		535	535

4 Investments in subsidiaries (cont)

(b) Information about subsidiaries

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

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Midco Limited	Holding company	Ordinary	100%
Indirectly held:			
Maverick Technology UK Limited	Dormant	Ordinary	51%
RAC Midco II Limited	Holding company	Ordinary	100%
Nebula Systems Limited	Vehicle Diagnostics products and services	Ordinary	51%
RAC Finance Limited	Holding company	Ordinary	100%
RAC Bidco Limited	Holding company	Ordinary	100%
RAC Bond Co PLC	Funding vehicle	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

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

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

5 Other payables

	2017	2016
	£m	£m
Amounts due to related parties	1	1
Total	**1**	**1**
Expected to be payable within one year	1	1

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

6 Borrowings

	2017	2016
12% preference shares	**£m**	**£m**
Book value	**742**	**662**
Fair value	**743**	**663**

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Company's residual assets. Dividends accrue at 12% and unpaid dividends are compounded annually. The preference shares are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1), plus any accrued and unpaid dividends. The conditions attached to the preference shares result in the preference shares being treated as debt, rather than equity for accounting purposes. The fees relating to these facilities have been capitalised and are amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £743 million (2016: £663 million).

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 31 December 2027. The terms require redemption of the shares and related accrued dividends on a sale or listing.

7 Ordinary share capital

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

	2017	2016
Allotted, called up and fully paid:	**£000**	**£000**
6,724,095 (2016: 6,724,095) ordinary 'A' shares of £0.01 each	67	67
2,175,905 (2016: 2,175,905) ordinary 'B' shares of £0.01 each	22	22
1,100,000 ordinary (2016: 1,100,000) 'C' shares of £0.01 each	11	11
	100	**100**

Of the total number of 'B' and 'C' ordinary shares, 204,226 shares were held by the Employee Benefit Trust at 31 December 2017 (2016: 745,111).

The 'A', 'B' and 'C' ordinary shares have the same rights except that the 'A' ordinary shares are the only shares which carry a right to vote. The 'B' and 'C' ordinary shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

Share awards are granted to senior management and other key employees with each award being approved by the Board of Directors. The share awards vest upon the occurrence of certain corporate transactions such as an initial public offering ('IPO').

Additionally, the Company has authorised, issued and fully paid £526 million redeemable cumulative preference shares of £1 each classified as liabilities. These shares do not carry voting rights. Further details are provided in note 6.

8 Related party transactions

(a) The Company had the following transactions with related parties in 2017 and 2016:

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

		2017	2016
		£m	£m
Preference shares and accrued dividends	6	742	662
Other Group companies - current account	5	1	1
		743	**663**

(ii) Transactions with related parties

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

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

	2017	2016
	£m	£m
Accrued dividends on preference shares	80	70
	80	**70**

(b) Key management compensations

The Directors and key management of the Company are considered to be the same as for the Group. Information on key management compensation may be found in the note 26 of the Consolidated Financial Statements.

(c) Key management interests

A total of 10 key management personnel held preference shares, shareholder loan notes and equity stakes in the business at 31 December 2017 (2016: 11).

At no time during the reported periods 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.

(d) Immediate and ultimate controlling entity

There is no single immediate or ultimate controlling entity of the Company.

The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Group (Holdings) Limited.

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