Annual Report and Financial Statements 2019

RAC Group (Holdings) Limited

Company information

Directors:

J Baker, M Boughton, S Fox, T Gallico, D Hobday, R P Hooper, V Nagarajan, H C Ormond, R Templeman & G M Wood

Company Secretary:

P Barrett

Registered office:

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

Auditor:

Deloitte LLP, 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 89.

These Consolidated Financial Statements are presented for the year ended 31 December 2019. Comparatives are presented for the year ended 31 December 2018.

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.

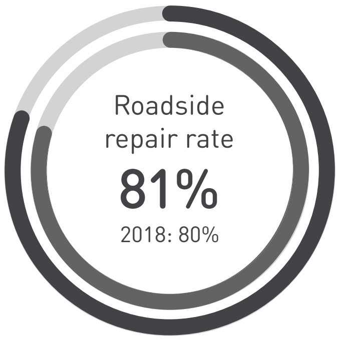
Revenue for the Group was £631 million, an increase of £39 million (+7%) on 2018. All areas of the group performed well and increased revenue.

EBITDA of £226 million, reflects a £19 million (+9%) increase year on year, demonstrating the impact of our sustainable and profitable customer growth, together with good operational efficiency and disciplined cost control.

Operating profit of £101 million an increase of £21 million (+26%) year on year, with no exceptional items in the year.

At 31 December 2019, RAC had approximately 12.1 million members, up 1.5 million year on year. Significant growth was achieved through the lowest ever churn in Consumer Breakdown, coupled with significant new business wins in Business Breakdown and profitable Insurance & Financial Services growth.

The UK roadside repair rate, excluding Road Traffic Collisions, is 81% (+1%), which is reflective of our continued investment in patrols to ensure that more members can be fixed at roadside, rather than having to be towed to a garage.



Strategic Report

CEO review

For the year ended 31 December 2019

I am delighted with the further progress that the RAC has made over the last 12 months, maintaining strong financial and operational momentum and delivering our 8th consecutive year of growth.

EBITDA is up nearly 10% with more members choosing to join us and more choosing to stay with us, testament to our truly differentiated "Complete Peace of Mind" proposition. We ended 2019 with 12.1 million members, up 1.5 million versus 2018. Each division has contributed to this, delivering a balanced result across the Group and underlining our strength in the market: Consumer Breakdown Services enjoyed material net growth with churn reduced to record lows, our Business Breakdown Services team won more new business from the competition, and Motor Insurance continued to profitably build file size.

Our unique approach, combining customer centric motoring and mobility innovation, and a relentless focus on service provides our direct members and our corporate partners with "Complete Peace of Mind" across an increasingly broad range of driving and motoring services. We continue to invest in our core Breakdown and Insurance businesses as the growth engines of the RAC. In addition, our investments in digital, data and expanding our offering are already bearing fruit. These give us further opportunity as we look to maintain our strong trajectory over the coming years.

Our commitment to investing in the core businesses of Membership Services and Insurance & Financial Services remains, to deliver consistent year on year growth, while selectively innovating and using our data and digital capabilities, in order to deliver new products, exceptional service and "Complete Peace of Mind" for all of our customers.

Financial performance

Group revenue increased by £39 million (+7%) to £631 million in the year, reflecting growth across our entire business and maintaining our strong momentum. The recurring nature of these revenues provides a solid platform into 2020 and beyond.

EBITDA before exceptional items increased by £19 million (+9%) to £226 million. This result is driven by the positive sales performance, churn and retention improvements, and ongoing efficiency initiatives. Our operational teams, processes and systems performed exceptionally well in the year, with Breakdown Services efficiently handling the more volatile demand patterns in the second half of the year.

RAC continued to deliver good operating cash flow with an EBITDA cash conversion of 92%. This has resulted in net cash flow from operating activities of £207 million, up £23 million (+13%) vs 2018.

Divisional highlights

Consumer Breakdown performed strongly, with material growth in both member numbers and revenue per new member joining us. We strengthened and further differentiated our proposition with more sales of our highest cover levels giving drivers added service and reassurance. The cross-sale web journey was improved, making it simpler and easier to add on additional products as we broadened our offering. And we delivered our lowest ever level of churn as

"Thank you so much for the great service the RAC provides. It gives me so much peace of mind knowing I can call them out anytime.

Grace, RAC member

more members stayed with us for "Complete Peace of Mind", exceptional service and the increasingly broad range of extra benefits that we offer.

Business Breakdown delivered growth from both existing corporate partners and onboarding new relationships including Groupe PSA, Saga and 1st Central. Together, these significantly increased our Business membership base during the year. We retained all existing relationships, including Mercedes-Benz, contracting for another 5-year timeframe. And we are also proud to have

"I had a puncture and the RAC got me on my way in no time at all. He arrived in record time, and was polite and helpful (and he loved my dog!)

Emma, RAC member

confirmed several new partnerships which will come on-stream in 2020 including British Car Auctions (BCA) and Monzo Bank.

Insurance & Financial Services saw significant motor insurance policy and profit growth. Our unique data assets, broking model and data science capabilities continue to be at the heart of our success, driving both improvements in retention performance and profitable acquisition volumes. We also successfully developed our product portfolio across legal services (including winning BGL), telematics and loans. We closed the year with our highest ever Insurance & Financial Services customers at c.700k policies in force.

Operationally, we responded to nearly 2.4 million breakdowns in 2019, broadly flat on the previous year. Our approach continues to efficiently handle any demand volatility, while we focussed on further improving the quality of service to our end customers.

"I am delighted that the RAC has had another strong 12 months, building on the momentum of last year and continuing the positive trajectory, into our 8th consecutive year of growth.

Dave Hobday, Chief Executive

CEO review

For the year ended 31 December 2019

Delivering and differentiating for our Customers

During the last 12 months we launched a series of new, unique propositions to ensure we continue to deliver a differentiated offering, outstanding service and "Complete Peace of Mind" for our 12 million members across the Group.

Consumer Breakdown saw ongoing web and mobile journey upgrades, including cross and upsell, and the full roll-out of the "MyRAC" digital platform with strong adoption. Increasingly "MyRAC" will become the single entry point for our customers to the whole RAC family of products and services, providing simple access and a seamless experience for all interactions. And we rolled out 500+ branded franchise garages (UK's largest network) extending our brand offering to servicing and MOTs, demonstrating our right to play across an increasingly large part of the value chain.

Business Breakdown made good progress in the development of "Ecall" and "Bcall", working alongside auto partners, as we focused on furthering our "connected car" data capabilities to benefit from the changing car parc. We expanded our Road Traffic Accident vehicle management platform, and our offering into the Corporate Inspections market which has been fundamental to growing our existing Nissan relationship and winning BCA as a new customer.

"Lee Houston was so helpful and reassuring. He went above and beyond to try and help me source a new tyre, he kept me calm and just made the whole annoying experience a pleasant one.

Victoria, RAC member

Insurance & Financial Services launched our first Insurtech pilot of a "Pay as you Drive" proposition partnering with WRISK, MunichRe and Sycada. This fully digital initiative gives variable insurance pricing based on mileage driven, all fully enabled and serviced via a Smartphone App and underpinned by our data. It is the first major branded proposition within this market.

Operationally, the investment in our differentiated end-to-end roadside service continued. We expanded our "Remote Fix" smartphone capability to diagnose and resolve issues without needing to send a patrol and continued to evolve "Track My Rescue" (tracking your patrol on a smartphone in a breakdown situation). We rolled out our award-winning "Heavy Duty 4x4" patrol vehicles which combine all the optimised RAC capability with the additional ability to tow almost anything including light commercial vehicles. We also increased our electric capability with a unique solution covering all electric charging specifications. Overall, we improved Roadside repair rate to 81.2% (2018: 79.8%).

Our strategy: "RAC 2025"

We continued to challenge, evolve and refresh our successful strategy. "RAC 2025" now defines our plans for the next five years, underpinning our ongoing sustainable growth during this period. In addition, "RAC 2025" takes a longer term view of the market where we remain very well positioned to continue to deliver for our growing membership base responding to their evolving mobility needs – from electric charging to broader driving related services.

Our focus remains on our core business where we see ongoing opportunity for differentiation and improvement across multiple elements of our proposition. Our "brilliant basics" approach methodically drove ongoing improvements to our performance across every customer and operational touchpoint. Additionally, we expanded into natural adjacent markets where we have both brand strength and experience to again differentiate and grow. Everything is underpinned by our unique data assets, alongside the MyRAC and Connected Car digital platforms.

> I want to thank the wonderful @TheRAC_UK [...] for saving my family's Christmas on Dec 24 – at the start of long journey, burst tyre – horror! The RAC arrived within 30 minutes [...] in Newmarket Rd #Cambridge and fitted a new tyre. #RescueAngels...
>
> Lucy, RAC member

Our Colleagues

Once again, the RAC's performance is ultimately down to our colleagues. Their success, individually and collectively, was reflected in our overall engagement increasing once again during 2019.

I would like to thank each and every one of them, our #OrangeHeroes, for their hard work, passion and determination to "raise the bar". Their commitment to deliver ever higher levels of "Complete Peace of Mind" to all our customers and members, 24 hours a day, 365 days a year is truly inspirational.

Outlook

Fuelled by our 2019 performance, I am really pleased that 2020 has got off to a very positive start.

The core business has momentum and we are well invested to further differentiate ourselves. The motoring services and mobility markets offer multiple opportunities and we are uniquely positioned to exploit these. Combined together with our strong results, we have confidence in our continued long-term growth.

Dave Hobday
Chief Executive

CFO review

For the year ended 31 December 2019

The Consolidated Financial Statements of the RAC Group are set out from page 50 onwards. The Group made further progress in 2019, materially growing the membership base in each of our divisions and maintaining a relentless focus on service, to deliver strong revenue and EBITDA growth, plus improved operating cash flow.

Consolidated income statement

	2019 £m	2018 £m
Revenue	631	592
EBITDA before exceptional items	226	207
Depreciation	(18)	(17)
Amortisation	(107)	(107)
Exceptional items	–	(3)
Operating profit	101	80
Finance expenses	(182)	(174)
Loss before tax	(81)	(94)

RAC delivered another year of strong growth in 2019, building on the momentum from 2018. During the period, the Group responded to almost 2.4 million breakdowns, broadly flat on the previous year. As at 31 December 2019, the RAC had approximately 12.1 million members, up 1.5 million year on year; significant growth achieved through the lowest ever churn in Consumer Breakdown, coupled with significant new business wins in Business Breakdown and profitable growth in policy numbers in Insurance & Financial Services, reflecting the RAC's differentiated and sustainable proposition, offering customers "complete peace of mind".

Revenue for the Group was £631 million, an increase of £39 million (+7%) on 2018. All areas of the group performed well and increased revenue. Consumer Breakdown delivered growth through increased member numbers and higher average revenue per member, with more frequent instances of our highest levels of cover being selected by customers. Lowest ever churn of 15.6% is a highlight and demonstrates the quality of RAC's differentiated service provision. Business Breakdown on-boarded new corporate partners (including Groupe PSA, Saga and 1st Central) and successfully retained all of our existing relationships, including Mercedes Benz, supporting the growth in our Business Breakdown filesize. Insurance & Financial Services grew policy numbers at double digit percentages and increased income per policy, reflective of our increasingly strong core capabilities in this market, with solid retention performance and profitable new business volumes.

EBITDA of £226 million reflects a £19 million (+9%) increase year on year, demonstrating the impact of our sustainable and profitable customer growth, together with good operational efficiency and disciplined cost control. We invested in recruiting additional patrols and reduced our reliance on third party contractors, which highlights the resilience and efficiency inherent in our business.

Amortisation of intangible assets amounted to £107 million (2018: £107 million), representing amortisation of both acquired intangibles and separately identified intangible assets, predominantly customer lists, arising from the business combination in 2014, in which RAC Bidco Limited acquired the RAC Group of Companies.

No exceptional items of have been incurred in 2019 (2018: £3 million, further details are given in note 3). Finance expenses of £182 million have been incurred in 2019 (2018: £174 million).

The Group's loss before tax in 2019 was £81 million (2018: £94 million), driven by the factors above.

Consolidated Statement of financial position

	2019 £m	Restated 2018* £m
Goodwill and intangible assets	1,974	2,046
Contract costs	29	25
Property, plant and equipment	25	24
Right of Use asset	67	73
Trade and other receivables	48	46
Trade and other payables	(286)	(293)
Net current liabilities	(114)	(117)
Borrowings	(2,377)	(2,341)
Shareholders' equity	(620)	(541)

*See Accounting Policy (B) for further details

As at 31 December 2019, goodwill and intangible assets amounting to £1,974 million (2018: £2,046 million) primarily represented the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The movement of £72 million primarily reflects amortisation in the period.

Contract costs of £29 million (2018: £25 million) relate to commissions and fees paid to third parties, arising as a result of a direct sale of an insurance policy. The increase reflects the growth in volume of sales during the year. Further details are set out in note 11.

Property, plant and equipment of £25 million as at 31 December 2019 (2018: £24 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group.

Right of Use assets of £67 million (2018: £73 million) were first recognised in the prior period on transition to IFRS 16 'Leases' and comprise vehicles and properties.

Trade and other receivables of £48 million (2018: £46 million) are primarily comprised of trade receivables of £13 million (2018: £17 million) and prepayments and accrued income of £34 million (2018: £28 million).

Trade and other payables of £286 million (2018: £293 million) predominantly represent deferred income of £113 million (2018: £115 million) relating to subscriptions revenue received in advance, and £173 million (2018: £178 million) of trade payables, accruals and other payables including lease liabilities of £71 million recognised under IFRS 16 'Leases' (2018: £75 million).

The Group has net current liabilities of £114 million as at 31 December 2019 (2018: £117 million) reflective of the working capital structure of the business where we benefit from the majority of customers paying for our services in advance, which results in up-front cash receipts and a partially offsetting current liability in deferred income.

The capital structure of the Group consists of third-party bank borrowings amounting to £260 million (2018: £276 million), related party debt of £943 million (2018: £893 million) and bonds issued of £1,174 million (2018: £1,172 million). The Group remains strongly cash generative, and used excess cashflow to repay £18 million of bank borrowings during the year.

Subsequent to 31 December 2019, we took the opportunity to refinance our Senior Term Facility ahead of maturity. Our financial and operational strength enabled us to attract significant support from our lenders, the deal was oversubscribed, and we were pleased to be able to refinance for an amount of £300 million at a floating rate of LIBOR plus 2.5%, a reduction of 25bps compared to the terms of the original facility.

The new facility matures in January 2025. We also extended the term of the £50m Working Capital Facility to January 2025. This disciplined and proactive approach to managing our funding position extends the maturity profile of the Group's debt and supports the overall capital structure

Consolidated Statement of Financial Position (continued)

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

	2019 £m	%	2018 £m	%
Third Party Borrowings				
Bank borrowings	260	10.9	276	11.7
Bonds	1,174	49.2	1,172	49.9
Related Party Sources				
Shareholder loan notes	27	1.1	74	3.1
Preference shares	916	38.4	819	34.8
Ordinary shares	10	0.4	10	0.4
Total Sources	2,387	100.0	2,351	100.0
Undrawn working capital facility	49		50	
Total Committed Facilities	2,436		2,401	

The third party borrowings are subject to covenants as follows:

- The Initial Senior Term Facility, Class A1 Notes and Class A2 Notes (together "Class a Debt") are subject to one financial covenant, being The ratio of free Cash flow to Class a Debt service charges.
- The Class B1 Notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges.

At 31 December 2019 the Group had comfortable levels of headroom against both financial covenants and has complied with these financial covenants throughout the periods since issue.

Statement of cash flows

	2019 £m	2018 £m
Cash and cash equivalents	98	96
Net cash flows from operating activities	207	184
Interest paid	(95)	(85)
Net increase in cash and cash equivalents	2	5

The Group generated net cash inflow from operating activities of £207 million (2018: £184 million), an increase in EBITDA conversion to 92% (2018: 89%). Interest paid increased to 95 million (2018: £85 million).

Capital investment totalled £47m in the year (2018: £53m). £27m of spend related to customer acquisition intangibles, connected to the growth in customers and revenue seen in the period and the remaining £20m to investment and maintenance capital projects. This excludes a further £2.5 million of capital investment committed as at year end and showing in the prepayments balances. Specific customer facing projects undertaken in the year included the development of the "MyRAC" digital platform and "Track My Rescue" breakdown support. Consistent capital spend ensures that we continue to be well-invested for the future, supporting our growth trajectory.

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 the management team to achieve RAC's business plans, strategic aims and objectives.

	2019 £m	2018 £m
Revenue (£m)	631	592
EBITDA before exceptional items (£m)[1]	226	207
Operating profit (£m)	101	80
Number of breakdowns (million)	2.4	2.4
Roadside repair rate (%)[2]	81	80
Consumer Breakdown churn rate (%)[3]	15.6	17.6
Breakdown Services members ('m)[4]	11.4	10.0
Consumer Breakdown	2.4	2.3
Business Breakdown	9.0	7.7
Insurance & Financial Services members (million)	0.7	0.6
Motor and Black Box insurance	0.6	0.5
Other lines of insurance	0.1	0.1

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

[2] UK roadside repair rate excluding Road Traffic Collisions.

[3] The percentage of Members leaving as a proportion of opening filesize plus acquisitions, measured over a rolling 12 month period. This metric replaces Roadside retention rate as it provides the business with a better indication of performance and is more closely aligned with performance indicators for subscription services businesses.

[4] Membership Services (previously referred to as "Breakdown Services") is the aggregate of Consumer Breakdown and Business Breakdown members.

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

Given the strong trading performance and operating cash generation, supported by the successful refinancing of our Senior Term Loan and Working Capital Facilities, which has extended the maturity profile of our debt on attractive terms, the Group is well positioned for continued growth in 2020.

Jo Baker
Chief Financial Officer

Strategic Management

For the year ended 31 December 2019

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.

Non–financial information statement

The table below references where non–financial information is included within the Strategic Report:

Non–financial information	Reference
Group's business model	Page 16
Group's development, performance and position and impact of its activity, relating to environmental matters, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters and policies therein	Pages 36 to 45
Principal Risks	Pages 21 to 24
Description of non–financial KPIs	Page 15
References to, and additional explanations of, amounts included in the Group Financial Statements	Pages 12 to 14

Principal activity

The RAC Group is a consumer services subscription business, providing a differentiated range of driving and mobility related services, principally breakdown assistance, for consumer and business customers, and retail motor and telematics insurance products underwritten by a panel of leading insurers. There were no significant changes in those activities during the year.

The Business Model

Our business model is built around providing Complete Peace of Mind to our members for their driving needs. We are set up to deliver long term sustainable growth from a growing base of subscription customers, underpinned by a quality customer experience and enabled by digital platforms, data and our colleagues.

Since we were founded in 1897, we have been consistently at the forefront of developing Motoring Services and have maintained a reputation for innovation and service throughout our 123-year history. Today, our core businesses of breakdown and insurance serve over 12 million members and this number continues to grow as more and more customers choose to join us and choose to stay with us for longer. In each of our core divisions, we will continue to differentiate through unique customer centric propositions along with great service, our engaged colleagues, and our sustainable growth.

In Consumer Breakdown Services, we provide breakdown cover and an increasingly broad range of other Motoring Services to individual members on either an annual or flexible monthly basis. We acquire customers through a range of channels including our website, mobile phone, third-party search engines, direct sales agents and multiple partners and affiliates. Throughout the member lifecycle we focus on delivering great service to maximise retention, deploying sophisticated customer-centric pricing capabilities, offering new products and services, and member loyalty rewards to reinforce the value inherent in ongoing membership.

In Business Breakdown Services, we provide breakdown cover and other Motoring Services to individuals through our partnerships with leading motor manufacturers, banks, insurance companies and fleets. These are typically long-term relationships, with contracts renewing every three to five years, but most partners having a far longer history with us. The service can be provided either on an annual or monthly subscription basis, or as a pay-on-use service. We focus on winning new partners and working with existing partners to profitably grow the customer base, while driving additional value through cross sell of additional products and services and innovation for the future.

Our breakdown service is delivered 24/7/365 by an outstanding team of dedicated patrols and front-line colleagues. Through our investment in training and developing these colleagues, we continue to deliver the strong levels of customer service that distinguish us positively from our competitors, supporting better retention rates and sustainable business growth. We continue to invest and innovate to ensure that we remain at the forefront of our industry. Recent investments mean that our patrols remain fully equipped with unique and up-to-date vehicles, the latest technology, tools and training to best support them in carrying out effective repairs at the roadside, or in recovering Members' vehicles if required.

In Insurance and Financial Services, we offer primarily motor and telematics insurance policies through price comparison websites. As a broker, we work with a panel of leading underwriters and leverage our unique and differentiated data assets and data science capabilities to obtain the most competitive rates for our customers. Coupled with the investments we have made in putting Insurer Hosted Pricing into our panel, which enable us to get more competitive quotes in real time, and our own in-house pricing capabilities, this puts us in a strong position to continue to successfully acquire and retain profitable customers.

Our reputation for quality carries over to our suite of complementary products and services, whether our broad and comprehensive insurance range, our growing legal services division supporting customers who have been involved in accidents with the claims process, our inspections and recall management service for corporate customers, our affiliated garage network for vehicle repairs, servicing and MOT, or European Breakdown Cover to support members on their European travels.

Complete Peace of Mind will continue to differentiate us and guide everything we do, particularly our consumer proposition development, so the brand becomes ever more relevant, for even more customers, meeting their driving and mobility needs.

Vision and strategy

Our "RAC 2025" vision is to be the UK's leading and most innovative consumer driving services subscription business providing Complete Peace of Mind to all our members. We will be a growing and more diversified business, with Membership Services and Insurance as the core, sustainable for the long term but with multiple opportunities to expand and grow to meet our customers' broader driving-and mobility related needs.

Our core business is built around two key segments – Membership Services (servicing both direct members and business customers) and Insurance & Financial Services. We believe that the key to our ongoing success is continuing to differentiate, retaining our loyal customer base, whilst attracting new Members.

Our strategy remains consistent with the approach that has delivered our eighth consecutive year of growth in 2019. The key elements to achieving this are:

- Continuing to deliver "Brilliant Basics" across our core divisions, building on what is already working and driving our results:
  - Growing customer net adds (net new members) every year
  - Winning and retaining our B2B partners and growing services
  - Continuing to develop our insurance operating model and pricing differentiation
  - Delivering roadside efficiency and great end–end service.
- Going further on our key performance drivers of acquisition, retention and efficiency by re-engineering selected parts of our business model for greater value and efficiency, and developing an increasingly diverse range of channels for growth;
- Selectively expanding our product offering into new adjacencies where there is demand from customers and trust that RAC can fulfil that demand.
- All of this will be seamlessly enabled by our "MyRAC" digital subscription platform, which will act as the focal point for members to access the RAC family of products, services and content, powered by data to enhance the customer experience and grow value.

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 will continue to invest and innovate to help us continue to deliver profitable and sustainable growth as part of our "RAC 2025" strategy and beyond.

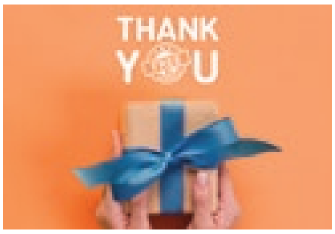
James, RAC patrol since January 2017

Strategic Management

For the year ended 31 December 2019

Leading the way in innovation and investment

RAC has an impressive track record of investment and innovation in solutions that help us help customers. We have been first to market with several initiatives over the years, many of which remain exclusive to RAC today.



2013
Introduction of revolutionary universal wheel to reduce tows and improve service

2014
Launch of new remote charger for electric vehicles

2015
Launch of MyRAC

2016
Launch of garage network

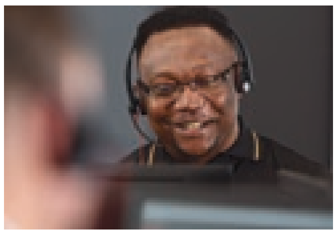
2017

2018
Launch of "all wheels up" towing

2019
Launch of consumer loyalty rewards

Launch of virtual patrol and smartphone takeover

Launch of HD 4x4 van



Strategic Management

For the year ended 31 December 2019

Developments

We have continued to innovate and introduce new and exciting capabilities, which not only improve the quality of service for our members and better meet their needs, but also improve the operational rigour within our business.

The investment in our differentiated end-end roadside service continued during the year, as we introduced unique towing capabilities in response to the growth of heavier SUVs, 4x4s and electric vehicles. Our new award-winning vehicle, known as our "Heavy Duty 4x4 patrol van", is the most flexible and powerful breakdown patrol vehicle operating on UK roads, and can tow almost any consumer vehicle, including light commercial vehicles. This is another example of us being first to market with a new innovation benefitting our customers.

We further developed our "Remote Fix" smartphone capability, enabling us to diagnose breakdowns remotely, interact with the customer and potentially get them back on their way even more quickly with a simple fix. This benefits overall customer experience; the member involved receives a timely solution and the patrol that would have been deployed is able to more quickly attend to another member in a breakdown situation.

Our electric vehicle capability was also developed in the period, with our unique EV Boost electric vehicle charging solution launched in a number of our patrols. This provides a fully mobile capability which covers all electric charging specifications and is an example of where the RAC is proactively responding to the changing dynamics of the car parc, becoming fit for the future in readiness for the changing landscape.

In the Insurance business, our Net Promoter Scores have continued to improve, with investment in the digital customer acquisition journey and claims process having a positive effect on the overall customer experience. We continue to see record numbers of customers taking up our more advanced propositions such as our market-leading black box telematics insurance policies, which provide drivers, particularly those with higher risk profiles, greater peace of mind as well as good value.

Our product and propositions continue to evolve, and we are currently trialling a new mileage-based car insurance product targeted at lower mileage drivers which we have developed in partnership with insuretech firm Wrisk. The app-based product leverages RAC's brand, pricing and telematics expertise and Wrisk's flexible and scalable platform to create a transparent, value for money product that better meets the needs of this segment of the market. The product is expected to move from trial to launch in mid-2020.

Market environment and outlook

The RAC operates in a broad and exciting category of services related to driving and mobility needs. End to end this market caters for approximately 37 million individuals in the UK today, and accounts for >£100bn annual spend.

The breakdown market has seen steady expansion in recent years fuelled by growth in the number of cars on the road. Within our core business we see continued evolution and opportunity within the roadside environment. Vehicle technology is changing, for example with electric & hybrid vehicles growing in market share, and we are seeing an increase in the penetration of connected vehicles with embedded E-call & B-call technology. Whilst most of these trends will have long market penetration timescales, our core services will remain relevant, and our strategy ensures we are well positioned for these macro trends that will influence future customer choices. Overall, we believe that the market will continue to provide a stable platform for investment with adjacencies and evolving customer needs providing opportunities to accelerate growth in the mid to long term.

The insurance market also continues to grow. Our policies in force have increased from 0.5 million to 0.7 million (+40%) in the last three years. Currently with c. 2% market share, we have the ability to outperform market growth through maintaining a competitive offering using our unique data and technology and embracing the widely used aggregator channel as a competitive advantage.

Risk Management

For the year ended 31 December 2019

RAC operates an Enterprise Risk Management Framework 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 appetite statements, risk reports and the governance and oversight structure.

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

- 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 major shareholders.
- 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;
- Allocation of Senior Management Functions, Prescribed Responsibilities, Overall Responsibilities and Key Functions for each of our regulated subsidiaries under the Senior Managers and Certification Regime, documented in the Management Responsibilities Map; and
- A risk management framework which sets out risk management and control standards.

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 and compliance 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.

Key strategic, financial and operational risks

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

Market risk

RAC is exposed to interest rate risk arising primarily on its borrowings. This risk is managed by RAC using interest rate swap agreements to hedge the variability of cash flows associated with changes in interest rates in relation to these borrowings as set out in note 22.

RAC is also exposed to risks from fluctuations in fuel prices which can lead to increased operating costs. This risk is managed by RAC using forward purchases of fuel for a period of up to twelve months to hedge the variability of cash flows associated with the purchasing of fuel for use in RAC's operational fleet of patrols and recovery vehicles. RAC has limited exposure to fluctuations in foreign exchange rates. However, RAC continues to monitor its exposure and will take steps to mitigate its exposure should the value and volume of foreign currency transactions increase in the future.

Credit risk

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

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

Risk Management

For the year ended 31 December 2019

Liquidity risk

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

RAC manages this risk through ensuring that it has sufficient liquid funds generated from its operations to meet its expected obligations as they fall due. This is achieved through 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.

Capital & Funding risk

RAC maintains an efficient capital structure comprising equity shareholders' funds and third-party borrowings, consistent with its overall risk profile and the regulatory and market requirements of the business (see the Consolidated Statement of financial position on page 62).

In managing its capital, the 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.

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 Group has been in compliance with the solvency requirements throughout the period.

Reputational risk

The Group defines this as the risk of a fall in market share and customer demand due to reputational damage.

Reputational damage could arise from mistakes or misconduct, or allegations thereof, by its Patrols and other employees, contractors or agents, or poor customer service. A decline in the 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.

The Group manages this risk by continuing to focus on ensuring that customers receive excellent service, and various programmes of work are in place in order to achieve this. 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.

Regulatory/Conduct risk

The Group defines this risk as the risk of failure to comply with current regulatory requirements applying to the business, the risk associated with potential future changes in regulatory requirements or the risk of failing to ensure that risks to good customer outcomes are identified and mitigated.

Failure to comply with relevant regulations could result in RAC having to suspend, either temporarily or permanently, certain activities and could lead to substantial fines or penalties. Any negative publicity arising in connection with any enquiries or regulatory investigation affecting RAC's business could adversely affect its reputation.

To mitigate these risks RAC provides regular training and briefings to its employees to ensure a customer and compliance culture exists throughout the business. The Group has clear governance procedures in place in order to minimise the risk of any legal/compliance failure or breach. The Group also has specialist committees and working groups in place with responsibility for oversight of specific areas of regulatory or conduct risk, such Board and Executive Risk, Audit & Compliance Committees and a Conduct Risk Committee, and the Group also employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are adhered to. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes and minimise any impact.

The Group strives to maintain a positive and open relationship with the FCA, PRA, ICO and other regulators.

RAC's breakdown 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.

The FCA is currently undertaking a market study into general insurance pricing practices to ensure that markets work well for consumers. The final market study report, alongside a consultation paper on any proposed remedies is due to be published in Q1 2020. The Group remains up to date with developments from the review. RAC already has a clear pricing framework in place for both its breakdown and insurance customers which is consistently applied, and this will be kept under review to ensure it continues to maintain fair pricing principles and to adhere to regulatory and market standards.

Technology risk

The Group defines this as the risk of a failure in its IT and communication systems either through failure to manage change or infrastructure failure.

Any such failure could impact the Group's ability to provide service to its Members and to maintain the integrity of customer records.

The Group manages this risk by employing specialist teams to manage the operation and resilience of its IT systems, clear change management processes and by having appropriate business continuity and disaster recovery plans and processes in place. The Group also has various programmes of work in progress to improve its IT infrastructure to support its strategy and to improve ongoing operational resilience.

Data protection and cyber risk

The Group defines this as the risk of inappropriate use or handling of non-public data, whether as a result of internal data security breaches or through third parties gaining unauthorised access to RAC systems as the result of a deliberate attack.

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 teams in place 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 including the General Data Protection Regulation ("GDPR"). The Group continues to enhance its processes and controls in this area.

Risk Management

For the year ended 31 December 2019

Health and safety risk

The Group defines this as the risk of serious injury or death of employees, Members or third parties from road traffic collisions.

The Group's roadside operations necessarily require attendance by Patrols or third party contractors to inspect and repair Members' vehicles at the roadside. RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by business activities.

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.

Macro risk

The Group defines this as the risk of changes in vehicle technology or customer behaviour impacting the sustainability of the Group's business model.

RAC has a clear strategy in place ("RAC 2025") to embrace the opportunities presented by changes in the car industry, including the growth in electric, hybrid and ultimately autonomous vehicles. The Group's Technical Department monitors vehicle technology developments to ensure that its patrols have the skills and equipment required to continue to provide a high level of service to customers at the roadside.

Brexit risk

The Group defines this as the risk of adverse economic conditions in light of increased uncertainty following the UK referendum decision to leave the European Union. Furthermore, there is the potential for disruption to the supplies of key products and services required to repair vehicles.

Whilst there remains uncertainty over the practicalities of the UK leaving the European Union, as the UK is currently negotiating new trading relationships with EU countries, fundamentally RAC is a UK focused business, with very limited trade outside of the UK's borders. We expect to be able to continue providing service in other European countries, either directly (as is the case in Ireland) or through existing partnerships. 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. RAC continues to monitor the impact of the Brexit transition process and will take appropriate steps to maintain RAC's competitive position. RAC has also engaged with key suppliers in order to ensure the continuity of supplies following Brexit.

Climate risk

The Group defines this as the risk of damaging the environment in which we operate.

As a motoring organisation we are aware of our environmental impact, with roadside operations being our highest contributor to carbon emissions. 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; and
- Reducing our demand for water and the amount of water that is lost or wasted on our premises.

Strategic Report: Section 172 (1) Statement

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, RAC Group (Holdings) Limited (the "Company") is required to include a statement in its Strategic Report describing how the directors have had regard to the matters set out in s.172 (1) (a)-(f) of the Companies Act 2006 for the 2019 financial year.

"The long term success of the Company is at the heart of the Company's "RAC 2025" strategy and the directors play an active role in the development of the strategy. Delivery of the strategy will enable the RAC to take advantage of the changing automotive and mobility markets, providing new products and services that meet customers changing needs allowing the Company to build closer relationships with customers and suppliers, all of which will drive sustainable long term growth at the same time as providing opportunities for colleagues. The Company operates a risk management framework, ensuring that the key risks to the delivery and implementation of the strategy are identified, monitored and managed and the directors discharge their responsibility in this respect through membership of the Group Risk, Audit and Compliance Committee. Further details on the Company's strategy and risk management framework are set out on pages 21-24 of the Strategic Report section of this report."

Long term sustainable growth will only be achieved through strong colleague engagement. The Company ensures that interests of colleagues are taken into consideration through various forums that allow colleagues to meet with and provide feedback to the CEO, the Executive team and the senior leadership team. The Company is also aware of the contribution that other stakeholders, in addition to colleagues, make to the long-term success of the Company and recognises the importance of developing strong relationships with customers, suppliers and community groups, amongst others. The directors receive regular updates on stakeholder engagement at board meetings. Further details of the Company's approach to stakeholder management can be found on pages 44-45 of the Corporate Social Responsibility Report section of this report.

Managing the impact of the Company's operations on the community and the environment is a strategic imperative. This helps to preserve the environment in which the Company operates at the same time as helping to control costs and supporting efficient business performance. A number of business initiatives have been implemented that have had a significant impact on carbon emissions and the Company has attained ISO14001 accreditation. The Company also has in place a number of Community Priorities, reviewed annually, which seek to create long term benefits for local communities. The Company considers that maintaining its reputation for the highest standard of business conduct is a key priority. The board ensures that an appropriate framework, including relevant policies and codes of conduct, is in place to support this and the board is made aware of and involved in the management of all issues that might have a material impact on the Company's reputation for high standards. Further details of the Company's approach to community, the environment and business conduct can be found on pages 41-42 of the Corporate Social Responsibility Report section of this report.

By order of the Board.

Paul Barrett
Company Secretary
25 February 2020

Governance Report

Governance Report

For the year ended 31 December 2019

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 Walker 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 Senior Managers and Certification Functions (in the context of PRA and FCA authorisation).

Ownership Structure

The Group's equity is owned by: investment vehicles managed by CVC Capital Partners ("CVC Funds"); a nominated investment vehicle of GIC Special Investments Pte Ltd ("GIC"); investment vehicles controlled by Universities Superannuation Scheme Limited (acting as corporate trustee of Universities Superannuation Scheme); an investment vehicle controlled by Public Sector Pension Investment Board (PSP Investments); RAC Management; and RAC's Employee Benefit Trust.

The Group's Board includes three Non-Executive Directors representing CVC Funds and three Non-Executive Directors representing GIC.

The Board

The Board comprises the Chairman, two executive directors being the Chief Executive Officer and Chief Financial Officer, and seven Non-Executive directors ('NEDs') comprising three CVC appointed NEDs, three 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 a minimum of nine times per year and leads the strategic direction of the Group, monitors operational performance and ensures appropriate internal controls are in place. Through the ongoing review of suitably detailed management information the Board ensures that risks are appropriately monitored and managed.

The Regulated Entities Board

The role of the Regulated Entities Board is to provide appropriate governance and oversight of the subsidiaries of the group which are subject to FCA and/or PRA jurisdiction, namely RAC Motoring Services, RAC Financial Services Limited and RAC Insurance Limited.

The Regulated Entities Board is chaired by an independent non-executive director, and its other members are two executive directors being the Chief Executive Officer and Chief Financial Officer, the Group non-executive Chairman and one additional independent non-executive director.

Key areas for which the Regulated Entities Board is responsible include:

- Monitoring the performance of the Regulated Entities against the strategic objectives of the Group and its subsidiary companies;
- Ensuring the establishment and operation of effective controls and a positive culture to ensure customers are treated in accordance with both the Group's policies and regulatory requirements;

- Reviewing detailed information on key matters such as conduct risk, complaints, quality assurance and health and safety on an ongoing basis and monitoring trends;
- Overseeing the regulatory landscape in respect of conduct matters and reviewing the actions taken in relation to any regulatory developments which may have a material impact on the Group;
- Providing guidance, as and when required, on material communications to/from regulators;
- Overseeing investigations into any material regulatory breaches and agreeing actions to be taken in response; and
- Specifically, in respect of RAC Insurance Limited, ensuring compliance with all PRA requirements including Solvency II requirements and the Own Risk and Solvency Assessment process.

The Regulated Entities Board meets a minimum of six times per year.

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 induction, training and effective contribution of non-executive directors and ensuring constructive relations between them and the executive directors;
- Leading the development of the firm's culture by the Board as a whole; and
- Overseeing the development of, and implementation of the firm's remuneration policies and practices

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
- Overseeing the adoption of the firm's culture;
- Development and maintenance of the firm's business model;
- Effective communication with all stakeholders including shareholders, colleagues, customers and members; and
- Ensuring the successful execution of the strategic objectives agreed by the Board.

The Chief Financial Officer is responsible for:

- Managing the Group's policies and procedures for countering the risk that the firm might be used to further financial crime;
- Managing the allocation and maintenance of the Group's capital and liquidity;
- Preparing and ensuring the integrity of the Group's financial statements and its regulatory reporting;
- Managing RAC Financial Services Limited's internal stress–tests and ensuring the accuracy and timeliness of information provided to the FCA for the purposes of stress testing; and
- Performing RAC Insurance Limited's Own Risk and Solvency Assessment.

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.

Governance Report

For the year ended 31 December 2019

Board of Directors

Rob Templeman – Chairman

Rob is Chairman of the Board of Directors. He joined RAC in September 2011. His previous roles include Chairman of Gala Coral, Chief Executive Officer of Debenhams, Chief Executive Officer and Chairman of Halfords, Chief Executive Officer of Homebase and Harveys Furnishing Group and Chairman of the British Retail Consortium. Rob also has several charitable interests.

Dave Hobday – Chief Executive Officer

Dave joined RAC in February 2017 from the payments company Worldpay UK 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.

Jo Baker – Chief Financial Officer

Jo joined RAC in May 2018. She has an extensive background in financial services companies, starting her career as an investment banker in the sector before moving on to work at Barclays, Worldpay and Wonga in areas covering finance, strategy, sales, customer analytics and risk management.

Gregory Mark Wood – Chair of Risk, Audit and Compliance Committee

Mark is Chairman of the Board Audit, Risk & Compliance Committee and Chair of the Regulated Entities Board. He joined RAC in September 2011. His prior roles include Managing Director for Financial Services at the AA, 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 Chairman of the Trustees of the National Society for the Prevention of Cruelty to Children.

Non–Executive Directors – GIC Group

Vinit Nagarajan

Vinit has been a Non-Executive Director since September 2015. He is a Senior Vice President in GIC's Direct Investments Group. He is a Director on the Board of Visma and Nordic Aviation Capital 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.

Simon Fox

Simon has been a Non-Executive Director since November 2019. He was Chief Executive of Reach plc from 2012 to 2019 and began his career as a graduate trainee at Bank of America before joining Boston Consulting Group. Thereafter, he founded Office World and then joined Kingfisher Group with responsibility for setting up the e-commerce operations of a number of retail companies across Europe before becoming COO of the European electrical retailing division. Between 2006 and 2012 he was Chief Executive of HMV Group.

Non–Executive Directors – CVC Group

Marc Boughton

Marc is Managing Partner and Chairman of CVC's Strategic Opportunities investment platform and 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.

Tim Gallico

Tim has been a Non-Executive Director since April 2016. Tim is a Senior 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 Managing Partner at CVC Capital Partners, and currently sits on the boards of Domestic & General and Premier Rugby. He was also responsible for CVC's prior investments in Saga, Merlin Entertainments and Virgin Active. 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 and its other members are the Group non-executive Chairman, one additional non-executive director, the Chief Executive Officer and the Chief Financial Officer. It is attended by the Board members, the external auditors, the Director of Legal, Director of 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;
- Evaluating the performance of the executive directors against challenging objectives, including non-financial objectives; and
- Ensuring that the remuneration practices across the Group operated in line with PRA and FCA requirements and specifically that they do not drive inappropriate behaviours.

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.

Corporate Governance Arrangements

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, the Company has chosen to apply the Wates Corporate Governance Principles (the "Principles") for Large Private Companies for reporting in relation to the 2019 financial year. The Principles, and an explanation of how each Principle has been addressed by the Company, are set out below.

Ben, RAC patrol since December 2016

Principle	Explanation
1. Purpose and Leadership	The Company has a clear purpose, to provide "Complete Peace of Mind" to our members for their driving needs. This is aligned to the strategy to deliver long term sustainable growth, underpinned by a quality customer experience enabled by people, digital platforms and data. The Company understands that the delivery of the strategy is only possible through its people. The new company values have now been in place for over one year and together with the passion, commitment and integrity of colleagues, the values have helped to create the RAC culture. Vision and Strategy – see page 10 Our colleagues – see page 10
2. Board Composition	The board provides practical leadership to the Company and has an appropriate balance of executive and non-executive directors and of skills, knowledge and experience appropriate to meet the strategic needs and challenges of the organisation and to enable effective decision making. Evaluation of the effectiveness of the board takes place on a regular basis. The Board – see pages 28 to 31
3. Director Responsibilities	There is a clear division of responsibility between the Chairman, the Executive Directors and the Non-Executive Directors. Clear terms of reference for the membership and responsibilities of the various board committees supports effective decision making. Governance – see pags 28 to 32
4. Opportunity and Risk	The board is at the forefront of the Company's efforts to enhance its existing products, as well as its expansion into new areas as it seeks to offer what customers want and to drive the long term sustainable growth of the Company. All material business development opportunities are subject to a detailed and rigorous board review and approval process. A formal risk management framework is in place for the identification, monitoring and management of risks, which is overseen by the Board Audit, Risk and Compliance Committee. Opportunities – see page 9 Risk Management – see pages 21 to 24
5. Remuneration	Remuneration is ultimately overseen by the Board Remuneration Committee, which is responsible for agreeing the individual remuneration packages (including pension rights, compensation payments and other benefits) for each of the CEO, the Chairman, each executive director and other senior executives of the Group. The Remuneration Committee is also responsible for incentive and bonus arrangements and awards, including setting the relevant targets for performance related schemes. The Committee ensures that the remuneration policy is aligned with the Company's sustainable long-term growth by ensuring that the remuneration practices across the Group operate in line with PRA and FCA requirements and specifically that they do not drive inappropriate behaviours. Remuneration Committee – see page 32
6. Stakeholder Relationships and Engagement	The Company recognises the importance of having effective relationships with its stakeholders, engaging with them and having regard to their views when taking decisions. Stakeholder Report – see page 44 - 45

Corporate Social Responsibility Report

Corporate Social Responsibility

For the year ended 31 December 2019

Our sustainable approach to growing our business

Very few businesses today can boast a heritage as rich as the RAC Group. We continue to go from strength-to-strength, after more than a century, with great colleagues behind a great brand the key to delivering fantastic service, differentiated propositions and sustainable performance.

The core purpose of the RAC and what we do remains clear: we are here to give "Complete Peace of Mind" to our members for their driving needs. With our purpose set-out clearly, it is vital that we protect our reputation through consistent and positive actions.

With this in mind, our CSR initiatives are organised into a framework of four key impacts most relevant to us: Our Colleagues, Customer Trust and Confidence, Community Matters, and Environmental Impact.

Our Colleagues

Key to delivering our purpose and "RAC 2025" vision are our 3,900 colleagues, the #OrangeHeroes across the RAC, who deliver exceptional service and go the extra mile for our customers. We proudly celebrated the first birthday of Our #HERO Values this year; Handle it Together, Exceptional Service, Raise the Bar and Own It and together they create the culture which the RAC is known for. We also refreshed our brand in the year, including new brand guidelines, messaging and imagery, to underpin our "Complete Peace of Mind" purpose and put our colleagues, firmly at the heart of our brand.

We continued to focus on engaging our colleagues, with a particular emphasis on improving the feedback and connection with our front-line colleagues at Roadside and within our contact centres, in addition to those across our divisions and group functions. We have done this through a number of initiatives in 2019, including quarterly business briefings, colleague engagement forums, CEO 'round table' discussions, strategy briefing sessions, and 'Back to the Floor' events such as "patrol days" for office-based colleagues. This programme of activity is designed to ensure that all colleagues have the opportunity to be involved in the company plans and understand our vision, purpose and culture. Our Executive Team and Senior Leadership Team are actively involved and play a critical part in ensuring that these activities are successful.

We run an annual employee engagement survey, and once again, we saw an excellent response rate and a further improvement in our engagement score year-on-year. 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, and continue to make sure that we are doing the right things to make RAC a great place to work.

Corporate Social Responsibility

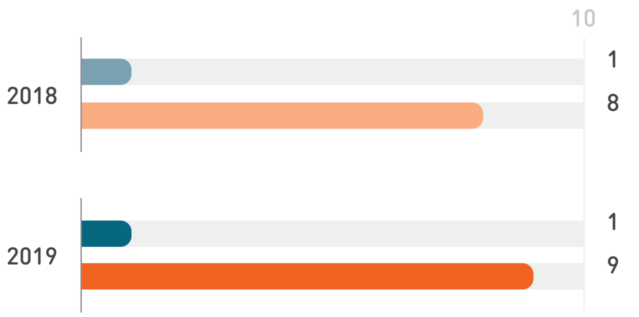
For the year ended 31 December 2019

Human Rights, Equality and Diversity

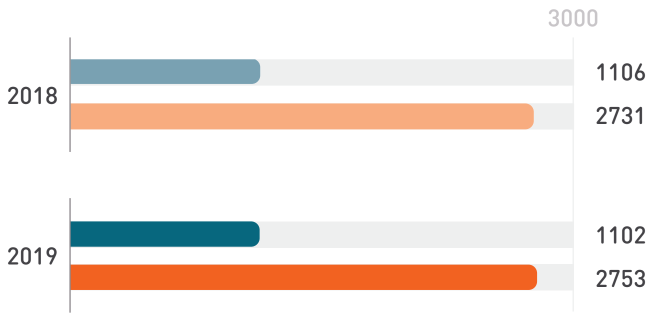
Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. Our Equality and Diversity Policy ensures that every colleague is treated equally and fairly as part of creating an inclusive working environment that attracts, develops and retains the best people. 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.

The following graphs set out our diversity balance as between men and women at the end of 2019.

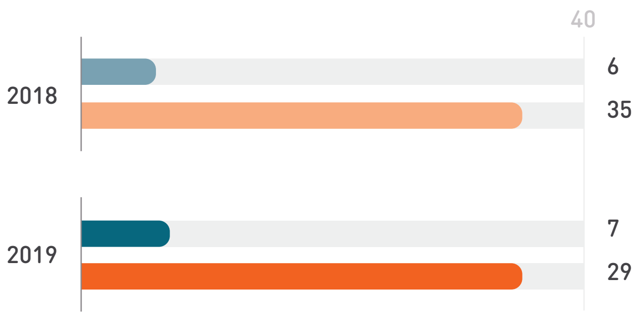
Director



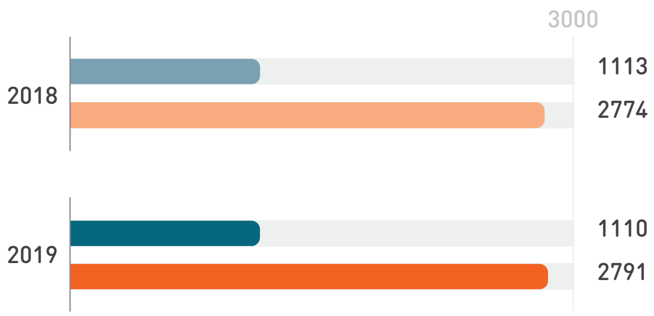
Employee



Senior Manager



Total of staff



Female Male

As at April 2019, the difference between average pay for male and female colleagues within RAC was 7% and the median was 11%. Although larger than we would like, this compares favourably to the national median of 17.9%. Our results demonstrate that we are seeing good progression and introduction of female colleagues into higher paying roles, and we are pleased to see that all of our measures have improved since 2018, including colleague bonus and gender pay quartiles. RAC remains committed to improving our gender pay gap, and we will continue to provide equal opportunities for all our colleagues.

Harry, HR since January 2009

Corporate Social Responsibility

For the year ended 31 December 2019

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. The RAC is spearheading a campaign in conjunction with the government and industry specialists to make our motorways safer and motorists more aware of roadside working. This follows on from our Be PhoneSmart Campaign which has been adopted by the government along with increasing penalties associated with dangerous driving behaviours.

RAC also continues to be a lead member of "Survive Group" and actively works with this group to raise awareness of roadside working risks and promote best practice guidelines within the industry.

Whistleblowing

The Group takes any whistleblowing concern seriously. Our Whistleblowing Policy is designed to empower colleagues to raise concerns about against any actual or suspected wrongdoing without fear of reprisal.

All employees and contractors can raise concerns via their manager or utilise the services of Expolink, an independent third party that provides a 24-hour reporting service. When making a whistleblowing report, colleagues can remain anonymous, and all reports remain confidential.

All whistleblowing reports are reviewed and investigated by the Group's Internal Audit team and findings reported to the Board Risk Committee, who will oversee any remedial action required as a result of any investigations.

Colleague Health, Wellbeing and Lifestyle Benefits

RAC offers an Employee Assistance Programme (EAP) for all colleagues. 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.

Customer Trust and Confidence

Our Complete Peace of Mind brand promise, that you can trust the RAC, whatever your driving needs, guides our strategy from customer experience through to product development. We measure customer satisfaction (via an independent third party) using "Net Promoter Score" on a daily basis and we use this as a tool to pinpoint areas for further investment, such as communications through the breakdown and insurance customer journey. We will continue to invest and innovate to remain at the forefront of our industry, which will help us continue to deliver profitable and sustainable growth as part of our "RAC 2025" vision and strategy.

Our company policies and reward practices support the delivery of a culture that drives compliance and puts the needs of our customers at the heart of everything we do. In 2019, we embedded compliance and service in the reward structure for our senior executives to reflect our focus on meeting our regulatory obligations and doing the right thing for customers. In 2020, this will be extended so that a compliance element will be incorporated for all colleagues eligible to participate in the company's discretionary bonus plan. Our front-line sales colleagues are similarly rewarded to put customers first through a rigorous quality assurance framework that is linked to their incentive schemes.

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. Good governance and colleague training play a vital part in upholding these rights.

We also work closely with our supply chain to ensure that all of our suppliers are operating in line with our ethical standards, including commitments to the protection of customers and company data, abolishing modern slavery and anti-corruption and bribery measures and human rights.

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 drivers through our products and services.

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 partner with our Road Safety Awareness Charity, The Scouts Association, to further our community objectives.

"You Choose" Charity of the Year

Following colleague feedback from our engagement surveys, we introduced a charity initiative 'You Choose'. This initiative enabled colleagues to tell us which charities to support, from a shortlist that colleagues voted on. Our Colleagues selected four charities; Midlands Air Ambulance, Teenage Cancer Trust, Gorgeous Gorse Hill and Macmillan Cancer Support. Collectively, they have raised over £20,000 during 2019, more than doubling our funds raised last year. This has been completed through a variety of activities – ranging from dress down day donations, taking part in sponsored challenges (such as abseiling and cycling), donating time and money at charity events or money spent at one of our pop up shops, and overall our colleagues have made a real difference to the community.

Corporate Social Responsibility

For the year ended 31 December 2019

Raising funds to support
The Prince's Trust

Prince's Trust

The Prince's Trust

We have a strong partnership with The Prince's Trust to support their "Get Into" program. This aims to give young people aged 16 to 25, who are work-ready but do not have vocational skills, a mixture of practical training and experience that will enable them to get a job. It also provides them with the opportunity to meet potential employers.

This year, The Prince's Trust and our Bescot contact centre piloted our own RAC "Get Into" program. This involved seven 16-25-year olds who had a desire to work in customer service taking part in a three-week training and work experience programme. Attendees from our pilot program experienced all areas of the business, and we were delighted to offer placements to all of them within the RAC apprenticeship scheme. This programme was made possible through a grant from the CVC Capital Partners Foundation.

Environmental Impact

As a motoring organisation, managing our impact on the environment is a strategic imperative for us. It helps us to control our costs, support business performance, and to ensure that our business remains sustainable for the long term.

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 strategy 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; and
- Reducing our demand for water and the amount of water that is lost or wasted on our premises.

Environmental Targets and Carbon Emissions

Roadside operations are still our highest contributor to carbon emissions with approx. 75% of all emissions being related to this area. However, we have continued to invest in our van fleet throughout 2019, continuing to replace our older vans and 90% of our fleet are now compliant with the Euro 6 emission standard, delivering improved fuel efficiency.

The introduction of more versatile towing solutions has also had a significant impact on our overall carbon emissions by allowing us to move more vehicles ourselves using the new developed equipment rather than using our contractor network who typically use higher emission vehicle types. This also reduces the overall miles driven per breakdown, having a positive impact on carbon emissions.

Across our property estate, we continue to invest in initiatives to reduce energy consumption, with the installation of new lighting and building management systems in 2019 already making a significant contribution to savings and completing an active recycling and waste reduction programme.

James, RAC patrol since January 2017

Corporate Social Responsibility

For the year ended 31 December 2019

This Stakeholder Report summarises how the directors have taken into consideration the interests of key stakeholders in their decision-making.

Colleagues

RAC colleagues are key to delivering its purpose and "RAC 2025" vision.

The Company recognises that the delivery of the RAC's purpose, strategy and long-term sustainable growth will only be achieved with engaged colleagues and ensures that colleagues are kept fully informed of the Company's plans and understand the vision, purpose and culture. A number of initiatives encourage feedback and connection between colleagues and the Executive team, including quarterly business briefings, colleague engagement forums, CEO 'round table' discussions, strategy briefing sessions and "back to the floor" events. The constructive two way dialogue between colleagues and Directors ensures that colleague interests are considered when relevant decisions are taken by the Board.

Our Colleagues (page 37)

Customers

RAC is a consumer services subscription business, providing a differentiated range of driving and mobility services for consumer and business customers.

RAC has maintained a reputation for innovation and service throughout its 123-year history and it ensures that customers remain at the forefront of its strategy by continued investment in its Complete Peace of Mind purpose and brand promise: that you can trust the RAC, whatever your driving needs. This guides the RAC's strategy from customer experience through to product development. The Net Promoter Score (NPS) is used as a tool to pinpoint areas for improvement and to continually enhance the customer journey. NPS is regularly discussed at board meetings, ensuring the directors receive timely customer feedback on service and performance.

Customer Trust and Confidence (page 40)

Suppliers

RAC actively promotes the development of strong and secure relationships with key suppliers for many aspects of its business and to ensure its continued success.

RAC maintains regular and open dialogue with its suppliers and seeks to build mutually beneficial long-term relationships based on trust and confidence. The transparent and effective procurement and supply of goods and services is critical to the smooth running of the business and internal stakeholders work closely with suppliers at all times. All material supplier relationships require board approval, ensuring board level visibility and input, and all suppliers undergo due diligence to ensure they adhere to our ethical standards and policies.

Customer Trust and Confidence (page 40)

Community & Environment

RAC strives to create long-term benefits for the communities it serves and seeks to manage its impact on the environment.

RAC strives to create long–term benefits for the community by creating employment, providing support to drivers through its products and services, forging links with charitable associations and supporting local charities. As a motoring organisation, managing its impact on the environment is a strategic imperative for the RAC, reflected in the fact that the RAC has attained ISO14001 accreditation, ensuring risk management processes and systems are in place to identify and address environmental issues that arise.

Community Matters (page 41)

Environmental Impact (page 42)

Regulators

RAC strives to maintain a positive and open relationship with its regulators.

The RAC recognises the critical importance of compliance with the relevant regulations, and believes that transparent and positive engagement with regulators, building constructive relationships, is beneficial to the long-term interests of the Company. Engagement, principally with the FCA, PRA and ICO, takes place when necessary in relation to specific issues and any such engagement is discussed at board meetings, where directors can provide appropriate guidance and support.

Key Strategic and Operational Risks (page 23)

Shareholders

RAC engages positively and proactively with its shareholders.

RAC enjoys effective and regular engagement with its two principal shareholders, representatives of whom are appointed to the Board as non-executive directors.

Governance Report (pages 26–33)

Directors' report

For the year ended 31 December 2019

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 2019. 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, employee participation & diversity by cross-reference, as permitted by the Companies Act 2006.

Directors

The names of the current Directors are set out on page 2. Those who have served in office during the year have been as follows:

- J Baker
- M Boughton
- S Fox (appointed 15 November 2019)
- T Gallico
- D Hobday
- P Hooper
- V Nagarajan
- H C Ormond
- R Templeman
- G M Wood

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 2019 are set out on page 61, and discussed in the Strategic Report on pages 7 to 25.

The Group did not pay an interim dividend in 2019 or 2018. The Directors do not recommend the payment of a final dividend (2018: £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 (2018: £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 21 to 25 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 17 and 22 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 27 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 £620 million and net current liabilities of £114 million, however within net current liabilities is £116 million of deferred income and £71 million of IFRS 16 lease liabilities. The Group's net liabilities position largely reflects the value of separately identified intangible assets of £1,974 million, offset by issued bonds of £1,174 million, bank borrowings of £260 million and £943 million of related party borrowings. The Group's third party borrowings have an average time to maturity of five years.

The Company has net liabilities of £397 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 2019 Group and Company 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 April 2020 Board meeting.

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.

Directors' report

For the year ended 31 December 2019

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.

By order of the Board.

Paul Barrett
Company Secretary
25 February 2020

Chris, RAC patrol since July 2010

Financial Statements

Financial Statements

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

In our opinion:

- the Financial Statements of RAC Group (Holdings) Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 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.

We have audited the financial statements, which comprise:

- The Consolidated Income statement;
- The Consolidated Statement of comprehensive income;
- The Consolidated and Parent company Statement of financial position;
- The Consolidated and Parent company Statements of changes in equity;
- The Consolidated and Parent company Statement of cash flows;
- The Accounting policies; and
- the related notes 1 to 30 of the Consolidated Financial Statements and 1 to 9 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

While the parent company is not a public interest entity subject to European Regulation 537/2014, the directors have decided that the parent company should follow the same requirements as if that Regulation applied to the parent company.

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the carrying value of goodwill and other intangible assets.
Materiality	The materiality that we used for the group financial statements was £6.8m (2018: £6.2m) which was determined on the basis of 3% of Earnings before interest, taxation, depreciation and amortisation (EBITDA) adjusted for exceptional items.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team. The statutory audit for RAC Group (Holdings) Limited and its subsidiaries is performed by a single audit engagement team at the same time. Over 99% of the group revenue, net assets and adjusted EBITDA was audited to full or specific scope audit procedures.
Significant changes in our approach	There were no significant changes in our approach compared to 2018. Management adjusted cash generating units (CGUs) to reflect changes in the underlying business and operating segments in 2018. We refined our focus of the key audit matter related to carrying value of goodwill and other indefinite life intangible assets to the determination of the discount rate.

Conclusions relating to going concern

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

- 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

The key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period and includes the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. This matter 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 matter description	As at 31 December 2019, the group holds goodwill of £878m (2018: £878m) and indefinite life intangible assets including £864m (2018: £864m) in relation to the value of the RAC brand. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is required to be subject to an annual impairment test. The group's assessment of the carrying value of goodwill and indefinite life intangible assets is a judgemental process which requires estimates concerning the future cash flows of each cash generating unit ('CGU') and associated discount and growth rates based on management's view of future business prospects. The most sensitive judgement in the determination of the carrying value of future cash flows of the group is the discount rate that is applied to take into consideration the value in use of money and risks related to the accuracy of the future cash flows. Inappropriate use of this assumption either due to fraud or error could give rise to a material misstatements. Further details of the key judgements involved are set out within the accounting policies in note F to the financial statements and the Goodwill and intangible assets note 11. The associated accounting judgements and sources of estimation uncertainty are found in note U of accounting policies to the financial statements.
How the scope of our audit responded to the key audit matter	We understood management's process and relevant controls around the impairment assessment for goodwill and indefinite life intangible assets through performing a walkthrough, which included reviewing their accounting paper. We performed sensitivity analysis on the inputs to the forecasts to identify the most sensitive assumptions used in the impairment review to focus our testing procedures. We challenged the appropriateness of the key assumptions used in the goodwill and other intangible assets impairment assessment, including the discount rate used. This involved working with our valuation specialists to review management's discount rate methodology and to independently calculate a reasonable appropriate discount rate to be used. We performed an independent recalculation of the value in use ('VIU') using our internally generated discount rate and cash flow forecasts. Given the inherent susceptibility to misstatements in estimates, we considered indicators of management bias including benchmarking our valuation of the business to that of comparable peer groups of similar size and risk profile. As a wider audit procedure, we also evaluated the historical accuracy of forecasts made by management by comparing them to actual results. This assessment also involved validating that the same forecasts and assumptions are used across the preparation of the financial statements, including the evaluation of going concern, for the RAC trading group and recoverability of intercompany receivables assessment in RAC Bond Co Plc.
Key observations	We observed that the key assumptions used within the carrying value of goodwill and other intangible assets impairment assessment were 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 are valued correctly and that the related disclosures in the financial statements are appropriate.

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
Materiality	£6.8m (2018 £6.2m)	£6.4m (2018: £6.0m)
Basis for determining materiality	3.0% of EBITDA before exceptional items as detailed in note 3 of the financial statements.	Our determined materiality equates to 1.2% of the carrying value of investments held by the company.
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.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%).

We determined performance materiality with reference to factors such as our understanding of the RAC group, the entity's complexity and purpose within the group, the centralised finance function, the quality of the control environment, extent of material misstatements applicable to the company, the low level of uncorrected misstatements in previous audits.

Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.3m (2018: £0.3m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk 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 Income Statement and Statement of Financial position of the group.

We have performed a full scope audit on all entities within the group with the exception of Risk Telematics UK Limited, RAC Cars Limited, RACMS Ireland and RAC Employee Benefits Trust which are exempt from statutory audit requirements and immaterial to the group. We performed analytical procedures at the group level for these entities.

All full scope 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 £0.4m to £6.4m. These account for over 99% of the group's revenue, net assets and EBITDA before exceptional items. At the parent entity level we have also performed 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- the nature of the industry and sector, control environment and business performance including the design of RAC group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, internal legal team and the audit & risk committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the RAC group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non–compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, acturies, valuations, pensions, IT, conduct risk and financial instruments regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: carrying value of goodwill and other indefinite life intangible assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Irish Stock Exchange Listing Rules, Companies Act 2006, pension and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty imposed by the Prudential Risk Authority (PRA) and the Financial Conduct Authority (FCA).

Audit response to risks identified

As a result, we identified carrying value of goodwill and other indefinite life intangible assets as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Irish Stock Exchange Listing Rules, HMRC, the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Audit response to risks identified (continued)

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

Other matters

Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors in May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 December 2014 to 31 December 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

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.

Kieren Cooper FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK

Date: 25 February 2020

Chris, RAC patrol since July 2010

Consolidated Financial Statements

Consolidated Income Statement for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Revenue	1	631	592
Cost of sales		(313)	(298)
Gross profit		**318**	**294**
Administrative expenses		(217)	(214)
Operating profit	**2**	**101**	**80**
EBITDA before exceptional items		226	207
Depreciation of owned tangible assets	12	(7)	(6)
Depreciation of right of use assets	13	(11)	(11)
Amortisation of customer acquisition intangibles	10	(9)	(8)
Amortisation of contract costs	11	(14)	(11)
Amortisation of non customer acquisition intangible assets	10	(84)	(88)
Exceptional items	3	–	(3)
Operating profit		**101**	**80**
Net finance expenses	5	(182)	(174)
Loss before tax		**(81)**	**(94)**
Tax credit/(charge)	9	3	(3)
Loss for the year		**(78)**	**(97)**

All activities relate to continuing operations.
The accounting policies and notes on pages 66 to 105 are an integral part of these Financial Statements.

Consolidated Statement of comprehensive income for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Loss for the year		(78)	(97)
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		–	1
Aggregate tax effect		–	–
Net movement on cash flow hedges		(1)	(2)
Aggregate tax effect	9(c)	–	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(1)	(1)
Other comprehensive income, net of tax		(1)	(1)
Total comprehensive loss for the year		**(79)**	**(98)**

The accounting policies and notes on pages 66 to 105 are an integral part of these Financial Statements.

Consolidated Financial Statements

Consolidated Statement of financial position as at 31 December 2019

	Note	2019 £m	Restated 2018* £m
ASSETS			
Non-current assets			
Goodwill and intangible assets	10	1,974	2,046
Contract costs	11	29	25
Property, plant and equipment	12	25	24
Right of use assets	13	67	73
Deferred tax asset	18	17	12
		2,112	2,180
Current assets			
Inventories	15	2	2
Trade and other receivables	16	48	46
Cash and cash equivalents	17	98	96
		148	144
LIABILITIES			
Current liabilities			
Borrowings	22(a)	(9)	(9)
Provisions	19	(1)	(1)
Trade and other payables	20	(221)	(220)
Current tax payable	18	(31)	(31)
		(262)	(261)
Net current liabilities		(114)	(117)
Non-current liabilities			
Borrowings	22(a)	(2,368)	(2,332)
Employee benefit liability	25(c)(iv)	(4)	(5)
Trade and other payables	20	(65)	(73)
Deferred tax liability	18	(176)	(188)
Derivative financial instruments	21	(5)	(6)
		(2,618)	(2,604)
Net liabilities		**(620)**	**(541)**
EQUITY			
Ordinary share capital	23	–	–
Share premium		10	10
Own shares	24	–	–
Hedging instruments reserve		(1)	–
Retained earnings		(629)	(551)
Total equity deficit		**(620)**	**(541)**

*See Accounting Policy (B) for further details on the restatement.
The accounting policies and notes on pages 66 to 105 are an integral part of these Financial Statements.

Approved by the Board on 25 February 2020

J Baker
Chief Financial Officer

Consolidated Statement of changes in Equity

	Note	Ordinary share capital £m	Share premium £m	Own shares £m	Hedging instruments reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		**–**	**10**	**–**	**2**	**(455)**	**(443)**
Loss for the year		–	–	–	–	(97)	(97)
Other comprehensive income		–	–	–	(2)	1	(1)
Total comprehensive income/(expense)		–	–	–	(2)	(96)	(98)
Balance at 31 December 2018		**–**	**10**	**–**	**–**	**(551)**	**(541)**
Loss for the year		–	–	–	–	(78)	(78)
Other comprehensive income		–	–	–	(1)	–	(1)
Total comprehensive income/(expense)		–	–	–	(1)	(78)	(79)
Balance at 31 December 2019		**–**	**10**	**–**	**(1)**	**(629)**	**(620)**

The accounting policies and notes on pages 66 to 105 are an integral part of these Financial Statements.

Consolidated Financial Statements

Consolidated Statement of cash flows for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Operating activities			
Loss before tax		**(81)**	**(94)**
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	12	7	6
Depreciation of right of use assets	13	11	11
Amortisation		107	107
Net finance expenses	5	182	174
Exceptional items	3	–	3
Decrease in provisions	19	–	(9)
Working capital adjustments:			
Increase in trade and other receivables		(3)	(5)
Increase in trade and other payables		-	8
Payment to employment benefit schemes		(1)	(1)
Taxation paid		(15)	(16)
Net cash flows from operating activities		**207**	**184**
Investing activities			
Purchase of property, plant and equipment	12	(8)	(11)
Purchase of intangible assets		[39]	(42)
Net cash used in investing activities		**(47)**	**(53)**
Financing activities			
Repayment of obligations under leases	20	(13)	(12)
Repayment of bank debt	22(b)	[18]	–
Repayment of loan notes	22(d)	(32)	(29)
Interest paid and debt issue costs		(95)	(85)
Net cash flows used in financing activities		**(158)**	**(126)**
Net increase in cash and cash equivalents		**2**	**5**
Cash and cash equivalents brought forward		96	91
Cash and cash equivalents carried forward	17	**98**	**96**

The accounting policies and notes on pages 66 to 105 are an integral part of these Financial Statements.

Jason, RAC patrol since May 2000

Accounting Policies

A. Corporate information

RAC Group (Holdings) Limited, a private limited liability company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England & Wales, 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 14. Information on the Group's related party relationships is provided in note 28.

The Group and Parent company Financial Statements of RAC Group (Holdings) Limited for the year ended 31 December 2019 were approved for issue by the Board on 25 February 2020.

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 goods and services. 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 106. 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 2019 was £100 million (2018: £89 million).

Prior Year Adjustment

In 2018, included within trade receivables and deferred income were amounts receivable from customers in respect of monthly policies where the Group did not have the contractual right to future revenues. The 2018 trade receivables and deferred income balances, as seen in notes 16 and 20 have been restated to exclude these balances which totalled £38 million. This has no impact on the income statement, net assets or working capital of the Group.

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 17 and 22 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 27 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 £620 million and net current liabilities of £114 million, however within net current liabilities is £113 million of deferred income. The Group's net liabilities position largely reflects the value of separately identified intangible assets of £1,974 million, offset by issued bonds of £1,174 million, bank borrowings of £260 million and £943 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 2019 Group and Company Financial Statements to be prepared on a going concern basis.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2019. 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 no longer has 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 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.

Accounting Policies

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

Investments in subsidiaries

'A subsidiary is an entity over which the Group exercises control. Within the Parent company Financial Statements, investments are accounted for at historical cost, less any provision for impairment.

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 IFRS 9 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 in accordance with relevant accounting standards. For all contracts within the scope of IFRS 15, the Company determines whether enforceable rights and obligations have been created with the customer and recognises revenue based on the total transaction price as estimated at the contract inception, being the amount which the Company expects to be entitled and has present enforceable rights under the contract. Revenue is allocated proportionally across the contract performance obligations and recognised either over time or at a point in time as appropriate.

Service revenue

'Revenue represents sales of roadside assistance and related claims services and is either an insured or "pay on use" service. For insured services this is recognised on a straight line basis over the length of the contract, usually twelve months in accordance with IFRS 4. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income. For "pay on use" contracts revenue is recognised in accordance with IFRS 15 at the point in time when the performance obligation is satisfied.

Products

Revenue relating to the sale of products, such as batteries and parts, is recognised according to the terms of the sale, at the point in time when the performance obligations are satisfied.

Commission and arrangement fees

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

Interest income

Interest income is recognised in accordance with IFRS 9 when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

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 and restructuring of businesses.

E. Contract costs

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

F. 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.

F. Goodwill, acquired value-in-force and intangible assets (continued)

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 of an insurance product, 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, using a straight line method.

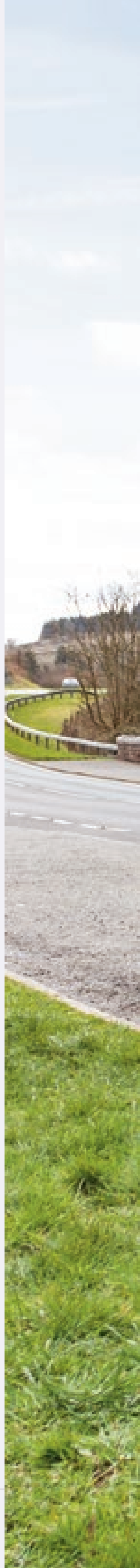
Intangible assets acquired in a business combination

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 two cash generating units ("CGUs") that exist 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.



Chris, RAC patrol since July 2010

Accounting Policies

G. 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.

'The fair value has been calculated on the investment method of valuation as to generate value the property would most likely be purchased by an investor who would seek to let the accommodation to a tenant or tenants.

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.

H. 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.

I. 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.

J. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is recognised on trade receivables if there is considered to be expected credit losses. The amount of expected credit losses is calculated using the simplified approach as allowable under IFRS 9 and is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income statement in other operating expenses.

K. 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.

L. 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.

M. Derivative financial instruments

The Group holds derivative financial instruments in the form of 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 up to 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 IFRS 9 Financial Instruments.

N. 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 'net finance expenses' 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 the 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 Consolidated Income statement.

Accounting Policies

O. 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.

P. 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.

Q. Leases

All items classified as Right of Use assets within the Consolidated Statement of financial position are carried at the present value of the minimum lease payments less accumulated depreciation and any provision for impairment. Depreciation is calculated using the straight-line method over the life of the lease, typically either five or twenty five years for vehicles and properties respectively. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made in the period.

The nature of the leases included within the Right of Use assets are vehicles and properties.

Short-term and low-value leases of recognised as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less.

R. 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.

S. 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.

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

The following new and amended IFRSs are effective and relevant for the 2019 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Group's or the Parent Company's Financial Statements.

- IFRIC 23 Uncertainty over income tax treatments
- Annual Improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

As at 31 December 2019, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

- IFRS 17 Insurance Contracts[1]

[1] Effective for annual periods commencing on or after 1 January 2021

The Group is currently in the process of evaluating the impact of the adoption of 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.

U. 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 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:

Incremental borrowing rate

In calculating the Group's lease liability, in accordance with IFRS 16, management have determined that the Group is unable to calculate the rate implicit within the lease ('IRIL') for all its lease liabilities and has therefore utilised the Group's incremental borrowing rate for the purposes of discounting the minimum value of future lease obligations.

In calculating this measure, management have made certain judgements regarding the finance spread adjustment applicable to the Group and lease specific adjustments. Inherently there is an element of judgment in determining these amounts. The effect of a 1% decrease in the discount rate would increase both the asset and liability by £5 million and the combined interest and depreciation charge by £nil. The effect of a 1% increase in the discount rate would decrease both the asset and liability by £5 million and the combined interest and depreciation charge by £nil.

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 2019 and 31 December 2018 was £878 million and £864 million respectively.

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 2023. 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 9% 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. The key assumptions in this assessment are EBITDA growth rate beyond 2024 and pre-tax discount rate. If the EBITDA growth rate were to reduce from 2% to 1%, the effect on the Group for this reduction would be to decrease this headroom by £409 million. If the pre-tax discount rate were to increase by 1%, the effect on the Group would be to decrease this headroom by £556 million. None of the sensivities noted above lead to an impairment.

Chris, RAC patrol since July 2010

Notes to the Consolidated Financial Statements

1. Revenue

	2019 £m	2018 £m
Sale of products	32	30
Sale of services	599	562
Total revenue	**631**	**592**

All revenue is generated from the sale of products and services in the UK.

2. Operating items

	Note	2019 £m	2018 £m
The following items have been charged to operating profit:			
Depreciation of owned tangible assets	12	7	6
Depreciation of right of use assets	13	11	11
Amortisation of customer acquisition intangible assets	10	9	8
Amortisation of non-customer acquisition intangible assets	10	84	88
Amortisation of contract costs	11	14	11
Employee costs	7	171	160

3. Exceptional items

	2019 £m	2018 £m
Restructuring and other costs	–	1
Impairment of intangible assets (note 10)	–	2
	–	**3**

Impairment of intangible assets of £nil (2018: £2 million) comprises an impairment charge against the carrying value of capitalised development costs of £nil (2018: £2 million) for which the expected benefits no longer support the carrying value of these costs.

4. Operating segments

The Group is primarily UK based and is a consumer services subscription business providing a differentiated range of driving and mobility related services, principally breakdown assistance, for consumer and business customers, and retail motor and telematics insurance products underwritten by a panel of leading insurers. Management has determined the operating segments based on the management accounts reviewed by the Board of Directors, which are 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 two operating and reportable segments of the Group are described below.

Membership services (formerly referred to as Breakdown services)

Membership services is the largest operating segment of the business, offering breakdown cover and related products to Individual Members and Corporate Partners. In addition this segment includes the Group's other established products such as motor claims services, retail online, garage services, and RAC Cars.

Insurance and financial services

The Insurance and financial services segment 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. This segment includes the sale of telematics devices, both as part of insurance policies and to Corporate Partners and SME businesses.

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.

	2019 £m	2018 £m
Revenue of products		
Breakdown services	32	30
Revenue of services		
Breakdown services – Insurance related	385	369
Breakdown services – Non-insurance related	118	115
Insurance and financial services	96	78
Group Revenue	**631**	**592**
Segment EBITDA before exceptional items and head office costs		
Breakdown services	222	207
Insurance and financial services	44	39
Group EBITDA before exceptional items and head office costs	**266**	**246**
Head office costs*	(40)	(39)
Group EBITDA before exceptional items	**226**	**207**
Amortisation of intangible assets	(107)	(107)
Depreciation	(18)	(17)
Exceptional items*	–	(3)
Operating profit	**101**	**80**
Finance expenses	(183)	(174)
Investment income	1	–
Loss before tax from continuing operations	**(81)**	**(94)**

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

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 of intangible assets (notes 3 & 10)

Impairment of intangible assets of £nil (2018: £2 million within Membership services).

5. Net finance expenses

	2019 £m	2018 £m
Interest payable – related parties	104	98
Interest payable – third parties	71	75
Recycle of hedged items previously classified through other comprehensive income	–	(6)
Interest payable – lease liabilities	4	3
Amortisation of capitalised finance costs	4	4
Investment income	(1)	–
	182	**174**

All of the finance expenses except investment income relate to financial liabilities held at amortised cost.

6. Auditor remuneration

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

	2019 £000	2018 £000
Audit services		
Audit of Financial Statements	60	58
Audit of subsidiaries	332	307
	392	**365**
Other services		
Other non-audit services	–	–
Total remuneration payable to Deloitte LLP	**392**	**365**

7. Employee information

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

	2019 Number	2018 Number
The monthly average number of persons employed during the year was:		
Breakdown Services	3,156	3,181
Insurance and financial services	94	109
Support	370	368
	3,620	**3,658**

	2019 £m	2018 £m
Total staff costs were:		
Wages and salaries	146	138
Social security costs	15	14
Pension costs	9	8
Termination benefits	1	–
	171	**160**

	2019 £m	2018 £m
These costs were charged within:		
Cost of sales	119	114
Administrative expenses	52	46
	171	**160**

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:

	2019 £000	2018 £000
Fees and benefits	1,990	1,127
Termination benefits	–	–
Contributions paid into money purchase pension schemes	–	–
	1,990	**1,127**
Emoluments of the highest paid Director:		
Fees and benefits	1,066	618
Termination benefits	–	–
Contributions paid into money purchase pension schemes	–	–
	1,066	**618**

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to 1 Director (2018: 1) under a money purchase scheme. During the year no Directors (2018: none) were awarded shares under long-term incentive schemes.

9. Tax

(a) Tax charged to the Consolidated Income statement

	2019 £m	2018 £m
The total tax charge comprises:		
Current tax:		
For the year	18	16
Adjustment in respect of prior years	(4)	–
Total current tax	14	16
Deferred tax:		
Origination and reversal of temporary differences	(13)	(13)
Adjustment in respect of prior years	(4)	–
Total deferred tax (see note 18)	(17)	(13)
Total tax (credited)/charged to the Consolidated Income statement	**(3)**	**3**

(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:

	2019 £m	2018 £m
Loss before tax	(81)	(94)
Tax calculated at standard UK corporation tax rate of 19% (2018: 19%)	(15)	(18)
Disallowable expenses	1	4
Preference dividends payable	19	17
Adjustment in respect of prior years	(8)	–
Total tax (credited)/charged to the Consolidated Income statement (note 9(a)	**(3)**	**3**

The headline rate of UK corporation tax is currently 19% and will reduce 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 2018 and 31 December 2019 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 £nil in respect of tax on movements in hedging instrument fair values (2018: £nil).

Notes to the Consolidated Financial Statements

10. Goodwill and intangible assets

	Goodwill £m	Brand £m	Acquired value-inforce £m	Customer list £m	Other £m	Non customer acquisition intangibles subtotal £m	Customer acquisition intangibles £m	Total £m
Cost:								
At 1 January 2018	878	864	89	536	84	2,451	86	2,537
IFRS 15 reclassification	–	–	–	–	–	–	(55)	(55)
Additions	–	–	–	–	16	16	11	27
Impairment	–	–	–	–	(2)	(2)	–	(2)
At 31 December 2018	**878**	**864**	**89**	**536**	**98**	**2,465**	**42**	**2,507**
Additions	–	–	–	–	12	12	9	21
At 31 December 2019	**878**	**864**	**89**	**536**	**110**	**2,477**	**51**	**2,528**
Amortisation:								
At 1 January 2018	–	–	89	228	39	356	42	398
IFRS 15 reclassification	–	–	–	–	–	–	(33)	(33)
Charge for the year	–	–	–	69	19	88	8	96
At 31 December 2018	**–**	**–**	**89**	**297**	**58**	**444**	**17**	**461**
Charge for the year	–	–	–	68	16	84	9	93
At 31 December 2019	**–**	**–**	**89**	**365**	**74**	**528**	**26**	**554**
Net book value:								
At 31 December 2019	**878**	**864**	**–**	**171**	**36**	**1,949**	**25**	**1,974**
At 31 December 2018	878	864	–	239	40	2,021	25	2,046

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated Income statement. An impairment of £nil (2018: £2 million) has been charged against the carrying value of capitalised development costs for which the expected benefits no longer support the carrying value of these costs. 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 through 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 two cash generating units ("CGU") further details of which are given in note 4. The carrying value of the goodwill and indefinite lived intangible assets allocated across the two CGUs is £878 million and £864 million respectively.

	2019		2018	
	Goodwill £m	Indefinite-lived intangibles £m	Goodwill £m	Indefinite-lived intangibles £m
Breakdown services	748	719	748	719
Insurance and financial services	130	145	130	145
	878	**864**	**878**	**864**

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 2024. 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 9% (2018: 9%) 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;
- 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.

11. Contract costs

	Costs to obtain contracts £m
Costs:	
At 1 January 2018	–
IFRS 15 reclassification	55
Additions	14
At 31 December 2018	**69**
Additions	18
At 31 December 2019	**87**
Amortisation:	
At 1 January 2018	**–**
IFRS 15 reclassification	33
Charge for the year	11
At 31 December 2018	**44**
Charge for the year	14
At 31 December 2019	**58**
Net book value:	
At 31 December 2019	**29**
At 31 December 2018	25

Costs to obtain contracts relate to third party commissions and fees arising as a result of a direct non-insurance sale accounted for under IFRS 15. These costs are amortised on a straight-line method over the life of the policies, typically 2 to 5 years, which is driven by internal customer retention rate analysis.

12. Property, plant and equipment

	Owner-occupied property £m	Fixtures, fittings and other equipment £m	Computer equipment £m	Total £m
Cost or valuation:				
At 1 January 2018	3	24	6	33
Additions	–	10	–	10
At 31 December 2018	**3**	**34**	**6**	**43**
Additions	–	8	–	8
At 31 December 2019	**3**	**42**	**6**	**51**
Depreciation:				
At 1 January 2018	–	9	4	13
Charge for the year	–	5	1	6
At 31 December 2018	**–**	**14**	**5**	**19**
Charge for the year	–	6	1	7
At 31 December 2019	**–**	**20**	**6**	**26**
Net book value:				
At 31 December 2019	**3**	**22**	**–**	**25**
At 31 December 2018	3	20	1	24

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 November 2018 by Colliers International, an accredited independent valuer. Management do not consider there to have been a material change in the value of the property as at 31 December 2019. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2019 and 31 December 2018 would be £3 million.

13. Right of Use assets

	Property £m	Vehicles £m	Total £m
Cost or valuation:			
At 1 January 2018 – on transition	**45**	**22**	**67**
Additions	–	18	18
Disposals	–	(2)	(2)
At 31 December 2018	**45**	**38**	**83**
Additions	–	5	5
Disposals	–	(3)	(3)
At 31 December 2019	**45**	**40**	**85**
Depreciation:			
At 1 January 2018 – on transition	**–**	**–**	**–**
Charge for the year	2	9	11
Disposals	–	(1)	(1)
At 31 December 2018	**2**	**8**	**10**
Charge for the year	2	9	11
Disposals	–	(3)	(3)
At 31 December 2019	**4**	**14**	**18**
Net book value:			
At 31 December 2019	**41**	**26**	**67**
At 31 December 2018	43	30	73

14. 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:			
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 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%
RAC 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 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 January 2019, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, indirect subsidiaries of the Company, were dissolved.

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.

RAC 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 Bidco Limited, as required by s479c of the Companies Act 2006. As a consequence, RAC 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.

15. Inventories

	2019 £m	2018 £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 2019 amounted to £18 million (2018: £15 million).

16. Trade and other receivables

	2019 £m	Restated 2018 £m
Trade receivables	13	17
Prepayments and accrued income	34	28
Other receivables	1	1
Total	**48**	**46**
Expected to be recoverable within one year	48	46

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.

Receivables of £48 million (2018: £46 million) are measured at amortised cost net of any impairment losses which are based on a loss allowance for expected credit losses. No material impairment losses have been recognised in 2019 (2018: £nil).

See Accounting policy (b) for further details on the restatement.

17. Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents comprise:		
Unrestricted cash at bank and in hand	90	88
Restricted cash at bank	8	8
Total	**98**	**96**

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

18. Tax assets and liabilities

	2019 £m	2018 £m
Current tax payable	(31)	(31)
Deferred tax asset	17	12
Deferred tax liability	(176)	(188)
	(190)	**(207)**

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019 and clarifies the accounting for uncertainties in income taxes. IFRIC 23 has been considered in regard to all uncertain tax positions for the RAC group of companies. A provision for 100% of the potential corporation tax (being £24 million (2018: £22 million)) has been made as measured in accordance with the standard. This is the same position adopted in the prior year statutory financial statements of RAC Group Limited and the consolidated financial statements of RAC Bidco Limited & RAC Group (Holdings) Limited. There are no further uncertain tax positions identified that would require measurement under IFRIC 23.

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.

Deferred tax	Property, plant & equipment £m	Intangible assets & Contract costs £m	Retirement benefit obligations £m	Revaluation of financial assets £m	Other temporary differences £m	Total £m
At 1 January 2018	3	(202)	1	3	6	(189)
Credit to Income statement	–	14	–	(1)	–	13
Charge to other comprehensive income	–	–	–	–	–	–
At 31 December 2018	**3**	**(188)**	**1**	**2**	**6**	**(176)**
Credit to Income statement	(1)	12	–	(1)	7	17
Charge to other comprehensive income	–	–	–	–	–	–
At 31 December 2019	**2**	**(176)**	**1**	**1**	**13**	**(159)**

	2019 £m	2018 £m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability brought forward	(176)	(189)
Deferred tax credited to the Consolidated Income statement	17	13
Deferred tax charged to other comprehensive income	–	–
Net deferred tax liability carried forward	**(159)**	**(176)**

The Group has unrecognised capital losses of £146 million to carry forward indefinitely against future capital gains (2018: £146 million). No asset has been recognised as there are no capital gains expected in the foreseeable future. The Group has an unrecognised deferred tax asset of £nil (2018: £2 million) in respect of interest disallowed under the corporate interest restriction rules.

Notes to the Consolidated Financial Statements

19. Provisions

	Other £m	Total £m
At 1 January 2019 and 31 December 2019	1	1

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)

20. Trade and other payables

	2019 £m	2018 £m
Trade payables and accruals	62	61
Deferred income	113	115
Other payables	111	117
Total	**286**	**293**
Expected to be payable within one year	221	220
Expected to be payable in more than one year	65	73
Total	**286**	**293**

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.

Included within other payables is £71 million (2018: £75 million) in relation to lease liabilities recognised as a result of the Group adopting IFRS 16. The contractual maturity dates of lease liabilities are:

	2019 £m	2018 £m
Within 1 year	10	8
1 to 5 years	19	24
5 to 10 years	42	43
	71	**75**

Lease Commitments

As at 31 December 2019 the company had committed to aggregated undiscounted future lease payments of £1 million payable over a period up to 5 years (2018: £2 million).

Short-term and low-value leases expensed to the Income Statement in the year amounts to £nil (2018: £nil). Lease commitments for short-term and low-value leases at the Statement of financial position date amounted to £nil (2018: £nil).

21. Derivative financial instruments

	2019 £m	2018 £m
Cash flow hedge liabilities	(5)	(6)

(a) Hedging

The Group uses financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 27).

The Group has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IFRS 9: Financial Instruments.

(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:

	2019 £m	2018 £m
Contract/notional value	275	280
Total fair value of liability	(5)	(6)

The hedges were deemed effective in the reported years and the movements in the fair value of cash flow hedge in the current year have led to amounts previously recognised within other comprehensive income being recycled to the Income Statement.

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. As both the Senior Term Facility ("STF") and the interest rate swap contracts against which the STF is hedged contain floating rates linked to LIBOR, the Group expects the value of these items to systematically change in opposite directions in response to movements in underlying interest rates. As such, the Group's hedge ratio is expected to remain at 100%.

In May 2016, the Group completed a refinancing. 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.

22. Borrowings

(a) Analysis of borrowing

	Bonds			Bank Debt	Related Party Debt		
	Class A1 Notes	Class A2 Notes	Class B1 Notes	Initial Senior Term Facility	Shareholder loan notes	Preference shares	Total
Interest rate	4.565%	4.870%	5.000%	LIBOR + 2.750%	12%	12%	
At 31 December 2019							
Fair value (£m)	302	605	277	262	28	917	2,391
Amounts due within one year (£m)	2	5	2	–	–	–	9
Amounts due in more than one year (£m)	298	595	272	260	27	916	2,368
Book value (£m)	300	600	274	260	27	916	**2,377**
At 31 December 2018							
Fair value (£m)	302	605	277	280	74	820	2,358
Amounts due within one year (£m)	2	5	2	–	–	–	9
Amounts due in more than one year (£m)	298	594	271	276	74	819	2,332
Book value (£m)	300	599	273	276	74	819	**2,341**

(b) Bank debt

The Initial Senior Term Facility is for an amount of £262 million at a floating rate of 2.750% plus LIBOR, incorporates a LIBOR floor and matures on 6 May 2021. During the year £18 million of principal was repaid.

The Group also entered into agreements for an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million.As at 31 December 2019, £1 million of the Working Capital Facility was utilised (2018: £nil). 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 21 and an analysis of the contractual undiscounted cash flows for these borrowings is shown in note 27(a)(iii).

Subsequent to 31 December 2019, the Senior Term Facility has been re-financed for an amount of £300 million (and an additional £80 million accordion facility) at a floating rate of 2.500% plus LIBOR with a LIBOR floor and matures on 31 January 2025.

The Initial Working Capital Facility of £50 million has also been renewed and is subject to interest of LIBOR plus 2.500% and also matures on 31 January 2025.

Interest rate risk continues to be hedged using an interest rate swap exchanging variable rate interest for fixed rate interest.

(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. 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 IFRS 9 Financial Instruments. The fair value of the debt is £28 million (2018: £74 million). During 2019, £32 million of principal and £22 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 IFRS 9 Financial Instruments. The fair value of the debt is £917 million (2018: £820 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.

Fees relating to the Class A and Class B debt have been capitalised and are being amortised over the lives of the borrowings to which they relate, in accordance with IFRS 9 Financial Instruments.

The Initial Senior Term Facility, Class A1 Notes and Class A2 Notes (together "Class A Debt") are subject to one financial covenant, being the ratio of free cash flow to Class A Debt service charges. The Class B1 Notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges.

The Group has complied with these financial covenants throughout the periods since issue of the Class A Debt and Class B Debt.

23. Ordinary share capital

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

Allotted, called–up and fully paid:	2019 £m	2018 £m
6,724,095 (2018: 6,724,095) ordinary 'A' shares of £0.01 each	67	67
2,175,905 (2018: 2,175,905) ordinary 'B' shares of £0.01 each	22	22
1,100,000 ordinary (2018: 1,100,000) 'C' shares of £0.01 each	11	11
	100	**100**

As at 31 December 2019, the total number of 'B' and 'C' ordinary shares held by the Employee Benefit Trust was 189,732 (2018: 250,538) (see note 24).

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') which are uncertain as at 31 December 2019.

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 22(e).

24. Own shares

	Own shares £m
Balance at 1 January 2019 and 31 December 2019	–

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 2019 was 189,732 (2018: 250,538).

25. Reconciliation of financial liabilities

The table below details changes in the Company's liabilities arising from financing activites including both cash and non-cash changes

	2019 £m	2018 £m
As at 1 January	2,349	2,292
Financing cash flows	(50)	(29)
Other finance expense (note 5)	4	2
Interest expense (note 5)	175	173
Interest paid	(95)	(85)
Movement in fair value of hedge liabilities (note 21)	1	(4)
At 31 December	**2,384**	**2,349**

26. 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 2019 was 7 (2018: 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 2019 was 126 (2018: 132).

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, £9 million (2018: £8 million) was charged to the Group's Consolidated Income statement in respect of the employee defined contribution schemes and £146 thousand (2018: £146 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 for 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.

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 2019. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2019.

26. Employee Benefit Obligations (continued)
Valuations and assumptions (continued)

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

	2019 %	2018 %
Inflation rate	3.00	3.20
Pension increases	3.00	3.20
Deferred pension increases	3.00	3.20
Discount rate	2.00	2.80

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 £414 thousand and £nil respectively (2018: 1% increase in inflation rate would increase liabilities and service costs by £463 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 2019 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	65.0	88.1	88.1	89.6	91.1
for future improvements		(23.1)	(23.1)	(24.6)	(26.1)

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 £402 thousand (2018: £471 thousand).

Guaranteed Minimum Pension Equalisation

There has been no impact as a result of the Guaranteed Minimum Pension (GMP) ruling. The defined benefit pension schemes in the Group are not contracted out of the state pension scheme and therefore GMP equalisation is not applicable.

ii. Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprise £146 thousand (2018: £146 thousand) in respect of net interest expense recognised in the Consolidated Income statement and £381 thousand (2018: £53 thousand) recognised in other comprehensive income.

iii. Experience gains and losses

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

	2019 £m	2018 £m
Fair value of the Scheme's assets at the end of the year	–	–
Present value of the Schemes' liabilities at the end of the year	(4)	(5)
Net deficit in the Schemes	**(4)**	**(5)**

Estimated employer contributions for the year ended 31 December 2020 are £1 million in respect of the defined benefit schemes and £9 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:

	2019 £m	2018 £m
Total fair value of assets	–	–
Present value of defined benefit obligations	(4)	(5)
Net deficit in the Schemes	**(4)**	**(5)**

Amounts recognised in the Consolidated Statement of financial position:

	2019 £m	2018 £m
Surplus included in non-current assets	–	–
Deficits included in non–current liabilities	(4)	(5)
Net deficit in the Schemes	**(4)**	**(5)**

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

26. Employee Benefit Obligations (continued)

v. Movement in the Scheme deficits and surplus comprise:

	2019		2018	
	Scheme liabilities £m	Net deficit £m	Scheme liabilities £m	Net deficit £m
Balance at 1 January	(5)	(5)	(6)	(6)
Benefits paid	1	1	1	1
Remeasurement losses				
Actuarial loss arising from change in assumptions	–	–	–	–
Balance at 31 December	(4)	(4)	(5)	(5)

27. Risk management

The Group operates an Enterprise Risk Management Framework 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 appetite statements, risk reports and the governance and oversight structure.

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:

- 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 major shareholders;
- 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;
- allocation of Senior Management Functions, Prescribed Responsibilities, Overall Responsibilities and Key Functions for each of our regulated subsidiaries under the Senior Managers and Certification Regime, documented in the Management Responsibilities Map; and
- a risk management framework which 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's 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 22.

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 the borrowings were to be left unhedged and market interest rates were to increase or decrease by 1%, the impact on the loss before tax would be a decrease/increase of £3 million (2018: £3 million). The impact on shareholders' equity would be a decrease/increase of £2 million (2018: £2 million).

The sensitivity analysis compares the rate of interest on the Initial Senior Term Facility of LIBOR +2.750% and increases this by 1%.

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.

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 up to 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:

	2019 £m	Restated 2018 £m
Trade and other receivables (note 16)	14	18
Cash and cash equivalents (note 17)	98	96
	112	**114**

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.

27. Risk management (continued)

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 HSBC (2018: HSBC). At 31 December 2019 the balance held by this counterparty was £19 million (2018: £16 million).

iii. Liquidity and funding 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 22)

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.

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

	2019 £m	2018 £m
Bonds		
Less than 1 month	5	5
1 to 3 months	9	9
3 months to 1 year	43	43
1 to 5 years	749	777
5 to 10 years	639	669
Total bonds	1,445	1,503
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	267	300
5 to 10 years	–	–
Total external bank debt	281	314
Related party debt		
1 to 5 years	49	–
5 to 10 years	2,892	2,479
Total related party debt	2,941	2,479
Total borrowings	**4,667**	**4,296**

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 (see note 22(d)).

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 31 December 2029 (2018: redeemeable on 31 December 2028). The terms require redemption of the shares and related accrued dividends on a sale or listing (see note 22(e)).

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 7 to 25.

c. Capital risk management

The Group's capital structure consists of borrowings amounting to £1,446 million (2018: £1,464 million) of gross third party borrowings and £945 million (2018: £894 million) of related party borrowings at 31 December 2019.

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external 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.

Notes to the Consolidated Financial Statements

28. Related party transactions

a. The Group had the following transactions with related parties in 2019 and 2018:

i. Transactions with related parties

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.

	2019 £m	2018 £m
Cumulative accrued dividends on preference shares	399	301
Cumulative accrued interest on loan notes	12	27
	411	**328**

ii. Amounts due to related parties

	2019 £m	2019 £m
Preference shares	917	820
Loan notes	28	74
	945	**894**

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:

	2019 £000	2018 £000
Fees and benefits	4,331	2,863
Contributions to defined contribution pension scheme	95	95
	4,426	2,958

Fees and benefits include key management bonuses. During the year, payments of £93 thousand (2018: £191 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 2019 (2018: 10).

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.

29. 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 2019 £m	Fair value movement £m	Fair value as at 31 December 2018 £m	Fair value hierarchy
Owner occupied property (note 10)	3	–	3	Level 2

Valuations are performed by an external valuer in accordance with Group accounting policies

Cash flow hedge liability (note 21)	(5)	1	(6)	Level 3

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

30. Events after the Reporting Period

Subsequent to the Statement of Financial Position date, on 31 January 2020, the Initial Senior Term Facility has been re-financed, further details can be found in note 23 (b). At the Statement of Financial Position date the carrying value of capitalised borrowing costs relating to the initial facility total £2.4 million. The refinancing has not impacted on the Financial Statements as at 31 December 2019.

Company Financial Statements

The accounting policies on pages 66 to 78 also form an integral part of these Financial Statements.

Company Financial Statements

Company Statement of financial position as at 31 December 2019

	Note	2019 £m	2018 £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	(931)	(831)
		(931)	(831)
Net liabilities		**(397)**	**(297)**
EQUITY			
Ordinary share capital	7	–	–
Share premium		10	10
Retained earnings		(407)	(307)
Shareholders' deficit		**(397)**	**(297)**

The accounting policies on pages 66 to 78 and the notes on pages 109 to 113 are an integral part of these Financial Statements.

The Company's loss for the year was £100 million (2018: £89 million).

Approved by the Board on 25 February 2020.

J Baker
Chief Financial Officer

Company Financial Statements

Company Statement of changes in equity

As at 31 December 2019

	Ordinary share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 January 2018	**–**	**10**	**(218)**	**(208)**
Loss for the year	–	–	(89)	(89)
Other comprehensive income	–	–	–	–
Total comprehensive expense	**–**	**–**	**(89)**	**(89)**
Balance at 31 December 2018	**–**	**10**	**(307)**	**(297)**
Loss for the year	–	–	(100)	(100)
Other comprehensive income	–	–	–	–
Total comprehensive expense	**–**	**–**	**(100)**	**(100)**
Balance at 31 December 2019	**–**	**10**	**(407)**	**(397)**

The accounting policies on pages 66 to 78 and the notes on pages 109 to 113 are an integral part of these Financial Statements.

Company Statement of cash flows as at 31 December 2019

	2019 £m	2018 £m
Operating activities		
Loss before tax	(100)	(89)
Adjustments to reconcile loss before tax to net cash flows:		
Interest expense on borrowings	100	89
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 66 to 78 and the notes on pages 109 to 113 are an integral part of these Financial Statements.

Notes to the Company Financial Statements

1. Auditor's remuneration

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to Auditor's remuneration may be found in note 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	2019 £m	2018 £m
Cost		
At 1 January and 31 December	535	535

4. Investments in subsidiaries (continued)

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:			
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 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%
RAC Cars Limited (formerly 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.

RAC 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 Bidco Limited, as required by s479c of the Companies Act 2006. As a consequence, RAC Cars Limited and Risk Telematics UK Limited have both taken the advantage of the available exemption from audit.

5. Other payables

	2019 £m	2018 £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

12% Preference Shares	2019 £m	2018 £m
Book value	931	831
Fair value	932	832

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 IFRS 9 Financial Instruments. The fair value of the debt is £932 million (2018: £832 million).

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 31 December 2029 (2018: redeemable on 31 December 2028). 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:

	2019 '£000	2018 '£000
Allotted, called-up and fully paid:		
6,724,095 (2018: 6,724,095) ordinary 'A' shares of £0.01 each	67	67
2,175,905 (2018: 2,175,905) ordinary 'B' shares of £0.01 each	22	22
1,100,000 ordinary (2018: 1,100,000) 'C' shares of £0.01 each	11	11
	100	**100**

Of the total number of 'B' and 'C' ordinary shares, 189,732 shares were held by the Employee Benefit Trust at 31 December 2018 (2018: 250,538).

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 2019 and 2018:

(i) The Company had the following amounts due to related parties:	2019 £m	2018 £m
Preference shares and accrued dividends (see note 6)	931	831
Other Group companies - current account (see note 5)	1	1
	932	**832**

(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.

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

	2019 £m	2018 £m
Accrued dividends on preference shares	100	89
	100	**89**

b. Key management compensation

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 28(b) 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 2019 (2018: 10).

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 party

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.

9. Critical accounting judgements and key sources of estimation uncertainty

There are no critical accounting judgements and key sources of estimation uncertainty for RAC Group (Holdings) Limited.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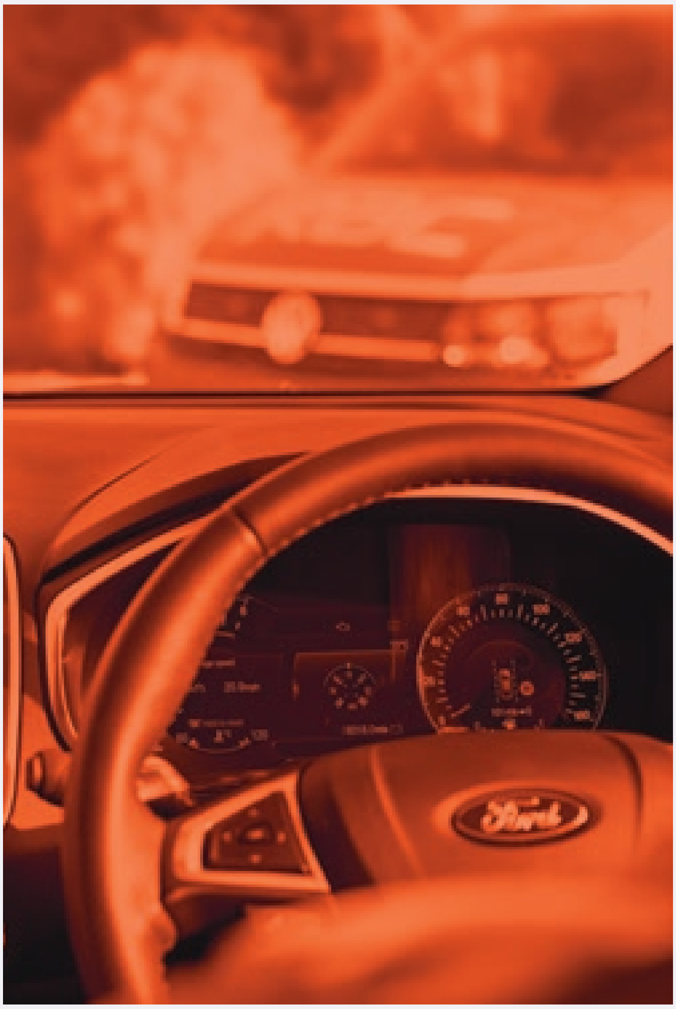

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