Annual Report & Financial Statements 2014

RAC Group (Holdings) Limited

Motorists. We salute you.

Company information

Directors: A Burgess, M Q E Chai, D Cougill, R A Jarratt, H C Ormond, F Robson, A Stirling, R Templeman, M Wood & C Woodhouse

Company Secretary: S Morrison

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

Company number: 09229561 Registered in England and Wales

Auditor: Deloitte LLP, Four Brindleyplace, Birmingham, B1 2HZ

RAC Group (Holdings) Limited ("the Company") was incorporated on 22 September 2014 as Nelson Topco Limited. With effect from 29 December 2014, the Company changed its name to RAC Group (Holdings) Limited.

On 17 December 2014, RAC Bidco Limited (formerly Nelson Bidco Limited), an indirect subsidiary of the Company, acquired the RAC Group of Companies, which includes RAC Limited (formerly RAC Finance Group (Holdings) Limited) and its subsidiaries along with CEP III Investment 16 S.à.r.l. and RAC Management Limited ("the RAC Group of Companies").

The "RAC Group" ("the Group" or "RAC") comprises RAC Group (Holdings) Limited (formerly Nelson Topco Limited) and its subsidiaries as set out on page 56.

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

These consolidated financial statements are presented for the period from incorporation until 31 December 2014, which includes the trading results of the RAC Group Limited Group from the date of acquisition, being 17 December 2014.

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. There have not been any significant impacts on external regulatory reporting performed by the Group.

Contents

CEO review

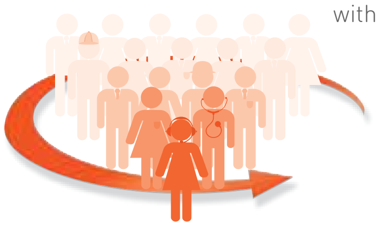
I am pleased to report on the Group's strong performance in 2014, with further growth in the number of club members, continued improvements in service levels and financial performance meeting expectations.

I am also delighted to welcome GIC as new strategic investors in RAC following their acquisition of a 41% stake in the business from The Carlyle Group ("Carlyle") which completed in December 2014. GIC is one of the world's largest sovereign wealth funds and their investment, alongside the continued support of Carlyle, is a great testimony to both the strength of the existing RAC business, and the opportunity to deliver further value to our members in the future.

Loyal membership base

RAC is proud of its heritage and reputation for supporting motorists and keeping its members on the move. RAC has built its reputation as a trusted motoring organisation providing membership benefits that are relevant, informative and affordable and which reward loyalty.

RAC has over 8 million individual and corporate partner members in the UK and I would like to thank them for their continued support in 2014. As 'The Motorist's Champion' RAC prides itself on customer service and it is pleasing to see that our members continue to recognise this with an 83% retention rate achieved in our roadside business and a new best ever Net Promoter Score[1] of 92% in 2014.



83%

Retention in 2014

In 2014 we reinforced our commitment to putting members at the centre of all decision making with our internal 'Motorists Matter' campaign ensuring that interaction with our consumers is delivered with empathy, integrity, and a commitment to delivering a positive outcome for the member.

Broadening our product range

We continued to develop deeper relationships with our corporate partners in 2014 through understanding their needs and delivering broader propositions to allow them to reduce costs and improve service to their end customers. We successfully developed new telematics propositions in 2014 which are proving popular amongst our fleet and insurance customers, who recognise both the potential for improved fleet management together with reduced costs.

Our individual member proposition was enhanced in 2014 with the launch of a UK wide mobile tyre replacement service. Punctures and tyre damage are the second most common cause of breakdowns and our investment in this service has proven popular amongst our members, particularly in light of many new cars not carrying a spare wheel. During the year we also developed our new Comprehensive European Breakdown Cover, making RAC the only major breakdown provider to offer a Defaqto 5 Star European Breakdown product, giving members peace of mind whilst travelling in Europe. We also launched a new vehicle Passport in 2014 which provides the most comprehensive car check in the UK. RAC Car Passport provides both a vehicle history unique to the car and essential advice from motoring experts together with a reliable valuation.

The Motorist's Champion

RAC continued to champion our members' interests in 2014 and our 26th annual Report on Motoring highlighted that fuel prices and the state of the UK roads are two key issues which concern our members. It was pleasing to note that average forecourt prices recently reduced to their lowest levels since late 2009, with retailers being encouraged to pass on reductions in wholesale fuel prices. RAC continues to campaign for improvements to the road network and we welcomed the Government's publication of the first Road Investment Strategy at the end of 2014.

Road safety is another key concern to our members. In 2014, working with the Department for Transport's THINK! Campaign and Aardman Animations, RAC created a new road safety mascot for the 21st century, Horace. Our campaign includes road safety education in schools in order to raise awareness in an attempt to tackle the biggest causes of road casualties amongst young people.

A passionate team

The continued success of the business in 2014 is largely due to the professional and dedicated team of people which I am proud to lead. RAC employees care passionately about delivering high standards of service to our members, none more so than our customer facing patrols and call centre staff. I would like to take this opportunity to thank them for their contribution in 2014 and I look forward to working with the team to deliver further success in 2015.

[1] Industry-wide customer satisfaction measure

Strategic report

The Directors present their Strategic report for the period ended 31 December 2014.

The Directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006. The Strategic report has been prepared for the RAC Group as a whole and covers the full 2014 year, notwithstanding the fact that the Company did not obtain control of the RAC Group of Companies until December 2014. The report therefore gives greater emphasis to those matters which are significant to the Group and its subsidiary undertakings when viewed as a whole.

Principal activities

The RAC Group is primarily UK based and offers an increasingly diverse range of breakdown and other motoring services directly to individual members, as well as indirectly through a number of corporate partner relationships.

Key Performance Indicators ("KPIs") – financial and non-financial

The KPIs set out in the table below are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve RAC's business plans, strategic aims and objectives. The data provided is for the RAC Group for the three year period to 31 December 2014, notwithstanding the fact that the Company only acquired effective control of the RAC Group of Companies on 17 December 2014.

	2014	2013	2012
Revenue (£m)**	498	485	457
EBITDA* (£m)**	169	156	141
Roadside repair rate (%)	81	79	79
Roadside retention rate (%)	83	83	81
Net Promoter Score*** (%)	92	89	85

* EBITDA (Earnings Before Interest, Other gains and losses, Tax, Amortisation, Depreciation and Exceptional items)
** For the RAC Group Limited Group
*** Industry-wide customer satisfaction measure

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

Market environment and outlook

The UK breakdown and motoring services market is highly competitive and covers a diverse set of motoring needs, including vehicle sales, motor insurance, vehicle maintenance, breakdown and fuel.

The Group continues to campaign on behalf of its members on those matters of greatest concern to them. Fuel costs represent a significant amount of our members' annual motoring spend. As world oil prices have fallen, RAC has monitored wholesale pricing trends and pushed for price reductions by retailers whenever the gap between average retail and wholesale prices has increased. This has delivered excellent results with average fuel prices having reduced by the end of 2014 to levels not seen since 2009. RAC has also campaigned for a reduction in the fuel premium charged by motorway service stations and this has prompted the Government to announce measures that will require motorway service stations to display their pricing so motorists can choose whether to stop before committing to do so.

The condition of the UK's roads is another issue of great interest to our members. The Group has campaigned vigorously in the past year for improvements to be made to local roads. It is estimated that there is a £12 billion backlog of local road maintenance in England alone and maintenance of local roads is motorists' top priority for Government expenditure on transport.

In 2014, the Government continued to move forward on reforming the way in which the strategic road network is developed, maintained and funded. The first Road Investment Strategy ("RIS") was published towards the end of the year and was warmly welcomed by RAC. The roles of Passenger Focus and the Office of the Rail Regulator have been confirmed as road user watchdog and strategic roads regulator once the Highways Agency has transitioned to Highways England, a company wholly owned by the UK Government. RAC has been consulted throughout the development and implementation of the RIS and is a member of the Advisory Board assisting Passenger Focus to take on its new role in a way that maximises the benefit to road users. RAC continues to be a member of the Motorists Forum which advises Department for Transport ministers and officials on motoring issues.

In 2014, RAC published its 26th annual Report on Motoring. As in previous years, the report surveyed a representative cross-section of motorists on a range of topical issues of relevance to our members. This year's report explored in some depth when motorists choose other modes of transport and why, and also explored motorists' views on parking and their associated concerns.

Strategic report (continued)

New car sales were at their highest level for a decade and traffic volumes continued to increase throughout 2014. The latest Government statistics show an overall increase of 2.2% year on year in vehicle-miles with increases seen in all vehicle classes. The greatest increase was in light commercial vehicle traffic which increased by 6.9% and the growth in online shopping has undoubtedly contributed to this. Motorway traffic also increased to a record high reaching 16.3 billion vehicle-miles in Q3 2014. We expect to see congestion to be of greater concern to road users over the next few years before the benefits of the current investment in the Strategic Road Network are fully delivered.

Whilst the number of children killed or seriously injured on our roads is at an all-time low, there are worrying areas of increased risk such as the distraction to child pedestrians caused by their use of mobile phones and particularly smartphones. In 2014, RAC teamed up with the Department for Transport's THINK! campaign and Aardman Animations to launch a national child road safety programme. 'Horace', the 21st century's version of 'Tufty the Squirrel' will ensure a whole new generation understands the importance of road safety and help prevent more children being killed or seriously injured on Britain's roads.

Horace is heading up the ground–breaking initiative to encourage school children to create their own short, animated films to communicate key road safety messages to their peers. The RAC campaign has been incorporated into the THINK! website and road safety resource packs produced for schools and children's organisations. The winning entries will be used nationally to illustrate road safety messages that the children feel are important.

Review of the business

GIC investment

2014 was a momentous year for the business with GIC, the Singaporean sovereign wealth fund, acquiring a 41% stake in the RAC Group and joining Carlyle as a strategic investor in the business. The transaction completed on 17 December 2014.

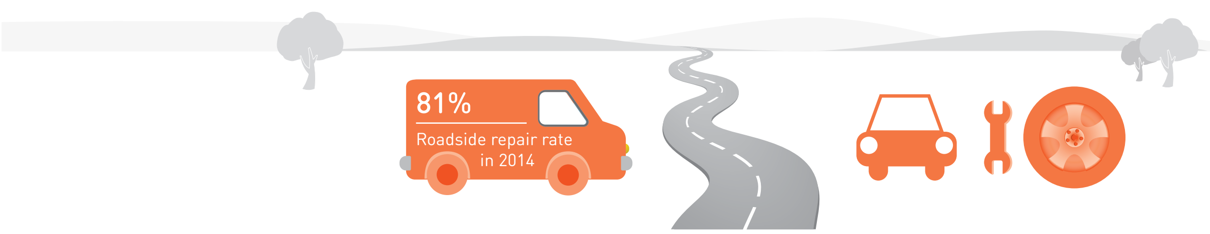
GIC's investment and Carlyle's continued support positions the Group well for further growth in the future and the opportunity to deliver further value to RAC's customers through offering a broader product set whilst maintaining the high levels of customer service.

Refinancing

The RAC Group refinanced its bank debt in December 2014, with new facilities totalling £1.2 billion drawn from a syndicate of leading banks led by Barclays, BNP Paribas, Goldman Sachs and Nomura. These facilities comprise a First Lien Loan of £965 million and a Strategic Investment Loan of £235 million, both of which are fully drawn. The Group also agreed an undrawn but committed revolving credit facility of £50 million. These facilities have been syndicated across a range of other banks and the banks' investment, alongside Carlyle and GIC, is recognition of the strength of the RAC business.

Investment in further customer service improvements

RAC remains passionate about customer service and continued to make investment in 2014 to drive for further improvements. RAC believes the ability to repair members' vehicles at roadside is a key factor and the Group achieved a market leading 81% roadside repair rate in 2014.



Strategic report (continued)

The Group implemented a range of new services in 2014 which will enable it to continue to respond to its members' needs:

- Tyre service - In 2014 RAC launched a UK wide mobile tyre service to support our members and to complement our Roadside Patrols. Punctures and tyre damage are still the second highest type of breakdown our customers experience after battery related faults. Investing in this service alongside the innovative RAC Universal spare wheel, which we piloted in 2013 and rolled out to all of our Patrols in 2014, has really helped us manage the growing problem of cars not having a spare wheel. RAC remain the only national club to have 100% coverage of this application and are currently piloting a second wheel that would benefit more of the vehicle parc we serve.

- Electric vehicles – To support the growth in UK sales of alternative fuel and electric vehicles, RAC has launched a pilot in 2014 designed to supply a mobile charging service for electric cars that run out of charge. The service is free to RAC members and supplies a rapid charge allowing our members to drive home or to the next charging point. This innovation was highly commended in the 2015 'What Van' awards in December 2014.

- Supply Chain – In 2014 we have undertaken a strategic review of our supply chain for parts and batteries. The focus of the review was to not only ensure we have the best value, but to also ensure that the service to our Patrols and therefore our members was further improved. This work has been concluded and we are very pleased to have secured benefits and improved service that will support our business for a number of years to come.

- Fuel - In 2014 we have worked with our Roadside Patrols and Recovery Specialists to further reduce fuel usage. Installing an RAC Telematics unit in each vehicle has enabled us to implement a fuel saving initiative and also helped to ensure our vehicle fleet is driven responsibly and safely. The benefits of this work are embedded in our business plans for 2015 and beyond.

- Diagnostic equipment for Patrols – New diagnostics systems installed within our patrol vehicles have helped us maintain and improve our repair rates and has also allowed us to effect new repairs at the roadside that were previously beyond our capability. During 2014, we invested in three upgrades to the software in order to ensure that our Patrols diagnostic tools are fully effective with the latest vehicles and technologies.

- Training - New for 2014 was a revised Patrol training programme which offered tailored one to one support for our Patrols. This new approach, which is popular with our colleagues, has led to improvements in our repair rate and reduction in towing activity. In 2015 we plan to build on the new model to ensure we deliver further service improvements and retain our high repair rates.

Research and development

As noted above, the Group continues to invest in IT and technology in order to enhance customer service and also to continue to bring new products and services to its members and other customers. Developments in the year include new Telematics services, further investment in sales and service systems and roadside services as noted above. The Group will continue to invest in further enhancements in 2015.

Strategic report (continued)

Principal risks and uncertainties

Risk management

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

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

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

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

Financial risk management

Market risks

The Group is exposed to interest rate risk arising primarily on borrowings of the Group. This risk is managed by the Group through the use of interest rate swap agreements in order to hedge the cash flows associated with changes in interest rates in relation to these borrowings as set out in note 18.

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

Credit risk

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

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

Liquidity risk

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

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

Strategic report (continued)

Key strategic and operational risks

Specific risks arising from the Group's operations are set out below alongside details of actions taken by the Group to mitigate them.

Risk	Mitigation
By virtue of the fact that RAC has a highly visible and widely recognised brand, it is particularly exposed to reputational damage from mistakes or misconduct, or allegations thereof, by its patrols and other employees, contractors or agents. A decline in favourable recognition of RAC's brand could impact its ability to attract or retain members or other customers, which could have a material adverse effect on its business, financial condition and results of operations.	All RAC patrols and other employees are subject to rigorous vetting and training procedures to ensure they meet the high standards required. Where RAC engages contractors or agents, these third parties are vetted and approved before providing services to the Group's members and customers. Service levels are regularly monitored to ensure the Group continues to deliver the high level of service expected. The Group has established a specific entity (RAC Brand Enterprises LLP) with responsibility for ensuring the appropriate use of the brand.
The majority of RAC's revenue is attributable to its roadside assistance service which is the product offering most closely associated with RAC's brand. A material gap in RAC's ability to repair vehicles at the roadside could have an adverse impact on the quality of its roadside assistance services.	The Group's repair rate at roadside is a key measure monitored by its operations team and the Group continues to deliver market leading repair rates. The Group's Technical Department monitors vehicle technology developments to ensure that its patrols have the skills and equipment required to maintain the high roadside repair levels.
RAC's margins are impacted by its members' usage levels, which are, in turn, impacted by a variety of factors including member volumes, vehicle age and type, fuel prices, weather and driving habits. RAC has access to a large volume of data about its members and their driving habits, which it uses to make assumptions about likely usage levels. These assumptions inform the pricing of RAC's products and the allocation of its resources in providing its services. If these assumptions prove to be inaccurate or if member usage levels increase in a way that RAC is not able to plan for or adjust to, its performance, business, financial condition and results of operations could be adversely impacted.	The Group employs a specialist Demand Forecasting function to monitor usage levels and to make predictions of future usage. These predictions are used in the rostering and deployment of resources to ensure the Group's high customer service levels are maintained. Investment has been made in improving weather forecasting and analysis in order to better predict the impact of short term weather variations and to maintain service levels in the event of extreme weather.
RAC has a number of important corporate partners, principally in its roadside assistance segment. The loss of one or more of these significant contracts with corporate partners, due to the financial difficulty of the corporate partner, a deterioration in the business relationship or otherwise, or the renewal of those contracts on less advantageous terms, could adversely affect RAC's business, financial condition and results of operations.	RAC has a range of corporate partner customers across a number of sectors and the Group does not have a material dependency on any one corporate partner for the delivery of its overall results. Corporate partner contracts tend to be for a period of three to five years and renewal times vary such that the Group is not overly exposed to renewals in any one year. RAC actively seeks to provide services to new corporate partners to supplement its existing customer base.
RAC depends on its IT and communication systems to conduct its business, including receiving calls from members experiencing vehicle breakdowns and allocating the appropriate resources to assist those members, as well as maintaining accurate customer service records and managing its fleet of Patrols. If RAC is unable to maintain and improve its IT and communication systems and infrastructure, or effectively resolve any service disruption, reliability or quality issues, its business, financial condition and results of operations could be adversely impacted.	The Group employs a specialist IT team who are responsible for maintaining and developing appropriate IT systems. The Group recognises the importance of maintaining viable capability to continue business processes with minimal impact in the event of an emergency incident and has appropriate business continuity and disaster recovery plans and processes in place. The Group will continue to monitor, maintain and develop appropriate IT systems.

Key strategic and operational risks (continued)

Risk	Mitigation
RAC competes with global and national insurance companies, including direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, who may offer alternative products or more competitive pricing for segments of the insurance market in which RAC operates.	RAC operates insurance broker panels covering motor, home and other insurance products. The Group works with a panel of leading underwriters to ensure competitive and appropriate policies are offered to its customers. The Group has developed a new range of complementary products which are offered to customers where appropriate. RAC closely monitors these markets to ensure it is able to respond to industry changes or competitor activity.
RAC regularly collects, processes, stores and handles non-public data (including name, address, age, bank and credit card details and other personal data) from its members, corporate partners and others as part of the operation of its business, and therefore must comply with data protection laws in the United Kingdom and the European Union ("EU"). Failure to comply with data protection laws could potentially lead to regulatory censure, fines, civil and criminal liability, and reputational and financial costs.	RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group has specialist Data, Legal and Compliance teams and appropriate forums to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations. The Group adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment.
The industries in which RAC operates are affected by government regulation in the form of national and local laws and regulations in relation to health and safety, the conduct of operations and taxation. RAC is subject to prudential and consumer protection measures imposed by insurance and financial services regulators. RAC's roadside assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business. RAC may also be subject to regulatory and governmental inquiries and investigations, the impact of which may be difficult to assess or quantify. Any negative publicity arising in connection with any inquiries and litigation or regulatory investigation affecting RAC's business could adversely affect its reputation.	RAC has appropriate policies, processes and controls in place in order to minimise the risk of any legal/compliance failure or breach. Employees are made aware of the requirements and are given appropriate training. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes and minimise any impact. Whilst responsibility for compliance rests with business areas, the Group employs specialist Risk, Regulatory and Legal teams to provide support and oversight. The Group's Internal Audit function provides a third line of defence, through undertaking periodic reviews with findings reported to the Group Audit, Risk and Compliance Committee.
The Group's roadside operations necessarily require attendance by patrols or third party contractors to inspect and repair members' vehicles at the roadside. Hence, there is an inherent risk of serious injury or death of employees, members or third parties from road traffic collisions.	RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by business activities and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities. Appropriate policies are maintained and the Group regards health and safety at work as of equal importance to profitability and business ethics, and it is an integral part of the roles of the Group's employees. The Group has a health and safety management system which is mandatory in all areas of the business and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. The Group's Health and 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.

Strategic report (continued)

Financial review

The RAC Group's Consolidated financial statements are set out on page 34 onwards.

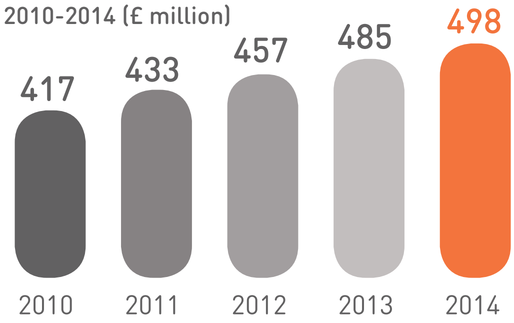
In order to enhance transparency and understanding of the financial information provided, the Consolidated income statement, Consolidated statement of financial position and Consolidated statement of cash flows of the RAC Group Limited Group, which form part of the Strategic report, are set out in pages 17 to 19 for the full year, thus facilitating trend and comparative analysis.

Income statement

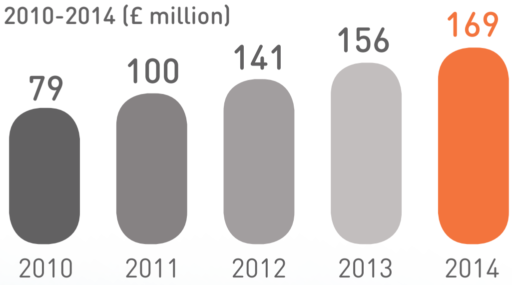
The RAC Group generated revenue of £19 million and EBITDA* before exceptional items (as set out on page 34) of £7 million in the period from incorporation on 22 September 2014 to 31 December 2014, reflecting trading in the post acquisition period, following the acquisition of a 41% stake in the RAC Group of Companies by GIC.

The RAC Group Limited Group full year EBITDA* was £169 million, which represents an increase of 8% compared to the prior year, an excellent achievement in a competitive market environment. Revenue in the year ended 31 December 2014 amounted to £498 million, an increase of 3% year on year.

Revenue* for the years ended 2010-2014 (£ million)



EBITDA* for the years ended 2010-2014 (£ million)



* Before exceptional items for RAC Group Limited Group

Amortisation of intangible assets in the RAC Group amounted to £11 million in the period ended 31 December 2014, representing amortisation of both acquired intangibles and separately identified intangible assets arising from the business combination, predominantly customer lists, being amortised over their useful economic lives.

After exceptional items of £9 million, which mainly comprises transaction costs relating to the acquisition of the RAC Group of Companies in December 2014, and finance expenses of £8 million, the RAC Group loss before tax for the period amounts to £21 million.

Statement of financial position

The Group had goodwill and intangible assets amounting to £2,453 million at 31 December 2014 and these principally represent the goodwill, brand and customer lists separately identified on acquisition of the RAC Group of Companies in the period. Property, plant and equipment of £13 million relates to owner occupied property, fixtures and fittings and computer hardware across the Group.

The Group has net current liabilities of £163 million at 31 December 2014 reflective of the negative working capital dynamics. Trade and other receivables of £56 million are primarily comprised of trade receivables of £32 million and prepayments and accrued income

of £22 million. Trade and other payables of £267 million predominantly represent deferred income of £158 million relating to subscriptions revenue received and £109 million of trade payables, accruals and other payables.

The Group's capital structure consists of borrowings amounting to £1,200 million of gross third party borrowings and £878 million of funds from shareholders at 31 December 2014. The summary of the Group's funding is set out below:

	2014	
	£m	%
Third Party Sources		
Bank borrowings	1,200	57.7
Related Party Sources		
Shareholder loan notes	340	16.4
Preference shares	528	25.4
Ordinary share capital	10	0.5
Total Sources	**2,078**	**100.0**
Undrawn Revolving Credit Facility	50	
Total Committed Facilities	**2,128**	

The terms of the funding sources are summarised in note 19 to the consolidated financial statements.

Total shareholders' equity was a deficit of £18 million primarily due to the loss incurred after tax in the period ended 31 December 2014.

Statement of cash flows

As part of the acquisition of the RAC Group of Companies £67 million of cash and cash equivalents was acquired. Following completion of the acquisition the Group has incurred cash outflows totalling £13 million, primarily relating to professional fees associated with the acquisition.

The RAC Group Limited Group achieved operating cash generation in 2014 of £66 million (2013: £152 million). This was achieved through continued disciplined management of working capital and the advance payment by a major corporate partner in June 2014.

During the period from incorporation to 31 December 2014 the RAC Group incurred a net cash inflow in relation to financing activities of £781 million, due to the refinancing proceeds as set out on page 38, offset by repayment of existing bank facilities.

Capital structure

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

General

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable Prudential Regulatory Authority ("PRA") regulations. There have not been any significant impacts on external regulatory reporting performed by the Group nor any breaches in the period.

Capital management

In managing its capital, RAC seeks to:

I. Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;

II. Maintain financial strength to support new business growth and to satisfy the requirements of its members and regulators; and

III. Retain financial flexibility by maintaining strong liquidity.

Regulatory bases

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

Events since the balance sheet date

There have been no events since the balance sheet date which have a material impact on the Company's or Group's financial position as at 31 December 2014.

By order of the Board on 27 March 2015

S Morrison
Company Secretary

Strategic report (continued)

The Consolidated income statement, Consolidated statement of financial position and Consolidated statement of cash flows on pages 17 to 19 are extracted from the audited Consolidated financial statements of RAC Group Limited (formerly RAC Limited). The RAC Group Limited Group includes all of the trading entities of the RAC Group, and therefore exclude the holding companies and the Group's borrowings. Presentation of these statements are considered by the Directors to provide additional relevant and useful information to users of the financial statements.

RAC Group Limited (formerly RAC Limited)

Consolidated income statement

For the year ended 31 December 2014

	2014	2013
	£m	£m
Revenue	498	485
Cost of sales	(227)	(225)
Gross profit	271	260
Administrative expenses	(128)	(134)
Operating profit	143	126
EBITDA* (Earnings Before Interest, Other gains and losses, Tax, Amortisation, Depreciation and Exceptional items)	169	156
Exceptional items	(1)	(11)
Depreciation	(4)	(4)
Amortisation of customer acquisition intangible assets	(10)	(10)
Amortisation of non customer acquisition intangible assets	(11)	(5)
Operating profit	**143**	**126**
Finance expenses	(1)	-
Other (losses)/gains	(15)	5
Profit before tax	127	131
Tax charge	(28)	(29)
Profit for the year	**99**	**102**

RAC Group Limited (formerly RAC Limited)

Consolidated statement of financial position

As at 31 December 2014

	2014	2013
	£m	£m
ASSETS		
Non-current assets		
Goodwill and intangible assets	436	429
Property, plant and equipment	13	13
Deferred tax assets	7	9
Derivative financial instruments	-	15
Trade and other receivables	3	-
	459	466
Current assets		
Inventories	2	2
Trade and other receivables	132	61
Cash and cash equivalents	54	54
	188	117
LIABILITIES		
Current liabilities		
Provisions	(1)	(3)
Trade and other payables	(331)	(329)
	(332)	(332)
Net current liabilities	**(144)**	**(215)**
Non-current liabilities		
Employee benefit liability	(7)	(7)
Trade and other payables	(4)	(8)
Deferred tax liability	(46)	(45)
	(57)	(60)
Net assets	**258**	**191**
EQUITY		
Ordinary share capital	31	31
Share premium	-	153
Other reserves	1	1
Retained earnings	226	6
Total equity	**258**	**191**

RAC Group Limited (formerly RAC Limited)

Consolidated statement of cash flows

For the year ended 31 December 2014

	2014	2013
	£m	£m
Profit before tax	127	131
Adjustments to reconcile profit before tax to net cash flows:		
Amortisation of intangible assets	21	15
Impairment losses and losses on revaluation	-	6
Loss on disposal of intangible assets	2	-
Gain on disposal of investments	(2)	-
Curtailment gains	(1)	-
Finance expenses and other gains	16	(5)
Depreciation of property, plant and equipment	4	4
Working capital adjustments:		
(Increase)/decrease in trade and other receivables	(74)	1
(Decrease)/increase in trade and other payables	(24)	4
Decrease in provisions	(2)	(3)
Tax received	-	1
Insurance policies for defined benefit schemes	(1)	(2)
Net cash flows from operating activities	**66**	**152**
Investing activities		
Acquisition of companies, net of cash acquired	(6)	(1)
Purchase of property, plant and equipment	(4)	(8)
Proceeds from sale of investments	3	-
Additions of intangible assets	(28)	(39)
Net cash used in investing activities	**(35)**	**(48)**
Financing activities		
Dividends paid	(30)	(81)
Interest paid	(1)	(1)
Net cash flows used in financing activities	**(31)**	**(82)**
Net increase in cash and cash equivalents	-	22
Cash and cash equivalents brought forward	54	32
Cash and cash equivalents carried forward	**54**	**54**

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's report for the period ended 31 December 2014.

An indication of likely future developments in the business of the Group and details of research and development activities are included in the Strategic report. Information about the use of financial instruments by the Group including objectives, risks, policies and exposures is given in note 24 to the consolidated financial statements.

The names of the current Directors of the Company appear on page 2. During the period P A Newcombe was a director in office of the Company, having been appointed on 22 September 2014. He subsequently resigned on 23 September 2014. The three directors representing GIC (see page 29) were appointed on 23 September 2014. The remaining directors were appointed on 17 December 2014.

Incorporation and change of name

The Company was incorporated on 22 September 2014 as Nelson Topco Limited along with RAC Midco Limited (formerly Nelson Midco Limited), RAC Midco II Limited (formerly Nelson Midco II Limited) and RAC Bidco Limited (formerly Nelson Bidco Limited) (the "Acquisition Subsidiaries"). On 29 December 2014 the Company changed its name to RAC Group (Holdings) Limited.

Acquisition of the RAC Group of Companies

On 17 December 2014 the Company, through its indirect subsidiary, RAC Bidco Limited (formerly Nelson Bidco Limited) acquired the RAC Group of Companies. These financial statements reflect the results of the Company and the Acquisition Subsidiaries from incorporation to 31 December 2014 and the consolidated results of the RAC Group of Companies for the period from the acquisition date of 17 December 2014 to 31 December 2014.

Results and dividends

The results of the Group for the period ended 31 December 2014 are set out on page 34. No interim dividend was paid and the Directors do not recommend the payment of a final dividend.

Capital structure

Carlyle and GIC each hold a 41% interest in the share capital of the Company with the balance of 18% held by management and the RAC Employee Benefit Trust ("EBT").

Directors' indemnities

The Company has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. The indemnity was 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 sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force at the date of approving the Directors' report by virtue of the transitional provisions of the Companies Act 2006.

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 14 and 19 to the financial statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 24 to the 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 balance sheet 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 terms of its bank debt.

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 7 to 19. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £18 million. This largely reflects the exceptional costs of completing the transaction under which the Company's indirect subsidiary, RAC Bidco Limited (formerly Nelson Bidco Limited), acquired the RAC Group of Companies. Additionally the Group has gross bank and shareholder debt of £2,068 million.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2014 Company and Group financial statements to be prepared on a going concern basis.

Directors' report (continued)

Auditor

During the period, Deloitte LLP was appointed as auditor of the Group. Deloitte LLP has expressed its willingness to continue in office as auditor of the Company and its reappointment will be put to shareholders at the AGM.

Disclosure of information to the auditor

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

Corporate social responsibility

The Group has reinforced its commitment to Corporate Social Responsibility ("CSR") and we continued to stand up for motorists, representing their interests and concerns at a national level throughout 2014.

The Group increased the pace of its innovation seeking to develop new products and services for members including a universal spare wheel and ground breaking telematics technology. RAC published its 26th annual Report on Motoring in 2014 and demonstrated its commitment to making motoring easier, safer, more affordable and enjoyable whilst highlighting the key concerns of UK motorists.

During the year RAC strengthened its position as The Motorist's Champion and led on hot topics such as the price of fuel, the state of roads and even the disappearance of the humble tax disc. RAC continued to work with the FairFuelUK campaign lobbying the Government on the high level of fuel duty and building a case for lower fuel duty to provide stimulus for economic growth.

Working with the Department for Transport's THINK! campaign and Aardman Animations, RAC created a new road safety mascot for the 21st century, Horace, and lobbied for greater focus on road safety education in schools, tackling the biggest causes of road casualties amongst young people.

Trust and integrity

RAC recognises that its ongoing success is predicated on its ethical conduct and strong governance and the ability to retain the trust of both its members and consumers. The Group's governance systems are designed to manage risks, plan for long term continuity, and foster sustainable growth.

Putting members and customers first

The Group is proud of its heritage and reputation for supporting motorists and keeping its members on the move. RAC has built its reputation as a trusted motoring organisation providing membership benefits that are relevant, informative, and affordable and which reward the Group's loyal members. The Group reinforced its commitment to putting its members at the centre of all decision making with its internal 'Motorists Matter' campaign to ensure that interaction with consumers is delivered with empathy, integrity, and a commitment to delivering a positive outcome for the member.

In addition the Group operates a Treating Customers Fairly committee to ensure fair outcomes are delivered to customers. Separately, the Group operates a Root Cause committee to review complaints with the aim of making changes to prevent reoccurrences.

Code of conduct

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

Privacy and data protection

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

The Group continues to invest in IT systems and processes to protect customer and colleague data, and to raise awareness about the importance of privacy and data protection. For example RAC regularly reinforces the message to colleagues on how critical it is to be vigilant with member data and the introduction of iPads for the Group's external sales force allows the safe transfer of customer data via a secure network rather than relying on paper forms.

Directors' report (continued)

Community and charitable activity

Making motoring safe is a key component of RAC's community work. The Group is committed to making motoring safer in the UK and has forged strong links with government and charitable associations on the issues that impact safety on the UK's roads.

RAC is very proud of its social commitment and environmental credentials and continuously seeks to forge stronger relationships with the local communities where it operates.

Our colleagues are active in supporting many good local, national and international causes and fundraising for charity. During 2014 these are just some of the worthy causes we have supported:

- Walk for Heroes – our annual RAC sponsored trek over the Shropshire hills raised over £4 thousand.
- RAC provides free Breakdown and European Breakdown Cover for the Help for Heroes fleet of vehicles
- RAC colleagues in Walsall have organised an annual Christmas Tree Appeal for over 25 years collecting toys and gifts which are distributed to hostels and refuges across the West Midlands. This appeal has now been replicated successfully for the last few years in our Bradley Stoke and Stretford offices
- Several of our patrols grew moustaches for the prostate cancer charity Movember and helped raise over £1 thousand.
- We have coordinated 'dress down' days and other fundraising events to support key national campaigns including Children in Need, Sport Relief and local fundraising including Children's Hospice South West after the tragic death of a colleague's grandchild. Teams in Walsall raised over £780 for the West Midlands Air Ambulance

In September 2014 RAC colleagues together with its road safety mascot Horace joined a 'Be Bright Be Safe' march with over 300 school children, members of the emergency services and professionals to raise awareness of the importance of high-visibility clothing. RAC created the world's biggest high-visibility vest measuring 15x12 metres which was unveiled at this event and was featured on CBBC's Newsround.

Environmental management

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

Emissions

We continue to look for innovative ways to reduce our emissions, through investment in new technology, working with our suppliers and contractors, and educating and raising awareness throughout our organisation.

Our carbon reduction plan aims to deliver a further reduction in our CO_2 output in 2015. A number of fleet initiatives will contribute towards this including an ongoing "Smarter Driver Training" programme for all company drivers, a vehicle replacement programme, and the use of telematics units in all of our 1,500 patrol vehicles. We have also implemented iCloud technology, allowing our colleagues to work from any location, permitting greater home and remote working and reducing the need to travel.

Waste and recycling

The Group has established waste management and recycling programmes at its sites and across its roadside operations. Disposal methods for waste are determined through the collaborative efforts of RAC and its waste management partners. Working together, we strive to identify new opportunities for recycling waste, reducing the percentage going to landfill. Wherever possible waste is recycled and several of our waste streams are recycled in unique ways, including furniture being recycled into animal bedding, carpet underlay and note books; and plastic drinking cups recycled into garden furniture, and contaminated fuel being recycled for re-use.

Directors' report (continued)

Reducing energy, water and paper consumption

RAC has introduced various initiatives to reduce energy, water and paper consumption. These include:

- the installation of water efficient toilets and wash basins across our three key sites
- an LED light replacement programme
- PC and Monitor reporting systems to ensure that equipment is switched off overnight
- a strict temperature control policy
- the development of new electronic communications
- the use of "smart" technology printers

This has achieved a significant reduction in our use of gas, electricity and water, and a reduction in the amount of paper and print used by our colleagues in our offices minimising our waste and improving efficiency.

Our people

RAC has ambitious growth plans and a desire to build the business in line with our vision to be The Motorist's Champion. The Group knows that this is dependent on our ability to attract and retain people with the best skill set and the personality and drive to deliver the best performance for the business and for our members. The Group is an equal opportunity employer and encourages diverse and inclusive approaches to employment.

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

As a result of the Group's desire to help young people and veterans gain employment, partnerships have been formed with local colleges and universities to provide apprenticeship and graduate opportunities and the Group has also pledged its commitment to The Armed Forces Corporate Covenant and enjoys a close working relationship with the Career Transition Partnership to raise awareness of employment opportunities within RAC.

In 2014 the Group launched a newly designed Career resettlement course that focuses on building technical skills associated with new vehicle technology.

Health and safety

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

Reward and benefits

RAC offers a competitive and integrated total rewards package designed to attract, motivate and retain great colleagues. Compensation packages are benchmarked to ensure they remain fair, equitable and competitive and to ensure they are aligned to support business objectives. The Group continues to negotiate in good faith with its recognised union, Unite, regarding the employment terms and conditions of colleagues. In 2014 RAC instigated automatic enrolment to the pension scheme.

RAC continues to recognise and reward colleagues through two formal recognition schemes. In 2014, the annual Ambassador awards celebrated its 16 year anniversary. The awards recognise outstanding individual performance based on the achievement of key performance indicators and acting as an exemplary role model. In addition RAC's Long Service Awards recognise colleagues for their loyalty and sustained contribution to the business.

Communication

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

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

Directors' report (continued)

Professional development

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

Quality of customer service can be a critical differentiator in a competitive market place. The Group continues to innovate and implement new customer service solutions to ensure RAC members are offered the correct products for their needs. All telephone sales colleagues undergo regular extensive training on enhanced customer skills and processes.

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

Directors' report (continued)

Corporate governance report

RAC is committed to complying with the highest standards of good corporate governance practice. The Group recognises that strong governance is a key element underpinning the responsible, sustainable, long term growth of the business.

The following disclosures have been made on a voluntary basis as the Group is not required to comply with the Corporate Governance Code, and therefore may not be complete disclosures.

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

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

The Board

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

The Board considers that the team has an appropriate balance of Executive and Non-Executive Directors and of skills, knowledge and experience commensurate with the nature and breadth of the business.

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

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

Division of responsibilities

There is a clear division of responsibility between the Non-Executive Chairman, the Chief Executive Officer and Chief Financial Officer and the Non-Executive Directors.

The Chairman is responsible for:

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

The Chief Executive Officer is responsible for:

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

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

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

The Non-Executive Directors are responsible for:

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

Directors' report (continued)

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

Board 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 & Compliance Committee

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

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

Key areas for which the committee is responsible include:

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

Remuneration Committee

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

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

Other committees and working groups

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

Directors' report (continued)

Board Composition

Rob Templeman
Chairman

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

Chris Woodhouse
Chief Executive Officer

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

Diane Cougill
Chief Financial Officer

Diane is a chartered accountant with extensive knowledge and experience in executive finance and commercial roles. Diane joined RAC in 2010 and led the RAC sale process from Aviva in 2011. Diane previously held senior positions in the Aviva UK General Insurance business, including Chief Risk Officer, Financial Control Director and Portfolio Director. Prior to this Diane worked in the energy sector where she held senior finance positions for TXU Europe and Yorkshire Electricity Group.

Mark Wood
Chair of Audit, Risk & Compliance Committee

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

Directors' report (continued)

Board Composition (continued)

Non-Executive Directors - Carlyle Group

Andrew Burgess

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

Alex Stirling

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

Fraser Robson

Fraser is a Director in Carlyle's European buyout team advising on UK based buyout opportunities primarily in the consumer and services sectors. Since joining Carlyle in 2005, Fraser has also been actively involved with Carlyle's investments in Britax Childcare and Talaris, where he served as a member of the board of directors. Prior to joining Carlyle, he worked in investment banking at Lazard.

Non-Executive Directors - GIC Group

Robin Jarratt

Robin is a Senior Vice President of GIC Special Investments Pte Limited (GIC) and head of the European Direct Investments Group based in London. He is responsible for all direct private equity and private debt investments in Europe, Middle East and Africa. Prior to joining GIC in 2005, Robin was an investment director at CVC Capital Partners. Robin is currently a director on the board of Rothesay Life. He was also formerly a director on the boards of Avolon and Springer Science+Business Media.

Henry Ormond

Henry is a Senior Vice President in GIC's Direct Investments Group in London. Prior to joining GIC in 2012, Henry was a Managing Director at Leeds Equity Partners in New York, focused on investments in the education and information services industries. He was previously a Principal at Quadrangle Group in New York, focused on private equity investments in the media and telecom industries. Henry was formerly a director on the boards of EduK, Protection One, Ntelos Holdings and Datanet Communications Group.

Elwin Chai

Elwin is a Vice President in GIC's Direct Investments Group in London. He joined GIC in 2005 and had been part of the direct investments group in Asia prior to moving to London in 2011. Elwin is currently a director on the boards of Springer Science+Business Media and Rothesay Life.

Directors' report

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the Group and Company 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 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 Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company'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 on 27 March 2015

S Morrison
Company Secretary


RAC
BF62 YLJ

Independent auditor's report

To the members of RAC Group (Holdings) Limited (formerly Nelson Topco Limited)

We have audited the financial statements of RAC Group (Holdings) Limited for the period ended 31 December 2014 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the accounting policies and the related notes 1 to 27, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cash flows and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Independent auditor's report (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Richard Knights (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
Date: 27 March 2015

Consolidated financial statements

Consolidated income statement

For the period from incorporation to 31 December 2014

	Note	2014
		£m
Revenue	1	19
Cost of sales		(8)
Gross profit		11
Administrative expenses		(24)
Operating loss	2	(13)
EBITDA* (Earnings Before Interest, Other gains and losses, Tax, Amortisation, Depreciation and Exceptional items)		7
Exceptional items	3	(9)
Amortisation	9	(11)
Operating loss		(13)
Finance expenses	4	(8)
Loss before tax		(21)
Tax credit	8	1
Loss for the period		**(20)**

All activities relate to continuing operations.

The accounting policies and notes on pages 39 to 72 are an integral part of these financial statements.

Consolidated financial statements (continued)

Consolidated statement of comprehensive income

For the period from incorporation to 31 December 2014

	Note	2014
		£m
Loss for the period		(20)
Other comprehensive (expense)/income		
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:		
Net movement on cash flow hedges	18(b)	(9)
Aggregate tax effect	8(c)	2
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods		(7)
Total comprehensive expense for the period		**(27)**

The accounting policies and notes on pages 39 to 72 are an integral part of these financial statements.

Consolidated financial statements (continued)

Consolidated statement of financial position

As at 31 December 2014

	Note	2014
		£m
ASSETS		
Non-current assets		
Goodwill and intangible assets	9	2,453
Property, plant and equipment	10	13
Deferred tax assets	15	9
		2,475
Current assets		
Inventories	12	2
Trade and other receivables	13	56
Cash and cash equivalents	14	54
		112
LIABILITIES		
Current liabilities		
Provisions	16	(1)
Trade and other payables	17	(263)
Current tax payable	15	(11)
		(275)
Net current liabilities		**(163)**
Non-current liabilities		
Borrowings	19(a)	(2,010)
Employee benefit liability	23(c)(iv)	(7)
Trade and other payables	17	(4)
Derivative financial instruments	18(b)	(9)
Deferred tax liability	15	(300)
		(2,330)
Net liabilities		**(18)**
EQUITY		
Ordinary share capital	20	-
Share premium	20	10
Own shares	21	(1)
Hedging instruments reserve		(7)
Retained earnings		(20)
Total equity		**(18)**

The accounting policies and notes on pages 39 to 72 are an integral part of these financial statements.

Approved by the Board on 27 March 2015.

D Cougill

D Cougill, Chief Financial Officer
Date: 27 March 2015
Company registration number 09229561

Consolidated financial statements (continued)

Consolidated statement of changes in equity

For the period from incorporation to 31 December 2014

	Note	Ordinary share capital	Share premium	Own shares	Hedging instruments reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
Balance at 22 September 2014		-	-	-	-	-	-
Issue of share capital	20, 21	-	10	(1)	-	-	9
Loss for the period		-	-	-	-	(20)	(20)
Other comprehensive expense		-	-	-	(7)	-	(7)
Balance at 31 December 2014		**-**	**10**	**(1)**	**(7)**	**(20)**	**(18)**

The accounting policies and notes on pages 39 to 72 are an integral part of these financial statements.

Consolidated financial statements (continued)

Consolidated statement of cash flows

For the period from incorporation to 31 December 2014

	Note	2014
		£m
Operating activities		
Loss before tax		(21)
Adjustments to reconcile profit before tax to net cash flows:		
Amortisation of intangible assets	9	11
Finance expenses	4	8
Transaction costs	3	9
Working capital adjustments:		
Decrease in trade and other receivables		10
Decrease in trade and other payables		(15)
Net cash flows from operating activities		**2**
Investing activities		
Acquisition of companies, net of cash acquired	11(c)	(723)
Transaction costs		(6)
Net cash used in investing activities		**(729)**
Financing activities		
Net proceeds from bank debt	19(b)	1,159
Repayment of bank debt	19(b)	(777)
Issue of shares	25(a)(i)	4
Net proceeds from loan notes	25(a)(i)	155
Proceeds from preference shares	19(d)	244
Interest paid		(4)
Net cash flows generated from financing activities		**781**
Net decrease in cash and cash equivalents		**54**
Cash and cash equivalents brought forward		-
Cash and cash equivalents carried forward	14	**54**

The accounting policies and notes on pages 39 to 72 are an integral part of these financial statements.

Accounting policies

(A) Corporate information

RAC Group (Holdings) Limited (formerly Nelson Topco Limited), a limited liability company incorporated and domiciled in the United Kingdom, together with its subsidiaries, 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 in England.

Information on the Group's structure is provided in note 11. Information on other related party relationships of the Group is provided in note 25.

The Company was incorporated on 22 September 2014 as Nelson Topco Limited. With effect from 29 December 2014, the Company changed its name to RAC Group (Holdings) Limited.

The Group and Parent Company financial statements of RAC Group (Holdings) Limited (formerly Nelson Topco Limited) for the period ended 31 December 2014 were approved for issue by the Board on 27 March 2015.

(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 (formerly Nelson Topco Limited) and its subsidiaries. The financial statements of the Group and the Parent Company have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The Group was formed when the RAC Group of Companies were acquired on 17 December 2014 by RAC Bidco Limited (formerly Nelson Bidco Limited), an indirect subsidiary of the Company. RAC Bidco Limited (formerly Nelson Bidco Limited) is a company ultimately owned by CEP III Nelson SCSp, part of the entities doing business as The Carlyle Group; Sphinx Investment Pte Limited, part of the GIC group; management and the RAC Employee Benefit Trust ("EBT").

The financial statements of the Group and the Parent Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

The separate financial statements of the Company are set out from page 74. On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Parent Company's loss for the period was £3 million.

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 14 and 19 to the financial statements. The Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk are set out in note 24 to the financial statements.

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

The Group has net liabilities of £18 million. This largely reflects the exceptional costs of completing the transaction under which the Company's indirect subsidiary, RAC Bidco Limited (formerly Nelson Bidco Limited), acquired the RAC Group of Companies. Additionally the Group has gross bank and shareholder debt of £2,068 million.

Accounting policies (continued)

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

Going concern (continued)

Having undertaken this assessment, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the financial statements of the Group and Parent Company 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 2014.

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

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

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

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

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

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

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

Investments in associates

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

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

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

Investments in associates (continued)

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

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

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

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

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

Accounting policies (continued)

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

Business combinations (continued)

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

(C) Revenue recognition

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

Service revenue

Revenue represents sales of roadside assistance and services and is recognised on a straight line basis over the length of the contract, usually twelve months.

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

Products

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

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

Insurance brokerage

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

Rental income

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

Other income

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

(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 income statement. Management believe that the separate reporting of exceptional items helps provide an indication of the Group's underlying business performance. Events which may give rise to a classification of items as exceptional include costs associated with business acquisitions, gains or losses on the disposal of businesses, restructuring of businesses and asset impairments.

Accounting policies (continued)

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

Goodwill

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

Acquired value-in-force business

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

Brand

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

Customer 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 income statement in administrative expenses. A provision for impairment will be charged where evidence of such an impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Customer acquisition intangibles

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

The customer acquisition intangible is initially recognised at cost and subsequently amortised over the useful economic life of the policies, typically 4 to 5 years, which is driven by internal customer retention rate analysis.

Intangible assets acquired in a business combination

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

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

Impairment testing

For impairment testing, goodwill has been allocated to the four cash generating units ("CGU") that existed as at the date of acquisition as these represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount. Details of the testing performed and carrying values of goodwill and intangibles is shown within note 9.

Accounting policies (continued)

(F) Property, plant and equipment

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

All other items classified as property, plant and equipment within the 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 income statement.

(G) Inventories

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

(H) Impairment of non-financial assets

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

(I) Trade receivables

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

(J) Cash and cash equivalents

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

(K) Borrowings

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

Accounting policies (continued)

(K) Borrowings (continued)

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

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

(L) Derivative financial instruments

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

Financial assets at fair value through profit or loss are carried in the 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 income statement.

(M) Cash flow hedge

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

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

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

(N) Provisions and contingent liabilities

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

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

Accounting policies (continued)

(O) Income taxes

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

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction, that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

(P) Leases

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

(Q) Employee benefits

Pension obligations and other post-retirement benefit obligations

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

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

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

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

Accounting policies (continued)

(Q) Employee benefits (continued)

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

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', '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 income statement when constructive obligation to such costs arises.

(R) Share based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. The fair value excludes the effect of non-market based vesting conditions.

The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

(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:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

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

Accounting policies (continued)

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

The following new and amended IFRS are effective for the 2014 financial statements. These do not materially impact the Group or the Parent Company's financial reporting but have resulted in increased disclosures:

- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 Impairment of Assets
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 21 Levies
- Amendments to IFRS 10, 12 and IAS 27 Investment Entities

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

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation[1]
- Amendments to IFRS 11 Accounting for Acquisitions of Interest and in Joint Operations[1]
- IFRS 15 Revenue from contracts with customers[2]
- IFRS 9 Financial Instruments[3]

The Group is currently in the process of evaluating the impact of the adoption of new and revised standards, including IFRS 9 and IFRS 15, on the Group's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

1 Effective for annual periods commencing on or after 1 January 2016
2 Effective for annual periods commencing on or after 1 January 2017
3 Effective for annual periods commencing on or after 1 January 2018

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

The preparation of the financial statements in conformity with IFRS requires the Group to make estimates and judgements using assumptions that affect items reported in the 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 following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Tax provisions

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

Provisions and contingent liabilities

Assessing the financial outcome of uncertain commercial and legal positions requires judgements to be made regarding the relative merits of each party's case and the extent to which any claim against the Group is likely to be successful. The assessments made are based on advice from the Group's internal counsel and, where appropriate, independent legal advice.

Accounting policies (continued)

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

(ii) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date are discussed below:

Fair value measurements and valuation process

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

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

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

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

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

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

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

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

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Employee benefit obligations

Determining the amount of the Group's employee benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning inflation, salary and pension increases, investment returns and expected mortality of scheme members. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance from independently qualified actuaries. Details of the assumptions made are set out in note 23 to the financial statements.

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at 31 December 2014 was £906 million and £872 million respectively. No impairment loss of goodwill or the brand has been recognised in the period.

Notes to the consolidated financial statements

1 Revenue

	Period ended 31 December 2014
	£m
Sale of products	1
Sale of services	18
Total revenue	**19**

2 Operating items

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

	Period ended 31 December 2014
	£m
Amortisation (note 9)	11
Operating lease rentals paid	1
Employee costs (note 6)	6

3 Exceptional items

	Period ended 31 December 2014
	£m
Transaction costs	9
	9

Transaction costs relate to the acquisition of the RAC Group of Companies in December 2014.

4 Finance expenses

	Period ended 31 December 2014
	£m
Interest payable - related parties (note 25(a)(i))	4
Interest payable - third parties	4
	8

Notes to the consolidated financial statements (continued)

5 Auditor's remuneration

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

	Period ended 31 December 2014
Audit services	**£000**
Audit of financial statements	15
Audit of subsidiaries	260
	275
Other services	
Taxation compliance services	43
Other non-audit services	1,416
Total remuneration payable to Deloitte LLP	**1,734**

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. In addition, the RAC Group of Companies incurred fees of £1,084 thousand in respect of aborted IPO costs, prior to being acquired by RAC Bidco Limited (formerly Nelson Bidco Limited).

6 Employee information

The Company has no employees. All employees are employed and remunerated by RAC Motoring Services, a fellow Group company.

The average number of persons employed during the period was:

	Period ended 31 December 2014
	Number
Roadside	3,023
Insurance and claims	137
Support	257
	3,417

Total staff costs were:

	Period ended 31 December 2014
	£m
Wages and salaries	5
Social security costs	1
	6
Those costs were charged within:	
Cost of sales	4
Administrative expenses	2
	6

Notes to the consolidated financial statements (continued)

7 Directors

Executive Directors are remunerated as employees of the Group.

	Period ended 31 December 2014
	£000
Fees and benefits	43
	43
Emoluments of the highest paid director:	
Fees and benefits	20
	20

(a) Fees and benefits include directors' bonuses.

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

(c) During the period no directors were awarded shares under long-term incentive schemes.

8 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	Period ended 31 December 2014
	£m
Current tax:	
For the period	1
Total current tax	1
Deferred tax:	
For the period	(2)
Total deferred tax	(2)
Total tax credited to the income statement	**(1)**

(b) Tax reconciliation

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

	Period ended 31 December 2014
	£m
Net loss before tax from continuing operations	(21)
Tax calculated at standard UK corporation tax rate of 21.5%	(5)
Disallowable expenses	4
Total tax credited to the income statement (note 8(a))	**(1)**

Notes to the consolidated financial statements (continued)

8 Tax (continued)

(b) Tax reconciliation (continued)

The headline rate of UK corporation tax reduced from 23% to 21% on 1 April 2014 and will reduce further to 20% from 1 April 2015.

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

Accordingly, as the future reductions of the corporation tax rate to 20% was enacted on 17 July 2013, the deferred tax balances at 31 December 2014 have been reflected at the tax rates they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax charged directly to other comprehensive income in the period amounted to £2 million, and is in respect of tax on movements in hedging instrument fair values.

9 Goodwill and intangible assets

	Goodwill	Brand	Acquired Value-in-Force	Customer List	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost:								
At 22 September 2014	-	-	-	-	-	-	-	-
Acquired through business combinations (note 11(c))	906	872	89	536	37	2,440	24	**2,464**
At 31 December 2014	906	872	89	536	37	2,440	24	**2,464**
Amortisation:								
At 22 September 2014	-	-	-	-	-	-	-	-
Charge for the period	-	-	7	3	1	11	-	**11**
At 31 December 2014	-	-	7	3	1	11	-	**11**
Net book value:								
At 31 December 2014	**906**	**872**	**82**	**533**	**36**	**2,429**	**24**	**2,453**
At 22 September 2014	-	-	-	-	-	-	-	-

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. No impairment losses have been recognised in the period. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the income statement.

9 Goodwill and intangible assets (continued)

Impairment testing of goodwill and intangible assets with indefinite lives

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

	Customer acquisition intangibles	Indefinite lived intangibles
	£m	£m
Roadside	693	666
Insurance broking	130	126
Motoring services	55	53
Telematics & Data services	28	27
	906	**872**

The Group shall perform impairment testing annually and whenever a loss event occurs. The impairment test shall compare the recoverable amount of the CGU to its carrying value.

The recoverable amount of each unit will be determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's 5-year forecast. The growth rate used to extrapolate revenue beyond the Group's forecasts for all CGUs is 2%, based on the expected average long term growth rate of the UK economy. The pre-tax discount rate applied to the cash flow projections will be based on the Group Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate will also be further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key assumptions used in management forecasts include:

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

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

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

Impairment testing of the Brand

The impairment of the RAC Brand is tested using the Royalty Relief Methodology to forecast future cash flows based on management forecasts up to 2018.

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

Notes to the consolidated financial statements (continued)

10 Property, plant and equipment

	Owner occupied property	Fixtures and fittings and other equipment	Computer equipment	Total
Cost or valuation:	**£m**	**£m**	**£m**	**£m**
At 22 September 2014	-	-	-	-
Acquired through business combinations (note 11(c))	3	5	5	13
At 31 December 2014	3	5	5	13
Depreciation:				
At 22 September 2014	-	-	-	-
Charge for the period	-	-	-	-
At 31 December 2014	-	-	-	-
Net book value:				
At 31 December 2014	**3**	**5**	**5**	**13**
At 22 September 2014	-	-	-	-

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

Notes to the consolidated financial statements (continued)

11 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
RAC Midco Limited (formerly Nelson Midco Limited)	Holding company	Ordinary	100%
RAC Midco II Limited (formerly Nelson Midco II Limited)	Holding company	Ordinary	100%
RAC Bidco Limited (formerly Nelson Bidco Limited)	Holding company	Ordinary	100%
RAC Management Limited	Holding company	Ordinary	100%
CEP III Investment 16 S.à.r.l. (incorporated in Luxembourg)	Holding company	Ordinary	100%
RAC Limited (formerly RAC Finance Group (Holdings) Limited)	Holding company	Ordinary	100%
RAC Finance Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Group Limited (formerly RAC Limited)	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland, and CEP III Investment 16 S.à.r.l. which operates and is registered in Luxembourg. CEP III Investment 16 S.à.r.l. became part of the RAC Group on 17 December 2014 as part of the acquisition of the RAC Group of Companies by RAC Bidco Limited (formerly Nelson Bidco Limited), an indirect subsidiary of the Company. CEP III Investment 16 S.à.r.l. was subsequently liquidated in January 2015 (see note 27).

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 (formerly RAC Finance Group (Holdings) Limited), an indirect subsidiary of the Company, having power over the EBT. RAC Limited (formerly RAC Finance Group (Holdings) Limited was acquired by an indirect subsidiary of the Company, RAC Bidco Limited (formerly Nelson Bidco Limited) as part of the acquisition of the RAC Group of Companies on 17 December 2014.

Notes to the consolidated financial statements (continued)

11 Group information (continued)

(a) Information about subsidiaries (continued)

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

(b) The holding company

There is no single immediate controlling entity of the Group.

Until 17 December 2014, the controlling entity of the Company was Sphinx Investment Pte Limited, and the ultimate controlling entity of the Company was GIC.

(c) Business combinations

On 17 December 2014, the Company's indirect subsidiary, RAC Bidco Limited (formerly Nelson Bidco Limited) acquired the RAC Group of Companies. This was effected by RAC Bidco Limited (formerly Nelson Bidco Limited) acquiring 100 per cent of the issued share capital of RAC Management Limited and CEP III Investment 16 S.à.r.l., the owners of RAC Limited (formerly RAC Finance Group (Holdings) Limited).

Since the Company is owned by The Carlyle Group, GIC, the EBT and management, the above acquisition resulted in GIC acquiring an effective interest in 41% of the RAC Group.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	£m
Financial assets	149
Inventory	2
Property, plant and equipment	13
Identifiable intangible assets	61
Financial liabilities	(1,226)
Intangibles arising on acquisition	1,497
Deferred tax liability arising on acquisition	(300)
Total identifiable assets	**196**
Goodwill	906
Total consideration	**1,102**
Satisfied by:	
Equity instruments	312
Cash paid	790
Total consideration transferred	**1,102**

Net cash outflow arising on acquisition	
Cash consideration	790
Less: cash and cash equivalent balances acquired	(67)
	723

Notes to the consolidated financial statements (continued)

11 Group information (continued)

(c) Business combinations (continued)

The fair value of the financial assets includes receivables due from customers for amounts invoiced and accrued revenue for services performed but not yet invoiced, with a fair value of £51 million and a gross contractual value of £56 million. The best estimate at acquisition date of the contractual cash flows not to be collected are £nil.

The goodwill of £906 million arising from the acquisition consists of cost and revenue synergies, the value of the acquired workforce including the accumulated knowhow and skills of the workforce built up over a 117 year history and the efficiency of the RAC infrastructure, which is critical to the reliability of the services provided and successful running of the business and represent significant barriers to entry.

Acquisition-related costs (included in administrative expenses) amount to £9 million.

Since acquisition, the RAC Group of Companies contributed £19 million revenue and £14 million profit before tax to the Group's result for the period from the date of acquisition to the balance sheet date.

If the acquisition of the RAC Group of Companies had been completed on the first day of the financial year, Group revenue for the period would have been £498 million and Group loss after tax would have been £8 million.

12 Inventories

	2014
	£m
Inventories	2

The cost of inventories recognised as an expense and included within 'Cost of sales' in the period ended 31 December 2014 amounted to £nil.

13 Trade and other receivables

	2014
	£m
Trade receivables	32
Prepayments and accrued income	22
Other receivables	2
Total	**56**
Expected to be recoverable within one year	56

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.

14 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise:

	2014
	£m
Unrestricted cash at bank and in hand	42
Restricted cash at bank	12
Total	**54**

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

Notes to the consolidated financial statements (continued)

15 Tax assets and liabilities

	2014
	£m
Current tax liability	(11)
Deferred tax assets	9
Deferred tax liabilities	(300)
	(302)

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Revaluation of financial assets	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m
At 22 September 2014	-	-	-	-	-	**-**
Acquired through business combinations (note 11(c))	5	(300)	1	-	(1)	**(295)**
Credit to income statement	-	2	-	-	-	**2**
Credit to other comprehensive income	-	-	-	2	-	**2**
At 31 December 2014	**5**	**(298)**	**1**	**2**	**(1)**	**(291)**

	2014
	£m
The movement in the net deferred tax liability was as follows:	
Net deferred tax liability brought forward	-
Acquired through business combinations	5
Deferred tax on intangible assets	(300)
Deferred tax credited to the income statement	2
Deferred tax credited to other comprehensive income	2
Net deferred tax liability carried forward	**(291)**

The Group has unrecognised capital losses of £147 million to carry forward indefinitely against future capital gains.

16 Provisions

	Restructuring	2014
	£m	£m
At 22 September 2014	-	-
Acquired on business combinations	1	1
At 31 December 2014	**1**	**1**

Restructuring provision

The restructuring provision acquired on the acquisition of the RAC Group of Companies relates primarily to the cost of redundancies incurred as part of the realignment and re-balancing of headcount in selling and support teams. There has been no expenditure nor additional provision in the period.

Notes to the consolidated financial statements (continued)

17 Trade and other payables

	2014
	£m
Trade payables and accruals	50
Deferred income	158
Other payables	59
Total	**267**
Expected to be payable within one year	263
Expected to be payable in more than one year	4
Total	**267**

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

18 Derivative financial instruments

	2014
	£m
Cash flow hedge liabilities	(9)
	(9)

(a) Hedging

The Group uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 24).

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

(b) Cash flow hedges

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

	2014	2014
	Contract/ notional amount	Fair value of liability
	£m	£m
Interest rate hedges	275	(9)
Total		**(9)**

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

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

18 Derivative financial instruments (continued)

(b) Cash flow hedges (continued)

On acquisition of the RAC Group of Companies on 17 December 2014, a hedge was already in place against the Group's existing bank facilities. As part of the refinancing on the same date, this hedge was novated against the new facilities. The fixed element of this swap is set to 0.8005% for the period from 17 December 2014 to 30 December 2015. The floating rate is calculated on a notional principal amount. The notional principal amount is variable over the life of the hedge as follows; £100 million between 31 December 2013 and 30 December 2014; and £275 million between 31 December 2014 and 30 December 2015.

In addition, four new hedges have been undertaken (each with a separate counterparty). The fixed element of the swaps are set to 1.5692%, 1.5747%, 1.5830% and 1.5889% respectively for the period from 31 March 2015 to 31 December 2017. The floating rate is calculated on a notional principal amount. The notional principal amount for each hedge is variable over its life as follows; £131,250 thousand between 31 March 2015 and 30 December 2015; and £200 million between 31 December 2015 and 31 December 2017.

19 Borrowings

(a) Analysis of borrowings

	Bank Debt		Related Party Debt		Total
	First Lien Loan	Second Lien Loan	Shareholder loan notes	Preference shares	
At 31 December 2014					
Interest rate	LIBOR +4.75%	LIBOR +7.25%	12%	12%	
Book value (£m)	921	225	337	527	**2,010**
Fair value (£m)	965	235	340	528	**2,068**

b) Bank debt

On 17 December 2014, the Group repaid £777 million of senior debt which was acquired on purchase of the RAC Group of Companies. In addition, the Group entered into an agreement to borrow new facilities.

The bank debt consists of three facilities; the First Lien Loan, the Second Lien Loan and the Revolving Credit Facility. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

The First Lien Loan is repayable at a rate of 25 bps per quarter, with a final bullet repayment of the remaining 94.25 per cent of the loan payable on 10 December 2020.

The Second Lien Loan is a bullet repayment, repayable on 10 December 2022.

A Revolving Credit Facility of £50 million is available to the Group, the entirety of which was undrawn as at 31 December 2014. The Revolving Credit Facility bears interest at LIBOR + 4.50%, and is a bullet repayment, repayable on 10 December 2021. Upon drawing 30% or more of the Revolving Credit Facility, the Group is subject to a debt cover financial covenant.

The Group hedges a portion of the loan for interest rate risk using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 18(b).

The senior debt is secured by way of a fixed and floating charge given by RAC Bidco Limited (formerly Nelson Bidco Limited) and RAC Midco II Limited (formerly Nelson Midco II Limited).

An analysis of the contractual undiscounted cash flows for senior debt is shown in note 24(a)(iii).

Notes to the consolidated financial statements (continued)

19 Borrowings (continued)

(c) 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 borrowings have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £340 million.

(d) 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 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 borrowings have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £528 million.

20 Ordinary share capital

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

	2014
	£000
Authorised:	
80,120,000 ordinary shares of £0.01 each	801
Allotted, called up and fully paid:	
5,501,265 ordinary 'A' shares of £0.01 each	55
3,398,735 ordinary 'B' shares of £0.01 each	34
1,100,000 ordinary 'C' shares of £0.01 each	11
	100

On 22 September 2014, the Company was incorporated with 1 'A' ordinary share and 1 'B' ordinary share with a nominal value of £1 each. On 17 December 2014, the 'A' ordinary share was converted into 100 'A' ordinary shares of £0.01 each. Additionally, the 'B' ordinary share was converted into 100 'B' ordinary shares of £0.01 each.

On 17 December, the Group issued 5,501,165 'A' ordinary shares, 3,398,635 'B' ordinary shares and 1,100,000 'C' ordinary shares for a total consideration of £10,000 thousand, resulting in a share premium of £9,999 thousand. Of the total number of 'B' and 'C' ordinary shares, 620,762 shares were held by the Employee Benefit Trust at 31 December 2014 (see note 21).

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. Certain 'B' shares can be converted to 'A' ordinary shares at the option of the holder in three to 12 months following acquisition.

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 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 19(d).

Notes to the consolidated financial statements (continued)

21 Own shares

	2014
	£000
Balance at 22 September 2014	-
Acquired in the period	1
Balance at 31 December 2014	**1**

The own shares reserve represents the cost of shares in the Company held by the EBT to satisfy options under any future share option schemes. The total number of 'B' and 'C' ordinary shares held by the EBT 31 December 2014 was 620,762.

22 Commitments

Operating lease commitments

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

	2014
	£m
Within 1 year	11
Later than 1 year and not later than 5 years	24
Later than 5 years	49
	84

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

23 Employee benefit obligations

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

(a) Introduction

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

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

The RAC GPP Plan is a defined contribution pension plan open to all RAC employees with effect from 1 October 2011.

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 2014 was 8.

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependents in the UK. The number of pensioners entitled to this benefit at 31 December 2014 was 139.

Disability Benefit Scheme ("DB Scheme")

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

23 Employee benefit obligations (continued)

(b) Charges to the income statement

During the period £33 thousand was charged to finance expenses in the Group's income statement in respect of the employee defined benefit schemes.

(c) Employee benefit scheme assumptions and disclosures

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

(i) Assumptions on the liabilities of the Schemes

The projected unit credit method

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

Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2014. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2014.

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

	2014
	%
Inflation rate	2.90
Pension increases	2.90
Deferred pension increases	2.90
Discount rate	3.40

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £485 thousand and £nil respectively.

Mortality assumptions (UUP, the PRMB and the DB 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 2014 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances for future improvements	65.0	88.5	90.6	90.2	92.1
		(23.5)	(25.6)	(25.2)	(27.1)

23 Employee benefit obligations (continued)

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

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

Mortality assumptions (UUP, the PRMB and the DB Schemes) (continued)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming all members were one year younger would increase the Schemes' liabilities by £289 thousand.

(ii) Employee defined benefit expense

During the period the total employee defined benefit expense for the Schemes comprise £33 thousand in respect of net interest expense recognised in the income statement and £nil recognised in other comprehensive income.

(iii) Experience gains and losses

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

	2014
	£m
Fair value of the Scheme assets at the end of the year	-
Present value of the Schemes' liabilities at the end of the year	(7)
Net deficit in the Schemes	**(7)**
Experience gains on the Scheme liabilities (excluding changes in assumptions):	
Amount of losses	-
Percentage of the present value of the Schemes' liabilities	7%

Estimated employer contributions for the period ended 31 December 2015 are £474 thousand in respect of the Defined Benefit schemes and £309 thousand 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:

	2014
	£m
Total fair value of assets	-
Present value of defined benefit obligations	(7)
Net deficit in the Schemes	**(7)**

Amounts recognised in the statement of financial position:	2014
	£m
Deficits included in non-current liabilities	(7)
Net deficit in the Schemes	**(7)**

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

23 Employee benefit obligations (continued)

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

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

	Scheme liabilities 2014	Net deficit 2014
	£m	£m
Balance at 22 September 2014	-	-
Acquired through business combinations	(7)	(7)
Balance at 31 December 2014	**(7)**	**(7)**

24 Risk management

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

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

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

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

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

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

(a) Treasury

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

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

24 Risk management (continued)

(a) Treasury (continued)

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 19.

(i) Market risk

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

The Group is exposed to interest rate risk arising primarily on external borrowings. The Group's policy aims to manage its interest cost within the constraint of its Business Plan and its financial covenants. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings.

If market interest rates were to increase or decrease by 1%, the impact on the profit/(loss) before tax would be a decrease/increase of £525 thousand. The impact on shareholders' equity would be a decrease/increase of £420 thousand.

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

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

	2014
	£m
Trade and other receivables	34
Cash and cash equivalents	54
	88

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

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

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

The Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the period were held with institutions who are A rated. The Group's largest cash and cash equivalent counterparty is Morgan Stanley. At 31 December 2014 the balance was £19 million.

24 Risk management (continued)

(a) Treasury (continued)

(iii) Liquidity risk

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 19).

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

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

	2014
	£m
External bank debt	
Less than 1 month	4
1 to 3 months	7
3 months to 1 year	60
1 to 5 years	279
5 to 10 years	1,352
Total external bank debt	1,702
Related party debt	
5 to 10 years	2,685
Total related party debt	2,685
Total borrowings	**4,387**

The shareholder loan notes and accrued interest have been reflected as repayable on 17 December 2024 as per the terms of the loan notes. The terms also require repayment of the notes and related accrued interest on a sale or listing.

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 17 December 2024, consistent with the terms of the shareholder loan notes. The terms require redemption of the shares and related accrued dividends on a sale or listing.

(b) Capital risk management

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external bank debt, being principal bank borrowings, associated accrued interest and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In December 2014, the Group managed its capital structure through undertaking refinancings, and issuing loan notes and preference shares (see note 19).

Notes to the consolidated financial statements (continued)

24 Risk management (continued)

(b) Capital risk management (continued)

In managing its capital, the Group seeks to:

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

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

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

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

Under the terms of the bank debt, the Group is required to comply with financial covenants upon drawing more than 30% of the Revolving Credit Facility (see note 19). The Group has not drawn upon this facility during the period and consequently has not breached any of its covenants.

(c) Regulatory risk

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

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

25 Related party transactions

(a) The Group had the following transactions with related parties in 2014:

(i) Transactions with related parties

On 17 December 2014, the Company, through its indirect subsidiary, RAC Bidco Limited (formerly Nelson Bidco Limited) acquired the RAC Group of Companies. As part of the acquisition, Group companies entered into the following transactions with related parties who are not members of the Group:

- GIC subscribed for £244 million preference shares in the Company (see note 19);
- GIC subscribed for £157 million loan notes in the Company's subsidiary, RAC Midco Limited (formerly Nelson Midco Limited) in cash at par (see note 19). The loan notes were subsequently transferred from GIC to CEP III Investment 17 S.à.r.l.;
- RAC Bidco Limited (formerly Nelson Bidco Limited) purchased senior management and the EBT's stake in RAC Management Limited, in exchange for cash, preference shares and equity in the Company, and shareholder loan notes in RAC Midco Limited (formerly Nelson Midco Limited) (see note 19);

Notes to the consolidated financial statements (continued)

25 Related party transactions (continued)

(a) The Group had the following transactions with related parties in 2014 (continued):

(i) Transactions with related parties (continued)

- RAC Finance Limited repaid £2 million of loan note principal and associated accrued interest to senior management;
- CEP III Investment 16 S.à.r.l. repurchased £696 million of its own shares held by Carlyle and immediately cancelled them. CEP III Investment 16 S.à.r.l. also purchased all shares held by management in RAC Limited (formerly RAC Finance Group (Holdings) Limited), in exchange for cash and shareholder loan notes in RAC Midco Limited (formerly Nelson Midco Limited); and
- Carlyle contributed its holding in CEP III Investment 16 S.à.r.l. to the RAC Group, in exchange for equity and £244 million preference shares in the Company.

GIC, Carlyle, the EBT and senior management are all related parties of the Group by virtue of their shareholdings in the Company.

Transactions included within the consolidated income statement that have taken place during the period are as follows:

	2014
	£m
Accrued dividends on preference shares	3
Accrued interest on shareholder loan notes	1
	4

(ii) Amounts due to related parties

	2014
	£m
Preference shares	528
Shareholder loan notes	340
	868

(b) Key management interests

A total of 11 key management personnel held preference shares, shareholder loan notes and equity stakes in the business at 31 December 2014.

At no time during the period 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.

Notes to the consolidated financial statements (continued)

25 Related party transactions (continued)

(c) Ownership structure

The ownership structure is as follows:

	Management & EBT	GIC	Carlyle	Total
Number of shares (million)				
'A' Ordinary shares	-	1.4	4.1	5.5
'B' Ordinary shares	0.7	2.7	-	3.4
'C' Ordinary shares	1.1	-	-	1.1
Sub total	1.8	4.1	4.1	10.0
Preference shares	38.4	243.7	243.7	525.8
Shareholder loan notes	24.6	156.9	156.9	338.4
Total	**64.8**	**404.7**	**404.7**	**874.2**

Only the 'A' ordinary shares have voting rights attached. The 'B' ordinary shares held by GIC can be converted to 'A' ordinary shares in the period from three months from acquisition to 12 months from acquisition. The 'B' and 'C' ordinary shares, shareholder loan notes and preference shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

(d) Immediate and ultimate controlling party

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

Until 17 December 2014, the controlling entity of the Company was Sphinx Investment Pte Limited, and the ultimate controlling entity of the Company was GIC.

Notes to the consolidated financial statements (continued)

26 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 2014	Fair value hierarchy
	£m	
Cash flow hedge liability (note 18)	(9)	Level 2
The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.		

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

Group borrowings (note 19)	2,068	Level 2
The fair value of borrowing is included at the amount the Group would have to pay at the balance sheet date to settle the borrowings. This therefore includes the principal amount and accrued interest.		

27 Events after the balance sheet date

In January 2015, CEP III Investment 16 S.à.r.l., an indirect subsidiary of the Company, was liquidated and its assets were distributed to its parent company, RAC Bidco Limited (formerly Nelson Bidco Limited).


BF62 YLJ

Company financial statements

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

Company financial statements (continued)

Company statement of financial position

As at 31 December 2014

	Note	2014
		£m
ASSETS		
Non-current assets		
Investments in subsidiaries	4	535
		535
Current assets		
Other receivables	5	1
		1
LIABILITIES		
Current liabilities		
Other payables	6	(2)
Net current liabilities		**(1)**
Non-current liabilities		
Borrowings	7	(527)
		(527)
Net assets		**7**
EQUITY		
Ordinary share capital	8	-
Share premium	8	10
Retained earnings		(3)
Total equity		**7**

The accounting policies on pages 39 to 49 and the notes on pages 78 to 82 are an integral part of these financial statements.

Approved by the Board on 27 March 2015.

D Cougill
Chief Finance Officer
Date: 27 March 2015
Company registration number: 09229561

Company financial statements (continued)

Company statement of changes in equity

For the period from incorporation to 31 December 2014

	Note	Ordinary share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 22 September 2014		-	-	-	**-**
Issue of share capital	8	-	10	-	**10**
Loss for the period		-	-	(3)	**(3)**
Balance at 31 December 2014		**-**	**10**	**(3)**	**7**

The accounting policies on pages 39 to 49 and the notes on pages 78 to 82 are an integral part of these financial statements.

Company statement of cash flows

For the period from incorporation to 31 December 2014

	Note	2014
		£m
Operating activities		
Loss before tax		(3)
Adjustments to reconcile loss before tax to net cash flows:		
Interest expense on borrowings		3
Working capital adjustments:		
Increase in other receivables	5	(1)
Increase in other payables	6	1
Net cash flows from operating activities		**-**
Investing activities		
Investments in subsidiaries	4	(248)
Net cash used in investing activities		**(248)**
Financing activities		
Issue of shares	8	4
Proceeds from preference shares	9(a)	244
Net cash flows generated from financing activities		**248**
Net increase/(decrease) in cash and cash equivalents		**-**
Cash and cash equivalents brought forward		-
Cash and cash equivalents carried forward		**-**

The accounting policies on pages 39 to 49 and the notes on pages 78 to 82 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 5 of these 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 6 of these 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 note 7 of these Consolidated Financial Statements.

Notes to the Company financial statements (continued)

4 Investments in subsidiaries

(a) Introduction

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 (formerly Nelson Midco Limited)	Holding company	Ordinary	100%
Indirectly held:			
RAC Midco II Limited (formerly Nelson Midco II Limited)	Holding company	Ordinary	100%
RAC Bidco Limited (formerly Nelson Bidco Limited)	Holding company	Ordinary	100%
RAC Management Limited	Holding company	Ordinary	100%
CEP III Investment 16 S.à.r.l. (incorporated in Luxembourg)	Holding company	Ordinary	100%
RAC Limited (formerly RAC Finance Group (Holdings) Limited)	Holding company	Ordinary	100%
RAC Finance Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Group Limited (formerly RAC Limited)	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland, and CEP III Investment 16 S.à.r.l. which operates and is registered in Luxembourg. CEP III Investment 16 S.à.r.l. became part of the RAC Group on 17 December 2014 as part of the acquisition of the RAC Group of Companies by RAC Bidco Limited (formerly Nelson Bidco Limited), an indirect subsidiary of the Company. CEP III Investment 16 S.à.r.l. was subsequently liquidated in January 2015 (see note 27 to the Consolidated Financial Statements).

4 Investments in subsidiaries (continued)

(a) Introduction (continued)

In accordance with Group accounting policies, the Group is deemed to control the RAC Employee Benefit Trust ("EBT") by virtue of RAC Limited (formerly RAC Finance Group (Holdings) Limited), an indirect subsidiary of the Company, having power over the EBT. RAC Limited (formerly RAC Finance Group (Holdings) Limited was acquired by an indirect subsidiary of the Company, RAC Bidco Limited (formerly Nelson Bidco Limited) as part of the acquisition of the RAC Group of Companies on 17 December 2014.

Net Cars Limited and Risk Telematics UK Limited have both been provided with a statutory guarantee by RAC Group Limited (formerly RAC Limited), their immediate parent company as required by s479c of the Companies Act 2006. As a consequence, Net Cars Limited and Risk Telematics UK Limited have both taken the advantage of the available exemption for audit.

(b) Cost

	2014
	£m
Cost	
At 22 September 2014	-
Additions	535
At 31 December 2014	**535**

In September 2014, the Company incorporated a subsidiary called Nelson Midco Limited, which changed its name to RAC Midco Limited with effect from 29 December 2014.

In December 2014, RAC Midco Limited (formerly Nelson Midco Limited) issued £535 million of ordinary share capital, of which the Company subscribed for £248 million in cash at par and the remaining £287 million was issued in return for a contribution of assets from the Company.

5 Other receivables

	2014
	£m
Amounts due from related parties	1
Total	**1**
Expected to be recoverable within one year	1

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

6 Other payables

	2014
	£m
Amounts due to related parties	(2)
Total	**(2)**
Expected to be payable within one year	(2)

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

Notes to the Company financial statements (continued)

7 Borrowings

	Preference shares
At 31 December 2014	
Interest rate	12%
Book value (£m)	**527**
Fair value (£m)	**528**

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 borrowings have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £528 million.

The Group's contractual maturity of preference shares, including estimated dividends is £1,634 million. The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 17 December 2024 (consistent with the terms of the shareholder loan notes). The terms require redemption of the shares and related accrued dividends on a sale or listing.

8 Ordinary share capital

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

	Total
Allotted, called up and fully paid:	**£000**
5,501,265 ordinary 'A' shares of £0.01 each	55
3,398,735 ordinary 'B' shares of £0.01 each	34
1,100,000 ordinary 'C' shares of £0.01 each	11
	100

On 22 September 2014, the Company was incorporated with 1 'A' ordinary share and 1 'B' ordinary share with a nominal value of £1 each. On 17 December 2014, the 'A' ordinary share was converted into 100 'A' ordinary shares of £0.01 each. Additionally, the 'B' ordinary share was converted into 100 'B' ordinary shares of £0.01 each. On 17 December, the Company issued 5,501,165 'A' ordinary shares, 3,398,635 'B' ordinary shares and 1,100,000 'C' ordinary shares for a total consideration of £10,000 thousand, resulting in a share premium of £9,999 thousand. Of the total number of 'B' and 'C' ordinary shares, 620,762 shares were held by the Employee Benefit Trust at 31 December 2014 (see note 4).

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. Certain 'B' shares can be converted to 'A' ordinary shares at the option of the holder in three to 12 months following acquisition.

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 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 7.

Notes to the Company financial statements (continued)

9 Related party transactions

(a) The Group had the following transactions with related parties in 2014:

On 17 December 2014, the Company, through its indirect subsidiary, RAC Bidco Limited (formerly Nelson Bidco Limited) acquired the RAC Group of Companies. As part of the acquisition, the Company entered into the following transactions with related parties:

- GIC subscribed for £244 million preference shares in the Company (see note 7);
- RAC Bidco Limited (formerly Nelson Bidco Limited) purchased senior management and the EBT's stake in RAC Management Limited, in exchange for cash, preference shares and equity in the Company, and shareholder loan notes in RAC Midco Limited (formerly Nelson Midco Limited), the Company's direct subsidiary; and
- Carlyle contributed its holding in CEP III Investment 16 S.à.r.l. to the RAC Group, in exchange for equity and £244 million preference shares in the Company.

GIC, Carlyle, the EBT and senior management are all related parties of the Group by virtue of their shareholdings in the Company.

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

	Period ended 31 December 2014
	£m
Accrued dividends on preference shares	3
	3

(b) Key management interests

A total of 11 key management personnel held shareholder loan notes, preference shares and equity stakes in the business at 31 December 2014.

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

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

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

	2014
	£m
Preference shares and accrued dividends due to related parties (note 7)	(528)
Other Group companies:	
Current account receivables (note 5)	1
Current account payables (note 6)	(2)
	(529)

(d) Immediate and ultimate controlling entity

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

Until 17 December 2014, the controlling entity of the Company was Sphinx Investment Pte Limited, and the ultimate controlling entity of the Company was GIC.

RAC Group (Holdings) Limited
RAC House
Brockhurst Crescent
Walsall WS5 4AW

Telephone 01922 437000
Email info@rac.co.uk
www.rac.co.uk

Company registration number: 09229561