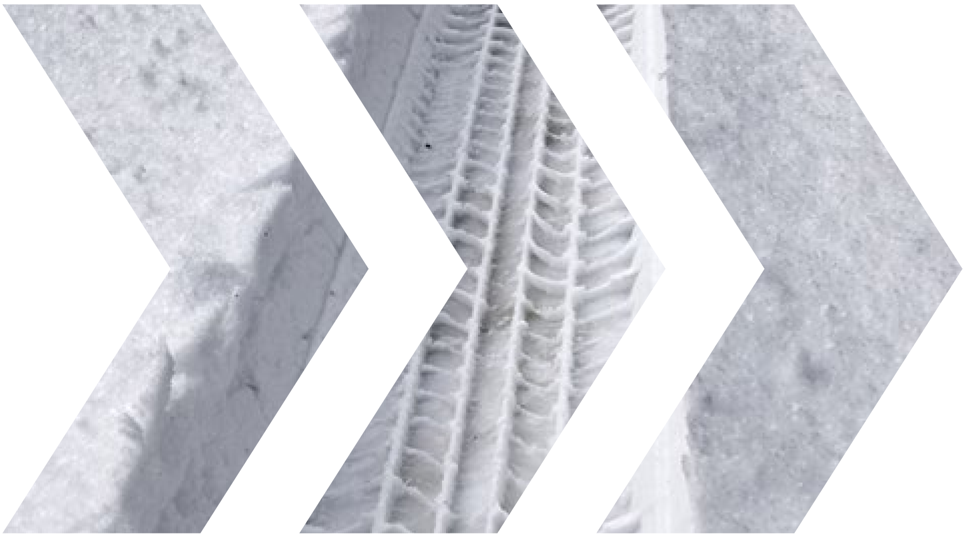
Annual Report & Accounts 2012

RAC Finance Group (Holdings) Limited



Company information

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

Company Secretary: S Morrison

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

Company number: 07665596 Registered in England and Wales

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

Incorporation and other information

RAC Finance Group (Holdings) Limited ("the Company") was incorporated on 10 June 2011 when the Company's name was Stag Topco Limited. The Company's name was changed to RAC Finance Group (Holdings) Limited with effect from 21 December 2011.

The RAC Group ("the Group") comprises RAC Finance Group (Holdings) Limited and its subsidiaries as set out on page 70.

"The RAC Ltd Group", comprising RAC Limited and its subsidiaries (RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) was acquired by The Carlyle Group ("Carlyle") in September 2011, which completed the purchase from Aviva. RAC Brand Enterprises LLP and RAC Motoring Services (Holdings) Limited were incorporated in 2012 and also form part of the RAC Ltd Group. Full year results for the RAC Ltd Group are set out on pages 23 to 25 to aid comparability.

These consolidated financial statements are presented for the year ended 31 December 2012. Comparatives are presented for the period from incorporation to 31 December 2011, which includes the trading results of the RAC Ltd Group from the date of acquisition, being 30 September 2011.

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RAC


RAC

CEO review

During my first year as CEO and the RAC's first full year as a standalone Group under new ownership, I'm pleased to be able to report strong performance across our business.

Growing Our Business

We have achieved growth across many areas during 2012 and as a result the Group has produced impressive financial results, with significant progress achieved in both revenue and EBITDA, at the same time as maintaining our strong cash conversion.

We have secured a number of new deals with corporate partners, adding to the growing portfolio of well known brands to which we provide breakdown services. This activity, along with our broadened proposition, has facilitated growth in our customer base in a highly competitive market where putting the customer at the heart of business decisions is a real differentiator.

The results during 2012 have been enabled by strengthening and transforming our teams and the way that we service our customers and our stakeholders. The senior management team have retained a heavy focus on recruiting and building capability inside an optimum organisational structure. This ensures we have the best people, offering the best service within a lean management structure where every individual's contribution counts.

Delivering to Our Members

2012 saw the UK face some extreme weather during the first half of the year, including the wettest June since 1860! Despite this, first class patrol teams have ensured our renowned customer service has remained consistent throughout the year. The RAC has maintained its highest ever Net Promoter Score of 85% for the whole of 2012, proving that our customers notice what we are doing.

We have developed a number of new products and initiatives during 2012 that aim to service all of our members' motoring needs. Examples include new insurance products, enhanced member benefits and a new battery delivery and fitting service.

Refreshing Our Brand

The RAC's strong and iconic brand remains key to our success. 2012 was a big year as we increased our presence on TV and radio and began to really crystallise our brand promise with our winter TV campaign, this being a watershed in breakdown advertising and messaging. Together this formed the start of a total brand refresh in February 2013 which sees the RAC making a step change in the positive messaging around rescue services and being more than just a breakdown provider.

Our Future as The Motorist's Champion

2012 has been a year of bedding down the recent changes the organisation has gone through, whilst at the same time delivering our growth plans and progressing with our promise to be the premier organisation for motorists. 2013 is about building on this success. Our focus remains that of being The Motorist's Champion through responding to our members' needs, enhancing our excellent customer service and broadening our proposition still further.

Our People, Our Heartbeat

During a period of transformation where every area of our business has been affected to some degree, I'd like to extend my personal thanks to all RAC colleagues. I'm continually impressed by the levels of professionalism, pride and passion in all that they do. Our people really are the best platform to achieve our ambitions and 2013 business objectives.

Chris Woodhouse, Group CEO

A famous past.
A bright future.


rac

Leading innovation in breakdown throughout our history

RAC is:

Everything about driving

A real community of drivers, a club for motorists

A positive presence in our members' everyday life

The realities of driving (the good moments and the bad)

Getting things done to make life better for motorists

A sense of belonging

Sponsors of:

The Goodwood Festival

Chris Evans Car Fest North & South

Goodwood Revival

The Future Car Challenge

1910s

Launched roadside phone boxes to allow members to call up for help.

1950s

Two-way radio communications between headquarters and patrolmen.

1980s

Mobile Data Transmission units provided instant information about the breakdown for the patrol.

Computer-Aided Rescue Service ("CARS") revolutionises the service offered to members and motorists.

2000s

The first breakdown company to design, patent and launch the foldable rapid deployment trailer.

2010s

Rubber toughbook to carry out instant roadside diagnosis.

Revolutionary driver early warning system launched – based on telematics.

Promise: The Motorist's Champion

The RAC's promise is a unique combination of our purpose, our proposition and our personality.

The one stop shop for all our members' motoring needs... putting the joy back into driving.

Motorists.

Purpose

Keep motorists moving...
it's about more than
just breakdown

Proposition

Membership that makes
motoring easier, safer, more
affordable and enjoyable

Personality

Forever innovative,
on your side, in our club,
and reassuringly expert

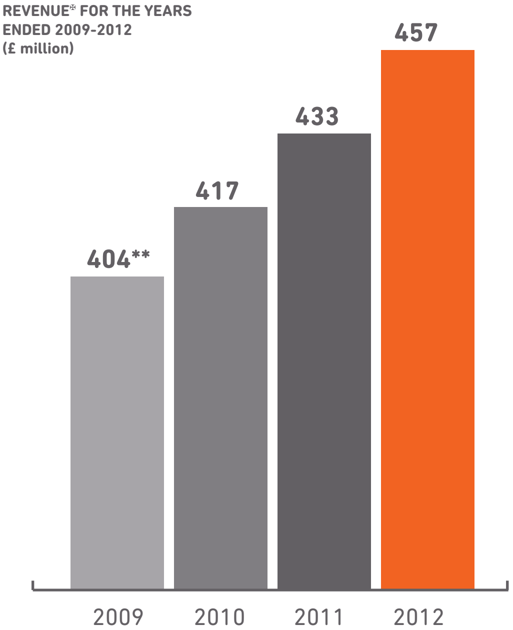
We salute you.

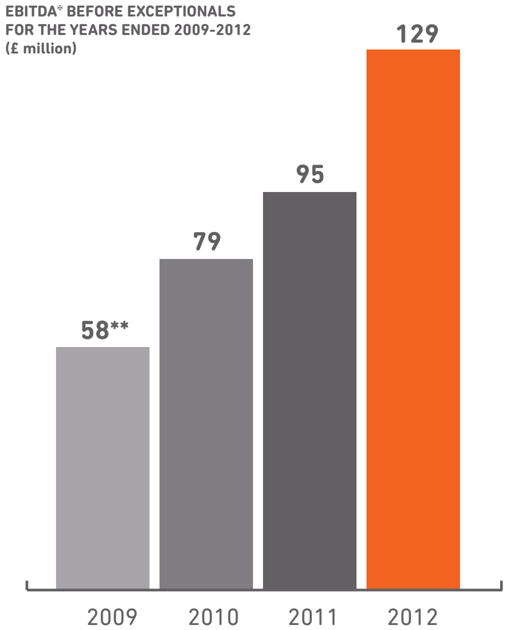
Troy Corser – two times Superbike World Champion with RAC patrols

2012 highlights

The following Key Performance Indicators ("KPIs") are fundamental to the RAC business and reflect management focus on those drivers of value that will enable and inform the management team to achieve the RAC business plans, strategic aims and objectives.

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





* Before exceptional and discontinued items for the RAC Ltd Group, as set out on page 23. **2009 unaudited proforma.

KPIs for the year ended 31 December 2012

£457 Million Revenue*

£129 Million EBITDA*

85% (2011: 85%) Net Promoter Score✣

2,200 (2011: 2,000) Members per employee■

* Before discontinued and exceptional items for the RAC Group, as set out on page 31.
✣ Industry-wide customer satisfaction measure. ■ Number of approximate members per employee at 31 December 2012.

Directors' report part I

Ownership

The RAC Group acquired the RAC Ltd Group, comprising RAC Limited and its subsidiaries (RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) in September 2011, which completed the purchase from Aviva.

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

The equity funding consists entirely of ordinary share capital, following the repayment of preference shares in October 2012 (£80 million nominal). The ordinary capital is designated as 'A' and 'B' for ownership identification. All shares are of 1p nominal value.

As at 31 December 2012 a total of 35 senior managers had equity stakes in the RAC Group.

Results & dividends

The results of the RAC Group are set out on pages 31 to 35. To aid comparability the results of the RAC Ltd Group are set out on pages 23 to 25 and show that the underlying trading entities generated an EBITDA before exceptional and discontinued items of £129 million for the full year (2011: £95 million). The directors do not recommend the payment of a dividend.

KPIs – financial & non-financial

The KPIs set out in the table below represent those of the RAC Group (RAC Finance Group (Holdings) Limited and its subsidiaries) had it acquired the RAC Ltd Group on 1 January 2011. These are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve the RAC business plans, strategic aims and objectives.

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

Market Environment & Context

The breakdown market remains increasingly competitive in an environment where the cost of motoring is continuing to increase year on year. Despite this, road travel is still the primary method of transport in the UK.

- A recent report published by the RAC Foundation reaffirms that 78% of passenger miles travelled by UK residents are undertaken by car.
- Although mileage by car per head of the population has changed very little over the last decade, this masks large differences in the trends between men and women, where driving mileage has decreased for men (especially those in their 20's) and has increased for female drivers.

Other market factors include:

- Cars are getting greener, with new car emissions rapidly approaching 130g/km, down from 174g/km in 2002.
- The internet is now the most common means of researching vehicle purchases, with 72% of buyers researching online.
- The market continued to polarise, with executive and small cars growing shares, whilst mid-range vehicles continued to decline.
- Road traffic accidents continued to decline to record lows, due to both reduced mileage and ever better car safety systems.

The RAC continues to play a leading role in promoting UK motoring interests and issues in the market.

- The RAC published its 24th Annual Report on Motoring during 2012, which summarises

OWNERSHIP STRUCTURE

Number of shares	Management	Carlyle	Total
'A' ordinary (million)	1.2	-	1.2
'B' ordinary (million)	-	6.8	6.8
Total	1.2	6.8	8.0

FINANCIAL KPIs FOR THE YEAR ENDED 31 DECEMBER

	2012	2011	2010
EBITDA (£m)*	129	95	79
Revenue (£m)*	457	433	417
Net Third Party Bank Debt (£m)**	632	435	n/a
Net Third Party Bank Debt / EBITDA	4.9x	4.6x	n/a
Net Promoter Score (%)	85	85	83

*Before discontinued and exceptional items for the RAC Ltd Group, as set out on page 23. **As set out on page 17, net of amortised finance costs.

research to establish the views of a representative cross-section of UK motorists on a range of topical motoring issues. The cost of motoring remains motorists' biggest concern.

- We therefore continue to campaign actively as part of the FairFuelUK campaign which has been successful in persuading the Chancellor to defer further increases in fuel duty, amounting to 11p during 2012.
- The RAC had the opportunity to inform the UK public of ways to stay safe and minimise risk on the road in the TV documentary, Winter Road Rescue, which follows the RAC patrols during the bad weather. The RAC also proactively promoted winter driving advice in its PR activity achieving significant coverage.

Review of The Business

The RAC Group is primarily UK based and offers an increasing range of services to motorists with the largest part of the Group continuing to be the breakdown business.

The business maintained its record levels of customer satisfaction. This was evidenced in the RAC's maintained Net Promoter Score of 85%, achieved whilst servicing the increased demand for roadside assistance arising from the extreme weather during the winter and extreme rainfall over the summer and autumn.

Improving the efficiency of our patrols saw us deliver fuel savings of around 5% through adoption of operational best practice. Telematics technology was also successfully trialled for our patrols in 2012, and as such is set to help yield further fuel savings following the launch of RAC Advance in March 2013.

Our commitment to be a one-stop-shop for our members was progressed during 2012. Examples include:

- The RAC's insurance product portfolio was broadened with a number of products coming to market, ranging from classic car and bike insurance through to home and van insurance.
- The launch of the RAC Shop offers a convenient way to keep our members' cars on the road. We also developed our roadside proposition to include mobile battery fitting for our members.
- Developing our members' benefits package to include a range of rewards for our members and launched the RAC Car Hire website – an internet comparison site that helps our members decide which option is best suited to their needs.

As well as the deferred duty increases the FairFuelUK campaign has also been particularly active at drawing attention to the impact of high fuel prices on both those living in rural areas and older drivers on fixed incomes. In line with the FairFuelUK campaign the RAC conducted a survey in December 2012, looking at the social impact of fuel prices on motorists' lives which gained wide coverage including a debate on Radio 2. Some key elements of this survey are shown overleaf.

Directors' report part I

The RAC's sponsorship and promotion of prestigious motoring interests saw us sponsor Goodwood Festival of Speed, Goodwood Revival and Chris Evans Car Fest North and South. The RAC has also taken breakdown advertising into a new realm through focusing on the whole motoring experience.

During 2012 the RAC achieved a 1% increase in its overall market share. Our membership base has increased still further with the growth in our insurance portfolio and some very significant wins and renewals with our corporate partners. The number of leading organisations that are choosing the RAC as their trusted provider has increased during the year.

2012 saw the RAC Group complete some key corporate activity. This included making early debt repayments totalling £110 million against the senior debt facility, facilitated by the strong cash generation of the RAC Group. In March 2012 we concluded discussions with Aviva on the acquisition which has been reflected in these financial statements. In June 2012 the RAC sold its properties in Bescot and Bradley Stoke under a sale and leaseback agreement. In September 2012 we completed our separation from Aviva, with the RAC now operating as a fully standalone business. In October 2012 the RAC successfully refinanced the business during its first year under new ownership.

Trends & Outlook

Motorists are continuing to purchase more fuel-efficient vehicles which helps both to reduce their cost of motoring and to deliver environmental benefits. The majority of these vehicles use conventional internal combustion engines ("ICEs"), with the addition of stop/start technology. However, the recent launch of the first plug-in production hybrid and extended range of electric vehicles is offering motorists a practical alternative to conventional ICEs even though they are still expensive compared to their ICE equivalent. Being at the forefront of this trend remains a focus for the RAC and we were delighted to once again sponsor the Future Car Challenge, designed to showcase the performance of new motoring technology.

The RAC remains on track to deliver a 20% reduction in carbon dioxide generation by the end of 2013 (compared to 2010).

The RAC continues to invest in tools and systems to deliver outstanding service, with continuing emphasis on maximising repair rates. Repairing vehicles at the roadside is the best outcome for the customer and for the business. In addition, members receiving roadside assistance are most likely to renew their membership and exhibit highest satisfaction levels when a permanent repair is achieved on their vehicle.

10,000* people were surveyed online by RAC in December 2012:

85% say the price of fuel has had a negative impact on their social life

3/4 say they are using their car less now than they were a year ago to save money on fuel

Rural areas hit the hardest as more reliant on cars for all aspects of life

6% of motorists say they have slept in their car to avoid the expense of commuting to work

*Survey consisted of approximately 10,000 people

We also continue to support a number of vehicle manufacturers through training dealership technical staff and helping them keep up-to-date with new technologies.

Research & Development

As The Motorist's Champion we strive to both inform our members on motoring related matters and improve the services we offer. Our Annual Report on Motoring reflects research we undertake on motoring related matters and general developments in the motor industry. Our business vision means we are growing our influence on motoring matters. Now, more than ever, motorists need a voice at the heart of government and we actively contribute to debate and policy in motoring related areas and campaign on behalf of our members on matters which directly impact them, such as the price of fuel, future road pricing strategy and road maintenance.

We are also further developing the Your RAC web tool, the online dashboard for members, to enable the RAC to be a one-stop-shop for motoring needs.

We have evaluated a further upgrading of our diagnostic equipment which will allow us to maintain or improve our repair performance as new low-emissions technology becomes more common across the UK vehicle parc.

The RAC is committed to developing state-of-the-art solutions for breakdown technology. In March 2013 this resulted in the launch of RAC Advance - a warning system that uses the latest diagnostic software to build a detailed picture of how a car's systems are performing.

Brand & Customer Relationships

Gaining a deeper understanding around our brand and what it means to our members alongside what we want our brand to evolve into was a key focus during 2012. Market surveys consistently show that the RAC is considered by consumers to denote trust, reliability and service. Our focus going forward is to fulfil the commitment to members to make motoring easier, safer, more affordable and enjoyable. This brand promise is encapsulated in our new strap line – Motorists. We Salute You.

During 2012 ownership and management of the RAC brand, and other intangibles, was centralised within a single legal entity within the RAC Group. This has enabled us to begin making progress to improve measurement and reporting of the financial benefits of these assets, alongside strengthening controls over their use and facilitating development of branding opportunities with carefully selected external partners.

Financial review

In order to enhance the transparency and understanding of the financial information provided, the consolidated income statement and consolidated statement of comprehensive income of the RAC Ltd Group are set out on pages 23 and 24 for the full year, thus facilitating trend and comparative analysis. The RAC Group's financial statements are set out on page 31 onwards.

Income statement

The RAC Ltd Group delivered an EBITDA of £129 million before exceptional items for the year ended 31 December 2012, which represents an increase of 36% year on year. Revenue in the year ended 31 December 2012 amounted to £457 million (2011 full year equivalent of £433 million) – an increase of 6% compared to 2011, an exceptional achievement in what continues to be a difficult general economic trading environment.

This gives a loss before tax of £54 million, after taking account of amortisation and depreciation of £59 million and exceptional items of £23 million. Allowing for a tax credit of £18 million, the loss after tax for the year amounts to £36 million.

Statement of financial position

Goodwill and intangible assets amount to £1,101 million and principally represent the goodwill, brand and customer lists recognised on the acquisition of the RAC Group from Aviva in September 2011. Property, plant and equipment of £12 million relates primarily to a freehold property of the Stretford operating site, as well as computer equipment.

Trade and other receivables of £84 million (2011: £90 million) are primarily comprised of trade receivables of £35 million (2011: £46 million) and prepayments and deferred commissions of £44 million (2011: £35 million).

Trade receivables have decreased due to improvements in debtor collection whilst prepayments increased due to licences being procured directly, rather than through Aviva.

Directors' report part I

Trade and other payables of £246 million (2011: £239 million) primarily comprise deferred income of £153 million (2011: £148 million) relating to annual subscriptions received. Also included are £62 million (2011: £69 million) of trade payables and accruals together with £31 million (2011: £22 million) of other payables.

The increase in other payables has arisen due to separation from Aviva, and is broadly offset by a similar decrease in trade payable and accruals.

Borrowings amounted to £948 million (2011: £1,019 million) which represents a reduction of £71 million from 2011. This has been enabled by improved cash management and improved cost efficiencies. Borrowings include £664 million (2011: £500 million) of senior debt facilities, £164 million more than 2011. During the year the Group successfully concluded negotiations for new senior facilities amounting to £260 million (Term Loan C). The proceeds generated, together with surplus cash enabled the RAC Group to settle shareholder loan notes, preference shares and outstanding interest amounting to £300 million. Further details are set out in Funding Requirements below.

Total shareholder equity is a deficit of £59 million (31 December 2011: £21 million) primarily due to a loss after tax incurred in the year ended 31 December 2012 of £36 million.

Statement of cash flows

The Group has achieved strong operating cash generation before exceptionals in 2012 of £139 million, equating to 108% of EBITDA before exceptional items (2011: 119%). This has been achieved in a difficult general economic environment by careful and disciplined control of working capital. After taking account of exceptional restructuring and separation activities, cash flows from operating activities amounted to £105 million (2011: £13 million).

During 2012 net financing activities amounted to a cash out-flow of £159 million, primarily due to the repayment of loan notes and preference shares offset by refinancing proceeds as set out above.

Capital structure

The Group maintains an efficient capital structure comprising equity shareholders' funds, loan notes and borrowings, consistent with the Group's overall risk profile and the regulatory and market requirements of the business.

The Group has reduced the average interest rate now paid on its borrowings by 1%, from 9% to 8% from 31 October 2012.

General

The Group includes regulated companies which hold sufficient capital to meet acceptable solvency levels based on applicable Financial Services Authority ("FSA") regulations. From 1 April 2013, the FSA split into two bodies; the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). There is not expected to be any significant impact on external regulatory reporting performed by the RAC.

Capital management

In managing its capital, the RAC seeks to:

I. Match the expected cash in-flows from its assets with the expected cash out-flows from its liabilities as they fall due.
II. Maintain financial strength to support new business growth and satisfy the requirements of its members and regulators.
III. Retain financial flexibility by maintaining strong liquidity.

Regulatory bases

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

Funding requirements

The funding for the Group at 31 December 2012 is as follows:

	2012		2011	
Third Party Sources	**£m**	**%**	**£m**	**%**
Senior Bank Debt*	664	69.5	500	48.7
Related Party Sources				
Shareholder Loan Notes*	284	29.7	438	42.6
Preference Shares	-	-	81	7.9
Ordinary Shares	8	0.8	8	0.8
Total Sources	**956**	**100.0**	**1,027**	**100.0**
Undrawn Revolving Credit Facility	25		50	
Undrawn Capex Facility	15		50	
Total Committed Facilities	**996**		**1,127**	

* Net of amortised finance costs.

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

- £20 million of the senior debt is repayable on 30 September 2017, £410 million is repayable on 30 September 2018, £260 million being repayable on 29 October 2019. Interest payments are calculated based on prevailing floating rates and hedged rates as applicable over the period, as detailed in note 19.
- The loan notes earn a 12% cumulative compound coupon and are redeemable on sale or listing. They can also be redeemed by the Group with the written consent of the majority of the loan note holders and the majority debt holders. Loan notes and accrued interest (primarily funded by Carlyle) are due for repayment on 31 December 2021.
- The preference shares earned a 12% fixed dividend. These shares, along with their associated dividends, were redeemed by the Group on 30 October 2012.

Year end external bank debt

Management defines net debt as set out in the senior debt agreements. This solely includes third party bank debt, but excludes related party debt (loan notes and preference shares). The closing net bank debt at 31 December 2012 is £632 million, as follows:

	2012	2011
Sources	**£m**	**£m**
Senior Debt (principal)	690*	520*
Cash	(32)	(65)
Total Net Bank Debt	**632**	**435**

* Before capitalised finance costs of £26 million (2011: £20 million).

Events since the balance sheet date

On 22nd March 2013, agreement has been concluded with the Trustees of the Auto Windscreens Pension Scheme ("AWP Scheme") to achieve a proposed bulk annuity and pension buy-out agreement with Pension Insurance Corporation Limited ("PIC") which is expected to be concluded in 18 months time. In the interim period, following an additional payment by the RAC Group of c.£1 million to the Trustees, the Trustees have transferred the AWP Scheme assets to PIC in return for an insurance policy securing future payment of scheme benefits. The full buy-out is not expected to result in any further payment being required by the RAC Group and the full liability will be transferred to PIC. As a result of this agreement the IAS 19 surplus in relation to the AWP scheme of £11 million as at 31 December 2012 has been eliminated on 22nd March 2013 resulting in a £11 million reduction in net assets.

Directors' report part I

Principal risks & uncertainties

Risk management

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

The 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 RAC.
- A clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management.
- Adoption of the risk policy framework that sets out risk management and control standards.

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

Financial risk management

Interest rate risk

The Group is exposed to interest rate risk arising primarily on borrowings of the Group. The risk is managed by the Group through the use of interest rate swap and basis rate swap agreements to hedge the variability of cash flows associated with the borrowings as set out in note 18.

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.

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

Liquidity risk

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

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

Strategic and Operational Risks

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

Directors' report part I

Corporate social responsibility

The RAC Corporate Social Responsibility (CSR) programme is something that is driven throughout the business at all levels without exception. The RAC sees CSR as a long standing commitment to doing business responsibly. The CSR policy documents how the RAC can best manage the impact of the business on society and the environment and control risks and opportunities in the business in a sustainable manner.

All motorists continue to face the increased cost of motoring and the RAC has managed costs in roadside operations to continue to offer members great value products and services. We have been voicing the concerns of UK motorists on key issues including the cost of fuel, rising cost of insurance, servicing, the state of our roads and behaviour of other drivers through lobbying and campaign activities. We are particularly pleased with the support received on our Annual RAC Report on Motoring and for the FairFuelUK campaign.

The RAC is proud of its environmental record and takes its responsibilities for the environment seriously, remaining on track to deliver 20% reduction in CO2 emissions by 2013 (compared to 2010). We continue to make further investments to improve performance in relation to energy consumption, emissions, disposal of waste and water usage.

Environmental management

Following a recent external ISO 14001 Conversion Audit, the RAC successfully gained continued certification for our Head Office and Roadside Operations. Over the next few years we aim to gain this certification for all our sites.

Emissions

The business is constantly striving to improve efficiency through a number of initiatives. These include improved fleet utilisation, effective resourcing using advanced planning systems, a continued focus on phone fix (giving motorists simple repair advice on the phone if appropriate), repair rate initiatives, and delivery of the driver training programme to promote efficient driving practices to reduce fuel usage and emissions.

Implementing operational efficiencies resulted in fuel saving of around 5% within our patrols and further savings are expected with the launch of RAC Advance in 2013.

The RAC are committed to investing in vehicles taking advantage of fast moving technological developments in order to introduce greener, more efficient vehicles into the fleet. The introduction of telematics equipment into the fleet will also contribute to the overall fuel efficiency programme and CO2 emission reduction target.

Waste and recycling

Part of the RAC's environmental strategy is to minimise waste through the implementation of ongoing initiatives to reduce, recycle and re-use. An example of one current initiative is the recycling and re-use of decommissioned tools and equipment.

Improving energy efficiency and utilities usage

The RAC proactively monitor utilities usage and have engaged a utilities broker and energy management company to work on an extensive program that will reduce our energy consumption.

The RAC are undergoing a lower energy light replacement program and have installed video conferencing facilities across our business locations, reducing the number of business miles.

The use of water resources is primarily for domestic office uses and for fire protection purposes.

Future Car Challenge

For the third consecutive year the RAC were proud sponsors of the RAC Future Car Challenge. The Future Car Challenge plays an important role in raising awareness of low energy use as low emission vehicles begin to grow rapidly. This event is both a challenge and a demonstration of new low-energy motor vehicles and an event that heralds tomorrow's 21st Century pioneering technology.

Responsible employer

The RAC employs on average 3,535 colleagues, operates from 3 main sites in Walsall, Bristol and Stretford and has a national dedicated patrol force. We take our responsibilities as an employer seriously and are committed to providing a safe and supportive working environment for all our people, where colleagues are valued for their contribution and treated with respect.

The RAC is an equal opportunities employer and encourages diverse and inclusive approaches to employment.

We invest in the development of our colleagues' skills, abilities and potential. To enable RAC colleagues to work to the best of their abilities, while maintaining a good work-life balance, we operate various flexible working initiatives including annualised, part time and compressed hours.

Health and safety

The safety culture has gone from strength to strength and there is a downward trend in total incidents and a reducing trend for each of the top five causes of incidents. The overall absence trend is also downwards.

Reward and benefits

The RAC recognises the importance of ensuring we have the right rewards in place for our colleagues. As a responsible employer the RAC regularly reviews what is happening in the marketplace with respect to rewards and benefits to ensure that we are keeping abreast of developments. In July 2012, the RAC introduced a new benefits package called "My Flex" allowing colleagues to tailor their reward package to reflect their lifestyle.

The RAC continues to recognise and reward colleagues through two formal recognition schemes. The Ambassadors Awards Event is a successful longstanding recognition event. The awards recognise outstanding performance. Performance is based on the achievement of key performance indicators and acting as an exemplary role model in demonstrating the RAC values. In addition the RAC Long Service Awards thank colleagues for their loyalty and sustained contribution to the business.

Communication

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

The business launched a new Intranet called InteRACt to share news and provide a collaborative tool that enables and promotes better team/group working through business, team and project sites. The weekly News Round-up communication platform has been upgraded so communications can be targeted more effectively.

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

Learning and development

The RAC continues to invest in training and development. In 2012 we continued to run our successful Front Line Manager Program ("FLM") attended by over 70 leaders. The program aims to support managers with the right mindset and skills to help them to be more effective leaders.

Patrols receive first class training from the day they join the Group delivered through a team of dedicated trainers who not only focus on technical skills but also customer service so that members can be and are confident in receiving exceptional service.

A new learning management system ("LMS") has been introduced across the RAC. This supports the essential learning framework so that all colleagues have an understanding with regards to key legal and regulatory requirements which protects both members and the business.

Trust and integrity

The RAC is committed to ensuring that the business is managed in all areas according to the highest ethical and professional standards. For over 115 years, the RAC has built its reputation as a trusted motoring organisation providing cost effective motoring solutions.

Listening, learning and responding to members' needs is an essential part of how we do business. There are a variety of feedback mechanisms in place to listen and respond to customers needs. Examples of the changes made as a result of this feedback include updating the website to improve our members' experience. The RAC has also amended breakdown policy terms and conditions to include assistance following a road traffic accident. A new SMS service has been introduced texting new members with their membership number and important contact details.

Following the separation from Aviva the RAC has strengthened governance and compliance practices to ensure that we conduct business in an honest, respectful, fair and safe manner as a new standalone company. This has included the formation of a Risk, Compliance and Internal Audit function. This team's main focus is on managing relationships with the FSA, Information Commissioner's Office ("ICO") and to facilitate and monitor the implementation of effective risk management practices.

Directors' report part I

Community

Colleagues across the business continue to get involved in many charity fundraising events. A variety of retailers are invited to the RAC sites to provide colleagues with opportunities to purchase goods, and in return these retailers make charitable donations which are collated throughout the year and given to our preferred charity partners.

A strength of the RAC Group has been the encouragement of young talent. With the recognised national shortage in the UK of skilled mechanics we continue to support Great Sankey School and the surrounding community by delivering training for BTEC Automotive qualifications up to and including Level 4. In 2013 we will be extending our support to include training and development in the school's customer service qualification programs.

Political & charitable donations

The Group continues to support and work closely with the Royal Automobile Club Foundation, a registered charity which researches and promotes the economic, mobility, safety and environmental issues related to motoring and responsible road users.

Employees of the Group are supported in their charitable fundraising through appropriate time off and through charity related team building events.

Contractual arrangements

The RAC Group has a diverse contract portfolio not dependent on any particular supplier, customer or sector. The duration of contracts varies and standardised payment terms are agreed at outset.

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 note 19 to the accounts. The Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk are set out in note 25 to the accounts.

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

The Group and Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 13 to 17. The directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £59 million as a result of £55 million of amortisation in 2012 and £27 million of amortisation in 2011. Additionally it has shareholder debt of £284 million, which was used to fund the acquisition of the RAC Ltd Group.

Having undertaken this assessment, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2012 Company and Group financial statements to be prepared on a going concern basis.

Disclosure of information to the auditor

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

Directors' report part II

The Consolidated income statement, Consolidated statement of comprehensive income and the Consolidated statement of financial position on pages 23 to 25 are extracted from the audited Consolidated financial statements of RAC Limited. The RAC Ltd Group holds all of the trading entities (RAC Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited and RAC Brand Enterprises LLP) of the RAC Group. These therefore exclude the holding companies (RAC Finance Group (Holdings) Limited, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited) 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 to aid comparison to 2011.

RAC Limited
Consolidated income statement
For the year ended 31 December 2012

	2012 Before exceptional and discontinued items	2012 Exceptional and discontinued items*	2012 Total	2011 Before exceptional and discontinued items	2011 Exceptional and discontinued items	2011 Total
	£m	£m	£m	£m	£m	£m
Revenue	457	-	457	433	5	438
Cost of sales	(222)	-	(222)	(224)	(2)	(226)
Gross profit	235	-	235	209	3	212
Administrative (expenses)/income	(106)	(5)	(111)	(114)	117	3
Group Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)	129	(5)	124	95	120	215
Depreciation	(3)	-	(3)	(2)	-	(2)
Amortisation	(2)	-	(2)	(4)	-	(4)
Group operating profit/(loss)	124	(5)	119	89	120	209
Financial income	-	-	-	10	-	10
Finance expenses	-	-	-	(1)	(6)	(7)
Profit/(loss) before tax	124	(5)	119	98	114	212
Tax (expense)/credit	(29)	5	(24)	(8)	7	(1)
Profit/(loss) for the year	95	-	95	90	121	211

*Exceptional and discontinued items include the items in note 8 on page 45 in addition to the profit on disposal of property.

Directors' report part II

The Consolidated income statement, Consolidated statement of comprehensive income and the Consolidated statement of financial position on pages 23 to 25 are extracted from the audited Consolidated financial statements of RAC Limited. The RAC Ltd Group holds all of the trading entities (RAC Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited and RAC Brand Enterprises LLP) of the RAC Group. These therefore exclude the holding companies (RAC Finance Group (Holdings) Limited, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited) 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 to aid comparison to 2011.

RAC Limited
Consolidated statement of comprehensive income
For the year ended 31 December 2012

	2012	2011
	£m	£m
Profit for the year	95	211
Other comprehensive (expense)/income		
Actuarial (losses)/gains on pension schemes	(1)	24
Aggregate tax effect of actuarial gains	-	(2)
Other comprehensive (expenses)/income, net of tax	(1)	22
Total comprehensive income for the year	94	233

The Consolidated income statement, Consolidated statement of comprehensive income and the Consolidated statement of financial position on pages 23 to 25 are extracted from the audited Consolidated financial statements of RAC Limited. The RAC Ltd Group holds all of the trading entities (RAC Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited and RAC Brand Enterprises LLP) of the RAC Group. These therefore exclude the holding companies (RAC Finance Group (Holdings) Limited, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited) 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, to aid comparison to 2011.

RAC Limited
Consolidated statement of financial position
As at 31 December 2012

	2012	2011
ASSETS	**£m**	**£m**
Non-current assets		
Goodwill and intangible assets	361	354
Property, plant and equipment	12	26
Deferred tax assets	13	16
Employee benefit asset	11	11
	397	407
Current assets		
Inventories	2	2
Trade and other receivables	99	89
Loan receivable	-	12
Current tax	-	1
Cash and cash equivalents	32	65
	133	169
LIABILITIES		
Current liabilities		
Provisions	(6)	(14)
Trade and other payables	(272)	(297)
Current tax	(21)	-
	(299)	(311)
Net current liabilities	(166)	(142)
Non-current liabilities		
Trade and other payables	(20)	(22)
Employee benefit liability	(8)	(9)
Deferred tax liability	(22)	(23)
	(50)	(54)
Net assets	181	211
EQUITY		
Ordinary share capital	31	31
Share premium	153	153
Other reserves	1	1
Retained earnings	(4)	26
Total equity	181	211

Directors' report part III

Board composition

Rob Templeman
Chairman

Rob joined the 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 the 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 the 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 the RAC and his previous roles include Deputy Chairman of Halfords, Commercial Director and Deputy Chief Executive of Homebase, Commercial Director of Birthdays Group and numerous Finance Director roles. Chris is also Chairman of Gondola Group.

Diane Cougill
Chief Finance Officer

Diane is a chartered accountant with extensive knowledge and experience in executive finance and commercial roles. Diane joined the RAC in 2010 and led the RAC sale process from Aviva. 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.

Andrew Burgess
Non-Executive Director, Carlyle Group

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

Alex Stirling
Non-Executive Director, Carlyle Group

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

Zeina Bain
Non-Executive Director, Carlyle Group

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

Mark Wood
Non-Executive Director

Mark joined the RAC Board in September 2011 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.

Board changes during the period

Angela Seymour-Jackson was an Executive Director during 2011 before stepping down in January 2012.

Corporate Governance Report

The RAC is committed to complying with the highest standards of good corporate governance practice. The RAC 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 RAC is not required to comply with the Corporate Governance Code.

A comprehensive corporate governance framework has been put in place which documents the following: Terms of Reference for the Board and the committees which sit under it, processes for financial governance (including delegations of authority, transaction limits and treasury procedures), comprehensive Group policies, registers of interests and guidance for directors on their duties and for Approved Persons (in the context of FSA authorisation).

The Board

The Board has been in place since the acquisition of the RAC by The Carlyle Group in September 2011. The Board considers that the team has an appropriate balance of executive and non-executive directors and of skills, knowledge and experience commensurate with the nature and breadth of the business.

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

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

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

Division of Responsibilities

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

The Chairman is responsible for:

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

The Chief Executive is responsible for:

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

The executive directors are responsible for:

- Setting the strategic direction of the Group and implementing and delivering the strategy
- Preparing annual budgets and medium term projections for the Group and monitoring performance against plans and budgets and annual financial statements
- Day-to-day management of the Group, ensuring risks are managed and any lessons learnt
- Effective communication with equity holders
- Safeguarding the assets of the Group and for the prevention and detection of fraud

The non-executive directors are responsible for:

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

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

Directors' report part III

Board Committees

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

Audit, Risk & Compliance Committee

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

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

Key areas for which the committee is responsible include:

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

Remuneration Committee

This committee comprises the Group's Chairman, Chief Executive and at least one of the other investor directors and members of the senior management team as required and is responsible for the following key areas:

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

Other Committees & Working Groups

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

Directors' responsibilities

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

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

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

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

By order of the Board on 8 April 2013

S Morrison
Company Secretary

Auditor's report

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

We have audited the financial statements of RAC Finance Group (Holdings) Limited for the year ended 31 December 2012 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 and the Consolidated statement of cash flows, the related accounting policies and notes 1 to 27, and the Company statement of financial position, the Company statement of changes in equity and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union 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 set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. 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 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

Angus Millar (Senior statutory auditor)
Date: 10 April 2013
for and on behalf of Ernst & Young LLP, Statutory Auditor, London

Consolidated financial statements 2012

Consolidated income statement

For the year ended 31 December 2012

		For the year ended 31 December 2012			For the period ended 31 December 2011*		
	Note	2012 Before exceptional items	2012 Exceptional items (Note 8)	2012 Total	2011 Before exceptional items	2011 Exceptional items (Note 8)	2011 Total
		£m	£m	£m	£m	£m	£m
Revenue	2	457	-	457	112	-	112
Cost of sales		(222)	-	(222)	(53)	-	(53)
Gross profit		235	-	235	59	-	59
Administrative expenses		(106)	(23)	(129)	(32)	(23)	(55)
Group Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)		129	(23)	106	27	(23)	4
Depreciation	11	(4)	-	(4)	(1)	-	(1)
Amortisation	10	(55)	-	(55)	(27)	-	(27)
Group Earnings Before Interest and Taxation (EBIT)	3	70	(23)	47	(1)	(23)	(24)
Finance expenses	4	(101)	-	(101)	(25)	-	(25)
Loss before tax		(31)	(23)	(54)	(26)	(23)	(49)
Tax	9	14	4	18	10	4	14
Loss for the year/period		(17)	(19)	(36)	(16)	(19)	(35)

All activities relate to continuing operations.

The accounting policies and notes on pages 36 to 66 are an integral part of these financial statements.

*2011 results presented show the results from the date of incorporation, including the three month trading period from 30 September 2011 of the RAC Ltd Group.

Consolidated financial statements 2012 (continued)

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	For the year ended 31 December 2012	For the period ended 31 December 2011*
		£m	£m
Loss for the year/period		(36)	(35)
Other comprehensive (expense)/income			
Actuarial (losses)/gains on pension schemes	24(c)(iii)	(1)	8
Net movement on cash flow hedges	18	(2)	-
Aggregate tax effect	9(c)	1	(2)
Other comprehensive (expense)/income, net of tax		(2)	6
Total comprehensive expense for the year/period		(38)	(29)

The accounting policies and notes on pages 36 to 66 are an integral part of these financial statements.

*2011 results presented show the results from the date of incorporation, including the three month trading period from 30 September 2011 of the RAC Ltd Group.

Consolidated statement of financial position

As at 31 December 2012

	Note	2012	2011 (restated)*
		£m	£m
ASSETS			
Non-current assets			
Goodwill and intangible assets	10	1,101	1,147
Property, plant and equipment	11	12	43
Deferred tax assets	15	14	17
Employee benefit asset	24(c)(v)	11	11
		1,138	1,218
Current assets			
Inventories	12	2	2
Trade and other receivables	13	84	90
Loan receivable	14	-	12
Current tax	15	1	1
Cash and cash equivalents	23	32	65
		119	170
LIABILITIES			
Current liabilities			
Provisions	16	(6)	(14)
Trade and other payables	17	(226)	(220)
		(232)	(234)
Net current liabilities		(113)	(64)
Non-current liabilities			
Borrowings	19	(948)	(1,019)
Employee benefit obligations	24(c)(v)	(8)	(9)
Trade and other payables	17	(20)	(19)
Derivative financial instruments	18	(3)	(1)
Deferred tax liabilities	15	(105)	(127)
		(1,084)	(1,175)
Net liabilities		(59)	(21)
EQUITY			
Ordinary share capital	20	-	-
Share premium	20	8	8
Cash flow hedge reserve		(2)	-
Retained earnings		(65)	(29)
Total equity		(59)	(21)

* Balances restated as detailed in note 1.

The accounting policies and notes on pages 36 to 66 are an integral part of these financial statements.

Approved by the Board on 8 April 2013

D Cougill, Chief Financial Officer
10 April 2013

Consolidated financial statements 2012 (continued)

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Note	Ordinary share capital	Share premium	Cash flow hedge reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m
Balance at 10 June 2011		-	-	-	-	-
Total comprehensive expense for the period						
Loss for the period		-	-	-	(35)	(35)
Other comprehensive income		-	-	-	6	6
Total comprehensive expense		-	-	-	(29)	(29)
Issue of ordinary shares	20	-	8	-	-	8
Total movements in the period		-	8	-	(29)	(21)
Balance at 31 December 2011		**-**	**8**	**-**	**(29)**	**(21)**
Total comprehensive expense for the year						
Loss for the year		-	-	-	(36)	(36)
Other comprehensive expense		-	-	(2)	-	(2)
Total comprehensive expense		-	-	(2)	(36)	(38)
Total movements in the year		-	-	(2)	(36)	(38)
Balance at 31 December 2012		**-**	**8**	**(2)**	**(65)**	**(59)**

The accounting policies and notes on pages 36 to 66 are an integral part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2012

	Note	For the year ended 31 December 2012	For the period ended 31 December 2011*
		£m	£m
Cash flows from operating activities			
Net cash in-flow from operations before exceptional items and funding of defined benefit schemes	23(a)	139	32
Defined benefit schemes		(1)	(1)
Restructuring activities		(14)	(1)
Separation and completion activities		(19)	(7)
Other costs of acquisition		-	(10)
Cash flows from operating activities after exceptional costs		105	13
Cash flows from financing activities			
Issue of ordinary share capital	20	-	8
Net proceeds from senior debt		268	499
Repayments of senior debt		(110)	-
(Repayments of)/proceeds from loan notes		(185)	425
(Repayment of)/proceeds from preference shares		(80)	78
Receipt of other loans		12	-
Interest paid		(64)	(8)
Net cash from financing activities		(159)	1,002
Cash flows from investing activities			
Additions of property, plant and equipment	11	(3)	-
Proceeds from disposal of property, plant and equipment	11	30	-
Additions of intangible assets	10	(6)	-
Acquisition of companies	1	-	(906)
Payments to Aviva		-	(73)
Net cash acquired with RAC Limited and its subsidiaries	1	-	29
Net cash used in investing activities		21	(950)
Net (decrease)/increase in cash and cash equivalents		(33)	65
Cash and cash equivalents at 31 December 2011/10 June 2011		65	-
Cash and cash equivalents at 31 December	23(b)	32	65

The accounting policies and notes on pages 36 to 66 are an integral part of these financial statements.

*2011 results presented show the results from the date of incorporation, including the three month trading period from September 2011 of the RAC Ltd Group.

Accounting policies

(A) GENERAL INFORMATION

RAC Finance Group (Holdings) Limited (the "Company"), a limited liability company incorporated and domiciled in the United Kingdom, together with its subsidiaries (collectively, the "Group" or "RAC") provides services and benefits to members of the RAC.

The Company was incorporated on 10 June 2011. These consolidated financial statements are presented for the year ended 31 December 2012. Comparatives are presented for the period from the incorporation date of 10 June 2011 to 31 December 2011, including the trading results of RAC Limited and its subsidiaries from the date of acquisition of RAC Limited, being 30 September 2011.

The consolidated financial statements of RAC Finance Group (Holdings) Limited for the year ended 31 December 2012 were approved for issue by the Board on 8 April 2013.

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The following new and amended IFRS are effective for the 2012 financial statements but do not materially impact the Group or Parent Company's financial reporting:

- Amendment to IFRS 7 Financial Instruments: Disclosures - Transfers of financial assets
- Amendment to IAS 12 Income taxes, Recovery of underlying assets

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:

- IFRS 7 Financial Instruments: Disclosures - offsetting financial assets and financial liabilities[1]
- IFRS 9 Financial Instruments[4]
- IFRS 10 Consolidated Financial Statements[3]
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[3]
- IFRS 13 Fair Value Measurement[1]
- Amendments to IFRS 7 Disclosure - Offsetting Financial Assets and Financial Liabilities[1]
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures[4]
- IAS 19 (as revised in 2011) Employee Benefits[1]
- IAS 27 (as revised in 2011) Separate Financial Statements[3]
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[2]
- Amendments to IFRS Annual Improvements to IFRS 2009-2011 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective, at the latest, for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

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

(C) BASIS OF PREPARATION

The financial statements of the Group and the Parent Company have been prepared in accordance with the IFRS as adopted by the EU, applicable at 31 December 2012.

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

The consolidated and Parent Company financial statements are stated in pounds sterling, which is the Group's functional and presentational 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 67. 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 profit for the year was £277 thousand (period ended 31 December 2011: loss of £276 thousand). The Company has not presented a separate cash flow statement as it does not hold any cash.

(D) USE OF ESTIMATES

The preparation of the consolidated financial statements requires the Group to make estimates and judgement 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 date of the consolidated financial statements. Estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly. The table below sets out those items where we have taken a judgement or which we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy note
Fair value of net assets acquired in business combinations	E
Goodwill and intangible assets	H
Provisions and contingent liabilities	R
Income taxes	S
Operating leases	T
Employee benefits	U

(E) CONSOLIDATION PRINCIPLES

Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from the date when such control ceases to exist. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

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

The Company's investments

Subsidiaries are those entities in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. In the statement of financial position, subsidiaries are stated at cost less any impairment. Investments in subsidiaries are reviewed for impairment annually where there are indicators that suggest the value may not be recoverable.

(F) REVENUE RECOGNITION

Revenue

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

Interest income

Interest income is recognised using the effective interest method.

Dividend income

Dividend income from investments is recognised when shareholders' right to receive payment has been established (provided that it is probable that the economic benefit will flow to the Company and the amount can be reliably measured).

(G) EXCEPTIONAL ITEMS

Items which are both material by size and/or nature and non recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items charged to operating profit 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)

(H) GOODWILL, ACQUIRED VALUE-IN-FORCE AND INTANGIBLE ASSETS

Goodwill

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

Acquired value-in-force business

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

Intangible assets

Intangible assets consist of the RAC brand and contractual relationships such as access to distribution networks and customer lists. 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. The economic lives of the latter 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 five to ten years using the straight line method.

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

Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to one cash-generating unit as this represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount.

Details of the testing performed and carrying values of goodwill and intangibles is shown within note 10.

(I) PROPERTY AND EQUIPMENT

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. All other items classified as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation. Third party valuations are obtained every three years.

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

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

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

(J) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

(K) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

(L) DERECOGNITION AND OFFSET OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the rights to receive cash flows from the asset have expired;
(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
(iii) the Group has transferred its rights to receive cash flows from the asset and either:

(a) has transferred substantially all the risks and rewards of the asset; or
(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(M) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, 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, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(N) PREPAYMENTS AND DEFERRED COMMISSIONS

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

(O) CASH AND CASH EQUIVALENTS

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

(P) BORROWINGS

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group or Parent Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

(Q) DERIVATIVE FINANCIAL INSTRUMENTS

The Group holds derivative financial instruments, which include interest and basis rate swaps, to hedge its interest rate exposures. Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured 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.

(R) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group and Parent Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an out-flow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group or Parent Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. 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)

(S) 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. In this instance the income taxes are also charged/(credited) directly to other comprehensive income.

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

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

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

(T) LEASES

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

(U) EMPLOYEE BENEFITS

Pension obligations and other post-retirement obligations

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

The Group 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 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.

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). In addition, the difference between the expected return on scheme assets, less investment expenses, and the interest cost of unwinding the discount on the scheme liabilities (to reflect the benefits being one period closer to being paid out) is booked to finance income or expense. All actuarial gains and losses, being the difference between the actual and expected returns on scheme assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, are recognised immediately in other comprehensive income.

Termination benefits

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

(V) SHARE CAPITAL AND DIVIDENDS

Equity instruments

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

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

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

Dividends

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

Notes to the consolidated financial statements

1 Business combinations

There has been no business combination activity during 2012.

On 30 September 2011, the Group acquired the entire share capital of RAC Limited, a high quality business with significant growth potential and a renowned brand of trust and reliability.

The fair value of the identifiable assets and liabilities of RAC Limited as at the date of acquisition were:

	Fair value recognised on acquisition (restated)
	£m
Intangible assets	673
Property and equipment	44
Cash and cash equivalents	29
Trade and other receivables	86
Loan receivable	12
Pension and other provisions	(15)
Tax liabilities	(43)
Deferred tax assets	12
Deferred tax liabilities	(134)
Trade and other payables	(249)
Net assets acquired	415
Indemnity asset	2
Liability assumed	(12)
Goodwill arising on acquisition	501
Purchase consideration transferred	906

Cash flow on acquisition	**£m**
Net cash acquired with RAC Limited and its subsidiaries	29
Cash paid	(906)
Net cash flow on acquisition	(877)

On 30 June 2012 the Group sold land and buildings with a carrying value of £14 million for £30 million providing new evidence for the fair value of those assets at the acquisition date. As a result the adjustment has been reflected as an increase of £16 million to the fair value of property and equipment acquired with a corresponding decrease to goodwill. The balances for 2011 have been restated to reflect this fair value adjustment. The total goodwill arising on the acquisition is now £501 million.

2 Revenue

	2012	**2011**
	£m	**£m**
Sale of goods	18	5
Sale of services	439	107
	457	112

3 Operating profit/loss

The following items have been included in arriving at the result before interest and tax:

	2012	2011
	£m	£m
Amortisation of intangible assets (note 10)	55	27
Depreciation of property, plant and equipment - owned assets (note 11)	4	1
Operating lease rentals paid	15	3

4 Finance expenses

	2012	2011
	£m	£m
Interest payable - related parties	50	13
Interest payable - third parties	30	8
Preference share dividends payable	8	3
Amortisation of capitalised finance costs	6	1
Additional write-off of capitalised finance costs as a result of refinancing (note 19)	7	-
Interest payable on financial liabilities not held at fair value through profit or loss	101	25

5 Auditor's remuneration

The total remuneration payable by the Group, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below.

	2012	2011
	£000	£000
Audit services		
Audit of financial statements	26	25
Audit of subsidiaries	220	210
	246	235
Other services		
Taxation compliance services	21	87
Audit related fees	9	-
Other non-audit services	170	25
Total remuneration payable to Ernst & Young LLP	446	347

Notes to the consolidated financial statements (continued)

6 Employee information

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

	2012	2011
	Number	**Number**
Breakdown services	3,142	3,403
Insurance and claims	151	157
Support	242	140
	3,535	3,700

Total staff costs were:

	2012	2011
	£m	**£m**
Wages and salaries	118	29
Social security costs	12	3
Termination benefits	-	1
Pension costs	9	2
	139	35
These costs were charged within:		
Cost of sales	105	27
Administrative expenses	34	8
	139	35

7 Directors

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

	2012	2011
	£000	**£000**
Fees and benefits	1,141	560
Contributions paid into money purchase pension schemes	49	71
	1,190	631
Emoluments of the highest paid director:		
Fees and benefits	412	229
Contributions paid into money purchase pension schemes	-	30
	412	259

(a) Fees and benefits include directors' bonuses.
(b) Retirement benefits are accruing to 1 director (2011: 2 directors) under a money purchase scheme.
(c) During the year no directors (2011: none) were awarded shares under long-term incentive schemes.
(d) £nil (2011: £317,000) has been accrued for payments to be made to directors for loss of office in the year. Payments for compensation for loss of office are excluded from those figures presented in the table above.

8 Exceptional items

Exceptional items include the following:

	2012	2011
	£m	£m
Transaction and debt related fees	-	5
Stamp duty	-	5
Restructuring costs	8	7
Separation and completion activities	13	8
Other	2	(2)
Total exceptional items	23	23

During the year, the Group incurred a total of £8 million (2011: £7 million) of restructuring costs, relating to various initiatives, including the re-balancing of headcount in selling and support teams and a programme to implement new flexible working arrangements for patrols (2011: re-balancing of operational headcount). £4 million of this expenditure is held within provisions in the statement of financial position at 31 December 2012 and is expected to be utilised in 2013 (note 16).

Separation and completion activities comprise the costs involved in achieving standalone capabilities following the disposal of RAC Limited by Aviva. Transaction fees and stamp duty relate to the acquisition of the RAC Ltd Group in 2011.

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

9 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2012	2011
	£m	£m
Current tax:		
For the year/period	-	-
Total current tax	-	-
Deferred tax:		
For the year/period	10	14
Change in tax rates	8	-
Total deferred tax	18	14
Total tax credited to the income statement	18	14

(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:

	2012	2011
	£m	£m
Net loss before tax	(54)	(49)
Tax calculated at standard UK corporation tax rate of 24.5% (2011: 26.5%)	(13)	(13)
Disallowable expenses	3	3
Effect of tax rate change	(8)	(1)
Changes in recognised deductible temporary differences	-	(3)
Total tax credited to income statement (note 9(a))	(18)	(14)

Notes to the consolidated financial statements (continued)

9 Tax (continued)

(b) Tax reconciliation (continued)

The headline rate of UK corporation tax reduced to 24% from 26% on 1 April 2012, and is legislated to reduce further to 23% from 1 April 2013. As this reduction was substantively enacted on 3 July 2012, the deferred tax balances at 31 December 2012 have been stated at 23% (2011: 25%).

Further rate reductions have been announced which will reduce tax rates to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes are expected to be enacted separately each year.

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 20% is expected to be £12 million (equivalent to 3% of the closing gross deferred tax balance).

(c) Tax credited/charged to other comprehensive income

Tax credited directly to other comprehensive income in the year amounted to £1 million (2011: £2 million charge) in respect of the tax impact on actuarial gains (2011) and the fair value movements on cash flow hedging derivative instruments (2012) of derivative financial instruments.

10 Goodwill and intangible assets

	Goodwill	Brand	Acquired Value-In-Force	Customer list	Other	Total
	£m	£m	£m	£m	£m	£m
Cost:						
At 10 June 2011	-	-	-	-	-	-
Acquired through business combinations (restated) (note 1)	501	341	35	291	6	1,174
At 31 December 2011 (restated)	501	341	35	291	6	1,174
Additions	-	-	-	-	9	9
At 31 December 2012	**501**	**341**	**35**	**291**	**15**	**1,183**
Amortisation:						
At 10 June 2011	-	-	-	-	-	-
Charge for the period	-	-	18	9	-	27
At 31 December 2011	-	-	18	9	-	27
Charge for the year	-	-	17	36	2	55
At 31 December 2012	**-**	**-**	**35**	**45**	**2**	**82**
Net book value:						
At 31 December 2012	**501**	**341**	**-**	**246**	**13**	**1,101**
At 31 December 2011 (restated)	**501**	**341**	**17**	**282**	**6**	**1,147**

All intangible assets are stated at cost less accumulated amortisation. No impairment losses have been recognised in 2011 or 2012. Other intangible assets comprise of the value of customer relationships and IT development.

Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are recognised in administrative expenses.

See note 1 for details in relation to the fair value adjustment and restatement of 2011 fair values.

10 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 one cash-generating unit ("CGU") for impairment testing. The carrying value of the goodwill and indefinite-lived intangible assets allocated to the CGU is £501 million and £341 million respectively.

The Group performed impairment testing as at 31 October 2012. The impairment test compares the recoverable amount of the CGU to its carrying value.

The recoverable amount of the unit has been determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecasts up to 2017. The forecasts and budgets take into consideration the positive trading results post acquisition whilst also building in some caution as a result of difficult economic conditions in the UK. The growth rate used to extrapolate beyond the Group's forecasts is 2% (2011: 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 is 9% (2011: 9%). The pre-tax discount rate applied to the cash flow projections is based on the Group Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of Non-Current Assets.

Key assumptions used in management forecasts include:

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

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.

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

(c) Impairment testing of the Brand

The impairment of the RAC Brand is tested using the Royalty Relief Methodology to forecast future cash flows based on management forecasts up to 2017.

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

The value of the RAC Brand is further supported by strong financial performance in the current year which was ahead of management expectations and forecasts. The trading performance post acquisition would clearly demonstrate an increase in the value in use of the goodwill from its initial market value determined in September 2011.

Notes to the consolidated financial statements (continued)

11 Property, plant and equipment

	Owner-occupied property	Fixtures and fittings and motor vehicles	Computer equipment	Total
	£m	£m	£m	£m
Cost or valuation:				
At 10 June 2011	-	-	-	-
Acquired through business combinations (restated) (note 1)	36	3	5	44
At 31 December 2011 (restated)	36	3	5	44
Additions	-	1	2	3
Disposals	(30)	-	-	(30)
At 31 December 2012	**6**	**4**	**7**	**17**
Depreciation				
At 10 June 2011	-	-	-	-
Charge for the period	-	1	-	1
At 31 December 2011	-	1	-	1
Charge for the year	-	2	2	4
At 31 December 2012	**-**	**3**	**2**	**5**
Net book value:				
At 31 December 2012	**6**	**1**	**5**	**12**
At 31 December 2011 (restated)	**36**	**2**	**5**	**43**

The restated fair value of property, plant and equipment acquired through business combinations was £44 million.

In June 2012, certain owner-occupied properties were sold for £30 million. These properties were then leased back, as part of a sale and leaseback transaction. The risks and rewards of ownership have been transferred and therefore the lease meets the criteria of an operating lease in accordance with IAS 17 Leases and therefore these properties have been disposed of from property, plant and equipment. The lease commitments are included within the table disclosed within note 21.

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

12 Inventories

	2012	2011
	£m	£m
Inventories	2	2

The cost of inventories recognised as an expense and included in "Cost of sales" amounted to £10 million (2011: £2 million).

13 Trade and other receivables

	2012	2011
	£m	£m
Trade receivables	35	46
Prepayments and deferred commissions	44	35
Other receivables	5	9
Total	84	90
Expected to be recoverable within one year	84	90

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

14 Loan receivable

The carrying amounts of loans are as follows:

	2012	2011
	£m	£m
Unsecured loans at amortised cost	-	12

The loan notes were issued during 2008. The loans were 8% unsecured, guaranteed, subordinated loan notes and were repaid in full on 3 January 2012.

Notes to the consolidated financial statements (continued)

15 Tax assets and liabilities

	2012	2011
	£m	£m
Current tax	1	1
Deferred tax assets	14	17
Deferred tax liabilities	(105)	(127)
	(90)	(109)

The net deferred tax liability arises on the following items:

	2012	2011
	£m	£m
Accelerated capital allowances	9	13
Intangible assets	(104)	(127)
Pensions and other post-retirement obligations	(1)	-
Cash flow hedge reserve	1	-
Provisions and other temporary differences	4	4
	(91)	(110)

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

	2012	2011
	£m	£m
Net deferred tax liability brought forward	(110)	-
Acquired through business combinations	-	12
Deferred tax on intangible assets	-	(134)
Deferred tax credited to the income statement	18	14
Deferred tax credited/(charged) to other comprehensive income	1	(2)
Net deferred tax liability at 31 December	(91)	(110)

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

The Group has unrecognised temporary differences of £nil (2011: £nil) to carry forward indefinitely against future taxable income.

16 Provisions

	Other	Restructuring	Total
	£m	£m	£m
At 1 January 2012	4	10	14
Additional provisions	1	4	5
Utilised during the year	(3)	(10)	(13)
At 31 December 2012	2	4	6

Restructuring provisions of £4 million were recognised in the year in respect of re-balancing headcount in support teams and implementing new working arrangements. The proposals were announced in October and November 2012 and the costs are expected to be paid out in 2013 (2011: restructuring relates to the re-balancing of operational headcount, announced in October 2011).

Other provisions include amounts payable at the end of patrol vehicle leases to correct modifications made, (2011: also includes amounts for onerous contracts. Provisions held at 31 December 2012 are expected to be utilised during 2013.

17 Trade and other payables

	2012	2011
	£m	£m
Trade payables and accruals	62	69
Deferred income	153	148
Other payables	31	22
Total	246	239
Expected to be payable within one year	226	220
Expected to be payable in more than one year	20	19
	246	239

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

18 Derivative financial instruments

(a) Hedging

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

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

(b) Cash flow hedges

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

		2012	2012	2011	2011
		Contract/ notional amount	Fair value of (liability)/asset	Contract/ notional amount	Fair value of (liability)/asset
		£m	£m	£m	£m
Term Loan B:	Interest rate	350	(4)	350	(1)
	Basis rate	350	1	350	-
Term Loan C:	Interest rate	150	-	-	-
Total			(3)		(1)
Proportion of third party principal debt hedged		72%		67%	

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

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

As part of the refinancing process (see note 19(b)) , an additional hedge has been undertaken commencing at £150 million against Term Loan C. The Term Loan C hedge is achieved by an interest rate swap contract for the Group to pay a fixed rate and receive a floating rate, i.e. three months LIBOR. The fixed element of the swap is set at 0.7825% for the period from 31 December 2012 to 30 December 2015. The floating rate is calculated on a notional principal amount. The notional principal amount is variable over the life of the hedge as follows; £150 million between 31 December 2012 and 30 December 2013; £100 million between 31 December 2013 and 30 December 2014; and £275 million between 31 December 2014 and 30 December 2015.

Notes to the consolidated financial statements (continued)

19 Borrowings

(a) Analysis of borrowings

		2012		2011	
	Interest rate	**Book value £m**	**Fair value £m**	**Book value £m**	**Fair value £m**
Senior debt					
Term Loan B	LIBOR + 5.00%	394	410	500	520
Term Loan C	LIBOR + 5.125%	250	260	-	-
Capex and restructuring facility	LIBOR + 4.00%	20	20	-	-
Loan notes	12%	284	291	438	450
Preference shares	12%	-	-	81	83
		948	981	1,019	1,053

(b) Senior debt

The senior debt consists of three facilities, Term Loan B, Term Loan C and a capex and restructuring facility. The terms of the original facility were amended following the inception of Term Loan C in October 2012. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the additional fees related to the change in terms have been treated as a modification of the original facility and have therefore been capitalised. They will be amortised over the remaining life of Term Loan B.

Term Loan B is a bullet repayment, repayable on 30 September 2018. Contractual undiscounted interest payments are calculated based on prevailing floating rates (LIBOR + 5.00%) and hedged rates as applicable. In 2012 voluntary repayments of £90 million were made against the senior debt facility, as well as a mandatory prepayment of £20 million as a result of the sale and leaseback transaction (note 11).

Term Loan C was entered into on 29 October 2012, and is a bullet repayment, repayable on 29 October 2019. The associated costs incurred to raise this finance were £10 million, which have been capitalised in accordance with IAS 39. Contractual undiscounted interest payments are calculated based on prevailing floating rates (LIBOR + 5.125%) and hedged rates as applicable.

An analysis of the contractual undiscounted cash flows for senior debt is shown on note 25(iv).

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

At 31 December 2012 there were undrawn capital and revolving credit facilities of £15 million (2011: £50 million) and £25 million (2011: £50 million) respectively, which expire in 2017.

The covenants relevant to the RAC Group are cash flow cover, interest cover, debt cover and thresholds on capital expenditure.

(c) Shareholder loan notes

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

19 Borrowings (continued)

(d) Preference shares

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

20 Ordinary share capital

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

	2012	2011
	£000	**£000**
Authorised		
80,120,000 ordinary shares of £0.01 each	801	801
Allotted, called up and fully paid:		
1,200,000 ordinary 'A' shares of £0.01 each	12	12
6,800,000 ordinary 'B' shares of £0.01 each	68	68
	80	80

During the prior period the Group issued 8,000,000 £0.01 ordinary shares for a consideration of £8 million, settled in cash, resulting in a share premium of £8 million.

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

21 Commitments

Operating lease commitments

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

	2012	2011
	£m	**£m**
Within 1 year	9	10
Later than 1 year and not later than 5 years	20	17
Later than 5 years	51	-
	80	27

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

Certain property commitments relate to property sold and leased back in June 2012 (see note 11).

22 Contingent liabilities and other risk factors

Levy schemes

The Group pays contributions into levy schemes in the UK in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

23 Statement of cash flows

(a) The reconciliation of loss before tax to the net cash flow from operating activities before exceptional items is:

	2012	2011
	£m	£m
Loss before tax	(54)	(49)
Adjustments for:		
Amortisation and depreciation	59	28
Impairment	-	1
Finance expenses	101	25
Exceptional items (note 8)	23	25
Changes in working capital:		
Decrease/(increase) in receivables and other financial assets	6	(3)
Increase in payables and other financial liabilities	4	5
	139	32

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

	2012	2011
	£m	£m
Cash at bank and in hand	32	59
Cash equivalents	-	6
	32	65

24 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 RAC employees with effect from 1 October 2011.

Auto Windscreens Pension Scheme ("AW Scheme")

Under the AW Scheme, members receive benefits on a defined benefit basis (generally related to final salary). This scheme has been closed for a number of years. The assets of the scheme are held in a separate trustee-administered fund to meet long-term pension liabilities to past employees. The number of pensioners entitled to the defined benefit at 31 December 2012 was 161 (2011: 160).

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 2012 was 8 (2011: 8).

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2012 was 139 (2011: 146).

Disability Benefit Scheme ("DB Scheme")

Under the Disability Benefit Scheme the Group provides disability benefits on a discretionary basis for certain former employees in the UK. Currently the employer contributes a flat rate per person to the scheme dependent on their individual circumstances. There has been a curtailment gain in the year of £2 million arising from certain ill-health and medical benefits being insured.

24 Employee benefit obligations (continued)

(b) Charges to the income statement

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

	For the year ended 31 December 2012	For the period ended 31 December 2011*
	£m	£m
Employee benefit schemes	1	-
Defined contribution schemes	9	2
Curtailment gain	(2)	-
	8	2

*2011 results presented show the results from the date of incorporation, including the three month trading period from 30 September 2011 of the RAC Ltd Group.

(c) Pension scheme assumptions and disclosures

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

(i) Assumptions on the liabilities of the Schemes

The projected unit credit method

The inherent uncertainties affecting the measurement of the liabilities of the Schemes require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the Schemes using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance 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 2012. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2012.

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

	2012	2011
	%	%
Inflation rate	3.00	3.00
General salary increases	4.80	4.80
Pension increases	2.80	3.00
Deferred pension increases	2.25	2.00
Medical cost trend	6.10	5.40
Discount rate	4.70	4.90

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 £5 million and £nil million respectively (2011: £3 million and £nil respectively).

Notes to the consolidated financial statements (continued)

24 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures (continued)

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

Mortality assumptions

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2012 for Scheme members are as follows:

Mortality table	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances for future improvements	65	87.7	89.9	90.0	92.3
		(22.7)	(24.9)	(25.0)	(27.3)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table. The effect on the Schemes of assuming all members were one year younger would increase the Schemes' liabilities by £1 million.

(ii) Assumptions on Scheme assets

The expected rate of return on Scheme assets is 2.8% (2011: 2.8%)

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

24 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures (continued)

(iii) Employee defined benefit expense

The total employee defined benefit expense for the Schemes comprises:

Recognised in the income statement

	2012	2011
Included within administrative expenses:	£m	£m
Current service cost	(1)	-
Total employee benefit expense charged within Group operating profit	**(1)**	**-**
Included within other exceptional items:		
Gain from curtailment and special termination benefits	2	-
Included within finance expenses:		
Expected return on assets of the Schemes	1	-
Interest charge on assets of the Schemes	(1)	-
Total employee defined benefit credit to finance expenses or exceptional items	**2**	**-**
Total credit to the income statement for defined benefit schemes	**1**	**-**

Recognised in other comprehensive income

	2012	2011
	£m	£m
Actuarial (losses)/gains on Scheme assets	(1)	5
Actuarial gains on Scheme liabilities	-	3
Total (losses)/gains recognised in other comprehensive income	**(1)**	**8**

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since acquisition was £7 million gain at 31 December 2012 (2011: £8 million gain).

(iv) Experience gains and losses

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

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

Estimated employer contributions for the financial year ending 31 December 2013 are £2 million in respect of the Defined Benefit schemes and £9 million in respect of the Defined Contribution scheme.

Notes to the consolidated financial statements (continued)

24 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures (continued)

(v) Schemes' surplus

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

	2012	2011
	£m	£m
Index-linked gilts	27	27
Total fair value of assets	27	27
Present value of defined benefit obligations	(24)	(25)
Net surplus in the Schemes	3	2

Amounts recognised in the statement of financial position as at 31 December are:

	2012	2011
	£m	£m
Surplus included in non-current assets	11	11
Deficits included in non-current liabilities	(8)	(9)
Net surplus in the Schemes	3	2

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

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

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

	Scheme assets 2011	Scheme liabilities 2011	Net pension surplus 2011
	£m	£m	£m
Acquired at 30 September 2011	**21**	**(28)**	**(7)**
Employer contributions paid	1	-	1
Benefits paid	-	-	-
Current service cost	-	-	-
Expected return on plan assets	-	-	-
Interest cost	-	-	-
Actuarial gains	5	3	8
Balance at 31 December 2011	**27**	**(25)**	**2**

25 Risk management

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

Risks are usually grouped by risk type: regulatory, market, credit, liquidity and operational 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 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.

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

(a) Financial risk management

(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 due to fluctuations in interest rates and foreign currency exchange rates. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

(ii) Interest rate risk

The Group is exposed to interest rate risk arising primarily on borrowings of the Group. The risk is managed by the Group by the use of interest rate swap and basis rate swap agreements to hedge the variability of cash flows associated with the borrowings. The Group's exposure to interest rates on these borrowings are detailed in the liquidity risk management section and sensitivity test analysis section of this note.

(iii) 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.

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.

Notes to the consolidated financial statements (continued)

25 Risk management (continued)

(a) Financial risk management (continued)

(iii) Credit risk (continued)

The credit ratings for financial assets are set out in the following table:

	Credit rating						
31 December 2012	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Carrying value in the statement of financial position**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash and cash equivalents	-	-	32	-	-	-	32
Trade and other receivables	-	-	-	-	-	40	40

	Credit rating						
31 December 2011	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Carrying value in the statement of financial position**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loan receivable	-	-	-	-	12	-	12
Cash and cash equivalents	6	4	55	-	-	-	65
Trade and other receivables	-	-	-	-	-	55	55

Loan receivable

The fair value of the loan is estimated to be £nil (2011: £12 million). No impairment was considered necessary as at 31 December 2011 as the loan was repaid in full on 3 January 2012.

Cash and cash equivalents

The Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. The Group's largest cash and cash equivalent counterparty is Barclays (2011: Credit Agricole Group) (including subsidiaries). At 31 December 2012 the balance was £11 million (2011: £24 million).

Trade and other receivables

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. At 31 December 2012 trade receivables were £35 million (2011: £46 million).

25 Risk management (continued)

(a) Financial risk management (continued)

(iii) Credit risk (continued)

Impairment of financial assets

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

31 December 2012	Neither past due nor impaired	Financial assets that are past due but not impaired: 0 to 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Carrying value of impaired financial assets	Carrying value in the statement of financial position
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	33	1	-	-	-	1	35
Other receivables	5	-	-	-	-	-	5

31 December 2011	Neither past due nor impaired	Financial assets that are past due but not impaired: 0 to 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Carrying value of impaired financial assets	Carrying value in the statement of financial position
	£m	£m	£m	£m	£m	£m	£m
Loan receivable	12	-	-	-	-	-	12
Trade receivables	37	4	1	-	-	4	46
Other receivables	9	-	-	-	-	-	9

Notes to the consolidated financial statements (continued)

25 Risk management (continued)

(a) Financial risk management (continued)

(iv) 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 following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise:

31 December 2012	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed terms	Total
	£m	£m	£m	£m	£m	£m
Trade and other receivables	40	-	-	-	-	40
Cash and cash equivalents	32	-	-	-	-	32
	72	-	-	-	-	72

31 December 2011	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed terms	Total
	£m	£m	£m	£m	£m	£m
Loan receivable	12	-	-	-	-	12
Trade and other receivables	55	-	-	-	-	55
Cash and cash equivalents	65	-	-	-	-	65
	132	-	-	-	-	132

The following table shows the Group's contractual financial liabilities analysed by duration:

31 December 2012	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m
Trade and other payables	93	-	-	-	93
Senior debt principal	-	-	690	-	690
Senior debt interest	39	155	44	-	238
Loan notes principal	-	-	252	-	252
Loan notes interest	-	-	554	-	554
	132	155	1,540	-	1,827

31 December 2011	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m
Trade and other payables	91	-	-	-	91
Senior debt principal	-	-	520	-	520
Senior debt interest	31	122	61	-	214
Loan notes principal	-	-	437	-	437
Loan notes interest	-	-	961	-	961
	122	122	1,979	-	2,223

Trade and other payables excludes £153 million (2011: £148 million) of deferred income.

The preference share liability of £nil (2011: £83 million consisting of £80 million principal and £3 million accrued dividends) is excluded from the table above.

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

(b) Strategic risks

The Group is exposed to a number of strategic risks. The Group's strategy supports its vision, purpose and objectives and is responsive to both the external and internal environment, for example, changes in the competitive landscape arising from economic conditions, customer demands and competitor activity, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change, pandemic events).

Strategic risk is explicitly considered throughout the strategic review and planning process. Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered.

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

(c) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include taxation, reputation and regulatory risks, such as compliance. Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided.

Operational risk is managed in accordance with control standards set out in the Group policy framework.

(d) Risk and capital management

Sensitivity test analysis

The Group uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently.

Some results of sensitivity testing for the Group are set out below.

Sensitivity factor	Description of sensitivity factor applied
Interest rate	The impact of a 1% decrease/increase in market interest rates (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% or 6%).

The following pre-tax impacts on loss for the year/period and shareholders' equity at 31 December from the above sensitivity factors are as follows:

	2012 Decrease/ (increase) to shareholders' equity (£m)		2012 Decrease/ (increase) to loss before tax (£m)		2011 Decrease/ (increase) to shareholders' equity (£m)		2011 Decrease/ (increase) to loss before tax (£m)	
	Interest rates +1%	**Interest rates -1%**	**Interest rates +1%**	**Interest rates-1%**	**Interest rates +1%**	**Interest rates -1%**	**Interest rates +1%**	**Interest rates-1%**
Borrowings	1	(1)	(2)	2	-	-	-	-

Notes to the consolidated financial statements (continued)

26 Capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, loan notes and borrowings consistent with the overall risk profile and the regulatory and market requirements of the business. This note shows where this capital is employed.

(a) General

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

	2012	2011
	£m	£m
Senior debt (note 19)	(690)	(520)
Accrued interest	(1)	-
Cash and cash equivalents	32	65
Net third party bank debt	(659)	(455)
Shareholder loan notes (note 19)	(252)	(437)
Preference shares (note 19)	-	(80)
Accrued capitalised interest	(39)	(16)
Net related party debt	(291)	(533)
Total net third party and related party debt	(950)	(988)

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable FSA 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.

(b) Capital management

In managing its capital, the Group seeks to:

(i) match the expected cash in-flows from its assets with the expected cash out-flows 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.

(c) Different measures of capital

The Group measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which companies of the Group operate and those which the directors consider appropriate for the management of the business. The measures which the Group uses are:

(i) Accounting basis

The Group is required to report its results on an IFRS basis.

(ii) Regulatory bases

Relevant capital and solvency regulations are used to measure and report the financial strength of regulated companies within the Group. These measures are based on the FSA's current regulatory requirements. The regulatory capital tests verify adequate excess of solvency capital above the required minimum level calculated is maintained using a series of prudent assumptions about the type of business that is underwritten. Regulatory requirements have been complied with throughout the year.

26 Capital structure (continued)

(d) Capital structure

	2012	2011
	£m	**£m**
Motoring services	990	1,061
Total capital employed	990	1,061
Financed by:		
Equity shareholders' funds	8	8
Preference shares	-	83
Loan notes	291	450
Borrowings	691	520
Total capital employed	990	1,061

27 Related party transactions

(a) Key management compensation

The total compensation (excluding payments for compensation for loss of office) to those employees classified as key management, being those senior managers having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors, in respect to the RAC Group is as follows:

	2012	2011
	£000	**£000**
Fees and benefits	1,976	1,405
Contributions paid into a pension scheme	116	121
	2,092	1,526

Fees and benefits include key management bonuses. During the year, payments totalling £nil (2011: £464,000) were made to employees for loss of office. This has been shown in exceptional items.

(b) Key management interests

A total of 7 (2011: 6) key management personnel held loan notes and equity stakes in the business as at 31 December 2012.

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

Notes to the consolidated financial statements (continued)

27 Related party transactions (continued)

(c) Ownership structure

The ownership structure is as follows:

Number of shares (million)	Management	Carlyle	Total
'A' ordinary	1.2	-	1.2
'B' ordinary	-	6.8	6.8
Sub total	1.2	6.8	8.0
Shareholder loan notes	2.6	249.4	252.0
Total	3.8	256.2	260.0

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

(d) Immediate and ultimate controlling entity

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

Company financial statements

Contents

The accounting policies on pages 36 to 41 also form an integral part of these financial statements.

Company financial statements 2012

Company statement of financial position

As at 31 December 2012

	Note	2012	2011
		£m	£m
ASSETS			
Non-current assets			
Investments in subsidiaries	2	8	8
Other receivables	3	-	83
		8	91
Current assets			
Other receivables	3	2	-
		2	-
LIABILITIES			
Current liabilities			
Other payables	4	(2)	-
		(2)	-
Non-current liabilities			
Other payables	4	-	(2)
Borrowings	5	-	(81)
		-	(83)
Net assets		8	8
EQUITY			
Ordinary share capital	6	-	-
Share premium	6	8	8
Total equity		8	8

The accounting policies on pages 36 to 41 and the notes on pages 70 to 72 are an integral part of these financial statements.

Approved by the Board on 8 April 2013

D Cougill

D Cougill
Chief Finance Officer

Company statement of changes in equity
For the year ended 31 December 2012

	Note	Ordinary share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 10 June 2011		**-**	**-**	**-**	**-**
Total comprehensive income for the period		-	-	-	-
Issue of ordinary shares	6	-	8	-	8
Total movements in the period		-	8	-	8
Balance at 31 December 2011		**-**	**8**	**-**	**8**
Total comprehensive income for the year		-	-	-	-
Total movements in the year		-	-	-	-
Balance at 31 December 2012		**-**	**8**	**-**	**8**

The accounting policies on pages 36 to 41 and notes on pages 70 to 72 are an integral part of these financial statements.

Notes to the Company financial statements

1 Directors

Details of the aggregate remuneration (excluding payments for compensation for loss of office) of the directors of the Company for qualifying services in respect to the Company comprise:

	2012	2011
	£000	**£000**
Fees and benefits	1,141	270
Contributions paid into a pension scheme	49	27
	1,190	297

	2012	2011
	£000	**£000**
Emoluments of the highest paid director:		
Fees and benefits	412	70
Contributions paid into a pension scheme	-	12
	412	82

(a) Fees and benefits include directors' bonuses.
(b) Retirement benefits are accruing to 1 director (2011: 1) under a money purchase scheme.
(c) During the year no directors (2011: none) were awarded shares under long-term incentive schemes.
(d) A payment of £nil (2011: £317,000) was made to a director for loss of office in the year.

2 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 Finance Limited	Holding company	Ordinary	100%
Indirectly held:			
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Financial Services Limited	Supplying ancillary financial services	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (Incorporated in Ireland)	Insurance intermediary and roadside assistance	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%

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

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

	2012	2011
	£m	**£m**
At 1 January 2012/10 June 2011	8	-
Additions	-	8
Cost at 31 December	8	8

3 Other receivables

	2012	2011
	£m	£m
Investments in preference shares of a subsidiary classified as a loan receivable (note 7)	-	83
Amounts due from related parties (note 7)	2	-
Total	2	83
Expected to be recoverable within one year	2	-
Expected to be recoverable in more than one year	-	83
	2	83

All receivables and other financial assets are carried at amortised cost. The preference shares were settled in October 2012.

4 Other payables

	2012	2011
	£m	£m
Loans due to subsidiary (note 7)	-	2
Amounts due to related parties (note 7)	2	-
Total	2	2
Expected to be payable within one year	2	-
Expected to be payable in more than one year	-	2
	2	2

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

5 Borrowings

(a) Analysis of borrowings

Total borrowing is comprised of:

	2012	2011
	£m	£m
12% Preference shares	-	80
Less costs of raising finance	-	(2)
	-	78
Accrued dividends on preference shares	-	3
	-	81

In October 2012, the Company redeemed and repaid in full the preference share principal and accrued dividends.

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

The fair value of the debt is £nil (2011: £83 million).

Notes to the Company financial statements (continued)

6 Ordinary share capital

Details of the Company's ordinary share capital are as follows:	2012	2011
	£000	£000
Authorised		
80,120,000 ordinary shares of £0.01 each	801	801
Allotted, called up and fully paid:		
1,200,000 ordinary 'A' shares of £0.01 each	12	12
6,800,000 ordinary 'B' shares of £0.01 each	68	68
	80	80

During the prior period the Company issued 8,000,000 £0.01 ordinary shares for a consideration of £8 million, settled in cash, resulting in a share premium of £8 million.

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

7 Related party transactions

(a) Key management compensation

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

(b) Key management interests

A total of 7 (2011: 6) key management personnel held loan notes and equity stakes in the business as at 31 December 2012.

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

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

The Company had the following amounts due from/(to) related parties:		2012	2011
		£m	£m
Other Group companies	- investment in preference shares	-	80
	- accrued dividends on preference shares	-	3
	- current account receivables	2	-
	- current account payables	(2)	-
	- loan balances	-	(2)
		-	81

In October 2012, the Company redeemed and repaid in full the preference share principal and accrued dividends. The preference shares earned a 12% fixed dividend and were redeemable on sale or listing. The preference shares were redeemable at issue price (£1) plus any accrued and unpaid dividends.

The redeemable preference shares did not carry the right to vote and, in the event of a liquidation or return of capital, ranked above other shares with regard to the Company's residual assets.

(d) Ownership structure

The 'A' ordinary shares are held by management and the 'B' ordinary shares are held by CEP III Investments 16 S.à r.l.

(e) Immediate and ultimate controlling entity

The immediate and controlling shareholder is CEP III Investment 16 S.à r.l. The lowest level at which consolidated IFRS financial statements are prepared is RAC Limited.

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