

# Annual Report & Financial Statements 2017

RAC Bidco Limited



**RAC**

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**£558 million**

Revenue up on last year  
(2016 : £506 million)

**£190 million**

EBITDA before  
exceptional items  
(2016 : £184 million)

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

**£34 million**  
Operating profit  
(2016: £68m)

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

**80%**  
Roadside **repair** rate  
(2016 : 80%)

**80%**  
Roadside **retention** rate  
(2016 : 80%)

**95**  
Net **promoter** score  
(2016 : 94)



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

### Focus on delivering growth

Group revenue increased by £52 million (10%) to £558 million, reflecting growth in our Roadside, Insurance Broking and Motoring Services businesses.

EBITDA before exceptional items increased by £6 million to £190 million reflecting the strong performance in our Insurance Broking and Motoring services businesses and a robust performance in Roadside in spite of strong competition and implementation costs for the substantial levels of new business won.

We also delivered strong operating cash flow generation, with a £11 million increase in net cash flow from operating activities to £174 million and improvement in EBITDA cash conversion to 92% (2016: 88%).

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

### Delivering for our Members

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

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

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

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

### Refinancing

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

### Our 120th Anniversary

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

### Our "Next Chapter" strategy

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

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

## Strategic report | CEO review (cont)

### Our people

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

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

### Outlook

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

Dave Hobday  
Chief Executive Officer

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

Dave Hobday  
Chief Executive



The Consolidated Financial Statements of the RAC Group are set out from page 40 onwards. The Group has delivered strong financial performance in 2017, despite a challenging market environment and a backdrop of significant change for the Group.

## Refinancing

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

## Key Performance Indicators ("KPIs")

The financial and non-financial KPIs set out in the table below are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve RAC's business plans, strategic aims and objectives. The data provided is for the three year period to 31 December 2017.

	2017	2016
Revenue	558	506
EBITDA before exceptional items (£m) *	190	184
Operating profit (£m)	34	68
Roadside repair rate (%) **	80	80
Roadside retention rate (%) ***	80	80
Net Promoter Score ****	95	94

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

\*\* UK roadside repair rate excluding Road Traffic Collisions

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

\*\*\*\* Industry-wide customer satisfaction measure

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

## Consolidated Income statement

	2017	2016
	(£m)	(£m)
Revenue	558	506
EBITDA before exceptional items	190	184
Depreciation	(5)	(5)
Amortisation of intangible assets	(103)	(102)
Exceptional items	(48)	(9)
Operating profit	34	68
Finance expenses	(65)	(129)
Loss before tax	(31)	(61)

Revenue for the Group was £558 million, an increase of £52 million on 2016. This was primarily driven by new business deals with corporate partners and in motor claims services.

EBITDA of £190 million increased by £6 million over 2016, despite competitive market conditions and cold, icy weather conditions experienced during December 2017 that presented operational challenges.

Amortisation of intangible assets amounted to £103 million (2016: £102 million), representing amortisation of both acquired intangibles and separately identified intangible assets arising from the business combination in 2014, predominantly customer lists, being amortised over the useful economic lives.

Operating profit of £34 million (2016: Profit £68 million) decreased by £34 million, primarily due to an increase in administrative costs reflecting an exceptional impairment of intangibles assets of £38 million (2016: £1 million).

Exceptional items of £48 million have been incurred in 2017 (2016: £9 million), further details are given in note 3.

Finance expenses of £65 million have been incurred in 2017 (2016: £129 million).

The Group's loss before tax in 2017 was £31 million (2016: £61 million), driven by the factors above.

## Strategic report | CFO review (cont)

### Consolidated Statement of financial position

	2017	2016
	£m	£m
Goodwill and intangible assets	2,139	2,238
Property, plant and equipment	20	15
Trade and other receivables	80	66
Trade and other payables	(247)	(230)
Net current liabilities	(125)	(157)
Borrowings	(1,444)	(1,170)
Shareholders' equity	392	706

As at 31 December 2017, goodwill and intangible assets amounting to £2,139 million (2016: £2,238 million) primarily represented the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The movement of £99 million includes an impairment charge of £38 million, further details are given in note 11.

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

Trade and other receivables of £80 million (2016: £66 million) are primarily comprised of trade receivables of £50 million (2016: £41 million) and prepayments and accrued income of £27 million (2016: £21 million).

Trade and other payables of £247 million (2016: £230 million) predominantly represent deferred income of £152 million (2016: £149 million) relating to subscriptions revenue received in advance, and £95 million (2016: £81 million) of trade payables, accruals and other payables.

The Group has net current liabilities of £125 million as at 31 December 2017 (2016: £157 million) reflective of the working capital structure of the business.

The capital structure of the Group consists of third party bank borrowings amounting to £274 million (2016: £273 million), bonds issued of £1,170 million (2016: £897 million) and £339 million (2016: £339 million) of funds from shareholders.



### Consolidated Statement of financial position (cont)

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

	2017		2016	
	(£m)	%	(£m)	%
Third Party Borrowings				
Bank borrowings	274	15.4	273	18.1
Bonds	1,170	65.6	897	59.4
Related Party Sources				
Ordinary shares	339	19.0	339	22.5
Total Sources	1,783	100.0	1,509	100.0
Undrawn working capital facility	50		50	
Total Committed Facilities	1,833		1,559	

### Statement of cash flows

	2017	2016
	(£m)	(£m)
Cash and cash equivalents	90	43
Net cash flows from operating activities	174	162
Interest paid	(63)	(84)
Net increase/(decrease) in cash and cash equivalents	47	(45)

The RAC Bidco Limited Group generated net cash inflow from operating activities of £174 million (2016: £162 million), an increase in EBITDA conversion to 92% (2016: 88%) as a result of improved working capital dynamics of the business. Net cash flows from the issue of new debt and repayment of existing debt were broadly net neutral and interest paid of £63 million (2016: £84 million) relates primarily to the bank debt and bonds issued during the year.

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



Richard Fairman  
Chief Financial Officer





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

## Principal activity

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

## The Business Model

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

This reputation for service quality and dedication carries over to our other products and services, whether it's our broad comprehensive insurance range, online shop or European Breakdown Cover. It's helped us launch new facilities for our Members and the motoring community, including the introduction of RAC Cars, allowing

customers to purchase used cars with confidence from our recommended dealer network, as well as an approved garage network for vehicle repairs and our innovative universal spare wheel allowing customers to continue on their journey in the event of a puncture and not having a spare wheel.

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

## Objectives and strategy

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

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





## Strategic report | Strategic Management (cont)

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

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

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

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

### Focus on customers

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

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

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

### Continuing to drive operational excellence

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

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

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

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

## Market environment and outlook

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



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

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

## Operational overview

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

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

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

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

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





## Strategic report | Business Environment (cont)


### Developments

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


### Environmental Targets and Carbon Emissions

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

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





**Still using a handheld phone at the wheel?**



**Join the campaign encouraging every driver to make the roads a safer place – by being Phone Smart.**

**Find out more and make a promise yourself today at**

**BePhoneSmart.uk**

## No 1 concern

for motorists is the use of mobiles at the wheel

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

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

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

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

### Financial risk management

#### Market risks

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

RAC is also exposed to risks from fluctuations in fuel prices which can lead to increased operating costs. This risk is managed by RAC through the use of forward

purchases of fuel for a period of at least twelve months in order to hedge the variability of cash flows associated with the purchasing of fuel for use in RAC's operational fleet of patrols and recovery vehicles.

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

#### Credit risk

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

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

#### Liquidity risk

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

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

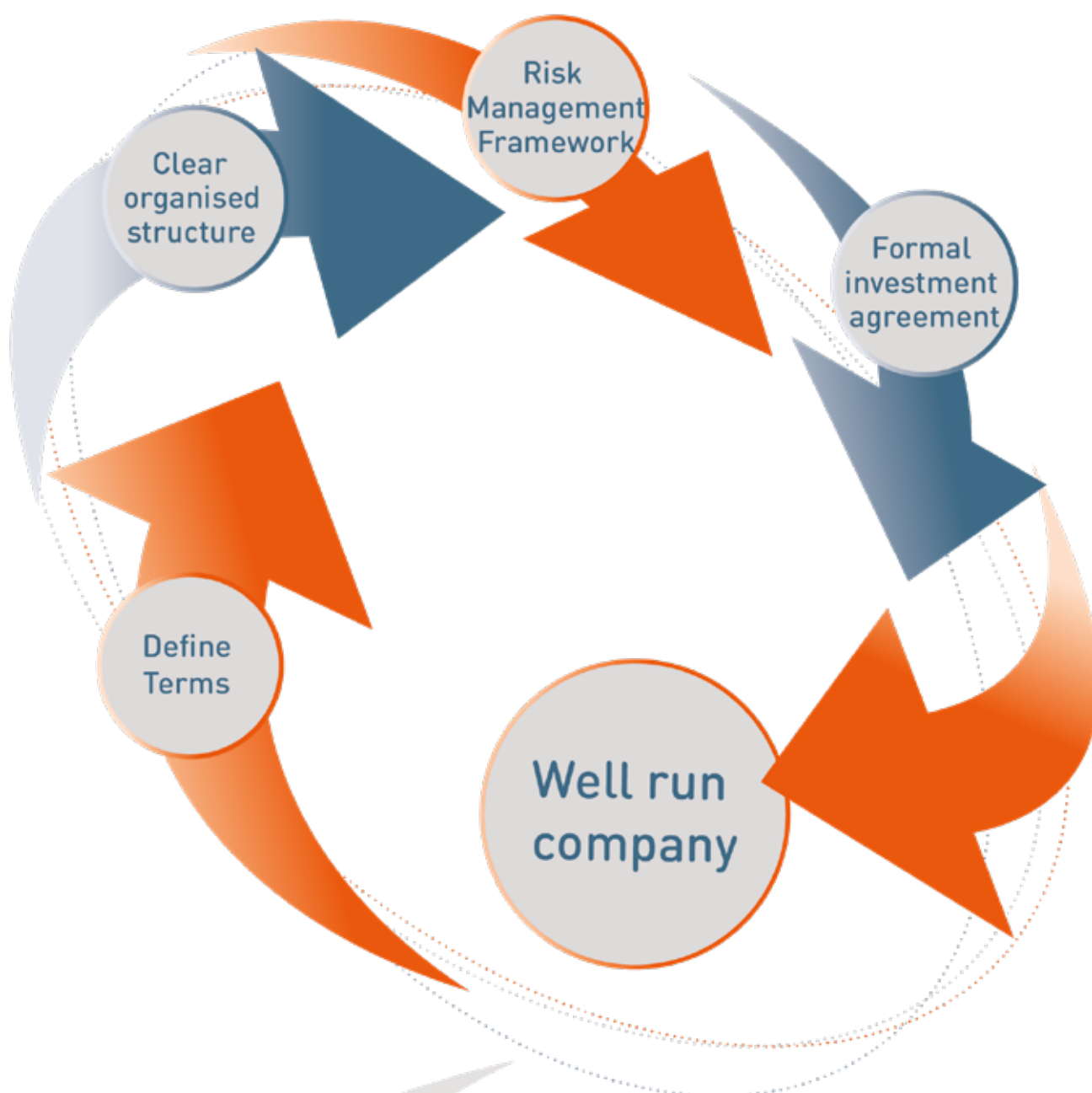
#### Regulatory risk

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

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

## Strategic report | Risk Management (cont)

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



## Key strategic and operational risks

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

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



## Strategic report | Risk Management (cont)

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

### Capital management

RAC maintains an efficient capital structure comprising equity shareholders' funds and third party borrowings, consistent with its overall risk profile and the regulatory and market requirements of the business (see the Consolidated Statement of financial position on page 42).

In managing its capital, RAC seeks to:

- (i) Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
- (ii) Maintain financial strength to support new business growth and to satisfy the requirements of its Members and regulators;
- (iii) Retain financial flexibility by maintaining strong liquidity; and
- (iv) Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

By order of the Board on 27 February 2018



S Morrison  
Company Secretary



## Governance | Governance report

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

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

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

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

### The Board

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

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

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

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

### Division of responsibilities

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

The Chairman is responsible for:

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

The Chief Executive Officer is responsible for:

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

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

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

The Non-Executive directors are responsible for:

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

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



### Board of Directors

#### Rob Templeman | Chairman

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

#### Dave Hobday | Chief Executive Officer

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

#### Richard Fairman | Chief Financial Officer

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

#### Mark Wood | Chair of Risk, Audit and Compliance Committee

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



### Board of Directors

#### Non-Executive Directors – GIC Group

##### Vinit Nagarajan |

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

##### Henry Ormond |

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

##### Marc Boughton |

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

##### Tim Gallico |

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

##### Pev Hooper |

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

#### Non-Executive Directors – CVC Group

### Board committees

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

#### Group risk, audit and compliance committee

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

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

Key areas for which the committee is responsible include:

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

### Remuneration committee

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

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

### Other committees and working groups

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







## Our Sustainable Approach to Growing our Business

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

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

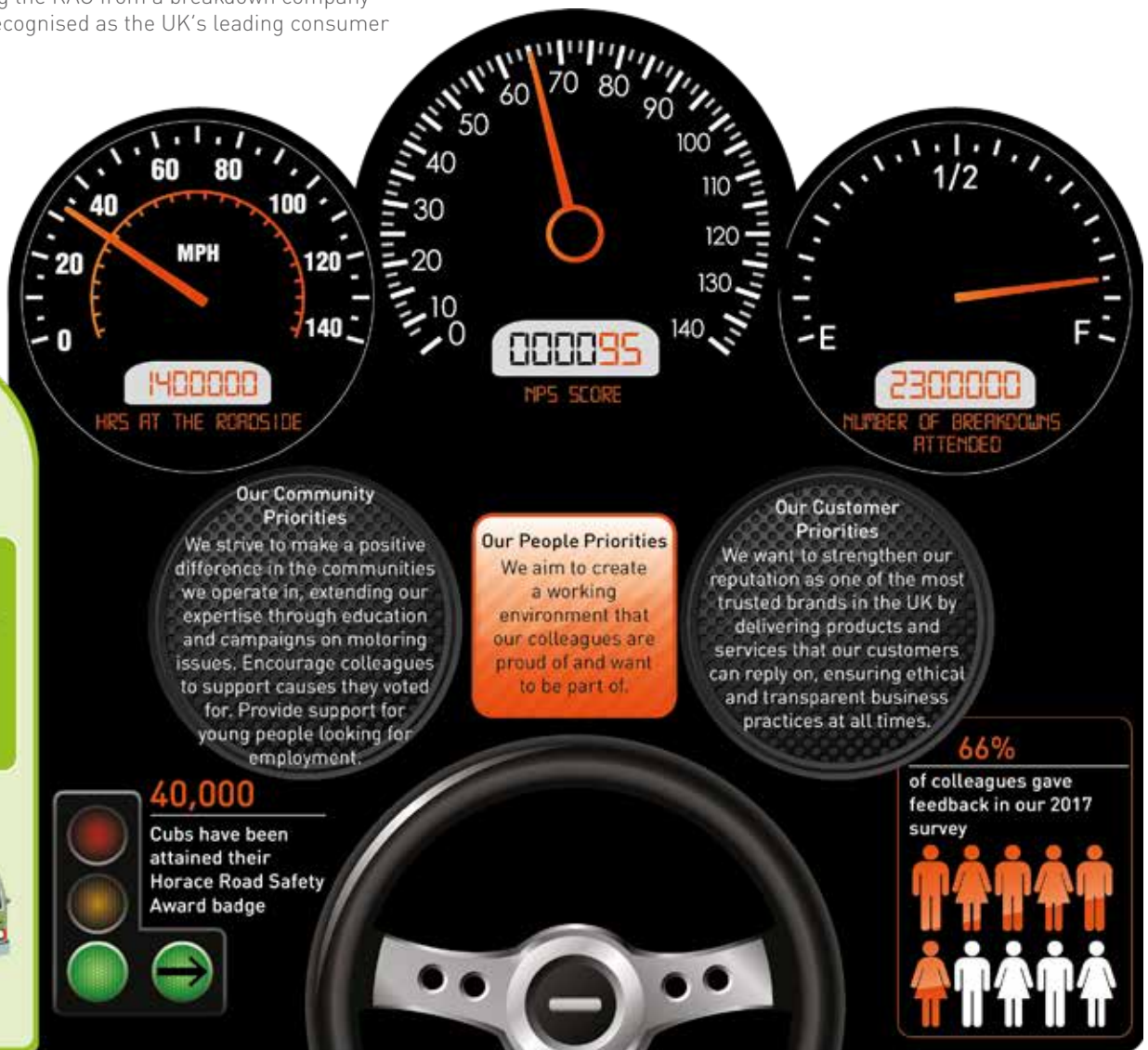
RAC has an exciting and unique opportunity ahead of us as we launch our Next Chapter of delivering profitable sustainable growth by leveraging our strengths, focusing on "Brilliant basics" and reinvigorate our core business of exceptional customer service at the roadside.

With our purpose clearly set out and long term vision of transforming the RAC from a breakdown company to becoming recognised as the UK's leading consumer



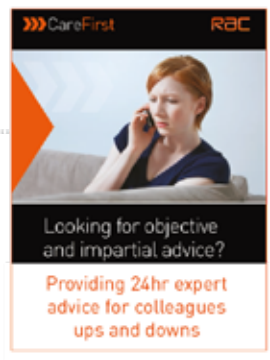
motoring services organisation, we know that our reputation must be protected and reinforced continuously through all our actions.

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





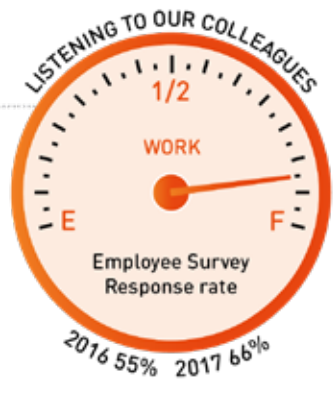
# Corporate Social Responsibility report | (cont)



## 2018 People Priorities

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

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



## Our People

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

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

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

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

# 4000

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

Human



## Rights Equality and Diversity

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

Our Equality and Diversity Policy ensures that every colleague is treated equally and fairly. The policy confirms that there will be no direct or indirect

discrimination in respect of age, disability, religious belief, gender, sexual orientation, race, colour, marital status, political belief and nationality, or any other category defined by law in all aspects of employment including recruitment, promotion, and opportunities for training, pay and benefits.

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

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

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

## Health and Safety

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

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

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



## Colleague Health, Wellbeing and Lifestyle Benefits

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

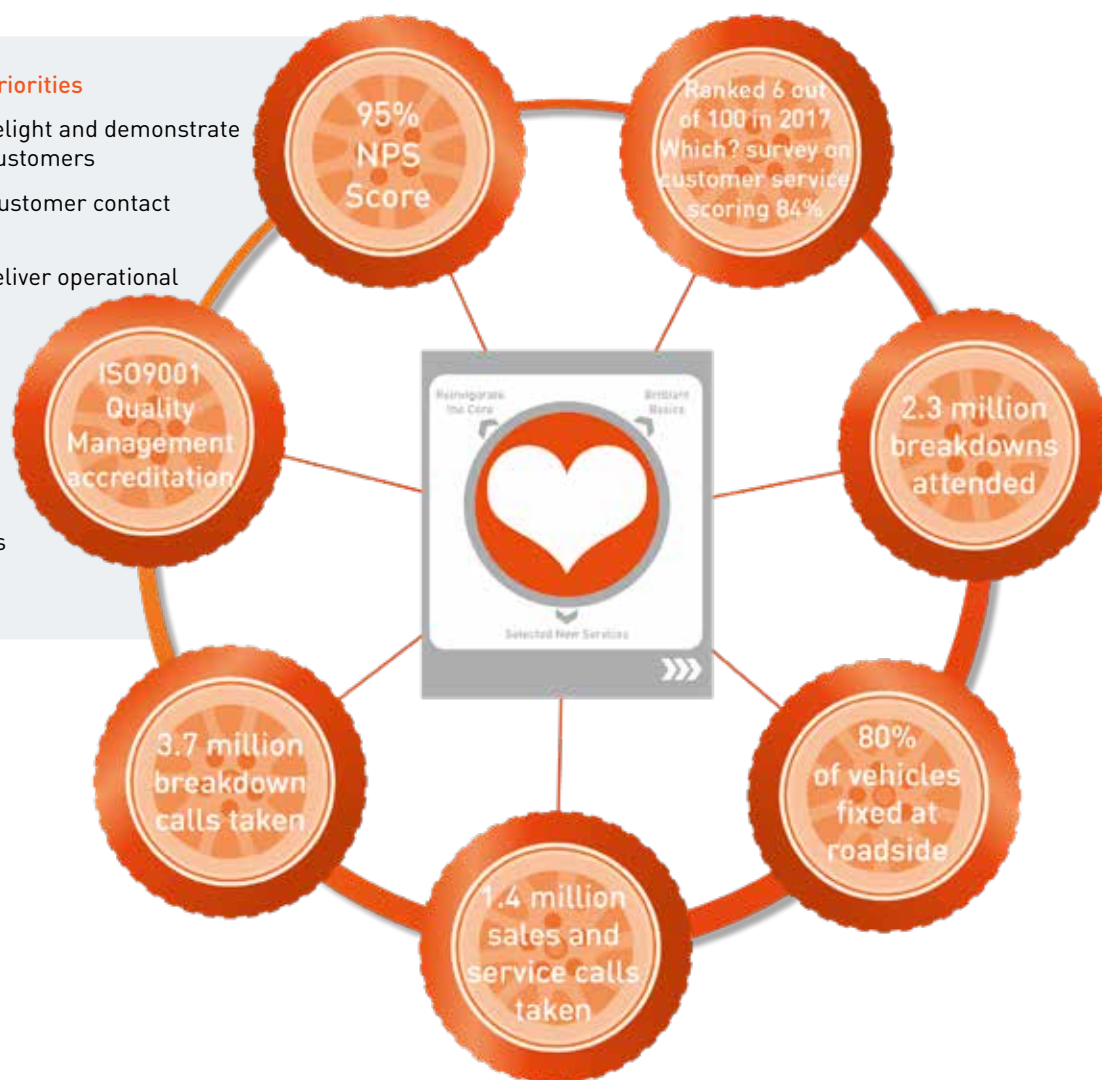
This confidential service provides colleagues with access to qualified trained advisers and counsellors who can provide support on life events that affect them or their family. The type of support ranges from help managing money, relationship issues, personal or family crisis, illness and injury, moving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

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

## Corporate Social Responsibility report | (cont)

### 2018 Customer Priorities

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



### Customer Trust and Confidence

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

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

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

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

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



## Corporate Social Responsibility report | (cont)

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

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

We take the privacy of our members seriously, underpinning the fundamental right of our members to the protection of their personal data. Good governance and colleague training plays a vital part in upholding these rights.

We have updated our data protection training modules to reflect the new legislation and require that all colleagues complete this mandatory so everyone is clear of their obligations around data security.

As supplier expenditures are second only to human resource expenses, a particular area of focus is the transparent and fair procurement of goods and services.

Procurement activities are designed to deliver value for money while minimising operational and legal risks. All contracts are reviewed by our legal team and made subject to our companies golden rules which contain contractual clauses in respect of anti-corruption and bribery, human rights, zero tolerance to modern slavery and the protection of customer and company data.

### 84%

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



## Aspirations of the RAC



### 2018 Environmental Priorities

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

CHANGING THE MAKEUP OF OUR FLEET

YEAR	EURO IV	EURO V	EURO VI
2016	0	1259	200
2017	0	869	590



### Environment

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

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

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

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



Our environmental management system focuses on the following areas:

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

### Fleet Performance

We continually look at technological advances and new materials to improve the performance of our vehicles so they use less fuel and produce less emissions. Our vehicle replacement programme has been in place over the last 7 years, as you can see from the graph we have been replaced our fleet with more environmentally friendly vehicles a practice which we will continue. Eco driver training, telematics deployment and refreshed roadside deployment tactics are all helping to reduce our Co<sub>2</sub>e footprint and fuel consumption.

### Offices

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

### Waste and Recycling

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



## Community Matters

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

### 2018 Community Priorities

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



## Improving Motorists Experience

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

### Be Phone Smart

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



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

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

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

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

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

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

monitor both wholesale and fuel prices daily to make sure retailers are charging a fair price on the forecourt and also track faults attended by our patrols that could be attributed to potholes using the findings on a quarterly basis to highlight the scale of the problem as part of our campaign for better quality roads.

### RAC Road Child Safety

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

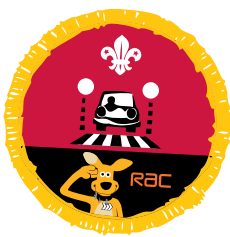
### RAC Pothole Index and RAC Fuel Watch

The condition of our roads and fuel prices are also a top concern for motorists, we keep a watching brief on both hot topics. We



# Corporate Social Responsibility report | (cont)

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



## Investing in Young People

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

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

## National Citizens Service – The Challenge

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

## Princes Trust

We have recently set up a partnership with the Princes Trust to support their Get Into Programme. In Q1 this year The Prince's Trust and our Bescot contact centre are piloting our own RAC Get Into Customer Service Programme. This will involve 10 -12 young people who have a desire to work in customer



service taking part in a three week training and work experience programme with the aim of providing either an apprenticeship or direct employment opportunities. Attendees will get the opportunity to experience all areas of the business to help them understand how each area of the business impacts the service the customer experiences.

## "You Choose" Charity of the Year

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

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

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



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



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

### Directors

The names of the current Directors are set out on page 33. Those who have served in office during the year have been as follows:

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

### Directors' indemnities

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

### Results and dividends

The results of the Group for the year ended 31 December 2017 are set out on page 40, and discussed in the Strategic report on pages 4 to 18.

The Group paid interim dividends of £288 million during the year, amounting to 84.92 pence per share (2016: £65 million, amounting to 19.02 pence per share). The Directors do not recommend the payment of a final dividend (2016: £nil).

### Capital structure

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

### Political donations

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

### Financial risk management

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

### Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 16 and 21 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 26 to the Consolidated Financial Statements.

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

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 4 to 18. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net assets of £392 million. This largely reflects the value of separately identifiable intangible assets on the business combination, offset by the gross debt of £1,464 million. The Directors have considered the financial position and future prospects of the RAC Bidco Limited Group.

The Company has net assets of £1,069 million and net current liabilities of £33 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Midco II Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2017 Annual Report and Financial Statements.



## Directors' report | (cont)

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

### Auditor

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

### Disclosure of information to the auditor

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

### Statement of Directors' responsibilities

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

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

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

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

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

### Events since the Statement of financial position date

There have been no events since the statement of financial position date which have a material impact on the Company's or RAC Bidco Limited Group's financial position as at 31 December 2017.

On behalf of the Board on 27 February 2018.



S Morrison  
Company Secretary

### Company information

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

**Company Secretary:** S Morrison

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

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

**Company number:** Registered in England and Wales: No. 09229824.

The RAC Bidco Limited group of companies ("RAC Bidco Limited Group" or "RAC") comprises RAC Bidco Limited ("Company") and its subsidiaries, as set out on page 64. RAC Bond Co PLC was incorporated on 24 March 2016 as RAC Bond Co Limited. On 14 April 2016, RAC Bond Co Limited was re-registered as a plc, changing its name to RAC Bond Co PLC. Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which are registered in England and Wales. As part of a refinancing in the period, these companies were sold to RAC Midco Limited, an indirect Parent Company of the Group.

For the year ended 31 December 2017, the Company is a member of the RAC Group (Holdings) Limited group of companies ("Group") whose subsidiaries included RAC Midco Limited, RAC Midco II Limited, Nebula Systems Limited, Maverick Technology (UK) Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited and the RAC Bidco Limited Group.

These Consolidated Financial Statements are presented for the year ended 31 December 2017. Comparatives are presented for the year ended 31 December 2016.

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



**In our opinion:**

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

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

- the Consolidated Income statement;
- the Consolidated Statement of comprehensive income;
- the Consolidated and Parent company Statement of financial position;
- the Consolidated and Parent company Statements of changes in equity;
- the Consolidated and Parent company Statement of cash flows;
- the Accounting policies; and
- the related notes on pages 56 to 79 of the consolidated financial statements and pages 84 to 88 of the parent company financial statements.

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

**Basis for opinion**

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

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

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

**Summary of our audit approach**

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• carrying value of goodwill and other intangible assets; and</li> <li>• customer refunds provision</li> </ul>
Materiality	The materiality that we used for the group financial statements was £5.6m which was determined on the basis of 3% of EBITDA before exceptional items.
Scoping	100% of the group revenue, net assets and EBITDA before exceptional items was audited to full or specific scope audit procedures.

## Independent auditor's report | to the members of RAC Bidco Limited (cont)

### Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

### Key audit matters

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

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

### Carrying value of goodwill and other intangible assets

Key audit matters description	<p>At 31 December 2017, the Group held goodwill of £878m (2016: £906m) and intangible assets including: £864m (2016: £872m) in relation to the value of the RAC brand and £308m (2016: £383m) in relation to customer lists.</p> <p>The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is required to be subject to an annual impairment test by IAS 36: Impairment of Assets by comparing the value in use to the carrying value of the net assets (including tangible assets) of each cash generating unit ('CGU').</p> <p>The Group's assessment of the carrying value of goodwill and intangible assets is a judgemental process which requires estimates concerning the future cash flows of each CGU and associated discount and growth rates based on management's view of future business prospects and therefore there is a potential fraud risk due to management bias.</p> <p>Management have recognised an impairment charge of £35.6m in the current year in respect of goodwill and other intangible assets allocated to the Telematics and Data Services CGU. As a result, we identified a risk around the adequacy or potential overstatement of this impairment charge.</p> <p>Furthermore, an impairment charge of £1.5m was recognised against the carrying value of intangible assets relating to capitalised development costs for which Management expected the benefit arising from these assets to no longer support the carrying value of these costs.</p> <p>Further detail on the key judgements involved is set out within the significant accounting policies in note E, the Goodwill and Intangibles note 11 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note T to the Financial Statements.</p>
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**How the scope of our audit responded to the key audit matter**

We assessed each of the CGUs and, on the basis of the implied headroom, focused our risk on the Telematics CGU. We challenged management's key assumptions relating to the estimated future cash flows, growth rates and the discount rates applied to each cash generating unit. Our procedures included reviewing forecast cash flows with reference to historical trading performance, assessing the Group's ability to accurately forecast business performance and consideration of future prospects of the business.

We engaged our valuations experts to critically assess certain key assumptions, which included benchmarking to external macro-economic and market data.

We reviewed the consistency of the key assumptions used in the business forecasts with the budget used by the Group to assess longer term-viability and going concern.

We evaluated the completeness of the disclosures within the financial statements.

**Key observations**

The key assumptions used within the carrying value of goodwill and other intangible assets assessment are consistent with the Group's longer term forecasts and going concern assessment. We concluded that the overall carrying value of goodwill and other intangible assets and the related disclosures in the financial statements are appropriate.

**Customer refunds provision**

**Key audit matter description**

Following an approach by the Financial Conduct Authority (FCA) regarding roadside assistance customers with duplicate breakdown cover, management have performed a programme to contact customers who have potentially bought an individual member policy from RAC whilst also having cover through other financial arrangements.

The total amount provided as at 31 December 2017 in respect of the Group's future obligations is £3.0m (2016: £5.0m). The valuation of the provision requires significant judgement by management to determine key assumptions, particularly regarding: customer numbers, duration of the period of dual cover and amounts payable in remediation. These take into account uncertainties around potential future redress. Therefore there is a potential fraud risk due to management bias.

Further detail on the key judgements involved is set out within the significant accounting policies in note N, the provisions note 18 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note T to the Financial Statements.

**How the scope of our audit responded to the key audit matter**

We challenged the methodology used for calculating the customer refund provision by comparing the inputs and assumptions used in the calculation with records from policy agreements and actual results of the redress program to date. We also tested the mathematical accuracy of the provisioning model

We reviewed correspondence between the FCA and the Group and assessed whether the assumptions used in the provision calculation were in line with the regulator's expectations.

We assessed the Group's policy for provisions, including considering whether the policy is in accordance with current accounting standards, and considered the validity of recognition of a provision in the case of this matter.

## Independent auditor's report | to the members of RAC Bidco Limited (cont)

### Key observations

We were satisfied that an appropriate provision policy has been adopted in light of the correspondence with the FCA and the models used by management to determine the provision were operating as intended.

We considered the Group's provision to be appropriate albeit on the prudent end of an acceptable range when compared with the historical experience levels of customer refunds.

### Our application of materiality

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

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

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

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

### An overview of the scope of our audit

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

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

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

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



## Other information

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

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

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

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

We have nothing to report in respect of these matters.

## Responsibilities of Directors

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

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

## Auditor's responsibilities for the audit of the Financial Statements

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

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

## Use of our report

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

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

## Independent auditor's report | to the members of RAC Bidco Limited (cont)

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

#### Directors' remuneration

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

We have nothing to report in respect of this matter.

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

## Consolidated Financial Statements |

### Consolidated Income statement

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Revenue	1	558	506
Cost of sales		(279)	(230)
<b>Gross profit</b>		<b>279</b>	<b>276</b>
Administrative expenses		(245)	(208)
<b>Operating profit</b>	2	<b>34</b>	<b>68</b>
<hr/>			
EBITDA before exceptional items		190	184
Depreciation	12	(5)	(5)
Amortisation of customer acquisition intangibles	11	(16)	(14)
Amortisation of non customer acquisition intangible assets	11	(87)	(88)
Exceptional items	3	(48)	(9)
<b>Operating profit</b>		<b>34</b>	<b>68</b>
<hr/>			
Finance expenses	6	(65)	(129)
<b>Loss before tax</b>		<b>(31)</b>	<b>(61)</b>
Tax (charge)/credit	10	(1)	22
<b>Loss for the year</b>		<b>(32)</b>	<b>(39)</b>

The accounting policies and notes on pages 45 to 79 are an integral part of these Financial Statements.



## Consolidated Financial Statements | (cont)

### Consolidated Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
<b>Loss for the year</b>		(32)	(39)
Other comprehensive income			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Gain on shares and loan notes held by EBT		2	-
Aggregate tax effect		-	-
Net movement on cash flow hedges	20(b)	5	7
Aggregate tax effect	10(c)	(1)	(1)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		6	6
<b>Total comprehensive expense for the year</b>		<b>(26)</b>	<b>(33)</b>

The accounting policies and notes on pages 45 to 79 are an integral part of these Financial Statements.

## Consolidated Financial Statements | (cont)


### Consolidated Statement of financial position

As at 31 December 2017

	Note	2017	2016
		£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill and intangible assets	11	2,139	2,238
Property, plant and equipment	12	20	15
Investments		-	2
Deferred tax asset	17	13	12
		<u>2,172</u>	<u>2,267</u>
<b>Current assets</b>			
Inventories	14	2	2
Trade and other receivables	15	80	66
Cash and cash equivalents	16	90	43
		<u>172</u>	<u>111</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	21(a)	(9)	(7)
Provisions	18	(9)	(6)
Trade and other payables	19	(244)	(227)
Current tax payable	17	(35)	(28)
		<u>(297)</u>	<u>(268)</u>
<b>Net current liabilities</b>		<b>(125)</b>	<b>(157)</b>
<b>Non-current liabilities</b>			
Borrowings	21(a)	(1,435)	(1,163)
Employee benefit liability	25(c)(iv)	(6)	(6)
Trade and other payables	19	(3)	(3)
Deferred tax liability	17	(201)	(217)
Derivative financial instruments	20	(10)	(15)
		<u>(1,655)</u>	<u>(1,404)</u>
<b>Net assets</b>		<b>392</b>	<b>706</b>
<b>EQUITY</b>			
Ordinary share capital	22	339	339
Hedging instruments reserve		2	(2)
Retained earnings		51	369
<b>Total equity</b>		<b>392</b>	<b>706</b>

The accounting policies and notes on pages 45 to 79 are an integral part of these Financial Statements.

Approved by the Board on 27 February 2018.



R Fairman  
Chief Financial Officer

## Consolidated Financial Statements | (cont)

### Consolidated Statement of changes in equity

For the year ended 31 December 2017

	Note	Ordinary share capital	Hedging instruments reserve	Retained earnings	Total equity
		£m	£m	£m	£m
<b>Balance at 1 January 2016</b>		<b>874</b>	<b>(8)</b>	<b>(62)</b>	<b>804</b>
Loss for the year		-	-	(39)	(39)
Other comprehensive income		-	6	-	6
Total comprehensive income/(expense)		-	6	(39)	(33)
Dividends paid	4	-	-	(65)	(65)
Capital reduction		(535)	-	535	-
<b>Balance at 31 December 2016</b>		<b>339</b>	<b>(2)</b>	<b>369</b>	<b>706</b>
Loss for the year		-	-	(32)	(32)
Other comprehensive income		-	4	2	6
Total comprehensive income/(expense)		-	4	(30)	(26)
Dividends paid	4	-	-	(288)	(288)
<b>Balance at 31 December 2017</b>		<b>339</b>	<b>2</b>	<b>51</b>	<b>392</b>

The accounting policies and notes on pages 45 to 79 are an integral part of these Financial Statements.

## Consolidated Financial Statements | (cont)

### Consolidated Statement of cash flows

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
<b>Operating activities</b>			
<b>Loss before tax</b>		<b>(31)</b>	<b>(61)</b>
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	12	5	5
Amortisation of intangible assets	11	103	102
Exceptional costs	3	39	1
Finance expenses	6	65	129
Increase in provisions	18	3	5
Working capital adjustments:			
Decrease in inventories		-	1
Increase in trade and other receivables		(15)	(5)
Increase/(decrease) in trade and other payables		17	(15)
Payment to employment benefit scheme		(1)	-
Taxation paid	17	(11)	-
<b>Net cash flows from operating activities</b>		<b>174</b>	<b>162</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	12	(10)	(5)
Purchase of intangible assets	11	(40)	(41)
<b>Net cash flows used in investing activities</b>		<b>(50)</b>	<b>(46)</b>
<b>Financing activities</b>			
Repayment of bank debt	21	-	(1,188)
Proceeds from new bank debt	21	-	280
Investment income		2	-
Proceeds from bond issuance	21	272	896
Dividends paid	4	(288)	(65)
Interest paid and debt issue costs		(63)	(84)
<b>Net cash flows used in financing activities</b>		<b>(77)</b>	<b>(161)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>47</b>	<b>(45)</b>
Cash and cash equivalents brought forward	16	43	88
<b>Cash and cash equivalents carried forward</b>	<b>16</b>	<b>90</b>	<b>43</b>

The accounting policies and notes on pages 45 to 79 are an integral part of these Financial Statements.



## Accounting Policies |

### (A) Corporate information

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

Information on RAC Bidco Limited Group's structure is provided in note 13. Information on related party relationships of the RAC Bidco Limited Group is provided in note 27.

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

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

#### Basis of preparation

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

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

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

The separate Financial Statements of the Company are set out from page 80. On publishing the Company Financial Statements here together with the RAC Bidco Limited Group Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Company's profit for the year ended 31 December 2017 was £289 million (2016: £324 million).

#### Going concern

The Directors have assessed the financial position and the future funding requirements of the RAC Bidco Limited Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 16 and 21 to the Consolidated Financial Statements. The RAC Bidco Limited 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 26 to the Consolidated Financial Statements.

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

The RAC Bidco Limited Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 4 to 18. The Directors also considered what mitigating actions the RAC Bidco Limited Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net assets of £392 million and net current liabilities of £125 million, however within net current liabilities is £152 million of deferred income. The Group's net liabilities position largely reflects the value of separately identifiable intangible assets, offset by issued bonds of £1,170 million and bank borrowings of £274 million. The Directors have considered the financial position and future prospects of the RAC Bidco Limited Group.

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

#### Going concern (cont)

The Company has net assets of £1,069 million and net current liabilities of £33 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Midco II Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2017 Annual Report and Financial Statements.

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

#### Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2017.

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

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

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

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the RAC Bidco Limited Group's voting rights and contractual voting rights.

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

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

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

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

## Accounting Policies | (cont)

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

#### Investments in associates

An associate is an entity over which the RAC Bidco Limited Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. Investments in associates are accounted for using the cost method on the basis of the exemption available in IAS 28 Investments in Associates.

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

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

#### Business combinations

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

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

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

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

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

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

### (C) Revenue recognition

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

#### Service revenue

Service revenue represents sales of roadside assistance subscription services and is recognised on a straight-line basis over the length of the contract, usually twelve months. For non-subscription income, revenue is recognised on provision of the service. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income.

#### Products

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

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

#### Insurance brokerage

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

#### Rental income

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

#### Interest income

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

#### Dividend income

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

### (D) Exceptional items

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

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

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the RAC Bidco Limited 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.



## Accounting Policies | (cont)

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

#### Brand

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

#### Acquired value-in-force business

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

#### Customer lists and other intangible assets

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

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

#### Customer acquisition intangibles

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

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

#### Intangible assets acquired in a business combination

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

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

#### Impairment testing

For impairment testing, goodwill has been allocated to the four cash generating units ("CGU") that existed as at the date of acquisition as these represent the lowest level within the RAC Bidco Limited Group which generates independent cash inflows. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount. Details of the testing performed and carrying values of goodwill and intangibles is shown within note 11.

### (F) Property, plant and equipment

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

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

## Accounting Policies | (cont)

### (F) Property, plant and equipment (cont)

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

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

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

### (G) Inventories

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

### (H) Impairment of non-financial assets

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

### (I) Trade receivables

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

### (J) Cash and cash equivalents

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

### (K) Borrowings

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

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

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

## Accounting Policies | (cont)

### (L) Derivative financial instruments

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

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

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

### (M) Cash flow hedges

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

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

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

### (N) Provisions and contingent liabilities

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

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

### (O) Income taxes

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

### (O) Income taxes (cont)

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

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

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

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

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

### (P) Leases

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

### (Q) Employee benefits

#### **Pension obligations and other post-retirement benefit obligations**

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

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

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

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

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



## Accounting Policies | (cont)

### (Q) Employee benefits (cont)

#### Pension obligations and other post-retirement benefit obligations (cont)

Past service costs are recognised in the Consolidated Income statement on the earlier of the date of the plan amendment or curtailment, and the date that the RAC Bidco Limited Group recognises restructuring related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The RAC Bidco Limited Group recognises the following changes in the net defined benefit obligation under Cost of sales, Administrative expenses and Finance expenses in the Consolidated Income statement:

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

#### Termination benefits

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

### (R) Share capital and dividends

#### Equity instruments

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

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

#### Dividends

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

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

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

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

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

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

<sup>1</sup> Effective for annual periods commencing on or after 1 January 2018

<sup>2</sup> Effective for annual periods commencing on or after 1 January 2019

<sup>3</sup> Effective for annual periods commencing on or after 1 January 2021

### (S) Application of new and revised International Financial Reporting Standards (“IFRSs”) (cont)

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

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

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

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

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

#### (i) Critical judgements in applying the RAC Bidco Limited Group’s accounting policies

The Directors do not believe there are any critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that they have made in the process of applying the RAC Bidco Limited Group’s accounting policies and that have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

#### (ii) Key sources of estimation uncertainty

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

##### **Tax provisions**

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities. The Group has provided for the full amount of tax in question therefore management do not consider there to be any sensitivities regarding tax provisions.

##### **Fair value measurements and valuation process**

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

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

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

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

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

## Accounting Policies | (cont)

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

#### Fair value measurements and valuation process (cont)

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

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

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

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

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

#### Provisions and contingent liabilities

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

#### Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at 31 December 2017 was £878 million and £864 million respectively (31 December 2016: £906 million and £872 million respectively). An impairment loss of £28 million was recognised against goodwill and £8 million against brand allocated to the Telematics and Data Services segment as explained in note 3.

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

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

# Notes to the Consolidated Financial Statements |

## 1 Revenue

	2017	2016
	£m	£m
Sale of products	24	23
Sale of services	534	483
<b>Total revenue</b>	<b>558</b>	<b>506</b>

## 2 Operating items

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

	Note	2017	2016
		£m	£m
Depreciation of owned tangible assets	12	5	5
Amortisation of customer acquisition intangible assets	11	16	14
Amortisation of non customer acquisition intangible assets	11	87	88
Employee costs	8	151	144
Operating lease rentals paid		14	13
Rental income		-	(1)

## 3 Exceptional items

		2017	2016
		£m	£m
Impairment of intangible assets	11	38	1
Restructuring and other costs	18	10	3
Customer refunds costs	18	-	5
		<b>48</b>	<b>9</b>

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

Impairment of intangible assets of £38 million comprises (i) an impairment charge of £36 million recognised against goodwill and brand in relation to the Telematics & Data Services segment; (ii) £2m against the carrying value of capitalised development costs for which the expected benefits no longer support the carrying value of these costs.

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

## 4 Dividends

The Group paid interim dividends of £288 million during the year, amounting to 84.92 pence per share (2016: £65 million, amounting to 19.02 pence per share). No final dividend was paid in the year ended 31 December 2017 (31 December 2016: £nil).



## Notes to the Consolidated Financial Statements | (cont)

### 5 Operating segments

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

#### Roadside

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

#### Insurance broking

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

#### Motoring services

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

#### Telematics and Data services

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

The following is an analysis of the RAC Bidco Limited Group's revenue and results by operating segment. There were no inter segment sales during the periods reported and no individual customer contributed 10% or more to the RAC Bidco Limited Group's revenue.

	2017	2016
	£m	£m
<b>Revenue of products</b>		
Roadside	24	23
<b>Revenue of services</b>		
Roadside	422	394
Insurance broking	66	57
Motoring services	42	27
Telematics and Data services	4	5
<b>Group Revenue</b>	<b>558</b>	<b>506</b>
<b>Segment EBITDA before head office costs</b>		
Roadside	180	187
Insurance broking	36	30
Motoring services	9	5
Telematics and Data services	1	1
<b>Group EBITDA before head office costs</b>	<b>226</b>	<b>223</b>
Head office costs*	(36)	(39)
<b>Group EBITDA</b>	<b>190</b>	<b>184</b>
Amortisation of intangible assets	(103)	(102)
Depreciation	(5)	(5)
Exceptional items*	(48)	(9)
<b>Operating profit/(loss)</b>	<b>34</b>	<b>68</b>
Finance expenses	(65)	(129)
<b>Loss before tax from continuing operations</b>	<b>(31)</b>	<b>(61)</b>

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

## 5 Operating segments (cont)

### Assets and liabilities

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

### Impairment

An impairment of £28 million has been recognised in respect of goodwill and £8 million recognised in respect of brand allocated to the Telematics and Data Services CGU. Additionally an impairment of £2 million has been recognised in respect of capitalised development costs for which the expected benefits no longer support the carrying value of these costs. In 2016, an impairment of £1 million was recognised in respect of the impairment of intangibles relating to Risk Telematics UK Limited. Other intangibles are not analysed by CGU.

## 6 Finance expenses

	Note	2017	2016
		£m	£m
Interest payable - third parties		64	67
Amortisation of capitalised finance costs		2	4
Write off of capitalised finance costs		1	46
Investment income		(2)	-
Recycle of hedged items previously classified through other comprehensive income		-	12
		<b>65</b>	<b>129</b>

## 7 Auditor's remuneration

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

	2017	2016
	£000	£000
<b>Audit services</b>		
Audit of Financial Statements	39	19
Audit of subsidiaries	253	296
	<b>292</b>	<b>288</b>
<b>Other services</b>		
Taxation compliance services	-	282
Other non-audit services	200	337
<b>Total remuneration payable to Deloitte LLP</b>	<b>492</b>	<b>907</b>

## Notes to the Consolidated Financial Statements | (cont)

### 8 Employee information

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

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

	2017	2016
	Number	Number
Roadside	3,212	3,007
Insurance and claims	145	135
Support	342	324
	<b>3,699</b>	<b>3,466</b>

	2017	2016
	£m	£m
Total staff costs were:		
Wages and salaries	130	124
Social security costs	13	12
Pension costs	8	8
	<b>151</b>	<b>144</b>

These costs were charged within:

Cost of sales	113	102
Administrative expenses	38	42
	<b>151</b>	<b>144</b>

### 9 Directors

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

	2017	2016
	£000	£000
Fees and benefits	1,505	1,087
Contributions paid into money purchase pension schemes	-	-
	<b>1,505</b>	<b>1,087</b>

Emoluments of the highest paid Director:

Fees and benefits	526	516
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Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to 1 Director (2016: 1) under a money purchase scheme. During the year no Directors (2016: none) were awarded shares under long-term incentive schemes.

## Notes to the Consolidated Financial Statements | (cont)

### 10 Tax

#### (a) Tax charged/(credited) to the Consolidated Income statement

The total tax credit comprises:

	Note	2017 £m	2016 £m
<b>Current tax:</b>			
For the year		19	7
Total current tax		19	7
<b>Deferred tax:</b>			
Origination and reversal of temporary differences		(18)	(18)
Change in tax rates		-	(11)
Total deferred tax	16	(18)	(29)
<b>Total tax charged/(credited) to the Consolidated Income statement</b>		<b>1</b>	<b>(22)</b>

#### (b) Tax reconciliation

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

	Note	2017 £m	2016 £m
Loss before tax		(31)	(61)
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20.00%)		(6)	(12)
Disallowable expenses		7	1
Non taxable income		-	-
Effect of tax rate change		-	(10)
<b>Total tax charged/(credited) to the Consolidated Income statement</b>	10(a)	<b>1</b>	<b>(22)</b>

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

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

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

#### (c) Tax charged to other comprehensive income

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



## Notes to the Consolidated Financial Statements | (cont)

### 11 Goodwill and intangible assets

	Goodwill	Brand	Acquired Value-in- Force	Customer List	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost:</b>								
At 1 January 2016	906	872	89	536	48	2,451	41	2,492
Additions	-	-	-	-	21	21	20	41
<b>At 31 December 2016</b>	<b>906</b>	<b>872</b>	<b>89</b>	<b>536</b>	<b>69</b>	<b>2,472</b>	<b>61</b>	<b>2,533</b>
Additions	-	-	-	-	17	17	25	42
Impairment	(28)	(8)	-	-	(2)	(38)	-	(38)
<b>At 31 December 2017</b>	<b>878</b>	<b>864</b>	<b>89</b>	<b>536</b>	<b>84</b>	<b>2,451</b>	<b>86</b>	<b>2,537</b>
<b>Amortisation:</b>								
At 1 January 2016	-	-	89	78	15	182	10	192
Charge for the year	-	-	-	75	13	88	14	102
Impairment	-	-	-	-	1	1	-	1
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>89</b>	<b>153</b>	<b>29</b>	<b>271</b>	<b>24</b>	<b>295</b>
Charge for the year	-	-	-	75	12	87	16	103
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>89</b>	<b>228</b>	<b>41</b>	<b>358</b>	<b>40</b>	<b>398</b>
<b>Net book value:</b>								
<b>At 31 December 2017</b>	<b>878</b>	<b>864</b>	<b>-</b>	<b>308</b>	<b>43</b>	<b>2,093</b>	<b>46</b>	<b>2,139</b>
<b>At 31 December 2016</b>	<b>906</b>	<b>872</b>	<b>-</b>	<b>383</b>	<b>40</b>	<b>2,201</b>	<b>37</b>	<b>2,238</b>

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated Income statement. An impairment of £28 million has been recognised in respect of goodwill and £8 million recognised in respect of brand allocated to the Telematics and Data Services CGU. Additionally an impairment of £2 million has been recognised in respect of intangibles related to contracts that are due to be terminated (2016: impairment of £1 million was recognised in respect of the impairment of intangibles relating to Risk Telematics UK Limited). Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated Income statement.

#### Impairment testing of goodwill and intangible assets with indefinite lives

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

## 11 Goodwill and intangible assets (cont)

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

	2017		2016	
	Goodwill	Indefinite-lived intangibles	Goodwill	Indefinite-lived intangibles
	£m	£m	£m	£m
Roadside	693	666	693	666
Insurance broking	130	126	130	126
Motoring services	55	53	55	53
Telematics and Data services	-	19	28	27
	<b>878</b>	<b>864</b>	<b>906</b>	<b>872</b>

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

#### Key assumptions used in management forecasts include:

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

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

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

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

## Notes to the Consolidated Financial Statements | (cont)

### 12 Property, plant and equipment

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

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

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

## 13 Group information

### (a) Information about subsidiaries

The Consolidated Financial Statements of the RAC Bidco Limited Group includes the following subsidiaries:

Company	Type of business	Class of share	Proportion held
<b>Directly held:</b>			
RAC Limited	Holding company	Ordinary	100%
RAC Bond Co plc	Funding vehicle	Ordinary	100%
<b>Indirectly held:</b>			
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 33. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which are registered in England and Wales. As part of a refinancing in 2016, these companies became dormant and were sold to RAC Midco Limited, an indirect Parent Company of the Group.

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

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

### (b) The Parent company

The immediate controlling entity of the RAC Bidco Limited Group is RAC Midco II Limited. The ultimate controlling entity of the RAC Bidco Limited Group is RAC Group (Holdings) Limited.



## Notes to the Consolidated Financial Statements | (cont)

### 14 Inventories

	2017	2016
	£m	£m
Inventories	2	2

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

### 15 Trade and other receivables

	Note	2017	2016
		£m	£m
Trade receivables		50	41
Amounts due from related parties	27(a)(i)	-	1
Prepayments and accrued income		27	21
Other receivables		3	3
<b>Total</b>		<b>80</b>	<b>66</b>
Expected to be recoverable within one year		80	66

All receivables and other financial assets other than prepayments are carried at amortised cost. The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

The balance above of £80 million (2016: £66 million) is considered to be neither past due nor impaired.

### 16 Cash and cash equivalents

Cash and cash equivalents comprise:

	2017	2016
	£m	£m
Unrestricted cash at bank and in hand	78	31
Restricted cash at bank	12	12
<b>Total</b>	<b>90</b>	<b>43</b>

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

### 17 Tax assets and liabilities

	2017	2016
	£m	£m
Current tax payable	(35)	(28)
Deferred tax asset	13	12
Deferred tax liability	(201)	(217)
	<b>(223)</b>	<b>(233)</b>

## 17 Tax assets and liabilities (cont)

Current tax payable includes amounts to be settled by group relief of £4 million (2016: £6 million) and are payable within one year. During the year an amount of £2 million (2016: £7 million) in respect of group relief was settled by an intercompany transfer. The Consolidated Statement of financial position current tax provision includes £22 million (2016: £22 million) relating to uncertain tax positions currently under discussion with HM Revenue & Customs ("HMRC"), which arose in prior periods. Based on professional advice, the Group claimed tax deductions in its returns for several years and reduced its tax payments accordingly. HMRC have indicated that they do not agree with the Group's interpretation of the relevant tax legislation. The Group has provided HMRC with all information requested in support of the deductions claimed, and discussions continue in order to reach a conclusion on the differing interpretations. It cannot currently be reliably estimated how long it will take to reach an agreed resolution of this issue.

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Revaluation of financial assets	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2016	4	(243)	1	2	1	(235)
Credit to Consolidated Income statement	-	26	-	-	3	29
Credit to other comprehensive income	-	-	-	1	-	1
<b>At 31 December 2016</b>	<b>4</b>	<b>(217)</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>(205)</b>
(Charge)/credit to Consolidated Income statement	(1)	16	-	-	3	18
Charge to other comprehensive income	-	-	-	(1)	-	(1)
<b>At 31 December 2017</b>	<b>3</b>	<b>(201)</b>	<b>1</b>	<b>2</b>	<b>7</b>	<b>(188)</b>

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

	2017	2016
	£m	£m
Net deferred tax liability brought forward	(205)	(235)
Deferred tax credited to the Consolidated Income statement	18	29
Deferred tax (charged)/credited to other comprehensive income	(1)	1
<b>Net deferred tax liability carried forward</b>	<b>(188)</b>	<b>(205)</b>

The RAC Bidco Limited Group has unrecognised capital losses of £146 million (2016: £147 million) to carry forward indefinitely against future capital gains. No asset has been recognised as there are no capital gains expected in the foreseeable future. The Group has an unrecognised deferred tax asset of £1m (2016: £nil) in respect of interest disallowed under the corporate interest restriction rules.

## Notes to the Consolidated Financial Statements | (cont)

### 18 Provisions

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

#### Customer refunds

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

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

#### Strategic restructure

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

#### Other provisions

Other provisions include amounts payable at the end of Patrol vehicle leases to correct modifications made and are expected to be utilised at the end of each vehicle's lease term (usually five years).

### 19 Trade and other payables

	2017	2016
	£m	£m
Trade payables and accruals	53	41
Deferred income	152	149
Other payables	42	40
<b>Total</b>	<b>247</b>	<b>230</b>
Expected to be payable within one year	244	227
Expected to be payable in more than one year	3	3
<b>Total</b>	<b>247</b>	<b>230</b>

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

## 20 Derivative financial instruments

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

### (a) Hedging

The RAC Bidco Limited Group uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 26).

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

	2017	2016
	£m	£m
Contract/notional value	280	280
<b>Total derivative financial instrument liability</b>	(10)	(15)

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

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

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing (see note 21). On inception of the Initial Senior Term Facility, a new hedge was undertaken. The fixed element of the hedge has been set to 2.025% per annum until 6 May 2021. The floating rate is calculated on a notional principal amount.

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



## Notes to the Consolidated Financial Statements | (cont)

### 21 Borrowings

#### (a) Analysis of borrowings

	Bonds			Bank Debt	
	Class A1 Notes	Class A2 Notes	Class B1 Notes	Initial Senior Term Facility	Total
Interest rate	+4.565%	+4.870%	5.000%	LIBOR +2.750%	
<b>At 31 December 2017</b>					
Fair value (£m)	302	605	277	280	<b>1,464</b>
Amounts due within one year (£m)	2	5	2	-	<b>9</b>
Amounts due in more than one year (£m)	297	593	271	274	<b>1,435</b>
Book value (£m)	299	598	273	274	<b>1,444</b>
<b>At 31 December 2016</b>					
Fair value (£m)	302	605	-	280	<b>1,187</b>
Amounts due within one year (£m)	2	5	-	-	<b>7</b>
Amounts due in more than one year (£m)	297	593	-	273	<b>1,163</b>
Book value (£m)	299	598	-	273	<b>1,170</b>

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

- repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan;
- drew-down a new £280m Initial Senior Term Facility provided by a syndicate of banks; and;
- issued £900m of bonds on the Irish Stock Exchange.

On 14th July 2017, RAC Bond Co plc issued £275 million of bonds under a Class B Notes, and on lent these funds, net of issuance costs, to RAC Limited as borrower.

#### (b) Bank debt

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

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

## 21 Borrowings (cont)

### (c) Bonds

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

### (d) Security, covenants and fees

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

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

## 22 Ordinary share capital

Details of RAC Bidco Limited's ordinary share capital are as follows:

	2017	2016
	£m	£m
<b>Allotted, called up and fully paid:</b>		
Authorised:		
80,120,000 ordinary shares of £0.01 each	801	801
<b>Allotted, called up and fully paid:</b>		
339,131,773 ordinary shares of £1.00 each (2016: 339,131,773 of £1.00 each)	339	339
	<b>339</b>	<b>339</b>

On 29 February 2016, a capital reduction of £535 million was completed, reducing ordinary share capital but increasing retained earnings.

## 23 Hedging instrument reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transactions impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

## 24 Commitments

### Operating lease commitments

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

	2017	2016
	£m	£m
Within 1 year	13	11
Later than 1 year and not later than 5 years	36	29
Later than 5 years	65	63
	<b>114</b>	<b>103</b>

## Notes to the Consolidated Financial Statements | (cont)

### 24 Commitments (cont)

#### Operating lease commitments (cont)

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

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

### 25 Employee benefit obligations

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

#### (a) Introduction

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

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

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

##### Unfunded Unapproved Pension Scheme ("UUP Scheme")

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2017 was 8 (2016: 8).

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

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

##### Disability Benefit Scheme ("DB Scheme")

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

#### (b) Charges to the Consolidated Income statement

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

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

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

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

###### The projected unit credit method

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

## 25 Employee benefit obligations (cont)

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

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

##### Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2017. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December.

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

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

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

##### Mortality assumptions of the Schemes

Mortality assumptions are significant in measuring the RAC Bidco Limited Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2017 for Scheme members are as follows:

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

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming life expectancy was one year higher would increase the Schemes' liabilities by £470 thousand (2016: £391 thousand).

#### (ii) Employee defined benefit expense

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

## Notes to the Consolidated Financial Statements | (cont)

### 25 Employee benefit obligations (cont)

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

##### (iii) Experience gains and losses

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

	2017	2016
	£m	£m
Fair value of the Schemes' assets at the end of the year	-	-
Present value of the Schemes' liabilities at the end of the year	(6)	(6)
<b>Net deficit in the Schemes</b>	<b>(6)</b>	<b>(6)</b>

Estimated employer contributions for the year ended 31 December 2018 are £1 million in respect of the defined benefit schemes and £8 million in respect of the defined contribution scheme.

##### (iv) Schemes' deficit

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

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

Amounts recognised in the Consolidated Statement of financial position:

	2017	2016
	£m	£m
Deficits included in non-current liabilities	(6)	(6)
<b>Net deficit in the Schemes</b>	<b>(6)</b>	<b>(6)</b>

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

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

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



### 26 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 it is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management policies, risk reports and the governance and oversight infrastructure.

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

The RAC Bidco Limited 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 RAC Bidco Limited Group carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to the potential conditions.

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

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

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

#### (a) Treasury

The Group treasury department's main responsibilities are to:

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the RAC Bidco Limited Group's current borrowing facilities are disclosed in note 21.

#### (i) Market risk

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

The RAC Bidco Limited Group is exposed to interest rate risk arising primarily on external borrowings. The Group's policy aims to manage its interest cost within the constraint of its Business Plan and its financial covenants. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings. If market interest rates were to increase or decrease by 1%, the impact on the profit/(loss) before tax would be a decrease/increase of £3 million (2016: £3 million). The impact on shareholders' equity would be a decrease/increase of £2 million (2016: £2 million).

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

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

## Notes to the Consolidated Financial Statements | (cont)

### 26 Risk management (cont)

#### (a) Treasury (cont)

##### (i) Market risk (cont)

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

##### (ii) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below:

	2017	2016
	£m	£m
Trade and other receivables	53	45
Cash and cash equivalents	90	43
	<b>143</b>	<b>88</b>

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

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

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

The RAC Bidco Limited Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the reported periods were held with institutions who are A rated. The RAC Bidco Limited Group's largest cash and cash equivalent counterparty is Credit Agricole (2016: Barclays). At 31 December 2017 the balance with that counterparty was £20 million (2016: £20 million).

##### (iii) Liquidity risk

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

The RAC Bidco Limited Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The RAC Bidco Limited Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 21).

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

## 26 Risk management (cont)

### (a) Treasury (cont)

#### (iii) Liquidity risk (cont)

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

	2017	2016
	£m	£m
<b>Bonds</b>		
Less than 1 month	5	4
1 to 3 months	14	10
3 months to 1 year	42	29
1 to 5 years	496	172
5 to 10 years	1,002	1,045
<b>Total bonds</b>	<b>1,559</b>	<b>1,260</b>
<b>External bank debt</b>		
Less than 1 month	1	1
1 to 3 months	3	3
3 months to 1 year	8	9
1 to 5 years	304	325
5 to 10 years	-	-
<b>Total external bank debt</b>	<b>316</b>	<b>338</b>
<b>Total borrowings</b>	<b>1,875</b>	<b>1,598</b>

### (b) Strategic and operational risk

The strategy (including operational risks) for the RAC Bidco Limited Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the annual report and Financial Statements of that company.

### (c) Capital risk management

The RAC Bidco Limited Group's capital structure consists of third party borrowings amounting to £1,464 million (2016: £1,187 million), and £339 million (2016: £339 million) of funds from shareholders.

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

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

## Notes to the Consolidated Financial Statements | (cont)

### 26 Risk management (cont)

#### (c) Capital risk management (cont)

In managing its capital, the Group seeks to:

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

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

#### (d) Regulatory risk

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

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

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

### 27 Related party transactions

#### (a) The RAC Bidco Limited had the following transactions with related parties in 2017 and 2016:

##### (i) Amounts due from related parties

	2017	2016
	£m	£m
Other Group companies - current accounts	-	1
	-	1

Of amounts due from Group companies, £nil (2016: £1 million) was due from RAC Midco II Limited, RAC Bidco Limited's parent company.

## 27 Related party transactions (cont)

### (a) The RAC Bidco Limited had the following transactions with related parties in 2017 and 2016:

#### (ii) Transactions with related parties

- In July 2017, RAC Bidco Limited paid dividends of £269 million (2016: £65 million) to RAC Midco II Limited, its immediate Parent Company as part of the issue of Class B bonds, followed by further dividends of £19 million in December 2017.
- During the year, the RAC Bidco Limited Group paid £nil (2016: £250 thousand) in respect of a monitoring fee to The Carlyle Group and GIC. Until 12 April 2016, The Carlyle Group owned a minority stake in the Group, which was then sold to CVC Capital Partners.
- During the year, the RAC Bidco Limited Group paid £nil (2016: £250 thousand) in respect of a monitoring fee to The Carlyle Group and GIC. Until 12 April 2016, The Carlyle Group owned a minority stake in the Group, which was then sold to CVC Capital Partners.
- Nebula Systems Limited paid £100 thousand during the year to the RAC Bidco Limited Group for support costs (2016: £25 thousand). Nebula Systems Limited is a related party as it is owned by RAC Midco Limited, an indirect Parent Company of the RAC Bidco Limited Group.
- Audit fees of £292 thousand were borne by RAC Motoring Services, a subsidiary of RAC Group (Holdings) Limited, on behalf of the RAC Group.

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

#### b) Key management compensation

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

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

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

#### (c) Key management interests

No key management personnel held equity stakes in the RAC Bidco Limited Group at 31 December 2017 or 31 December 2016.

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

#### (d) Immediate Parent Company

The ultimate controlling entity of the Group is RAC Group (Holdings) Limited. Its Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Bidco Limited.



## Notes to the Consolidated Financial Statements | (cont)

### 27 Related party transactions (cont)

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

(ii) Transactions with related parties (cont)

(e) Ultimate controlling party

The ultimate controlling entity of the Group is RAC Group (Holdings) Limited. Its Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Bidco Limited.

### 28 Fair value of financial assets and liabilities

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

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

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

Financial asset/liability	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Fair value hierarchy
	£m	£m	
Cash flow hedge liability (note 20)	(10)	(15)	Level 3
The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.			

## Company financial statements |

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

## Company financial statements | (cont)

### Company Statement of financial position

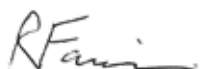
As at 31 December 2017

	Note	2017	2016
		£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	4	1,102	1,102
		<u>1,102</u>	<u>1,102</u>
<b>Current assets</b>			
Other receivables	5	1	-
Current tax receivable	6	-	11
		<u>1</u>	<u>11</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	7	(34)	(45)
		<u>(34)</u>	<u>(45)</u>
<b>Net current liabilities</b>		<b>(33)</b>	<b>(34)</b>
<b>Net assets</b>		<b>1,069</b>	<b>1,068</b>
<b>EQUITY</b>			
Ordinary share capital	8	339	339
Retained earnings		730	729
<b>Total equity</b>		<b>1,069</b>	<b>1,068</b>

The accounting policies on pages 45 to 55 and the notes on pages 84 to 88 are an integral part of these Financial Statements.

The Company's profit for the year was £289 million (2016: £324 million).

Approved by the Board on 27 February 2018



R Fairman  
Chief Financial Officer  
Company registration number: 09229824

## Company financial statements | (cont)

### Company Statement of changes in equity

For the year ended 31 December 2017

	Ordinary share capital	Hedging instruments reserve	Retained earnings	Total equity
	£m	£m	£m	£m
<b>Balance at 1 January 2016</b>	<b>874</b>	<b>(8)</b>	<b>(65)</b>	<b>801</b>
Profit for the year	-	-	324	324
Other comprehensive income	-	8	-	8
Total comprehensive income	-	8	324	332
Capital reduction	(535)	-	535	-
Dividends paid	-	-	(65)	(65)
<b>Balance at 31 December 2016</b>	<b>339</b>	<b>-</b>	<b>729</b>	<b>1,068</b>
Profit for the year	-	-	289	289
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	289	289
Dividends paid	-	-	(288)	(288)
<b>Balance at 31 December 2017</b>	<b>339</b>	<b>-</b>	<b>(730)</b>	<b>(208)</b>

The accounting policies on pages 45 to 55 and the notes on pages 84 to 88 are an integral part of these Financial Statements.

## Company financial statements | (cont)

### Company Statement of cash flows

For the year ended 31 December 2017

	2017	2016
	£m	£m
<b>Operating activities</b>		
Profit before tax	289	306
Adjustments to reconcile profit before tax to net cash flows:		
Finance expenses	-	72
Dividends received	(288)	(388)
Working capital adjustments		
Decrease in other receivables	(1)	-
Decrease in other payables	(10)	(22)
Taxation received	10	-
<b>Net cash flows generated from operating activities</b>	<b>-</b>	<b>(32)</b>
<b>Investing activities</b>		
Dividends received	20	332
<b>Net cash flows generated from investing activities</b>	<b>20</b>	<b>332</b>
<b>Financing activities</b>		
Repayment of bank debt	-	(1,188)
Settlement of related party debt	-	982
Dividends paid	(20)	(65)
Interest paid	-	(29)
<b>Net cash flows used in financing activities</b>	<b>(20)</b>	<b>(300)</b>
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents brought forward	-	-
<b>Cash and cash equivalents carried forward</b>	<b>-</b>	<b>-</b>

The accounting policies on pages 45 to 55 and the notes on pages 84 to 88 are an integral part of these Financial Statements.



## Notes to the Company financial statements |

### 1 Auditor's remuneration

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to auditor's remuneration may be found in note 7 of the Consolidated Financial Statements.

### 2 Employee information

The Company has no employees. All employees are employed by and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in note 8 of the Consolidated Financial Statements.

### 3 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group. Disclosures relating to Directors' remuneration may be found in the note 9 of the Consolidated Financial Statements.

### 4 Investments in subsidiaries

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

	2017	2016
	£m	£m
Cost	1,102	1,102

Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which are registered in England and Wales. As part of a refinancing in the prior year these companies became dormant and were sold to RAC Midco Limited, an indirect Parent Company of the Group.

## Notes to the Company financial statements | (cont)

### 4 Investments in subsidiaries (cont)

#### (b) Information about subsidiaries

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

Company	Type of business	Class of share	Proportion held
<b>Directly held:</b>			
RAC Limited	Holding company	Ordinary	100%
RAC Bond Co PLC	Funding vehicle	Ordinary	100%
<b>Indirectly held:</b>			
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 33. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

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

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

#### (c) Parent company

The immediate controlling entity of the Company is RAC Midco II Limited. The ultimate controlling entity of the Company is RAC Group (Holdings) Limited.

## Notes to the Company financial statements | (cont)

### 5 Other receivables

	Note	2017	2016
		£m	£m
Amounts due from related parties	9(a)(i)	1	-
<b>Total</b>		<b>1</b>	<b>-</b>
Expected to be recoverable within one year		1	-
Expected to be recoverable in more than one year		-	-
<b>Total</b>		<b>1</b>	<b>-</b>

All receivables and other financial assets other than prepayments are carried at amortised cost. The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The balance above of £1 million (2016: £nil) is considered to be neither past due nor impaired.

### 6 Tax assets and liabilities

#### (a) Current tax

	2017	2016
	£m	£m
Current tax receivable	-	11
<b>Total</b>	<b>-</b>	<b>11</b>

Receivables for corporation tax include amounts to be settled by group relief of £nil (2016: £11 million) within one year.

#### (b) Deferred tax

##### (ii) The movement in the deferred tax asset was as follows:

	2017	2016
	£m	£m
Net deferred tax asset brought forward	-	2
Deferred tax credited to other comprehensive income	-	(2)
Deferred tax asset carried forward	-	-

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

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

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

## Notes to the Company financial statements | (cont)

### 7 Other payables

	Note	2017	2016
		£m	£m
Amounts due to related parties	9(a)(ii)	(34)	(45)
<b>Total</b>		<b>(34)</b>	<b>(45)</b>
Expected to be payable within one year		(34)	(45)

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

### 8 Ordinary share capital

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

	2017	2016
	£000	£000
<b>Allotted, called up and fully paid:</b>		
339,131,773 ordinary shares of £1.00 each (2016: 339,131,773 shares of £1.00 each)	339	339
	<b>339</b>	<b>339</b>

### 9 Related party transactions

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

#### (i) Amounts due from related parties

	2017	2016
	£m	£m
Amounts due from Group companies	1	-
	<b>1</b>	<b>-</b>

#### (ii) Amounts due to related parties

	2017	2016
	£m	£m
Amounts due to Group companies - current account	(34)	(45)
	<b>(34)</b>	<b>(45)</b>

#### (iii) Transactions with related parties

During 2017, the company paid £288 million in dividends to its parent company, RAC Midco II Limited, of which £268 million was a dividend in specie (2016: £65 million).

During 2017, the Company recharged £2 million (2016: £3 million) to RAC Limited, a direct subsidiary, in respect of a Management Services Agreement. This agreement allocates the strategic and governance costs of the RAC Bidco Limited Group and recharges them to the trading entities where appropriate.

During 2017, the Company paid Enil (2016: £250 thousand) in respect of a monitoring fee to Carlyle and GIC.

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

### 9 Related party transactions (cont)

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

##### (iv) Amounts included in the Income statement

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

	2017	2016
	£m	£m
Management charges	2	2
Dividends received from subsidiary	288	388
Interest income on intercompany loans	-	6
	290	396

##### (b) Key management compensation

The Directors and key management of the Company are considered to be the same as for the RAC Group (Holdings) Group. Information on key management compensation may be found in note 27 of the Consolidated Annual Report and Financial Statements.

##### (c) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2017 or 31 December 2016.

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

##### d) Immediate and ultimate controlling entity

The immediate controlling entity of the Company is RAC Midco II Limited.

The ultimate controlling entity of the Company is RAC Group (Holdings) Limited. Its Consolidated Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Bidco Limited.







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