



Annual Report & Financial Statements 2015

RAC Group (Holdings) Limited

RAC



Company information

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Company Secretary: S Morrison

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

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

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

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

On 17 December 2014, RAC Bidco Limited, an indirect subsidiary of the Company, acquired the RAC Group of Companies, which included RAC Limited and its subsidiaries along with CEP III Investment 16 S.à.r.l. and RAC Management Limited ("the RAC Group of Companies"). CEP III Investment 16 S.à.r.l. was subsequently liquidated in January 2015 and RAC Management Limited was dissolved in November 2015.

The "RAC Group" ("the Group" or "RAC") comprises RAC Group (Holdings) Limited and its subsidiaries as set out on page 60.

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

These Consolidated Financial Statements are presented for the year ended 31 December 2015. Comparatives are presented for the period from incorporation until 31 December 2014, which includes the trading results of the RAC Group Limited Group from the date of acquisition, being 17 December 2014.

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



Motorists. We salute you.

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A photograph of a modern building facade with a large, orange, 3D RAC logo mounted on the wall. The building has a glass and metal exterior with a prominent entrance canopy. In the foreground, there are several dark blue cylindrical bollards with white spherical tops. To the right, a tall, dark blue signpost stands on a paved area. The sky is overcast.

RAC

RAC

Welcome
to the club

Motorists. We salute you.

CEO review for the year ended 31 December 2015



I am pleased to report on another solid year of development for the RAC Group in 2015, with financial performance on plan, the launch of further new products and further growth in our Membership base.

In December 2015, CVC Capital Partners ("CVC"), a leading Private Equity firm, agreed a deal with The Carlyle Group ("Carlyle") to acquire its stake in RAC with completion expected to take place in March 2016. I am delighted to welcome CVC as strategic investors in the business alongside GIC. CVC has considerable experience and interests in the world of motoring and particularly with their majority shareholding in Formula 1.

I would also like to take this opportunity to thank Carlyle for their tremendous support during their time as an investor over the past four and a half years. Through Carlyle's investment and support we have successfully grown the RAC business and delivered new products to our Members whilst maintaining excellent levels of customer service.

Further growth in our business

2015 was a further successful year for the RAC Group with growth in Revenue, Earnings and most importantly our Membership base. We secured a number of new Corporate Partner deals in 2015, adding to our established portfolio of well-known brands to whom we provide a range of breakdown, accident management and telematics services.

RAC now has over 8.6 million (2014: 8.2 million) individual and corporate roadside members in the UK and I would like to thank them all for their continued support.

RAC has delivered a range of new products and services to our Members and other motorists over the past few years.

In particular, during 2015 we developed further ways of providing support to our members when buying and selling cars. Firstly, we launched a new RAC Buysure programme across our network of RAC approved dealers with each vehicle prepared to an 82 point RAC standard along with three months' RAC breakdown and Warranty cover. Secondly, we re-launched the RAC Cars website enabling our members and trusted dealers to advertise their cars for free. Our stock of used cars now exceeds 300,000 vehicles making RAC Cars the fastest growing used car site in the UK. Combined with the RAC Car Passport, launched in 2014, which provides used car buyers peace of mind through the most comprehensive car check available in the UK, this suite of products goes a long way to making the car buying and selling process as safe and easy as possible.



In the latter part of 2015, we launched the new RAC Black Box Insurance to provide both new and younger drivers with the chance to lower their cost of insurance and enhance their safety behind the wheel. This new product uses telematics technology to enable drivers to demonstrate their driving ability rather than simply being rated in line with their peers. The technology also includes market leading crash detection software, with a level of accuracy far above industry averages.

Delivering for our Members

Our high levels of customer service were further enhanced in 2015. We maintained our roadside repair rate at a market leading 81% (2014: 81%). We strongly believe that fixing cars at the roadside is the most important aspect for our customers, thereby enabling them to continue their journeys. This approach is recognised by our Members with a Net Promoter Score which increased once again in 2015 to 93 (2014: 92).

For many years we have campaigned on behalf of our Members on matters which are most important to them. At the forefront of their concerns has been the cost of fuel and we were delighted to see forecourt prices fall below £1 per litre in December 2015, partly supported by the continued freeze in fuel duty.



Our members are also concerned about the condition and maintenance of their local roads with a 24% increase during 2015 in the number of suspension and tyre related breakdowns as a result of potholes and other poor road conditions. We continue to campaign for more investment to be dedicated by the Government to address this issue and were pleased to see the Chancellor announce in his Autumn Statement that more funds, in addition to the £6 billion already committed, will be ear-marked for road improvements.



Our dedicated team

I am immensely proud of the achievements in the business over the past four years and our new joint shareholders CVC recognise the great contribution by all RAC colleagues, as did GIC when they invested in the business in December 2014. RAC employees are dedicated, professional and passionate, and continually strive to provide high levels of customer service and support. Our Patrols are the most highly trained in the industry and consistently deliver high levels of service to our Members in their hour of need, 24 hours a day, 365 days of the year and in all weather conditions. They are supported by a passionate and loyal team in RAC's offices in Bescot, Bradley Stoke and Stretford. I would like to thank all RAC employees for their support in a successful 2015 and I look forward to working together to deliver further growth in 2016 and beyond.

Chris Woodhouse
Chief Executive Officer



➤ Strategic report for the year ended 31 December 2015

The Directors present their Strategic Report for the year ended 31 December 2015.

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

Principal activities

The RAC Group is primarily UK based and offers an increasingly diverse range of breakdown and other motoring services directly to Individual Members, as well as indirectly through a number of Corporate Partner relationships. The Group also has operations in Ireland.

Strategic Management

Strategy and objectives

The Group's vision is to be the leading motoring services brand in the UK, building on a reputation underpinned by an iconic, trusted brand and leading motoring-related product offering. The Board believes that the Group is well positioned to continue to develop its business through four key strategic objectives:

- maintain and grow the Individual Member base;
- strengthen relationships with existing Corporate Partners and win contracts with new Corporate Partners;
- increase cross-selling to address a wider range of Members' motoring and related needs through an integrated multi-product, multi-channel approach; and
- leverage recent investments in its brand and data capabilities to drive growth in revenue and improvements in profitability.

Retain and grow the Individual Member base

The Group's Individual Members form a core and crucial part of its business. RAC is focused on retaining its existing resilient base of Individual Members, as well as gaining new Individual Members, by (i) continuing to deliver a market-leading roadside assistance service and (ii) engaging in effective contact with existing and potential Individual Members at various stages of the membership cycle.

The Board believes that its Members' experiences at the roadside are a key factor distinguishing RAC from its competitors. In particular, RAC has found that a high roadside repair rate is correlated with high levels of customer satisfaction, as measured by the Group's Net Promoter Score.

RAC seeks to maintain its high roadside repair rate by ensuring that Patrols are equipped with the latest technology, tools and vehicle parts to support the expertise of its Patrol Specialists and to enable them to carry out effective repairs at the roadside. This enhances customer satisfaction, which ultimately drives renewal rates and creates a solid foundation for maintaining and growing the Individual Member base.

In order to pursue the acquisition of new Individual Members, the Group has access to a large number of consumers through various sales channels, including online, mobile applications, digital magazine, third-party search engines and aggregator websites. RAC also conducts seasonal sales campaigns, recruits and trains sales and marketing staff and develops relationships with Affinity Partners (organisations with membership models and complementary customer bases). RAC is also able to offer direct, targeted marketing through its customer database, utilising, for example, renewal data, to trigger timely and relevant marketing campaigns.

Following acquisition of Individual Members, and throughout the membership lifecycle, RAC engages with Individual Members through various forms of communication to nurture loyalty to the RAC brand and help maintain high renewal rates.

Strengthen relationships with existing Corporate Partners and win contracts with new Corporate Partners

The Group continues to pursue medium-term contracts for roadside assistance services with current and future Corporate Partners, including banks, insurance companies, motor manufacturers and fleet and leasing companies. While new Corporate Partner contracts are typically obtained through competitive tender processes, the Board believes that service quality and product innovation are key differentiating factors alongside price in such tenders. The Group seeks to win and renew contracts with Corporate Partners by combining its technical excellence in roadside assistance with complementary products and services that add value to its Corporate Partners.

As part of this strategy, RAC is continuing to enhance the suite of solutions it offers to existing and new Corporate Partners.

➤ Strategic report (continued)

Increase cross-selling to address a wider range of Members' motoring and related needs through an integrated multi-product, multi-channel approach

One of the Group's key priorities is to promote its various motoring solutions to its large customer base by transforming its business from a product-centric to a customer-centric one. The Group's sales, marketing and customer relationship strategy is now multi-product and multi-channel, providing a significant opportunity to address a wider range of Members' motoring and related needs and increase the number of products per Member among both existing and new Members.

The Group's significant data capability provides it with operational insight that it leverages to personalise its acquisition, retention and cross-selling efforts. The sale of additional products and services to new and existing Members drive increased revenue per Member and profitability of the business.

Leverage recent investments in its brand and data capabilities to drive growth and improvements in revenue and profitability

RAC has invested significantly in its brand and data capabilities over the past two to three years and intends to leverage this investment to grow revenue and to grow profitability across its business to existing Members as well as create new opportunities with non-Members. RAC seeks to leverage this capability to:

- attract new Individual Members by targeting certain demographic groups and utilising data from Affinity Partners;
- cross-sell to existing Members by direct marketing through a personalised approach and a "next best action" tool, which identifies the most appropriate product for sales agents to cross-sell at the point of sale during a customer call;
- support Corporate Partners' businesses by providing relevant vehicle and driver demographics data; and
- leverage with the RAC brand and develop new opportunities with Members and non-Members for motoring-related services not currently provided by RAC.

The business model

RAC is the second-largest roadside assistance provider in the UK, representing approximately a quarter of the UK roadside assistance market by value and by number of members and responding to approximately 2.2 million breakdowns in 2015 (2014: 2.3 million). With 119 years of operating history, RAC has established itself as one of the most widely-recognised brands in the UK and one of the most

trusted in automotive services in the UK, with a stable core membership base, and has successfully leveraged its brand to provide insurance broking, motoring and other products and services.

2.2 million

Breakdowns attended in 2015

The Group 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.

8.6 million

Members at 31 December 2015

As of 31 December 2015, RAC had approximately 8.6 million Members (2014: 8.2 million) - the equivalent to over one out of every four (2014: one out of four) motorists in the UK - comprising approximately 2.2 million (2014: 2.2 million) Individual Members (being individuals subscribed for roadside assistance service with RAC directly) and approximately 6.4 million (2014: 6.0 million) Partner Members (being users or vehicles that benefited from roadside assistance cover through arrangements between RAC and its Corporate Partners).

As "The Motorists Champion" the Group aims to deliver products and services that enhance and support the driving experience for Members and other UK motorists both at home or abroad, covering a wide variety of automotive needs from within the wider Automotive Service Market.



➤ Strategic report (continued)

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

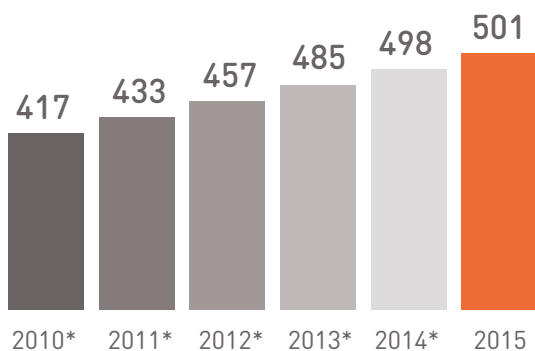
The KPIs set out in the table below are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve RAC's business plans, strategic aims and objectives. The data provided is for the RAC Group for the three year period to 31 December 2015, notwithstanding the fact that the Company only acquired effective control of the RAC Group of Companies on 17 December 2014.

	2015	2014**	2013**
Revenue (£m)	501	498	485
EBITDA before exceptional items* (£m)	183	169	156
Roadside repair rate (%)	81	81	79
Roadside retention rate (%)	81	83	83
Net Promoter Score***	93	92	89

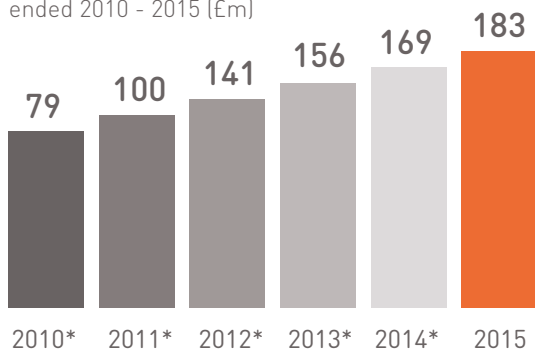
* Earnings Before Interest, Other gains and losses, Tax, Amortisation, Depreciation and Exceptional items
 ** For the RAC Group Limited Group
 *** Industry-wide customer satisfaction measure

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

Revenue for the years ended 2010 - 2015 (£m)



EBITDA before exceptional items for the years ended 2010 - 2015 (£m)



* For the RAC Group Limited Group

Market environment and outlook

As "The Motorists Champion" RAC continues to campaign on behalf of its Members to ensure that the Government is aware of their priorities and concerns and that these are reflected in Transport and Roads Policy. In September, RAC published its 27th Annual Report on Motoring. This was based on research conducted in early June and therefore represented a first snapshot of how motorists were feeling after the General Election and was a timely reminder of "what's on motorists' minds" for the new Government.

During 2015 we have seen an unprecedented fall in world oil prices as a result of supply significantly exceeding demand and this has been reflected in a fall in pump prices for both petrol and diesel. In December 2015, supermarkets dropped their price for unleaded petrol to below £1 per litre and generally, retail prices were around 12% cheaper by the end of the year than 12 months earlier. Despite this, fuel prices remain a top concern for motorists, particularly those who are less affluent, live in rural areas and have no public transport alternatives to the car. RAC monitors wholesale fuel prices daily and publishes a monthly "Fuel Watch" bulletin. This has proved popular with the media and has encouraged retailers to pass on reductions in wholesale prices to the motorists in the form of lower pump prices. At the same time RAC continues to remind the Government of the negative impact that fuel duty increases have on economic growth.

New vehicle registrations in 2015 have risen to their highest numbers for over 10 years, with 2.6 million new vehicle registrations in 2015, and motor vehicle traffic increased by 2.2% to a new high of 317.8 billion vehicle miles in 2015 compared to 2014, some 0.6% above the pre-recession peak. The Government has reaffirmed its commitment to the Roads Investment Strategy which will result in over £15 billion of investment in developing and maintaining the Strategic Network. During the year the Office of Rail and Road (ORR) has become the independent highways regulator, and both Highways England and Transport Focus (formerly Passenger Focus) have been tasked with assessing road user satisfaction and priorities for improvement. RAC has developed close working relationships with both of these bodies and ensures that the views of motorists are adequately reflected in ORR and Transport Focus outputs.

➤ Strategic report (continued)

The condition of local roads is now the number one concern for motorists with the backlog of maintenance in England alone now exceeding £8 billion. RAC has been lobbying to encourage the Government to treat local roads as an essential component of the Transport infrastructure and to implement an investment strategy, with ring-fenced funding, that mirrors the funding in place for the Strategic Road Network.

RAC continues to campaign on road safety. Motorists are particularly concerned about the dangerous and often illegal behaviour of a minority of motorists that put the safety of the majority at risk. Motorists rank the use of hand-held phones whilst driving as their top road safety concern and the Government has responded to this by proposing stiffer penalties in an announcement in December. However, RAC has pointed out that with this and other offences that concern Members, there is a need for effective enforcement and RAC has highlighted the year-on-year decline in the number of dedicated road policing officers and the effect that this is having on such matters as the number of prosecutions and the number of fixed penalty tickets issued for breaches of traffic law.

Road traffic accident casualty statistics showed a small increase in 2014 for the first time in many years with fatalities up 4% compared to 2013. The disproportionate number of young drivers killed or injured in road traffic accidents continues to be a concern and RAC sees telematics as contributing to the solution alongside other measures. In October, The Road Awareness Charity announced a partnership with the Scouts Association to promote road safety among their 500,000 young people. The road safety mascot, Horace, created with Aardman Animations, will be visiting many Scout and Cub packs across the UK during 2016 and RAC is sponsoring the Cub's Road Safety Badge.

The Government has published plans to improve air quality to tackle Nitrogen Dioxide emissions in our city centres in order to meet EU air quality standards and to respond to the Supreme Court ruling on the subject. This has come at a time when public confidence in the environmental claims of motor manufacturers has fallen as a result of a realisation that the real world nitrogen dioxide emissions from diesel vehicles are higher than predicated by the standard emissions compliance tests. RAC has been arguing for an evidence-based approach and does not want to see owners of small modern fuel-efficient diesel vehicles penalised unfairly. Whilst Government proposals for establishment of clean air zones follow a "common sense" approach, RAC is lobbying to try to ensure that local authorities can only adopt measures that comply with the proposed clean air zone framework.

Review of the business

Business overview

2015 was another outstanding year for the business, building on the achievements of the past four years under ownership of The Carlyle Group ("Carlyle") and following the strategic investment by GIC, the Singaporean Sovereign Wealth Fund, which completed in December 2014.

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

The success has attracted further investment in the business with CVC Capital Partners ("CVC"), a leading Private Equity firm, agreeing a deal with Carlyle in December 2015, to acquire its stake in RAC with completion expected to take place in March 2016. Upon completion of the transaction CVC will become joint strategic investors in the Group alongside GIC. CVC has considerable experience and interests in the world of motoring and particularly with their majority shareholding in Formula 1.

Investment in further customer service improvements

Our Members and Corporate Partner customers remain central to our investment strategy, nowhere more so than in our core roadside business. 2015 continued to see investment in service and technical developments that improve the support to our Members and enhance the breakdown experience. This investment keeps RAC in the driving seat when it comes to the highest levels of technical services provided to our Members in the breakdown industry.

The Group implemented a range of enhanced services in 2015 which will enable us to continue to respond to our Members' needs.

➤ **Tyre service** - Building on the investment made in 2014, RAC has continued to invest in further support for Members who have a puncture or suffer tyre damage at the roadside. We have added to our comprehensive RAC Universal Wheel capability rolled out in early 2014 by introducing to our range a four stud variant for smaller cars. In October 2014, new European legislation relating to the mandatory fitment of tyre pressure monitoring on all new cars came into effect and as a result RAC have provided new tyre pressure valve and sensor repair kits to our Tyre Patrols to help us fix issues relating to these new technologies. At the end of 2015 we placed orders to increase our Tyre Patrol Fleet increasing our service capability by 80% to be introduced in 2016.

➤ Strategic report (continued)

- **Battery services** - We have totally refreshed our supply arrangements in 2015, ensuring we have the best partners and supply chain to meet the increasing challenges of modern motor vehicles and the types of batteries required to support them. This strategy has been implemented successfully and as a result we are achieving our highest levels of service to those of our Members who experience a battery fault. To increase our capability further, we have invested in the latest battery testing technology. Working with the industry leaders Midtronics, we have developed a product which specifically integrates with our Patrol Vehicle Systems. The testing equipment is designed to give the maximum confidence and assurance to Members by providing comprehensive reporting on the condition of their battery and the supporting charging systems. We believe this level of visibility will ensure that our Members not only get the best service but also the best information possible.
 - **Connected Car** - In 2015 we have built a capability to integrate the RAC telematics service into our breakdown and accident management services. This means in our model office we can see faults on vehicles that may require either a Patrol attendance, or a notification to the Member that a visit to their local garage may be required, which we can book for them. Should that customer be in an accident the crash detection system will alert our RAC Connected team and we can then help manage the incident. The service was in pilot in 2015, and with further investment in 2016 we will see it roll out to both Individual Members and Corporate Partners.
 - **Electronic customer information** - In 2015 we developed a method whereby we can email our Members a summary report of their breakdown experience live from the breakdown scene, which includes details about the fault and the repair we have carried out. It also contains the relevant fault codes and battery test results, allowing our Members to access this important information within moments of a breakdown being concluded. Our Corporate Partners can also enjoy the benefit of seeing the breakdown data within a short time of their driver's breakdown incident, which is helping RAC add more value to our clients.
 - **Electric vehicles** - We continue to pilot services for the all-electric vehicles operating on the road and building on from the pilot we launched in 2014. We are evaluating the latest mobile charging applications to help us develop this further in 2016.
 - **Supply chain** - In 2015 we completed the strategic review we started in 2014 and implemented the majority of the focus areas identified including the supply chain for parts and batteries. We have also worked on the arrangements for RAC uniform, RAC car hire and tyre suppliers, all of which will be implemented in 2016.
 - **RAC Patrols** - Improving driver performance - Our ongoing focus on fuel efficiency and the benefits for both the environment and our costs have been in our focus this year. We continue to successfully deploy RAC telematics units in our Patrol and Recovery Fleet. In 2015 we also started to provide cameras on the Patrol vehicles for the first time in our history. Forward, rear and "in cab" cameras will be part of our strategy going forward across the fleet. This will help us further improve safety, and reduce accidents and the associated claims costs.
 - **Towing equipment** - In 2015 we continued to invest in refreshing our existing towing capability, this is driven by a long term trend for motor vehicles becoming larger over time and wheel sizes to increase. We have refreshed a quarter of our rapid deployment trailers in the fleet this year and will continue this development in 2016.
- Research and development**
- As noted above, the Group continues to invest in IT and technology in order to enhance Member service and also to continue to bring new products and services to its Members and Corporate customers. Developments in the year include new Telematics services, further investment in sales and service systems and roadside services as noted above. The Group will continue to invest in further enhancements in 2016.



➤ Strategic report (continued)

Risk management

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

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

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

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

The Group includes RAC Insurance Limited which is regulated by the PRA. The Group has undertaken a detailed programme of work in 2015 in order for RAC Insurance Limited to be in a position to comply with the requirements of Solvency II from 1 January 2016.

➤ Strategic report (continued)

Financial risk management

Market risk

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

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

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

Credit risk

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

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

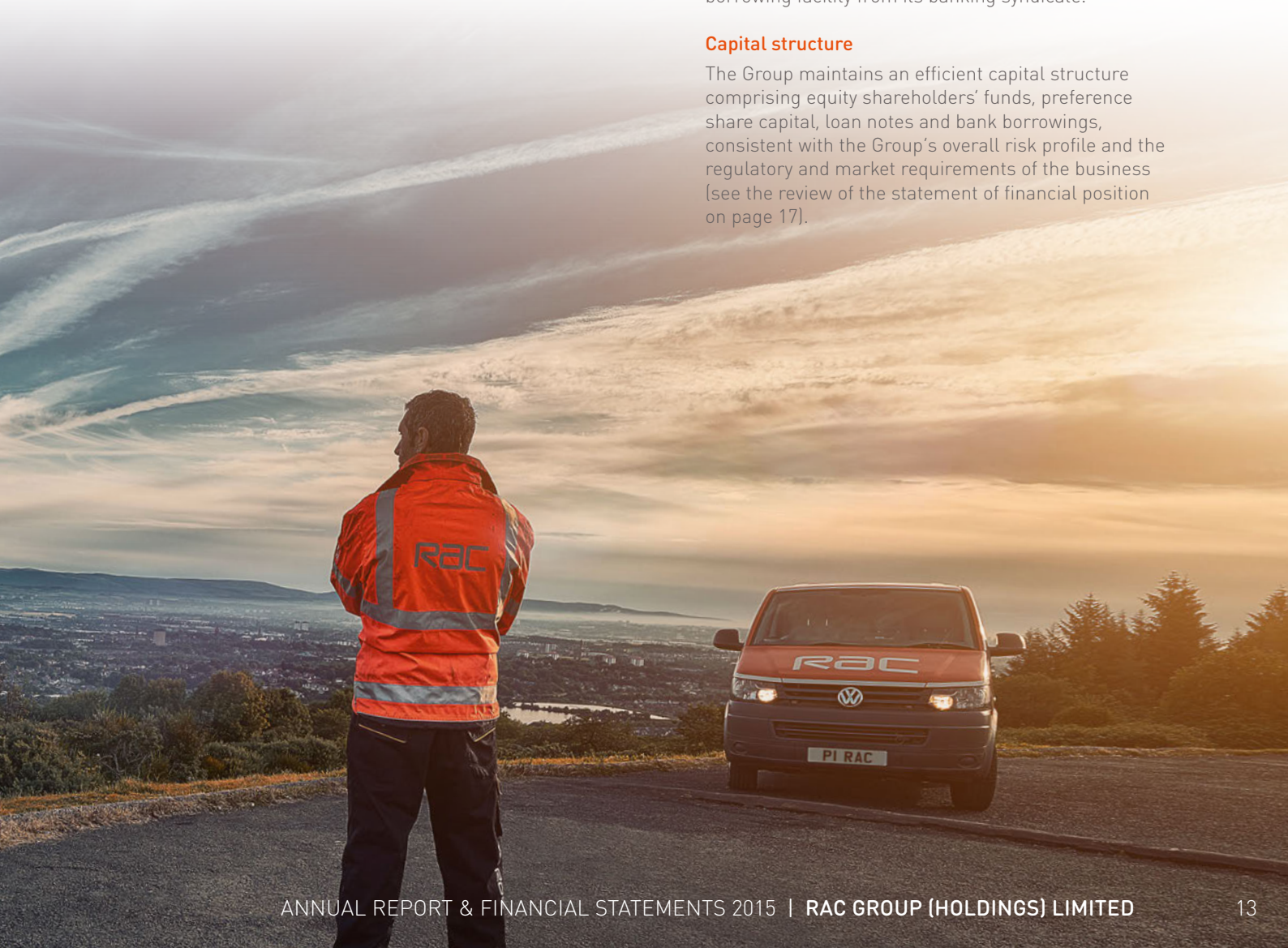
Liquidity risk

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

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

Capital structure

The Group maintains an efficient capital structure comprising equity shareholders' funds, preference share capital, loan notes and bank borrowings, consistent with the Group's overall risk profile and the regulatory and market requirements of the business (see the review of the statement of financial position on page 17).



➤ Strategic report (continued)

Key strategic and operational risks

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

Risk	Mitigation
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. Although there has been limited pricing pressure in recent years among RAC's primary competitors in the roadside assistance market, it may, in the future, face increased competition and price pressure.	The Group sets acquisition and renewal prices at appropriate levels in accordance with the cover provided. Prices are regularly monitored to ensure the Group remains competitive.
RAC's margins are impacted by its Members' usage levels, which are, in turn, impacted by a variety of factors including Member volumes, vehicle age and type, fuel prices, weather and driving habits. RAC has access to a large volume of data about its Members and their driving habits, which it uses to make assumptions about likely usage levels. These assumptions inform the pricing of RAC's products and the allocation of its resources in providing its services. If these assumptions prove to be inaccurate or if Member usage levels increase in a way that RAC is not able to plan for or adjust to, its performance, business, financial condition and results of operations could be adversely impacted.	The Group employs a specialist Demand Forecasting function to monitor usage levels and to make predictions of future usage. These predictions are used both in pricing and profitability decisions, but more importantly in the rostering and deployment of resources to ensure the Group's high customer service levels are maintained. Investment has been made in improving weather forecasting and analysis in order to better predict the impact of short term weather variations and to maintain service levels in the event of extreme weather.
RAC has a number of important Corporate Partners, principally in its roadside assistance segment. The loss of one or more of these significant contracts with Corporate Partners, due to the financial difficulty of the Corporate Partner, a deterioration in the business relationship or otherwise, or the renewal of those contracts on less advantageous terms, could adversely affect RAC's business, financial condition and results of operations.	RAC has a range of Corporate Partner customers across a number of sectors and the Group does not have a material dependency on any one Corporate Partner for the delivery of its overall results. Corporate Partner contracts tend to be for a period of three to five years and renewal times vary such that the Group is not overly exposed to renewals in any one year. RAC actively seeks to provide services to new corporate partners to supplement its existing customer base.
RAC depends on its IT and communication systems to conduct its business, including receiving calls from Members experiencing vehicle breakdowns and allocating the appropriate resources to assist those Members, as well as maintaining accurate customer service records and managing its fleet of Patrols. If RAC is unable to maintain and improve its IT and communication systems and infrastructure, or effectively resolve any service disruption, reliability or quality issues, its business, financial condition and results of operations could be adversely impacted.	The Group employs a specialist IT team who are responsible for maintaining and developing appropriate IT systems. The Group recognises the importance of maintaining viable capability to continue business processes with minimal impact in the event of an emergency incident and has appropriate business continuity and disaster recovery plans and processes in place. The Group will continue to monitor, maintain and develop appropriate IT systems.
RAC competes with global and national Insurance companies, including direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, many of which offer alternative products or more competitive pricing for segments of the insurance market in which RAC operates. If RAC is unable to price its products competitively, its ability to cross-sell its insurance products, its margins and/or market share may suffer.	RAC operates insurance broker panels covering motor, home and other insurance products. The Group works with a panel of leading underwriters to ensure competitive and appropriate policies are offered to its customers. The Group has developed a new range of complementary products which are offered to customers where appropriate. RAC closely monitors these markets to ensure it is able to respond to industry changes or competitor activity.
RAC is dependent on third party providers for many critical aspects of its business, including the provision of certain IT systems and services, the provision of its insurance products and European breakdown cover, the lease of its Patrol vehicles and the supply of batteries and parts. If RAC is unable to maintain its existing contracts and agreements with suppliers of the various products and services which it relies upon or enters into new contracts on less commercially favourable terms, its business, financial condition and results of operations could be adversely impacted.	The Group maintains relationships with a number of suppliers in order to ensure there is no undue dependency on any one supplier. Supplier relationships are managed in the appropriate interests of both RAC and the suppliers themselves.
The majority of RAC's revenue is attributable to its roadside assistance service which is the product offering most closely associated with RAC's brand. A material gap in RAC's ability to repair vehicles at the roadside could have an adverse impact on the quality of its roadside assistance services.	The Group's repair rate at roadside is a key measure monitored by its operations team and the Group continues to deliver market leading repair rates. The Group's Technical Department monitors vehicle technology developments to ensure that its Patrols have the skills and equipment required to maintain the high roadside repair levels.

➤ Strategic report (continued)

Key strategic and operational risks (continued)

Risk	Mitigation
<p>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 Audit, Risk and Compliance Committee.</p>
<p>The Group's roadside operations necessarily require attendance by Patrols or third party contractors to inspect and repair Members' vehicles at the roadside. Hence, there is an inherent risk of serious injury or death of employees, Members or third parties from road traffic collisions.</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 and Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety.</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 been established with responsibility for ensuring the appropriate use of the brand.</p>
<p>RAC's volume of Individual Members, both new and retained is one of the most significant drivers of its business results. While the volume of the new Individual Members acquired 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. 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>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 appropriate forums to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations. The Group adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment.</p>

➤ Strategic report (continued)

Financial review

The RAC Group's Consolidated Financial Statements are set out on page 36 onwards.

In order to enhance transparency and understanding of the financial information provided, the Consolidated income statement, Consolidated statement of financial position and Consolidated statement of cash flows of the RAC Group Limited Group which are part of the Strategic Report are set out on pages 19 to 21 for the full year, thus facilitating trend and comparative analysis.

Income statement

	RAC Group		RAC Group Limited Group	
	Year ended 31 December 2015	Period ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014
	£m	£m	£m	£m
Revenue	501	19	501	498
EBITDA before exceptional items	183	7	179	169
Amortisation of intangible assets	(181)	(11)	(26)	(21)
Exceptional items	(4)	(9)	-	(1)
Finance expenses	(187)	(8)	(1)	(1)
(Loss)/profit before tax	(193)	(21)	148	127

RAC Group

The RAC Group generated revenue of £501 million for the year ended 31 December 2015 (period ended 31 December 2014: £19 million) and EBITDA before exceptional items (as set out on page 36) of £183 million (period ended 31 December 2014: £7 million) in the year ended 31 December 2015 (2014: in the period between incorporation on 22 September 2014 and 31 December 2014).

Amortisation of intangible assets in the RAC Group amounted to £181 million in the year ended 31 December 2015 (2014: £11 million in the period ended 31 December 2014), representing amortisation of both acquired intangibles and separately identified intangible assets arising from the business combination, predominantly customer lists, being amortised over their useful economic lives.

After exceptional items of £4 million (period ended 31 December 2014: £9 million), which mainly comprises transaction costs relating to the CVC transaction in December 2015 (2014: transaction costs relating to the acquisition of the RAC Group of Companies in December 2014), and finance expenses of £187 million (period ended 31 December 2014: £8 million), the RAC Group loss before tax for the year amounts to £193 million (period ended 31 December 2014: £21 million loss before tax).

RAC Group Limited Group

The RAC Group Limited Group full year EBITDA before exceptional items was £179 million (2014: £169 million), which represents an increase of 6% compared to the prior year. Revenue in the year ended 31 December 2015 amounted to £501 million (2014: £498 million), an increase of £3 million year on year.

The RAC Group Limited Group generated a profit before tax of £148 million for the year (2014: profit before tax of £127 million).

➤ Strategic report (continued)

Statement of financial position

	RAC Group	
	31 December 2015	31 December 2014
	£m	£m
Goodwill and intangible assets	2,300	2,453
Property, plant and equipment	15	13
Trade and other receivables	58	56
Trade and other payables	(242)	(267)
Net current liabilities	(126)	(173)
Borrowings	(2,097)	(2,000)
Shareholders' equity	(162)	(18)

The Group had goodwill and intangible assets amounting to £2,300 million at 31 December 2015 (2014: £2,453 million) and these principally represent the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in the prior period. Property, plant and equipment of £15 million at 31 December 2015 (2014: £13 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group.

The Group has net current liabilities of £126 million at 31 December 2015 (2014: £173 million) reflective of the negative working capital dynamics, representing an improvement of £47 million in the year. Trade and other receivables of £58 million (2014: £56 million) are primarily comprised of trade receivables of £37 million (2014: £32 million) and prepayments and accrued income of £20 million (2014: £22 million). Trade and other payables of £242 million (2014: £267 million) predominantly represent deferred income of £151 million (2014: £159 million) relating to subscriptions revenue received in advance and £91 million (2014: £108 million) of trade payables, accruals and other payables.

The Group's capital structure consists of borrowings amounting to £1,193 million (2014: £1,200 million) of gross third party borrowings and £978 million (2014: £878 million) of funds from shareholders at 31 December 2015. The summary of the Group's funding is set out below.

	2015		2014	
	£m	%	£m	%
Third Party sources				
Bank borrowings	1,193	55.0	1,200	57.7
Related Party sources				
Shareholder Loan Notes	379	17.5	340	16.4
Preference Shares	589	27.0	528	25.4
Ordinary Shares	10	0.5	10	0.5
Total sources	2,171	100.0	2,078	100.0
Undrawn Revolving Credit Facility	50		50	
Total Committed Facilities	2,221		2,128	

➤ Strategic report (continued)

Statement of cash flows

	RAC Group		RAC Group Limited Group	
	Year ended 31 December 2015	Period ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014
	£m	£m	£m	£m
Cash and cash equivalents	88	54	88	54
Net cash flows from operating activities	151	(4)	142	111
Interest paid	(73)	(4)	(74)	(46)
Net increase in cash and cash equivalents	34	54	34	-

RAC Group

The RAC Group generated net cash flows from operating activities of £151 million as a result of strong trading performance and negative working capital dynamics (period ended 31 December 2014: £4 million cash outflow resulting from business acquisition costs incurred). After cash used in investing activities of £61 million, relating to the tangible and intangible additions (period ended 31 December 2014: £729 million relating to acquisition of companies and associated transaction costs), and cash used in (2014: generated from) financing activities of £83 million in relation to interest payments and repayment of bank debt in the year (period ended 31 December 2014: £781 million relating to net inflow from bank borrowings and proceeds from loan note and preference share issuance) the Group generated net cash in flows of £34 million (2014: £54 million).

RAC Group Limited Group

The RAC Group Limited Group achieved operating cash generation in 2015 of £142 million (2014: £111 million). This was achieved through continued disciplined management of working capital.

In addition, RAC Group Limited Group paid interest of £73 million (2014: £nil) on bank borrowings on behalf of the RAC Bidco Limited, an indirect subsidiary of the Company. In 2014, RAC Group Limited Group paid £45 million of interest on bank borrowings on behalf of RAC Finance (Holdings) Limited, an indirect subsidiary of the Company. The bank borrowings held by RAC Finance (Holdings) Limited were repaid on 17 December 2014.

General

The Group includes regulated companies which hold sufficient capital to meet acceptable solvency levels based on applicable PRA and FCA regulations. There have not been any breaches in the reported periods.

Capital management

In managing its capital, RAC seeks to:

- I. Match the expected cash in-flows from its assets with the expected cash out-flows from its liabilities as they fall due;
- II. Maintain financial strength to support new business growth and 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.

Regulatory bases

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

The Group will be fully compliant with the requirements of Solvency II from 1 January 2016. The Group does not anticipate any increase in regulatory capital under the new Solvency II rules.

By order of the Board on 29 February 2016



S Morrison
Company Secretary

➤ Strategic report (continued)

The Consolidated income statement, Consolidated statement of financial position and Consolidated statement of cash flows on pages 19 to 21 are extracted from the audited Consolidated Financial Statements of RAC Group Limited. The RAC Group Limited Group includes all of the trading entities of the RAC Group, and therefore excludes the holding companies and the Group's borrowings. Presentation of these statements are considered by the Directors to provide additional relevant and useful information to users of the Financial Statements.

RAC Group Limited Group

Consolidated income statement

For the year ended 31 December 2015

	2015	2014
	£m	£m
Revenue	501	498
Cost of sales	(215)	(230)
Gross profit	286	268
Administrative expenses	(137)	(125)
Operating profit	149	143
EBITDA before exceptional items	179	169
Depreciation	(4)	(4)
Amortisation of customer acquisition intangible assets	(10)	(10)
Amortisation of non customer acquisition intangible assets	(16)	(11)
Exceptional items	-	(1)
Operating profit	149	143
Finance expenses	(1)	(1)
Other losses	-	(15)
Profit before tax	148	127
Tax charge	(27)	(28)
Profit for the year	121	99



➤ Strategic report (continued)

RAC Group Limited Group

Consolidated statement of financial position

As at 31 December 2015

	2015	2014
	£m	£m
ASSETS		
Non-current assets		
Goodwill and intangible assets	438	436
Property, plant and equipment	15	13
Deferred tax assets	7	7
Trade and other receivables	3	3
	<u>463</u>	<u>459</u>
Current assets		
Inventories	3	2
Trade and other receivables	178	132
Cash and cash equivalents	88	54
	<u>269</u>	<u>188</u>
LIABILITIES		
Current liabilities		
Provisions	(1)	(1)
Current tax payable	(64)	(72)
Trade and other payables	(239)	(259)
	<u>(304)</u>	<u>(332)</u>
Net current liabilities	(35)	(144)
Non-current liabilities		
Employee benefit liability	(6)	(7)
Trade and other payables	(3)	(4)
Deferred tax liability	(40)	(46)
	<u>(49)</u>	<u>(57)</u>
Net assets	379	258
EQUITY		
Ordinary share capital	31	31
Share premium	-	-
Other reserves	1	1
Retained earnings	347	226
Total equity	379	258

➤ Strategic report (continued)

RAC Group Limited Group

Consolidated statement of cash flows

For the year ended 31 December 2015

	2015	2014
	£m	£m
Operating activities		
Profit before tax	148	127
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	4	4
Amortisation of intangible assets	26	21
Loss on disposal of intangible assets	-	2
Gain on disposal of investments	-	(2)
Curtailed gains	-	(1)
Finance expenses and other gains	1	16
Working capital adjustments:		
Increase in inventories	(1)	-
Increase in trade and other receivables	(13)	(29)
Decrease in trade and other payables	(23)	(24)
Decrease in provisions	-	(2)
Insurance policies for defined benefit schemes	-	(1)
Net cash flows from operating activities	142	111
Investing activities		
Acquisition of companies, net of cash acquired	-	(6)
Purchase of property, plant and equipment	(6)	(4)
Proceeds from sale of investments	-	3
Additions of intangible assets	(28)	(28)
Net cash used in investing activities	(34)	(35)
Financing activities		
Dividends paid	-	(30)
Interest paid	(74)	(46)
Net cash flows used in financing activities	(74)	(76)
Net increase in cash and cash equivalents	34	-
Cash and cash equivalents brought forward	54	54
Cash and cash equivalents carried forward	88	54

› Directors' report

for the year ended 31 December 2015

The Directors present their Annual Report on the affairs of the Group, together with the Audited Financial Statements and independent auditor's report for the year ended 31 December 2015.

An indication of likely future developments in the business of the Group and details of research and development activities are included in the Strategic Report. Information about the use of financial instruments by the Group including objectives, risks, policies and exposures is given in note 25 to the Financial Statements.

Directors

The names of the current Directors of the Company are set out on page 2. During the period, M Q E Chai resigned on 31 August 2015. V Nagarajan was appointed on 1 September 2015.

Incorporation and change of name

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

Acquisition of the RAC Group of Companies

On 17 December 2014 the Company, through its indirect subsidiary, RAC Bidco Limited, acquired the RAC Group of Companies. These Financial Statements reflect the results of the Company and its subsidiaries for the year ended 31 December 2015 with comparatives for the period from incorporation to 31 December 2014 which includes the consolidated results of the RAC Group of Companies for the period from the acquisition date of 17 December 2014 to 31 December 2014.

Results and dividends

The results of the Group for the year ended 31 December 2015 are set out on page 36 and discussed in the Strategic Report on pages 7 to 21. No interim dividend was paid (period ended 31 December 2014: £nil) and the Directors do not recommend the payment of a final dividend (period ended 31 December 2014: £nil).

Capital structure

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

Directors' indemnities

The Company has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and was novated to the Directors of this Company in December 2014. The provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force at the date of approving the Directors' Report by virtue of the transitional provisions of the Companies Act 2006.

› Directors' report (continued)

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 15 and 20 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 25 to the Consolidated Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 month period from the statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its bank debt. The Directors' assessment also included a review of any potential refinancing which may be considered post completion of the acquisition by CVC of Carlyle's shareholding in the Group.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 7 to 21. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £162 million (31 December 2014: net liabilities of £18 million), however this largely reflects amounts owed to Shareholders through Loan notes and Preference Shares, of £968 million (31 December 2014: £868 million) in issue as part of the Capital Structure of the Group. In addition to the Shareholder debt the Group has outstanding bank debt of £1,193 million (31 December 2014: £1,200 million).

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 that it is appropriate for the 2015 Group and Company Financial Statements to be prepared on a going concern basis.



› Directors' report (continued)

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor of the 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 this 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.

Corporate social responsibility

Corporate social responsibility ("CSR") is an important part of RAC's history - and an equally important part of its future. In our efforts to drive stronger growth and enhance long-term value, RAC remains firmly committed to making a positive contribution.

Our approach to CSR covers projects and actions which are most relevant to RAC and the market in which we operate in. This section of the Annual Report takes a closer look at our commitment to our Members, our colleagues, the environment and community work.

Commitment to our Members

Trust and Transparency

The financial services sector in which RAC operates is being held to an increasingly high standard of conduct by our regulators the FCA and the PRA. Trust and transparency and high standards of service are crucial to ensure RAC lives up to being recognised as one of the most trusted brands in the UK.

A solid foundation of integrity, transparency and accountability helps RAC build and maintain strong, enduring relationships wherever it operates. RAC benefits from a long history of internal audit and compliance procedures and a comprehensive, risk appetite framework. It strives to reach high standards of corporate governance, and considers the interests of diverse stakeholders in a balanced way.

All RAC colleagues are asked to complete essential training modules upon their employment commencing and prior to accessing customer information and administration systems to ensure we operate above and beyond the requirements set

down by the law and our regulators. We have created a requirement that these be refreshed annually and also set ourselves a 90% target for compliance and currently have completion rates of 93%. It is inevitable that not all colleagues will complete this due to maternity and sick leave but we maintain a high focus by providing updates to all business areas on a weekly basis.

Our Products and Services

As the UK's oldest motoring organisation RAC continues to be at the forefront of innovation, driven by our vision to be The Motorists Champion and the one-stop-shop for all motoring needs. RAC's commitment to making motoring easier, safer, more affordable and more enjoyable for drivers and other road users can be seen through the continued development of the Group's products and services.

RAC offers a wide range of products and services in a simple and convenient way to meet the needs of all our customers, which include Individual Members, small and large businesses as well as motor manufacturers. To help our Members feel confident about what they are buying, we aim to make our products, services and communications clear and deliver solutions that suit them.

All marketing communications go through an approval process which takes into account laws, regulations and relevant standards and these are subject to approval from our legal and compliance teams.

In 2015 we launched a number of new products to enhance our portfolio. The RAC Cars website was relaunched to provide Members with a free to advertise proposition to sell their car, RAC Car Passport gives would-be buyers valuable insight into a vehicle's past and RAC Insurance Telematics helps make insuring a car more affordable.

We continue to focus on maintaining high service standards to ensure we retain our valued Members. Customer advocacy levels measured by Net Promoter Scores remain high with strong retention levels being seen across our Individual Membership base.



In Parliament

Modern day driving as we know is shaped by the regulatory environment. RAC's work in Parliament and beyond is to put the motorist's case forward and support interests and issues affecting them.

We know that our Annual Report on Motoring (now in its 27th year) is closely scrutinised in Whitehall

› Directors' report (continued)

and by policy makers. Acting as the voice of the motorist in Westminster we have successfully led and supported on issues such as fair fuel prices, increased funding and investment to improve the state of our road network, raised the issues on the illegal use of hand-held mobile phones at the wheel and the issue of motoring taxation.

Community and Charitable Activity

Championing Road Safety

The focus of our community and charitable activities is to make motoring safer and to improve road safety for everyone. Eighteen months ago RAC committed to donate £250 thousand into a Road Safety Awareness Charity ("the Charity") to help develop a Road Safety Awareness Campaign with the aim of reducing the number of children and young people injured or killed on our roads each year.

Since being granted charitable trust status, the Charity has partnered with The Scout Association to reach over 500,000 members to promote road safety training and help every Beaver, Cub and Scout learn the key skills to stay safe around our roads and to develop as responsible road users.

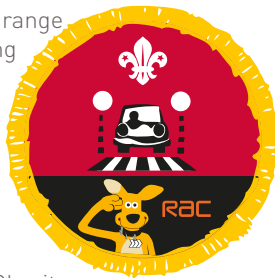
The Charity has also developed a range of bespoke workshops and training materials for leaders to run engaging sessions with the Cubs to build their knowledge and experiences of issues including 'be bright be seen', the Highway Code and how to stay safe in the event of a vehicle breakdown. Leading this partnership for the Charity is Horace, a road safety mascot for the 21st century, created with Aardman Animations and newly enrolled into the Cubs.

In 2016 the Charity has committed to over 200 visits to Cub groups to promote road safety. Horace will be supported by volunteers from RAC's 1,500 patrols acting as Ambassadors for road safety to help deliver these workshops which will also give the boys and girls the opportunity to explore a real patrol van.

RAC office colleagues are also encouraged to participate by volunteering their time and money and have been integral in supporting fund raising initiatives raising over £10,000 to help deliver the Charity's pledge of providing 140,000 hi-vis jackets to all Cubs in the UK over the next three years.

Other Charitable and Community Causes

Whilst road safety is the Group's primary community focus, our colleagues and Members work with a number of other charities on community initiatives and fundraising appeals. Here are a few examples of how RAC and our colleagues really do make a difference.



RAC's head office in Walsall is a key supporter of the National Citizen's Service 'The Challenge' summer programme, designed to provide interactive and education tools to help children aged 15-18 develop important life skills to build their confidence and prepare them for employment or further education. In 2015 RAC supported over 100 children as part of this programme through professional visits and mentoring.

Colleagues support our annual RAC sponsored trek over the Shropshire hills to raise funds for Help for Heroes. RAC also provide free breakdown and European cover for the Charity's fleet of vehicles.

With so many people touched by cancer in one way or another, RAC colleagues are incredibly supportive of any fundraising requests and initiatives which are promoted across the business. In 2015 colleagues raised in excess of £15,000 for cancer charities through cake sales, dress down days and various fitness challenges.

The RAC Christmas Tree appeal which has been running for over 25 years, supports local hostels, and in 2015 colleagues also provided food parcels and presents for refugees.

These few examples give you an insight into how committed we are to being a responsible business and how 'Corporate Responsibility' is more than just words.

Environmental management

As one of the largest motoring organisations in the UK with a large fleet base, RAC has both a responsibility to take action on reducing its environmental impact and an opportunity to influence environmental policies and tackle broader environmental challenges facing society as a whole.

RAC's environmental policy sets out the Group's environmental objectives, priorities and CO₂ reduction targets, which creates the foundation for the organisation's environmental initiatives. These include driver fuel efficiency training; driving up operational efficiency through increased phone fix rates; introduction of multi-fit spare wheels in all Patrol vehicles; introduction of telematics technology in all Patrol vehicles; vehicle replacements; increases in recycling of acid batteries; and a reduction in the waste produced from our buildings through our established waste management and recycling programs.

These initiatives have not only helped to reduce CO₂ output from our liveried fleet and Company car fleet but also helped us to retain the Group's Environmental Management System ISO14001 accreditation by CARS QA. This global environmental management standard covers energy usage, CO₂ emissions, waste generation and disposal. The certification is in recognition of our commitment to a process of continuous improvement and demonstrates our plans to reduce our impact on the environment.

› Directors' report (continued)

Our Colleagues

At the core of our success is our people, and they are our focus. RAC strives to build strong relationships with our colleagues by providing an environment where they are respected, engaged and rewarded for their contributions and are encouraged to participate in Company and community initiatives. The Group's code of conduct describes the standards of behaviour required of all RAC colleagues and provides guidance on how to raise issues or concerns. Opportunities are available to all colleagues for training, career development and promotion. Where existing colleagues become disabled, it is Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training and reasonable adjustments to achieve this aim.

Employee engagement

Our colleagues can expect to be treated fairly, with dignity and respect. We have a suite of HR policies and guidelines that set out how colleagues can expect to be treated and managed. These policies are reviewed on a regular basis to ensure they remain relevant.

RAC's culture encourages open, honest and direct communication. There are a variety of ways for colleagues to ask questions or say what's on their minds - from face-to-face meetings with managers to focus groups and anonymous surveys.





Our collaborative approach to treating colleagues fairly means we work in partnership with Unite, the Union and Your Forum representatives. RAC also engages and involves colleagues in the development and direction of the business through colleague forums to share information and updates and consult fully with them when decisions affect colleagues, from business strategy to projects such as a reorganisation.

Recruitment

Over the last 12 months, RAC has reviewed its recruitment approach and invested in recruitment tools and additional resource to ensure potential candidates experience RAC's culture and brand. We have focused on a more direct resourcing model rather than relying on an agency approach.

As an equal opportunity employer RAC encourages diverse and inclusive approaches to employment and gives full consideration to applications for employment without regard to race, colour, religion, gender identity or expression, sexual orientation, national origin, disability, age or veteran status where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.

Gender Diversity

	2015		
			Grand Total
	Number	Number	Number
At 31 December			
Director	2	10	12
Senior Manager	7	22	29
Employee	1,034	2,612	3,646
Grand Total	1,043	2,644	3,687
	2014		
			Grand Total
	Number	Number	Number
At 31 December			
Director	2	9	11
Senior Manager	6	23	29
Employee	960	2,607	3,567
Grand Total	968	2,639	3,607

Career Development

RAC continues to invest in the training and development of its people. RAC encourages a blended approach to development that includes on-the-job experiences, peer and manager feedback, knowledge development and education.

Leadership is critically important to RAC. The Group's front line manager and senior leadership development programs ensure that managers have the right tools, skills and behaviours to motivate and lead their teams. During 2015 the Group has introduced a new talent management tool to identify talent, create succession plans for key roles and to commit to development action plans to support career progression and cross-departmental development opportunities.

Providing regular training and implementing new customer service solutions for our frontline colleagues to deliver an unrivalled standard of service remains a high priority for the business. The Group's internal training team were recognised for their contribution winning the 2015 Contact Centre People Development Award.

› Directors' report (continued)

Reward and benefits

RAC is committed to providing a competitive total compensation package in the form of base pay (salary), incentive pay (both short- and long-term incentives), pension plan and benefits, which include health care, insurance, disability benefits and motoring services.

Compensation packages are benchmarked using independent data to ensure they remain fair, equitable and competitive and to ensure they are aligned to support business objectives. The Group continues to negotiate in good faith with its recognised union, Unite, regarding the employment terms and conditions of colleagues.

RAC takes the time to celebrate accomplishments. The annual Ambassadors Awards, a prestigious awards ceremony now in its 17th year, recognises outstanding performance. The Group also continues to recognise colleagues for their loyalty and sustained contribution through RAC's Long Service Award Scheme.

Health and safety

RAC recognises that Health and Safety is an essential part of its responsibility towards its colleagues and all those affected by business activities, and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities.

We have a comprehensive Health and Safety Policy and Health and Safety Management System, which is mandatory in all areas of our business and enables all levels of line management to understand the Health and Safety aspects of their activities and applicable legislation. Our policies also provide information over and above our legal obligations on what our principles, protocols and procedures are to our stakeholders.



› Directors' report (continued)

Corporate governance report

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

The following disclosures have been made on a voluntary basis as the Group is not required to comply with the Corporate Governance Code.

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

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

The Board

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

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

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

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

Division of responsibilities

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

The Chairman is responsible for:

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

The Chief Executive Officer is responsible for:

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

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

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

The non-executive directors are responsible for:

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

› Directors' report (continued)

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

Board committees

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

Group Risk, Audit & Compliance Committee

This committee is chaired by Mark Wood. It is attended by the Board members, the external auditors, the Director of Group Finance, the Director of Legal, Risk and Compliance and also members of the RAC senior management team as required. The Committee assists the Board in discharging its responsibilities for the integrity of the Group's Financial Statements and the effectiveness of the systems of risk management and internal controls and also monitors the effectiveness, performance and objectivity of the internal and external auditors.

Key areas for which the committee is responsible include:

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

Remuneration Committee

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

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

Other committees and working groups

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

› Directors' report (continued)

Board Composition



Rob Templeman
Chairman

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



Chris Woodhouse
Chief Executive Officer

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



Diane Cougill
Chief Financial Officer

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

Mark Wood
Chair of Audit, Risk & Compliance Committee

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

› Directors' report (continued)

Non-Executive Directors - Carlyle Group

Andrew Burgess

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

Alex Stirling

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

Fraser Robson

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

Non-Executive Directors - GIC Group

Robin Jarratt

Robin is head of GIC's private debt group and is a Senior Vice President of GIC Special Investments Pte. Limited. Prior to joining GIC in 2005, Robin was an investment director at CVC Capital Partners. Robin is currently a director on the board of Rothesay Life. He was also formerly a director on the boards of Avolon and Springer Science+Business Media.

Henry Ormond

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

Vinit Nagarajan

Vinit is a Vice President in GIC's Private Equity and Infrastructure Group. He has been with GIC for over five years and made investments in the financial services, consumer and infrastructure sectors. Vinit is a Director on the Board of Rothesay Life and was previously an Observer on the Board of Avolon. Prior to joining GIC in 2010, he worked in investment banking at Deutsche Bank.

› Directors' report (continued)

Directors' responsibilities statement

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 Company's ability to continue as a going concern.

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

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

Events since the statement of financial position date

On 24 February 2016, the Group acquired 51% of the issued share capital of Nebula Systems Limited for cash consideration of £4 million. The acquisition includes a put and call option to acquire the remaining 49% of the issued share capital exercisable between the 3 and 6 year anniversaries, at a value determined by future earnings. This transaction will be accounted for as a business combination under IFRS 3 in the year ending 31 December 2016.

By order of the Board on 29 February 2016



S Morrison
Company Secretary



► Independent Auditor's Report to the members of RAC Group (Holdings) Limited

We have audited the Financial Statements of RAC Group (Holdings) Limited Group for the year ended 31 December 2015, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the accounting policies and the related notes 1 to 27, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cash flows and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the 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.

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

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's loss for the period then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

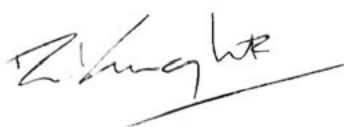
In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the Financial Statements are prepared is consistent with the Financial Statements.

➤ Independent Auditor's Report to the members of RAC Group (Holdings) Limited (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Richard Knights (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
United Kingdom
Date: 29 February 2016

➤ Consolidated Financial Statements

Consolidated income statement

For the year ended 31 December 2015

	Note	Year ended 31 December 2015	Period ended 31 December 2014
		£m	£m
Revenue	1	501	19
Cost of sales		(215)	(8)
Gross profit		286	11
Administrative expenses		(292)	(24)
Operating loss	2	(6)	(13)
EBITDA before exceptional items		183	7
Depreciation	11	(4)	-
Amortisation of customer acquisition intangibles	10	(10)	-
Amortisation of non customer acquisition intangible assets	10	(171)	(11)
Exceptional items	3	(4)	(9)
Operating loss		(6)	(13)
Finance expenses	5	(187)	(8)
Loss before tax		(193)	(21)
Tax credit	9	45	1
Loss for the year/period		(148)	(20)

The accounting policies and notes on pages 41 to 77 are an integral part of these Financial Statements.

➤ Consolidated Financial Statements (continued)

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	Year ended 31 December 2015	Period ended 31 December 2014
		£m	£m
Loss for the year/period		(148)	(20)
Other comprehensive income/(expense)			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Gain on shares and loan notes held by EBT		4	-
Net movement on cash flow hedges	19(b)	(1)	(9)
Aggregate tax effect	9(c)	-	2
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		3	(7)
Other comprehensive income/(expense), net of tax		3	(7)
Total comprehensive expense for the year/period		(145)	(27)

The accounting policies and notes on pages 41 to 77 are an integral part of these Financial Statements.

➤ Consolidated Financial Statements (continued)

Consolidated statement of financial position

As at 31 December 2015

	Note	2015	2014
		£m	£m
ASSETS			
Non-current assets			
Goodwill and intangible assets	10	2,300	2,453
Property, plant and equipment	11	15	13
Deferred tax assets	16	9	9
		<u>2,324</u>	<u>2,475</u>
Current assets			
Inventories	13	3	2
Trade and other receivables	14	58	56
Cash and cash equivalents	15	88	54
		<u>149</u>	<u>112</u>
LIABILITIES			
Current liabilities			
Borrowings	20(a)	(13)	(10)
Provisions	17	(1)	(1)
Trade and other payables	18	(239)	(263)
Current tax payable	16	(22)	(11)
		<u>(275)</u>	<u>(285)</u>
Net current liabilities		(126)	(173)
Non-current liabilities			
Borrowings	20(a)	(2,097)	(2,000)
Employee benefit liability	24(c)(iv)	(6)	(7)
Trade and other payables	18	(3)	(4)
Deferred tax liability	16	(244)	(300)
Derivative financial instruments	19(b)	(10)	(9)
		<u>(2,360)</u>	<u>(2,320)</u>
Net liabilities		(162)	(18)
EQUITY			
Ordinary share capital	21	-	-
Share premium	21	10	10
Own shares	22	-	(1)
Hedging instruments reserve		(8)	(7)
Retained earnings		(164)	(20)
Total equity		(162)	(18)

The accounting policies and notes on pages 41 to 77 are an integral part of these Financial Statements.

Approved by the Board on 29 February 2016.



D Cougill, Chief Financial Officer

➤ Consolidated Financial Statements (continued)

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Note	Ordinary share capital	Share premium	Own shares	Hedging instruments reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
Balance at 22 September 2014		-	-	-	-	-	-
Loss for the period		-	-	-	-	(20)	(20)
Other comprehensive expense		-	-	-	(7)	-	(7)
Total comprehensive expense		-	-	-	(7)	(20)	(27)
Issue of share capital	21, 22	-	10	(1)	-	-	9
Balance at 31 December 2014		-	10	(1)	(7)	(20)	(18)
Loss for the year		-	-	-	-	(148)	(148)
Other comprehensive (expense)/income		-	-	-	(1)	4	3
Total comprehensive expense		-	-	-	(1)	(144)	(145)
Own shares disposed of in the year	22	-	-	1	-	-	1
Balance at 31 December 2015		-	10	-	(8)	(164)	(162)

The accounting policies and notes on pages 41 to 77 are an integral part of these Financial Statements.

➤ Consolidated Financial Statements (continued)

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	Year ended 31 December 2015	Period ended 31 December 2014
		£m	£m
Operating activities			
Loss before tax		(193)	(21)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	11	4	-
Amortisation of intangible assets	10	181	11
Finance expenses and other gains	5	187	8
Transaction costs	3	4	9
Working capital adjustments:			
Increase in inventories		(1)	-
(Increase)/decrease in trade and other receivables		(1)	10
Decrease in trade and other payables		(30)	(21)
Net cash flows from operating activities		151	(4)
Investing activities			
Acquisition of companies, net of cash acquired	12(c)	-	(723)
Purchase of property, plant and equipment		(6)	-
Additions of intangible assets		(28)	-
Net cash used in investing activities		(34)	(723)
Financing activities			
Net proceeds from bank debt	20(b)	-	1,159
Repayment of bank debt	20(b)	(10)	(777)
Issue of shares	26(a)(i)	-	4
Net proceeds from loan notes	26(a)(i)	-	155
Proceeds from preference shares	20(d)	-	244
Interest paid		(73)	(4)
Net cash flows (used in)/generated from financing activities		(83)	781
Net increase in cash and cash equivalents		34	54
Cash and cash equivalents brought forward	15	54	-
Cash and cash equivalents carried forward	15	88	54

The accounting policies and notes on pages 41 to 77 are an integral part of these Financial Statements.

Accounting policies

(A) Corporate information

RAC Group (Holdings) Limited, a limited liability company incorporated and domiciled in the United Kingdom, together with its subsidiaries, 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, WS5 4AW, in England.

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

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

The Group and Parent Company Financial Statements of RAC Group (Holdings) Limited for the year ended 31 December 2015 were approved for issue by the Board on 29 February 2016.

(B) Basis of preparation and basis of consolidation

Basis of preparation

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

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

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

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

The separate Financial Statements of the Company are set out from page 78. On publishing the Parent Company Financial Statements here together with the Group Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Parent Company's loss for the year ended 31 December 2015 was £64 million (period ended 31 December 2014: £3 million).

Certain prior period amounts have been reclassified for consistency with the current year presentation. These reclassifications had no material effect on the reported results of the Group. The amounts relate to reclassifications from Administrative expenses to Cost of sales, as they directly link to generating revenue. In addition, certain amounts in 2014 have been reclassified from Trade payables and accruals to Deferred income as well as reclassifications in the statement of cash flows from financing and investing activities to operating cash flows. These reclassified amounts have no impact on the reported loss and net assets in the Parent Company Financial Statements.

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 15 and 20 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 25 to the Consolidated Financial Statements.

➤ Accounting policies (continued)

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

Going concern (continued)

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 terms of its bank debt. The Directors' assessment also included a review of any potential refinancing which may be considered post completion of the acquisition by CVC of Carlyle's shareholding in the Group.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 7 to 21. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £162 million (31 December 2014: net liabilities of £18 million), however this largely reflects amounts owed to Shareholders through Loan notes and Preference Shares, of £968 million (31 December 2014: £868 million) in issue as part of the Capital Structure of the Group. In addition to the Shareholder debt the Group has outstanding bank debt of £1,193 million (31 December 2014: £1,200 million).

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 2015 Group and Company Financial Statements to be prepared on a going concern basis.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2015.

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

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

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

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

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

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

Profit or loss of each component of other comprehensive income ("OCI") is attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

➤ Accounting policies (continued)

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

Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates

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

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

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

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

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

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

Business combinations

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

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

- deferred tax assets or liabilities and assets or 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.

➤ Accounting policies (continued)

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

Business combinations (continued)

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

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

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

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

Products

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

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

Insurance brokerage

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

Rental income

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

Other income

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

➤ Accounting policies (continued)

(D) Exceptional items

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

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

Goodwill

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

Acquired value-in-force business

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

Brand

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

Customer lists and other intangible assets

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

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

Customer acquisition intangibles

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

The customer acquisition intangible is initially recognised at cost and subsequently amortised over the useful economic life of the policies, typically 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 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 10.

➤ Accounting policies (continued)

(F) Property, plant and equipment

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

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

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

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

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

(G) Inventories

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

(H) Impairment of non-financial assets

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

(I) Trade receivables

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

(J) Cash and cash equivalents

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

(K) Borrowings

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

➤ Accounting policies (continued)

(K) Borrowings (continued)

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

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

(L) Derivative financial instruments

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

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

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

(M) Cash flow hedge

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

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

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

(N) Provisions and contingent liabilities

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

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

➤ Accounting policies (continued)

(O) Income taxes

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

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

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

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

(P) Leases

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

(Q) Employee benefits

Pension obligations and other post-retirement benefit obligations

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

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

For post-employment defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of the employees. The pension obligation is measured as the present value of the estimated future cash 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 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 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.

➤ Accounting policies (continued)

(Q) Employee benefits (continued)

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

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administrative expenses' and 'finance expenses' in the consolidated income statement:

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

Termination benefits

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

(R) Share capital and dividends

Equity instruments

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

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

Dividends

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

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

The following new and amended IFRSs are effective for the 2015 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Consolidated or Parent Company's Financial Statements.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010 - 2012 Cycle
- Annual Improvements to IFRSs 2011 - 2013 Cycle

At the date of authorisation of these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some case had not yet been adopted by the EU:

- Amendments to IFRS 11 Accounting for Acquisitions of Interest and in Joint Operations¹
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation¹
- Amendments to IAS 27 Equity Method in Separate Financial Statements¹
- Annual Improvements to IFRSs 2012 - 2014 Cycle¹
- IFRS 9 Financial Instruments²
- IFRS 15 Revenue from Contracts with Customers²
- IFRS 16 Leases³

➤ Accounting policies (continued)

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

The Group is currently in the process of evaluating the impact of the adoption of new and revised standards, including IFRS 9, IFRS 15 and IFRS 16 on its financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

¹ Effective for annual periods commencing on or after 1 January 2016

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

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

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

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

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Tax provisions

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

Provisions and contingent liabilities

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

Customer acquisition intangibles

Acquisitions result in acquired third party commissions and fees being recognised as intangible assets. As an outcome of the above certain key judgements and estimates are required to be made in respect of the useful life in which the acquired asset is amortised over, this assessment is based upon internal customer retention rate analysis.

(ii) Key sources of estimation uncertainty

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

Fair value measurements and valuation process

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

➤ Accounting policies (continued)

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

(ii) Key sources of estimation uncertainty (continued)

Fair value measurements and valuation process (continued)

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

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

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

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

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

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

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

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

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

Employee benefit obligations

Determining the amount of the Group's employee benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning inflation, salary and pension increases, investment returns and expected mortality of scheme members. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance from independently qualified actuaries. Details of the assumptions made are set out in note 24 to the Consolidated Financial Statements.

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at both 31 December 2015 and 31 December 2014 was £906 million and £872 million respectively. No impairment loss of goodwill or the brand has been recognised in the reported periods.

Notes to the Consolidated Financial Statements

1 Revenue

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Sale of products	24	1
Sale of services	477	18
Total revenue	501	19

2 Operating items

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

	Note	Year ended 31 December 2015	Period ended 31 December 2014
		£m	£m
Depreciation of owned tangible assets	11	4	-
Amortisation of customer acquisition intangible assets	10	10	-
Amortisation of non customer acquisition intangible assets	10	171	11
Employee costs	7	145	6
Operating lease rentals paid		13	1
Rental income		(1)	(1)

3 Exceptional items

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Transaction costs	4	9
	4	9

In 2015, transaction costs relate to professional fees in respect of a purchase of a stake in the business by CVC. Transaction costs in 2014 relate to the acquisition of the RAC Group of Companies in December 2014.

4 Operating segments

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

Roadside

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

Notes to the Consolidated Financial Statements (continued)

4 Operating segments (continued)

Insurance broking

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

Motoring services

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

Telematics and Data services

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

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

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Revenue of products		
Roadside	24	1
Revenue of services		
Roadside	395	15
Insurance broking	56	2
Motoring services	21	1
Telematics and Data services	5	-
Group Revenue	501	19
Segment EBITDA before exceptional items and head office costs		
Roadside	187	7
Insurance broking	31	1
Motoring services	3	-
Telematics and Data services	3	-
Group EBITDA before exceptional items and head office costs	224	8
Head office costs**	(41)	(1)
Group EBITDA before exceptional items	183	7
Amortisation of intangible assets	(181)	(11)
Depreciation	(4)	-
Exceptional items**	(4)	(9)
Operating loss	(6)	(13)
Finance expenses	(187)	(8)
Loss before tax from continuing operations	(193)	(21)

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

Assets and liabilities

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

Notes to the Consolidated Financial Statements (continued)

5 Finance expenses

		Year ended 31 December 2015	Period ended 31 December 2014
	Note	£m	£m
Interest payable - related parties	26(a)(i)	101	4
Interest payable - third parties		79	4
Amortisation of capitalised finance costs		7	-
		187	8

6 Auditor's remuneration

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

	Year ended 31 December 2015	Period ended 31 December 2014
	£000	£000
Audit services		
Audit of Financial Statements	7	15
Audit of subsidiaries	266	260
	273	275
Other services		
Taxation compliance services	77	43
Other non-audit services	540	1,416
Total remuneration payable to Deloitte LLP	890	1,734

In addition, in 2014 the RAC Group of Companies incurred fees of £1,084 thousand in respect of aborted IPO costs, prior to being acquired by RAC Bidco Limited.

7 Employee information

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a wholly owned subsidiary.

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

	Year ended 31 December 2015	Period ended 31 December 2014
	Number	Number
Roadside	3,020	3,023
Insurance and claims	133	137
Support	285	257
	3,438	3,417

Notes to the Consolidated Financial Statements (continued)

7 Employee information (continued)

Total staff costs were:

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Wages and salaries	124	5
Social security costs	12	1
Pension costs	8	-
Termination benefits	1	-
	145	6
Those costs were charged within:		
Cost of sales	100	4
Administrative expenses	45	2
	145	6

8 Directors

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

	Year ended 31 December 2015	Period ended 31 December 2014
	£000	£000
Fees and benefits	1,691	43
	1,691	43
Emoluments of the highest paid director:		
Fees and benefits	824	20
	824	20

(a) Fees and benefits include Directors' bonuses.

(b) Retirement benefits are accruing to no Directors (period ended 31 December 2014: 1) under a money purchase scheme.

(c) During the year no Directors (period ended 31 December 2014: none) were awarded shares under long-term incentive schemes.

Notes to the Consolidated Financial Statements (continued)

9 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Current tax:		
For the year/period	7	1
Adjustment in respect of prior periods	4	-
Total current tax	11	1
Deferred tax:		
Origination and reversal of temporary differences	(30)	(2)
Adjustment in respect of prior periods	(4)	-
Change in tax rates	(22)	-
Total deferred tax	(56)	(2)
Total tax credited to the income statement	(45)	(1)

(b) Tax reconciliation

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

	Note	Year ended 31 December 2015	Period ended 31 December 2014
		£m	£m
Loss before tax		(193)	(21)
Tax calculated at standard UK corporation tax rate of 20.25% (2014: 21.5%)		(39)	(5)
Disallowable expenses		3	4
Effect of tax rate change		(22)	-
Preference dividends		13	-
Total tax credited to the income statement	9(a)	(45)	(1)

The headline rate of UK corporation tax reduced from 21% to 20% on 1 April 2015, and will reduce further to 19% from 1 April 2017 and 18% 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 reductions of the corporation tax rate to 19% and 18% was substantively enacted on 26 October 2015, the deferred tax balances at 31 December 2015 have been reflected at the tax rates they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax charged directly to other comprehensive income in the year amounted to £nil in respect of tax on movements in hedging instrument fair values and actuarial gains and losses on pension schemes (period ended 31 December 2014: £2 million in respect of tax on movements in hedging instrument fair values).

Notes to the Consolidated Financial Statements (continued)

10 Goodwill and intangible assets

	Goodwill	Brand	Acquired Value-in-Force	Customer List	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost:								
At 22 September 2014	-	-	-	-	-	-	-	-
Acquired through business combinations (note 12(c))	906	872	89	536	37	2,440	24	2,464
At 31 December 2014	906	872	89	536	37	2,440	24	2,464
Additions	-	-	-	-	11	11	17	28
At 31 December 2015	906	872	89	536	48	2,451	41	2,492
Amortisation:								
At 22 September 2014	-	-	-	-	-	-	-	-
Charge for the period	-	-	7	3	1	11	-	11
At 31 December 2014	-	-	7	3	1	11	-	11
Charge for the year	-	-	82	75	14	171	10	181
At 31 December 2015	-	-	89	78	15	182	10	192
Net book value:								
At 31 December 2015	906	872	-	458	33	2,269	31	2,300
At 31 December 2014	906	872	82	533	36	2,429	24	2,453

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. No impairment losses have been recognised in 2015 or 2014. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the income statement.

Impairment testing of goodwill and intangible assets with indefinite lives

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

	Goodwill	Indefinite-lived intangibles
	£m	£m
Roadside	693	666
Insurance broking	130	126
Motoring services	55	53
Telematics and Data services	28	27
	906	872

» Notes to the Consolidated Financial Statements (continued)

10 Goodwill and intangible assets (continued)

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

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

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 2019. The growth rate used to extrapolate revenue beyond the Group's forecasts for all CGUs is 2%, based on the expected average long term growth rate of the UK economy. The pre-tax discount rate applied to the cash flow projections is based on the Group Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key assumptions used in management forecasts include:

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

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

With regard to the assessment of value-in-use, the recoverable amount of each CGU exceeds the carrying value of goodwill, and consequently no impairment losses have been recognised.

As at 17 December 2014, goodwill of £55 million and indefinite lived intangible assets of £53 million were allocated to the Motoring Services CGU. This CGU includes a diversified portfolio of motoring services products, some of which have only recently been launched as part of the Group's strategy to become The Motorists Champion. 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 as well a change in business model for one of the products within the CGU.

No impairment loss of the goodwill or indefinite lived intangibles associated with the Motoring Services CGU has been recognised, as the CGU's recoverable amount exceeds its carrying value by £1 million, however the revised cash flows, under certain of the Group's reasonably possible sensitivity scenarios, would result in an impairment. The key assumption is EBITDA growth and if EBITDA growth in this CGU were to reduce from the CAGR of 11.8% forecasted for the period under the Group's approved 5-year plan to 11.4% the CGU's recoverable amount would be equal to 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 minimise the risk of impairment.

Notes to the Consolidated Financial Statements (continued)

11 Property, plant and equipment

	Owner-occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost or valuation:				
At 22 September 2014	-	-	-	-
Acquired through business combinations (note 12(c))	3	5	5	13
At 31 December 2014	3	5	5	13
Additions	-	2	4	6
At 31 December 2015	3	7	9	19
Depreciation:				
At 22 September 2014	-	-	-	-
Charge for the period	-	-	-	-
At 31 December 2014	-	-	-	-
Charge for the year	-	2	2	4
At 31 December 2015	-	2	2	4
Net book value:				
At 31 December 2015	3	5	7	15
At 31 December 2014	3	5	5	13

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 has been revalued during 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. There has been no material change in the fair value of the property. The date of the revaluation was 30 October 2015 and no significant change in value has occurred between this date and year end. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2015 and 31 December 2014 would be £3 million.

Notes to the Consolidated Financial Statements (continued)

12 Group information

(a) Information about subsidiaries

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

Company	Type of business	Class of share	Proportion held
RAC Midco Limited	Holding company	Ordinary	100%
RAC Midco II Limited	Holding company	Ordinary	100%
RAC Bidco Limited	Holding company	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Finance Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. During 2014, the Group owned 100% of the share capital of CEP III Investment 16 S.à.r.l., which operated in and was registered in Luxembourg. CEP III Investment 16 S.à.r.l. became part of the RAC Group on 17 December 2014 as part of the acquisition of the RAC Group of Companies by RAC Bidco Limited, an indirect subsidiary of the Company. In January 2015, CEP III Investment 16 S.à.r.l. was liquidated and its assets were distributed to RAC Bidco Limited.

In November 2015, RAC Management Limited, an indirect subsidiary of the Company, was dissolved. RAC Management Limited became part of the RAC Group on 17 December 2014 as part of the acquisition of the RAC Group of Companies by RAC Bidco Limited, an indirect subsidiary of the Company.

The Consolidated Financial Statements of the Group also include the financial performance and position of the RAC Employee Benefit Trust ("EBT"). In accordance with Group accounting policies, the Group is deemed to control the EBT by virtue of RAC Limited, an indirect subsidiary of the Company, having power over the EBT. RAC Limited was acquired by an indirect subsidiary of the Company, RAC Bidco Limited, as part of the acquisition of the RAC Group of Companies on 17 December 2014.

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

Notes to the Consolidated Financial Statements (continued)

12 Group information (continued)

(b) The holding company

There is no single immediate controlling entity of the Group.

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

(c) Business combinations

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

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

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

	£m
Financial assets	149
Inventory	2
Property, plant and equipment	13
Identifiable intangible assets	61
Financial liabilities	(1,226)
Intangibles arising on acquisition	1,497
Deferred tax liability arising on acquisition	(300)
Total identifiable assets	196
Goodwill	906
Total consideration	1,102
Satisfied by:	
Equity instruments	312
Cash paid	790
Total consideration transferred	1,102
 Net cash outflow arising on acquisition	
Cash consideration	790
Less: cash and cash equivalent balances acquired	(67)
	723

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

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

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

» Notes to the Consolidated Financial Statements (continued)

12 Group information (continued)

(c) Business combinations (continued)

The RAC Group of Companies contributed £19 million revenue and £14 million profit before tax to the Group's result for the period between the date of acquisition to 31 December 2014.

If the acquisition of the RAC Group of Companies had been completed on the first day of the prior financial year, Group revenue for the period ended 31 December 2014 would have been £498 million and Group loss after tax would have been £8 million.

13 Inventories

	2015	2014
	£m	£m
Inventories	3	2

The cost of inventories recognised as an expense and included within Cost of sales in the year ended 31 December 2015 amounted to £10 million (period ended 31 December 2014: Nil).

14 Trade and other receivables

	2015	2014
	£m	£m
Trade receivables	37	32
Prepayments and accrued income	20	22
Other receivables	1	2
Total	58	56
Expected to be recoverable within one year	58	56

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

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

The balance above of £58 million (2014: £56 million) is considered to be neither past due nor impaired.

15 Cash and cash equivalents

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

	2015	2014
	£m	£m
Unrestricted cash at bank and in hand	76	42
Restricted cash at bank	12	12
Total	88	54

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

Notes to the Consolidated Financial Statements (continued)

16 Tax assets and liabilities

	2015	2014
	£m	£m
Current tax payable	(22)	(11)
Deferred tax assets	9	9
Deferred tax liability	(244)	(300)
	(257)	(302)

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Revaluation of financial assets	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m
At 22 September 2014	-	-	-	-	-	-
Acquired through business combinations (note 12(c))	5	(300)	1	-	(1)	(295)
Credit to income statement	-	2	-	-	-	2
Credit to other comprehensive income	-	-	-	2	-	2
At 31 December 2014	5	(298)	1	2	(1)	(291)
(Charge)/credit to income statement	(1)	54	-	-	3	56
Credit to other comprehensive income	-	-	-	-	-	-
At 31 December 2015	4	(244)	1	2	2	(235)

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

	2015	2014
	£m	£m
Net deferred tax liability brought forward	(291)	-
Acquired through business combinations	-	5
Deferred tax on intangible assets	54	(300)
Deferred tax credited to the income statement	2	2
Deferred tax credited to other comprehensive income	-	2
Net deferred tax liability carried forward	(235)	(291)

The Group has unrecognised capital losses of £146 million to carry forward indefinitely against future capital gains (2014: £147 million). The capital losses arose from past transactions in which the RAC Group of Companies disposed of investments. These losses can be used to offset tax arising on future capital gains. No asset has been recognised as there are no capital gains expected in the foreseeable future.

» Notes to the Consolidated Financial Statements (continued)

17 Provisions

	Other	Total
	£m	£m
At 1 January 2015	1	1
Utilised during the year	-	-
At 31 December 2015	1	1

Other provisions

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

18 Trade and other payables

	2015	2014
	£m	£m
Trade payables and accruals	50	49
Deferred income	151	159
Other payables	41	59
Total	242	267
Expected to be payable within one year	239	263
Expected to be payable in more than one year	3	4
Total	242	267

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

19 Derivative financial instruments

	2015	2014
	£m	£m
Cash flow hedge liabilities	(10)	(9)
	(10)	(9)

(a) Hedging

The Group uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 25).

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

Notes to the Consolidated Financial Statements (continued)

19 Derivative financial instruments (continued)

(b) Cash flow hedges

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

	2015	2015	2014	2014
	Contract/ notional amount	Fair value of liability	Contract/ notional amount	Fair value of liability
	£m	£m	£m	£m
Interest rate hedges	800	(10)	275	(9)
Total		(10)		(9)

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

20 Borrowings

(a) Analysis of borrowings

	Bank Debt		Related Party Debt		Total
	First Lien Loan	Second Lien Loan	Shareholder loan notes	Preference shares	
Interest rate	LIBOR +4.75%	LIBOR +7.25%	12%	12%	
At 31 December 2015					
Fair value (£m)	955	238	379	589	2,161
Amounts due within one year (£m)	10	3	-	-	13
Amounts due in more than one year (£m)	907	225	377	588	2,097
Book value (£m)	917	228	377	588	2,110
At 31 December 2014					
Fair value (£m)	965	235	340	528	2,068
Amounts due within one year (£m)	10	-	-	-	10
Amounts due in more than one year (£m)	911	225	337	527	2,000
Book value (£m)	921	225	337	527	2,010

(b) Bank debt

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

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

The First Lien Loan is repayable at a rate of 25 bps per quarter, with a final bullet repayment of the remaining 94.25 per cent of the loan payable on 10 December 2021. During 2015, the Group repaid £10 million of the First Lien Loan (2014: £nil).

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

A Revolving Credit Facility of £50 million is available to the Group, the entirety of which was undrawn as at 31 December 2015 and 2014. The Revolving Credit Facility bears interest at LIBOR + 4.50%, and is a bullet repayment, repayable on 10 December 2020. Upon drawing 30% or more of the Revolving Credit Facility, the Group is subject to a debt cover financial covenant.

The Group hedges a portion of the loan for interest rate risk using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 19(b).

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

An analysis of the contractual undiscounted cash flows for senior debt is shown in note 25(a)(iii).

Notes to the Consolidated Financial Statements (continued)

20 Borrowings (continued)

(c) Shareholder loan notes

The 12% shareholder loan notes are repayable on 17 December 2024 or are redeemable on a sale or listing. Interest accrues at 12%, is compounded annually and is repayable on redemption. The shareholder loan notes are redeemable at the principal amount of the loan note plus any accrued and unpaid interest. The shareholder loan notes can also be redeemed by the Group with the written consent of the majority of the loan note holders. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £379 million (2014: £340 million).

(d) Preference shares

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Company's residual assets. Dividends accrue at 12% and unpaid dividends are compounded annually. The preference shares are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1), plus any accrued and unpaid dividends. The conditions attached to the preference shares result in the preference shares being treated as debt, rather than equity, for accounting purposes. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £589 million (2014: £528 million).

21 Ordinary share capital

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

	2015	2014
	£000	£000
Authorised:		
80,120,000 ordinary shares of £0.01 each	801	801
Allotted, called up and fully paid:		
5,501,265 ordinary 'A' shares of £0.01 each	55	55
3,398,735 ordinary 'B' shares of £0.01 each	34	34
1,100,000 ordinary 'C' shares of £0.01 each	11	11
	100	100

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

On 17 December 2014, the Group issued 5,501,165 'A' ordinary shares, 3,398,635 'B' ordinary shares and 1,100,000 'C' ordinary shares for a total consideration of £10,000 thousand, resulting in a share premium of £9,900 thousand. Of the total number of 'B' and 'C' ordinary shares, 620,762 shares were held by the Employee Benefit Trust at 31 December 2014. As at 31 December 2015, the total number of 'B' and 'C' ordinary shares held by the Employee Benefit Trust was 495,715 (see note 22).

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

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

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

Notes to the Consolidated Financial Statements (continued)

22 Own shares

	Own shares
	£m
Balance at 1 January 2015	1
Disposal of shares	(1)
Balance at 31 December 2015	-

The own shares reserve represents the cost of shares in the Company held by the EBT to satisfy options under any future share option schemes. The total number of 'B' and 'C' ordinary shares held by the EBT at 31 December 2015 was 495,715 (2014: 620,762).

23 Commitments

Operating lease commitments

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

	2015	2014
	£m	£m
Within 1 year	11	11
Later than 1 year and not later than 5 years	25	25
Later than 5 years	66	68
	102	104

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

24 Employee benefit obligations

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

(a) Introduction

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

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

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

Unfunded Unapproved Pension Scheme ("UUP Scheme")

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2015 was 8 (2014: 8).

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2015 was 139 (2014: 139).

Disability Benefit Scheme ("DB Scheme")

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

Notes to the Consolidated Financial Statements (continued)

24 Employee benefit obligations (continued)

(b) Charges to the Consolidated income statement

During the year £8 million (period ended 31 December 2014: £nil) was charged to the Group's Consolidated income statement in respect of the employee defined contribution schemes and £236 thousand (period ended 31 December 2014: £33 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.

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 2015. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2015.

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

	2015	2014
	%	%
Inflation rate	2.90	2.90
Pension increases	2.90	2.90
Deferred pension increases	2.90	2.90
Discount rate	3.70	3.40

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £507 thousand (2014: £485 thousand) and £nil (2014: £nil) respectively.

Mortality assumptions of the Schemes

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2015 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	88.3 (23.3)	90.4 (25.4)	90.0 (25.0)	91.9 (26.9)

Notes to the Consolidated Financial Statements (continued)

24 Employee benefit obligations (continued)

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

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

Valuations and assumptions (continued)

Mortality assumptions of the Schemes (continued)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming all members were one year younger would increase the Schemes' liabilities by £391 thousand (2014: £289 thousand).

(ii) Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprise £236 thousand (period ended 31 December 2014: £33 thousand) in respect of net interest expense recognised in the Consolidated income statement and £455 thousand (period ended 31 December 2014: £nil) recognised in other comprehensive income.

(iii) Experience gains and losses

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

	2015	2014
	£m	£m
Fair value of the Scheme assets at the end of the year/period	-	-
Present value of the Schemes' liabilities at the end of the year/period	(6)	(7)
Net deficit in the Schemes	(6)	(7)

Estimated employer contributions for the year ended 31 December 2016 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:

	2015	2014
	£m	£m
Total fair value of assets	-	-
Present value of defined benefit obligations	(6)	(7)
Net deficit in the Schemes	(6)	(7)

Amounts recognised in the Consolidated statement of financial position:

	2015	2014
	£m	£m
Surplus included in non-current assets	-	-
Deficits included in non-current liabilities	(6)	(7)
Net deficit in the Schemes	(6)	(7)

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

Notes to the Consolidated Financial Statements (continued)

24 Employee benefit obligations (continued)

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

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

	Scheme liabilities 2015	Net deficit 2015
	£m	£m
Balance at 1 January	(7)	(7)
Benefits paid	1	1
Balance at 31 December	(6)	(6)

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

25 Risk management

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

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

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

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

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

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

» Notes to the Consolidated Financial Statements (continued)

25 Risk management (continued)

(a) Treasury

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

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Group's current borrowing facilities are disclosed in note 20.

(i) Market risk

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

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

If market interest rates were to increase or decrease by 1%, the impact on the profit/(loss) before tax would be a decrease/increase of £11 million (period ended 31 December 2014: £525 thousand). The impact on shareholders' equity would be a decrease/increase of £9 million (period ended 31 December 2014: £420 thousand).

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

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

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

(ii) Credit risk

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

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

	2015	2014
	£m	£m
Trade and other receivables	38	34
Cash and cash equivalents	88	54
	126	88

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

Notes to the Consolidated Financial Statements (continued)

25 Risk management (continued)

(a) Treasury (continued)

(ii) Credit risk (continued)

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

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

The Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout reported periods were held with institutions who are A rated. The Group's largest cash and cash equivalent counterparty is Morgan Stanley (2014: Morgan Stanley). At 31 December 2015 the balance was £20 million (2014: £19 million).

(iii) Liquidity risk

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 20).

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

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

	2015	2014
	£m	£m
External bank debt		
Less than 1 month	5	4
1 to 3 months	16	7
3 months to 1 year	67	60
1 to 5 years	342	279
5 to 10 years	1,135	1,352
Total external bank debt	1,565	1,702
Related party debt		
5 to 10 years	2,685	2,685
Total related party debt	2,685	2,685
Total borrowings	4,250	4,387

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

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

» Notes to the Consolidated Financial Statements (continued)

25 Risk management (continued)

(b) Strategic and operational risk

The strategy (including operational risks) for the Group and the Company is determined by the Directors of the Company and disclosed in the Strategic Report as set out on pages 7 to 21.

(c) Capital risk management

The Group's capital structure consists of borrowings amounting to £1,193 million (2014: £1,200 million) of gross third party borrowings and £978 million (2014: £878 million) of funds from shareholders at 31 December 2015.

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external bank debt, being principal bank borrowings, associated accrued interest and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In December 2014, the Group managed its capital structure through undertaking refinancings, and issuing loan notes and preference shares (see note 20).

Under the terms of the bank debt, the Group is required to comply with financial covenants upon drawing more than 30% of the Revolving Credit Facility (see note 20). The Group has not drawn upon this facility during the periods reported and consequently has not had to test any of its covenants.

In managing its capital, the Group seeks to:

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

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

(d) Regulatory risk

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

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

The Group has undertaken a detailed programme of work in 2015 in order for RAC Insurance Limited to be in a position to comply with the requirements of Solvency II from 1 January 2016.

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

Notes to the Consolidated Financial Statements (continued)

26 Related party transactions

(a) The Group had the following transactions with related parties in 2015 and 2014:

(i) Transactions with related parties

During 2015, the Group paid £1 million (2014: £nil) in respect of a monitoring fee to Carlyle and GIC.

On 17 December 2014, the Company, through its indirect subsidiary, RAC Bidco Limited, acquired the RAC Group of Companies (see note 12). As part of the acquisition, Group companies entered into the following transactions with related parties who are not members of the Group:

- GIC subscribed for £244 million preference shares in the Company (see note 20);
- GIC subscribed for £157 million loan notes in the Company's subsidiary, RAC Midco Limited in cash at par (see note 20). The loan notes were subsequently transferred from GIC to CEP III Investment 17 S.à.r.l.;
- RAC Bidco Limited purchased senior management and the EBT's stake in RAC Management Limited, in exchange for cash, preference shares and equity in the Company, and shareholder loan notes in RAC Midco Limited (see note 20);
- RAC Finance Limited repaid £2 million of loan note principal and associated accrued interest to senior management;
- CEP III Investment 16 S.à.r.l. repurchased £696 million of its own shares held by Carlyle and immediately cancelled them. CEP III Investment 16 S.à.r.l. also purchased all shares held by management in RAC Limited, in exchange for cash and shareholder loan notes in RAC Midco Limited; and
- Carlyle contributed its holding in CEP III Investment 16 S.à.r.l. to the RAC Group, in exchange for equity and £244 million preference shares in the Company.

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

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

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Accrued dividends on preference shares	61	3
Accrued interest on loan notes	40	1
	101	4

(ii) Amounts due to related parties

	2015	2014
	£m	£m
Preference shares	589	528
Loan notes	379	340
	968	868

Notes to the Consolidated Financial Statements (continued)

26 Related party transactions (continued)

(b) Key management compensation

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

	Year ended 31 December 2015	Period ended 31 December 2014
	£000	£000
Fees and benefits	4,209	98
Contributions paid into a pension scheme	70	3
	4,279	101

Fees and benefits include key management bonuses. During the year, payments of £125 thousand (2014: £nil) were made to key management for loss of office.

(c) Key management interests

A total of 12 key management personnel held preference shares, shareholder loan notes and equity stakes in the business at 31 December 2015 (2014: 11).

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

(d) Ownership structure

The ownership structure is as follows:

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

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

(e) Immediate and ultimate controlling party

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

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

Notes to the Consolidated Financial Statements (continued)

27 Fair value of financial assets and liabilities

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

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

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

Financial asset/liability	Fair value as at 31 December 2015	Fair value as at 31 December 2014	Fair value hierarchy
	£m	£m	
Cash flow hedge liability (note 19)	(10)	(9)	Level 2
The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.			

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

Group borrowings (note 20)	2,161	2,068	Level 2
The fair value of borrowings is included at the amount the Group would have to pay at the statement of financial position date to settle the borrowings. This therefore includes the principal amount and accrued interest.			

Company Financial Statements

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The accounting policies on pages 41 to 51 also form an integral part of these Financial Statements.

➤ Company Financial Statements (continued)

Company statement of financial position

As at 31 December 2015

	Note	2015 £m	2014 £m
ASSETS			
Non-current assets			
Investments in subsidiaries and associates	4	535	535
		<u>535</u>	<u>535</u>
Current assets			
Other receivables	5	-	1
		<u>-</u>	<u>1</u>
LIABILITIES			
Current liabilities			
Other payables	6	(1)	(2)
Net current liabilities		(1)	(1)
Non-current liabilities			
Borrowings	7	(591)	(527)
		<u>(591)</u>	<u>(527)</u>
Net assets		(57)	7
EQUITY			
Ordinary share capital	8	-	-
Share premium	8	10	10
Retained earnings		(67)	(3)
Total equity		(57)	7

The accounting policies on pages 41 to 51 and the notes on pages 82 to 87 are an integral part of these Financial Statements.

Approved by the Board on 29 February 2016



D Cougill
Chief Finance Officer
Company registration number: 09229561

➤ Company Financial Statements (continued)

Company statement of changes in equity

For the year ended 31 December 2015

	Note	Ordinary share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 22 September 2014		-	-	-	-
Loss for the period		-	-	(3)	(3)
Other comprehensive income/(expense)		-	-	-	-
Total comprehensive expense		-	-	(3)	(3)
Issue of share capital	8	-	10	-	10
Balance at 31 December 2014		-	10	(3)	7
Loss for the year		-	-	(64)	(64)
Other comprehensive income/(expense)		-	-	-	-
Total comprehensive expense		-	-	(64)	(64)
Balance at 31 December 2015		-	10	(67)	(57)

The accounting policies on pages 41 to 51 and the notes on pages 82 to 87 are an integral part of these Financial Statements.

➤ Company Financial Statements (continued)

Company statement of cash flows

For the year ended 31 December 2015

	Note	Year ended 31 December 2015	Period ended 31 December 2014
		£m	£m
Operating activities			
Loss before tax		(64)	(3)
Adjustments to reconcile loss before tax to net cash flows:			
Interest expense on borrowings		64	3
Working capital adjustments:			
Decrease/(increase) in other receivables	5	1	(1)
(Decrease)/increase in other payables	6	(1)	1
Net cash flows from operating activities		-	-
Investing activities			
Investments in subsidiaries	4	-	(248)
Net cash flows used in investing activities		-	(248)
Financing activities			
Issue of shares	8	-	4
Proceeds from preference shares	9(a)	-	244
Net cash flows generated from financing activities		-	248
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents brought forward		-	-
Cash and cash equivalents carried forward		-	-

The accounting policies on pages 41 to 51 and the notes on pages 82 to 87 are an integral part of these Financial Statements.

Notes to the Company Financial Statements

1 Auditor's remuneration

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

2 Employee information

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

3 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group.

Disclosures relating to Directors' remuneration may be found in note 8 of the Consolidated Financial Statements.

Notes to the Company Financial Statements (continued)

4 Investments in subsidiaries

(a) Introduction

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

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Midco Limited	Holding company	Ordinary	100%
Indirectly held:			
RAC Midco II Limited	Holding company	Ordinary	100%
RAC Bidco Limited	Holding company	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Finance Limited	Holding company	Ordinary	100%
RAC Finance Group Limited	Holding company	Ordinary	100%
RAC Finance (Holdings) Limited	Holding company	Ordinary	100%
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. During 2014, the Group owned 100% of the share capital of CEP III Investment 16 S.à.r.l., which operated in and was registered in Luxembourg. CEP III Investment 16 S.à.r.l. became part of the RAC Group on 17 December 2014 as part of the acquisition of the RAC Group of Companies by RAC Bidco Limited, an indirect subsidiary of the Company. In January 2015, CEP III Investment 16 S.à.r.l. was liquidated and its assets were distributed to RAC Bidco Limited.

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

» Notes to the Company Financial Statements (continued)

4 Investments in subsidiaries (continued)

(a) Introduction (continued)

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

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

	2015	2014
	£m	£m
Cost		
At 1 January / 22 September	535	-
Additions	-	535
At 31 December	535	535

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

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

5 Other receivables

	2015	2014
	£m	£m
Amounts due from related parties	-	1
Total	-	1
Expected to be recoverable within one year	-	1

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

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The balance above of £nil (2014: £1 million) is considered to be neither past due nor impaired.

6 Other payables

	2015	2014
	£m	£m
Amounts due to related parties	(1)	(2)
Total	(1)	(2)
Expected to be payable within one year	(1)	(2)

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.

Notes to the Company Financial Statements (continued)

7 Borrowings

	Preference shares
Interest rate	12%
At 31 December 2015	
Book value (£m)	591
Fair value (£m)	592
At 31 December 2014	
Book value (£m)	527
Fair value (£m)	528

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Company's residual assets. Dividends accrue at 12% and unpaid dividends are compounded annually. The preference shares are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1), plus any accrued and unpaid dividends. The conditions attached to the preference shares result in the preference shares being treated as debt, rather than equity for accounting purposes. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value of the debt is £592 million (2014: £528 million).

The Group's contractual maturity of preference shares, including estimated dividends is £1,634 million (2014: £1,634 million). The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 17 December 2024 (consistent with the terms of the shareholder loan notes). The terms require redemption of the shares and related accrued dividends on a sale or listing.

8 Ordinary share capital

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

	2015	2014
	£000	£000
Allotted, called up and fully paid:		
5,501,265 ordinary 'A' shares of £0.01 each	55	55
3,398,735 ordinary 'B' shares of £0.01 each	34	34
1,100,000 ordinary 'C' shares of £0.01 each	11	11
	100	100

On 22 September 2014, the Company was incorporated with 1 'A' ordinary share and 1 'B' ordinary share with a nominal value of £1 each. On 17 December 2014, the 'A' ordinary share was converted into 100 'A' ordinary shares of £0.01 each. Additionally, the 'B' ordinary share was converted into 100 'B' ordinary shares of £0.01 each. On 17 December 2014, the Company issued 5,501,165 'A' ordinary shares, 3,398,635 'B' ordinary shares and 1,100,000 'C' ordinary shares for a total consideration of £10,000 thousand, resulting in a share premium of £9,900 thousand. Of the total number of 'B' and 'C' ordinary shares, 495,715 shares were held by the Employee Benefit Trust at 31 December 2015 (2014: 620,762).

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

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

Additionally, the Company has authorised, issued and fully paid £526 million redeemable cumulative preference shares of £1 each classified as liabilities. These shares do not carry voting rights. Further details are provided in note 7.

» Notes to the Company Financial Statements (continued)

9 Related party transactions

(a) The Company had the following transactions with related parties in 2015 and 2014:

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

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

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

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

	Year ended 31 December 2015	Period ended 31 December 2014
	£m	£m
Accrued dividends on preference shares	61	3
	61	3

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

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

	2015	2014
	£m	£m
Preference shares and accrued dividends due to related parties (note 7)	(591)	(527)
Other Group companies:		
Current account receivables (note 5)	-	1
Current account payables (note 6)	(1)	(2)
	(592)	(528)

(c) Key management compensations

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

(d) Key management interests

A total of 12 key management personnel held shareholder loan notes, preference shares and equity stakes in the business at 31 December 2015 (2014: 11).

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

Notes to the Company Financial Statements (continued)

9 Related party transactions (continued)

(e) Immediate and ultimate controlling entity

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

Until 17 December 2014, the controlling entity of the Company was Sphinx Investment Pte Limited, and the ultimate controlling entity of the Company was GIC. The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Group (Holdings) Limited.

10 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).

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

Financial asset/liability	Fair value as at 31 December 2015	Fair value as at 31 December 2014	Fair value hierarchy
Preference shares (note 7)	592	528	Level 2
The fair value of preference shares is included at the amount the Group would have to pay at the statement of financial position date to settle the preference shares. This therefore includes the principal amount and accrued interest.			



RAC



RAC

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