229121

RAC PLC
FINANCIAL STATEMENTS
2007

RAC plc

Contents **Page**

RAC plc

Directors and officer

Directors:

A D Hewitt
J Hunt
J R Kitson
I M Mayer

Officer:

Company Secretary
R H Spicker

Auditor:

Ernst & Young LLP
Registered Auditor
1 More London Place
London
SE1 2AF

Registered office:

8 Surrey Street
Norwich
NR1 3NG

Registered in England and Wales No 229121

RAC plc ("the Company") is a member of the Aviva plc group of companies ("the Group")

RAC plc

Directors' report

For the year ended 31 December 2007

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2007

Directors

The names of the current directors of the Company appear on page 1

A D Hewitt and J R Kitson served as directors throughout the year

P C Easter resigned as a director on 1 January 2007 and J Hunt was appointed on the same date

S C J Machell resigned as a director on 12 July 2007 and I M Mayer was appointed on the same date

J Seaton was appointed as an alternate director to J Hunt on 13 August 2007 and resigned on 1 September 2007

Principal activity

The principal activities of the Company are those of a corporate head office and a holding company for its subsidiaries, which provide a range of motoring and vehicle services to individual and business customers

Business review

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance and position at the current time, during the financial period and at the end of the financial period In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements The directors consider that the Company's principal activities are those of a head office and a holding company and that the former activity will diminish

Financial key performance indicators

As the principal activity of the Company is that of a corporate head office, the directors consider there are no key performance indicators to report

RAC plc

Directors' report (continued)

Business review (continued)

Financial position and performance

The financial position of the Company at 31 December 2007 is shown in the balance sheet on page 17, with the trading results for the year shown in the income statement on page 15 and the cash flow statement on page 19

Profit before tax of £114 2 million was achieved in 2007 (2006 £377 4 million profit) The factors responsible for this decrease are detailed below

An interim dividend of £814 1 million was received from a subsidiary undertaking, RAC Holdings Limited The dividend has been fully settled via offset against existing loan agreements with RAC Holdings Limited The total dividend income received for the year was £815 7 million (2006 £163 6 million)

Administration expenses have increased from £16 2 million in 2006 to £719 3 million in 2007 In 2007 administration expenses were significantly higher due to impairment of subsidiaries of £708 6 million In 2007, there is also a release of provision of £3 2 million in respect of Manufacturer Support Services ("MSS") disposal as set out in note 12 to the financial statements

Risk management

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 20 to the financial statements

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated, include, but are not limited to

- UK domestic economic business conditions, and
- the impact of competition, inflation and deflation

RAC plc

Directors' report (continued)

Major events

On 25 June 2007, the Company purchased the entire issued share capital of R A C Motoring Services, a fellow Group undertaking, for a consideration of £737 3 million This was settled by the Company entering into a loan agreement with RAC Recovery, a fellow Group undertaking On the same date, £28 5 million owed by RAC Recovery to the Company was offset against this loan

On 26 June 2007, the Company purchased the entire issued share capital of RAC Acquisitions, a fellow Group undertaking, for a consideration of £400 million This was settled by the Company entering into a loan agreement with RAC Holdings Limited On 27 June 2007, RAC Acquisitions repurchased 999,998 Ordinary shares of £1 each for £400 million

On 26 June 2007, the Company also purchased the entire issued share capital of Auto Windscreens Group Limited, a fellow Group undertaking, for a consideration of £113 million This was settled by the Company entering into a loan agreement with RAC Holdings Limited

On 27 June 2007, the Company received an interim dividend of £814 1 million from RAC Holdings Limited This has been fully settled via offset against existing loan agreements with RAC Holdings Limited

Post balance sheet events

On 30 May 2008, the Company issued a letter of support to a subsidiary undertaking, RACAW The letter states that in the event that RACAW is unable to meet its obligations, the Company will ensure those obligations are met as they fall due The letter is valid until the earlier of April 2009 and the date of any change in control of RACAW

In the current period the Group commenced a strategic review of its UK non-core operations As a consequence in June 2008, certain businesses have been classified as held for sale at their carrying value in the Company's balance sheet with disposal expected within the next 12 months

RAC plc

Directors' report (continued)

Financial instruments

The business of the Company includes use of financial instruments Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 20 to the financial statements

Dividends

The directors do not recommend a final dividend (2006 £nil) No interim dividend has been paid (2006 £nil)

Employees

The Company believes that its employees should be well informed about the Company's plans and performance and have the opportunity to discuss their performance regularly with their managers The Company is committed to providing all of its employees with information on a regular basis and encouraging their participation in schemes where they will benefit from the Company's progress and profitability

Directors' interests

The requirement for directors to disclose their share interests in Aviva plc in the directors' report was repealed by the Companies Act 2006 (s 1195 and SI 2007/1093) with effect from 6 April 2007 None of the directors who held office at 31 December 2007 had any interest in the Company's shares

Directors' liabilities

Aviva plc, the ultimate parent undertaking, 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 This indemnity and 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 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

RAC plc

Directors' report (continued)

Auditor and the disclosure of information to the auditor

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

A resolution is to be proposed at the Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company A resolution will also be proposed authorising the directors to determine the auditor's remuneration

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period A fair presentation of the financial statements in accordance with IFRS requires the directors to

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business,

- 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and

- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities

By order of the Board

Richard H Spicker

R H Spicker
Company Secretary

23 JULY 2008

RAC plc

Independent auditor's report

To the members of RAC plc

We have audited the Company's financial statements for the year ended 31 December 2007, which comprise the Accounting Policies, the Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet, the Reconciliation of Movements in Shareholder's Equity, the Cash Flow Statement and the related notes 1 to 23 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditor's report (continued)

To the members of RAC plc

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

25 July 2008

RAC plc

Accounting policies

The Company is a public limited liability company incorporated and domiciled in Great Britain The principal activities of the Company are those of a corporate head office and a holding company for its subsidiaries, which provide a range of motoring and vehicle services to individual and business customers

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

(A) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2007

The IASB issued IAS 1, Presentation of Financial Statements A Revised Presentation, and an amendment to IAS 23, Borrowing Costs, during 2007, neither of which has yet been endorsed by the EU These are not applicable for the current accounting period and, on adoption, they will not have any material impact on the Company's financial reporting

IFRIC interpretation 11, IFRS 2 – Group and Treasury Share Transactions, and interpretation 12, Service Concession Agreements, were issued during 2006 but neither of them is applicable for the current accounting period In addition, IFRIC interpretation 13, Customer Loyalty Programmes and IFRIC interpretation 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, have been issued during 2007 They have not yet been endorsed by the EU but neither of them is applicable for the current accounting period On adoption, none of these interpretations will have any material impact on the Company's financial reporting

The financial statements are stated in British pounds, which is the Company's functional and presentation currency Unless otherwise noted, the amounts shown in these financial statements are in millions of British pounds ("£m")

The Company is exempt from preparing group accounts by virtue of Section 228 of the Companies Act 1985, as it is a subsidiary of an EU parent (note 22(vii)) The financial statements present information about the Company as an individual undertaking and not about its group

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly

Accounting policies (continued)

(C) Revenue Recognition

(a) Interest income
Interest income is recognised on a time proportion basis using the effective interest method

(b) Dividend income
Dividend income is recognised when the right to receive payment is established

(D) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date Exchange differences arising on the settlement of such transactions or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the income statement

(E) Subsidiaries

Subsidiaries are those entities (including Special Purpose Entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits

In the balance sheet, subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by the Aviva plc's market capitalisation These investments are classified as available for sale ("AFS") financial assets, with changes in their fair value being recorded in a separate investment revaluation reserve within equity Where the cumulative changes recognised in equity represent an unrealised loss, the investments are reviewed to test whether an impairment exists Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the subsidiary or a prolonged or significant decline in their fair value below cost, the unrealised loss recorded in equity is reclassified and charged to the income statement

(F) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings All other items classed as property and equipment within the balance sheet are carried at historical cost less accumulated depreciation

RAC plc

Accounting policies (continued)

(F) Property and equipment (continued)

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

Vehicles	4 years
Fixtures and fittings	10 years
Computer equipment	4 years

(G) Impairment of non-financial assets

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price 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

(H) Trade receivables

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

(I) Assets held for sale

Assets held for sale are recorded at the lower of their carrying amount and their fair value less estimated cost to sell

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet

Accounting policies (continued)

(K) Financial guarantee contracts

Financial guarantees are recognised initially at their fair value They are subsequently measured at the higher of the expected receivable or liability under the guarantee and the amount initially recognised less any accumulated amortisation

(L) 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

(M) Borrowings

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

(N) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pension and other post-retirement benefits and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax

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

Deferred tax is not provided on revaluations of investments in subsidiaries as under current tax legislation no tax will arise on their disposal

Accounting policies (continued)

(O) Employee benefits

(i) Pension obligations

The Company operates a defined benefit pension plan, the assets of which are held in separate trustee-administered funds The pension plan is funded by payments from employees and its subsidiaries and by the Company taking account of the recommendations of qualified actuaries

For the defined benefit plan, 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, in accordance with the advice of qualified actuaries The pension obligation is measured as the value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds The resulting pension scheme surplus or deficit appears as an asset or obligation in the balance sheet, with the result that all actuarial gains and losses are recognised immediately in equity through the Statement of Recognised Income and Expense

(ii) Other post-retirement obligations

The Company provides medical benefits on a discretionary basis for certain pensioners and their dependants in the United Kingdom ("UK")

(P) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, 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 Company expects a provision to be reimbursed, for example for environmental restoration, restructuring costs and legal claims, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract

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

RAC plc

Accounting policies (continued)

(Q) 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, a financial instrument is treated as equity if

(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

RAC plc

Income statement

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Operatıng ıncome			
Interest ıncome		8 7	7 2
Dıvıdend ıncome	22(ı)	815 7	163 6
Other ıncome		11 2	8 7
Operatıng expenses			
Admınıstratıon expenses		(719 3)	(16 2)
Fınance costs		(2 1)	(8 9)
Operatıng profit before exceptıonal ıtems		114 2	154 4
Exceptıonal ıtems	1	-	223 0
Profit before tax	1	114 2	377 4
Tax charge	5	(4 6)	(3 6)
Profit for the year		109 6	373 8

The accountıng polıcıes on pages 9 to 14 and notes on pages 20 to 54 are an ıntegral part of these financıal statements

Statement of recognised income and expense

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Actuarıal gaıns on pensıon schemes	17	50 0	11 7
Actuarıal gaıns/(losses) on post retırement medıcal benefits scheme	17	0 7	(0 2)
Aggregate tax effect of actuarıal gaıns	5	(23 4)	(3 5)
Revaluatıon of owner-occupıed property		-	0 1
Realısed gaıns on dısposal of owner-occupıed propertıes		(0 5)	-
Realısed losses on dısposal of subsıdıarıes and joınt ventures	9	-	(140 8)
Faır value (losses)/gaıns on revaluatıon of subsıdıarıes and joınt ventures	6	(328 6)	221 3
Net (expense)/ıncome recognısed dırectly ın equıty		(301 8)	88 6
Profit for the year		109 6	373 8
Total recognısed expense and ıncome for the year		(192 2)	462 4

The accountıng polıcıes on pages 9 to 14 and notes on pages 20 to 54 are an ıntegral part of these financıal statements

RAC plc

Balance sheet

As at 31 December 2007

	Note	2007	2006
		£m	£m
ASSETS			
Non-current assets			
Investments in subsidiaries	6	709 3	869 9
Property and equipment	7	0 6	1 0
Tax assets	10	5 4	12 2
Deferred tax assets	10	11 3	50 8
Trade and other receivables	8	104 8	195 8
		831 4	1,129 7
Current assets			
Trade and other receivables	8	229 5	181 5
Assets held for sale	9	-	0 8
Cash and cash equivalents	19(b)	0 6	1 9
		230 1	184 2
LIABILITIES			
Current liabilities			
Financial liabilities	18	(11 8)	(12 7)
Trade and other payables	11	(336 6)	(304 3)
Provisions	12	(0 3)	(6 2)
		(348 7)	(323 2)
Net current liabilities		(118 6)	(139 0)
Non-current liabilities			
Retirement benefit obligations	17	(27 2)	(87 8)
Provisions	12	(0 2)	(3 1)
Trade and other payables	11	-	(22 2)
Net assets		685 4	877 6
EQUITY			
Ordinary share capital	13	30 6	30 6
Share premium	13	153 1	153 1
Other reserves	14	42 6	371 7
Retained earnings		459 1	322 2
Total equity		685 4	877 6

The accounting policies on pages 9 to 14 and notes on pages 20 to 54 are an integral part of these financial statements

Approved by the Board on 23 JULY 2008

Director

RAC plc

Reconciliation of movements in shareholder's equity

For year ended 31 December 2007

	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2006	30 6	153 1	291 1	(59 6)	415 2
Total recognised income and expense for the year	-	-	80 6	381 8	462 4
Total movements in the year	-	-	80 6	381 8	462 4
Balance at 31 December 2006	**30 6**	**153 1**	**371.7**	**322.2**	**877.6**
Total recognised income and expense for the year	-	-	(329 1)	136 9	(192 2)
Total movements in the year	-	-	(329 1)	136 9	(192 2)
Balance at 31 December 2007	**30 6**	**153.1**	**42.6**	**459.1**	**685.4**

The accounting policies on pages 9 to 14 and notes on pages 20 to 54 are an integral part of these financial statements

RAC plc

Cash flow statement

For year ended 31 December 2007

	Note	Total 2007 £m	Total 2006 £m
Cash flows from operating activities			
Net cash outflow from operating activities	19(a)	(9 2)	(23 9)
Tax received		-	24 2
Net cash (used in) / from operating activities		(9 2)	0 3
Cash flows from investing activities			
Acquisition of subsidiaries and joint ventures, net of cash acquired		-	(3 5)
Proceeds from sale of property		1 3	4 0
Interest received		0 3	7 5
Dividends received / (paid)		0 1	(1 7)
Net cash from investing activities		1 7	6 3
Cash flows from financing activities			
Proceeds from sale of subsidiaries and joint ventures		-	364 9
Net repayment of borrowings external		(0 9)	(1 4)
Net repayment of borrowings from related party		-	(376 9)
Interest paid		(0 2)	(0 6)
Net cash used in financing activities		(1 1)	(14 0)
Net decrease in cash and cash equivalents		(8 6)	(7 4)
Cash and cash equivalents at 1 January		1 2	8 6
Cash and cash equivalents at 31 December	19(b)	(7 4)	1 2

The accounting policies on pages 9 to 14 and notes on pages 20 to 54 are an integral part of these financial statements

RAC plc

Notes to the financial statements

1 Profit before tax

The following income/(charges) have been included in arriving at profit before tax

	2007 £m	2006 £m
Other operating income		
Rental income	-	2 1
Administration expenses		
Other operating lease rentals payable		
Other	(0 2)	(0 3)
Property	-	(3 1)
Integration costs	-	0 5
Restructuring costs	(0 2)	(0 8)
Impairment of subsidiaries	(708 6)	(8 0)
Exceptional items		
Profit on sale of subsidiaries	-	223 0

RAC plc

Notes to the financial statements (continued)

2 Employee information

The average number of persons employed by the Company dunng the year was

	2007 Number	2006 Number
Admınıstratıon	17	82

Total staff costs were

	£m	£m
Wages and salarıes	0 3	3 6
Socıal securıty costs	-	0 6
Termınatıon benefits	-	1 8
Post-retırement oblıgatıons	2 4	0 3
	2 7	6 3

These costs were charged wıthın

	2007 £m	2006 £m
Admınıstratıon expenses	2 7	6 3

3 Directors

All dırectors of the Company are remunerated as employees by Avıva Employment Servıces Lımıted, a fellow Group undertakıng Thıs remuneratıon ıs recharged to all operatıng dıvısıons of the Avıva Group under management servıce agreements However, no cost ıs borne by the Company for the servıces of the dırectors ın theır capacıty as dırectors

Notes to the financial statements (continued)

4 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below The Company is exempt from disclosing other fees payable, to its auditor, in respect of other work, by virtue of regulation 4(1)(b) of The Companies (Disclosure of Auditor Remuneration) Regulations 2005, as it is disclosed within the consolidated annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (see note 22 (vii))

Auditor's remuneration is borne by Norwich Union Central Services Limited, a fellow Group undertaking

	2007	2006
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	47	25

5 Tax

(a) Tax charged/(credited) to the income statement

(i) The total tax charge/(credit) comprises	2007	2006
	£m	£m
Current tax:		
For this year	(8 7)	(20 1)
Prior year adjustments	(2 8)	(20 6)
Total current tax	(11 5)	(40 7)
Deferred tax:		
Origination and reversal of timing differences	15 3	44 2
Prior year adjustment	-	0 1
Changes in tax rates or tax laws	0 8	-
Total deferred tax	16 1	44 3
Total tax charged to income statement	4 6	3 6

(ii) Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense by £nil (2006 £1 3 million)

Notes to the financial statements (continued)

5 Tax (continued)

(b) Tax charged to equity

The total tax charge comprises	2007	2006
	£m	£m
Current tax	-	-
Deferred tax		
In respect of pensions and other post retirement obligations	23 4	3 5
Total tax charged to equity	23 4	3 5

£23 4 million (2006 £3 5 million) of the above has been included in the statement of recognised income and has been charged directly to retained earnings

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom as follows

	2007	2006
	£m	£m
Net profit before tax	114 2	377 4
Tax calculated at standard UK corporation tax rate of 30% (2006 30%)	34 3	113 2
Adjustment to tax charge in respect of prior years	(2 8)	(20 5)
Non-assessable dividends	(244 7)	(46 6)
Non-taxable profit on sale of subsidiaries	-	(42 7)
Disallowable expenses	0 7	0 1
Movement in disallowed deferred tax asset	-	(1 4)
Impairment of investment in subsidiaries	212 6	2 4
Other	4 5	(0 9)
Tax charged for the period (note 5(a))	4 6	3 6

Notes to the financial statements (continued)

6 Investments in subsidiaries

(a) Particulars of material subsidiaries are given below The undertakings have share capital comprising shares of one class only and are incorporated in Great Britain

Company	Type of business	Class of share	Proportion held
The following companies are direct subsidiaries of RAC plc			
R A C Motoring Services	RAC Consumer Services, RAC Business Solutions	Ordinary	100%
RAC Insurance Limited	RAC Consumer Services	Ordinary	100%
RAC Financial Services	Supplying ancillary financial services	Ordinary	100%
The following companies are indirect subsidiaries of RAC plc			
RAC Auto Windscreens Limited	RAC Consumer Services	Ordinary	100%
The British School of Motoring Limited	Driving Tuition	Ordinary	100%

(b) Movements in the Company's investments in its subsidiaries were as follows

	2007	2006
Fair value	**£m**	**£m**
At 1 January	869 9	639 0
Additions	1,283 2	3 8
Capital injections	-	14 0
Disposals	(1 8)	(0 2)
Impairment of investment recognised in income statement	(708 6)	(8 0)
Revaluations	(328 6)	221 3
Share buy back	(404 8)	-
At 31 December	709 3	869 9

RAC plc

Notes to the financial statements (continued)

6 Investments in subsidiaries (continued)

Additions

On 25 June 2007, the Company purchased the entire issued share capital of R A C Motoring Services, a fellow Group undertaking, for consideration of £737 3 million

On 26 June 2007, the Company purchased the entire issued share capital of RAC Acquisitions, a fellow Group undertaking, for consideration of £400 0 million

On 26 June 2007, the Company also purchased the entire issued share capital of Auto Windscreens Group Limited, a fellow Group undertaking, for consideration of £113 0 million

Share buy back

On 27 June 2007, RAC Acquisitions repurchased 999,998 Ordinary shares of £1 each for £400 million

7 Property and equipment

	Freehold	Long leasehold	Computer equipment	Other assets	Total
	£m	£m	£m	£m	£m
2007					
Cost or valuation					
At 1 January 2007	0 4	0 5	0 6	0 2	1 7
Disposals	(0 4)	-	-	-	(0 4)
At 31 December 2007	-	0 5	0 6	0 2	1 3
Depreciation					
At 1 January 2007	-	-	(0 6)	(0 1)	(0 7)
At 31 December 2007	-	-	(0 6)	(0 1)	(0 7)
Carrying amount					
At 31 December 2007	-	0 5	-	0 1	0 6

Notes to the financial statements (continued)

7 Property and equipment (continued)

	Freehold	Long leasehold	Computer equipment	Other assets	Total
	£m	£m	£m	£m	£m
2006					
Cost or valuation					
At 1 January 2006	5 1	0 5	0 6	1 0	7 2
Disposals	(3 9)	-	-	(0 8)	(4 7)
Amounts classified as held for sale	(0 8)	-	-	-	(0 8)
At 31 December 2006	0 4	0 5	0 6	0 2	1 7
Depreciation					
At 1 January 2006	-	-	(0 6)	(0 5)	(1 1)
Charge for the year	-	-	-	-	-
Disposals	-	-	-	0 4	0 4
At 31 December 2006	-	-	(0 6)	(0 1)	(0 7)
Carrying amount					
At 31 December 2006	0 4	0 5	-	0 1	1 0

Owner-occupied properties are stated at their fair values as assessed by DTZ Debenham Tie Leung Limited, qualified external independent valuers Values are calculated on Existing Use Value as at 31 December 2005

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be as follows

	2007	2006
	£m	£m
Cost	0 3	0 3
Accumulated depreciation	-	(0 1)
Carrying amount	0 3	0 2

Notes to the financial statements (continued)

8 Trade and other receivables

	2007	2006
	£m	£m
Prepayments	1 3	2 7
Receivables from related parties (note 22(i))	327 6	370 2
Other debtors	5 4	4 4
	334 3	377 3
Expected to be settled within one year	229 5	181 5
Expected to be settled in more than one year	104 8	195 8
	334 3	377 3

9 Assets held for sale

The assets and liabilities of operations classified as held for sale as at 31 December were as follows

	Note	2007	2006
		£m	£m
Freehold properties		-	0 8
Total assets		-	0 8

9 Assets held for sale (continued)

Sale of non-core businesses

During 2006, the Company completed the disposal of the Manufacturer Support Services (MSS) and Lex Vehicle Leasing (LVL) divisions The decision to sell was part of the strategy to integrate the RAC Group with the Aviva Group and to exit non-core operations

	2007 £m	2006 £m
Proceeds from sale	-	360 1
Carrying value of assets disposed	-	(320 6)
Realised gains on disposal of subsidiaries and joint ventures (note 14)	-	140 8
Proceeds in respect of exit from pension scheme	-	22 7
Transaction costs	-	(16 0)
Profit before tax and pension curtailment gain	-	187 0
Pension curtailment gain	-	36 0
Profit on disposal before tax	-	223 0

For 2006, the fair value of assets disposed, which totalled £320 6 million, comprised investments in joint ventures of £225 3 million, subsidiaries £81 4 million and investment properties £13 9 million The pension curtailment gain arose from the remeasurement of pension liabilities in the Company's defined benefit pension scheme, following the MSS and LVL disposals

Notes to the financial statements (continued)

10 Tax assets and liabilities

(a) General

Assets for current year tax of £5 4 million (2006 £13 0 million) are recoverable in more than one year

(b) Deferred taxes

(i) The balance at the period end comprises	2007	2006
	£m	£m
Pensions and other post-retirement obligations	11 2	50 3
Accelerated capital allowances	0 1	0 5
Net deferred tax asset	11 3	50 8

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

Net asset at 1 January	50 8	98 6
Amounts charged to profit (note 5(a))	(16 1)	(44 3)
Amount charged to equity (note 5(b))	(23 4)	(3 5)
Net asset at 31 December	11 3	50 8

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable The company has unrecognised temporary differences and capital losses of £129 6 million (2006 £80 6 million) to carry forward indefinitely against future taxable income

11 Trade and other payables

	2007	2006
	£m	£m
Amounts due to related parties (note 22)	320 0	316 1
Bank overdrafts (note 19)	8 0	0 7
Accruals	2 4	1 0
Other creditors	6 2	8 7
	336 6	326 5
Expected to be settled within one year	336 6	304 3
Expected to be settled in more than one year	-	22 2
	336 6	326 5

RAC plc

Notes to the financial statements (continued)

12 Provisions

	2007	2006
	£m	£m
Vacant leasehold	-	5 6
Restructuring	0 3	0 5
MSS disposal	-	3 2
Warranty	0 2	-
Total	0 5	9 3
Expected to be settled		
Within one year	0 3	6 2
After more than one year	0 2	3 1
	0 5	9 3

	Disposals	Restructuring	Warranty	Vacant leasehold	Total
	£m	£m	£m	£m	£m
At 1 January 2007	3 2	0 5	-	5 6	9 3
Additional provisions	-	-	0 2	-	0 2
Release of provision	(3 2)	(0 2)	-	-	(3 4)
Utilised during the year	-	-	-	(5 6)	(5 6)
At 31 December 2007	-	0 3	0 2	-	0 5

The provision for restructuring of £0 3 million relates to the reduction of duplication and improvement of efficiency It is expected that the remaining provision of £0 3 million will be used during 2008

Notes to the financial statements (continued)

13 Ordinary share capital

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

	2007 £m	2006 £m
Authorised		
164,940,000 (2006 164,940,000) ordinary shares of 25 pence each	41 2	41 2
Allotted, called up and fully paid		
122,590,168 (2006 122,590,168) ordinary shares of 25 pence each	30 6	30 6

	Number of shares	Share capital £m	Share premium £m
At 31 December 2006 and 2007	122,590,168	30 6	153 1

Notes to the financial statements (continued)

14 Other reserves

	Capital redemption reserve	Other reserves	Investment revaluation reserve	Owner-occupied property reserve	Total
	£m	£m	£m	£m	£m
Balance at 1 January 2006	**1.0**	**19.8**	**269.7**	**0 6**	**291.1**
Revaluation of subsidiaries	-	-	221 3	-	221 3
Released gains on disposal of subsidiaries and joint ventures	-	-	(140 8)	-	(140 8)
Revaluation of owner-occupied properties	-	-	-	0 1	0 1
Total movements in the year	-	-	80 5	0 1	80 6
Balance at 31 December 2006	**1.0**	**19.8**	**350 2**	**0.7**	**371.7**
Revaluation of subsidiaries	-	-	(328 6)	-	**(328 6)**
Realised gains on disposal of owner-occupied properties	-	-	-	(0 5)	**(0 5)**
Total movements in the year	-	-	(328 6)	(0 5)	(329 1)
Balance at 31 December 2007	**1.0**	**19.8**	**21 6**	**0.2**	**42 6**

The "other reserves" arose in 2002 on the assignment of certain trademarks to RAC Brand Management, a subsidiary undertaking, at market value The directors do not consider these to be distributable

The owner-occupied property reserve arose in 2004 when the properties were revalued to fair value

Notes to the financial statements (continued)

15 Contingent liabilities and other risk factors

The Company and certain of its subsidiary undertakings have given cross guarantees in respect of joint bank accounts The Company has also given other guarantees in respect of certain bank overdrafts and loans to subsidiary undertakings There is no liability at 31 December 2007

16 Commitments

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

	2007 £m	2006 £m
Within 1 year	2 3	3 6
Later than 1 year and not later than 5 years	6 6	8 0
Later than 5 years	5 3	13 2
	14 2	24 8

17 Retirement benefit obligations

Pension deficits	2007 £m	2006 £m
RAC (2003) Pension Scheme	(21 9)	(81 8)
Post-retirement medical benefits scheme	(5 3)	(6 0)
	(27 2)	(87 8)

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme

(a) Introduction

In the UK, RAC plc operates one fully funded main pension scheme for its subsidiaries, the RAC (2003) Pension Scheme ("the Scheme"), whose members receive benefits on a defined benefit basis (generally related to final salary) The assets of the Scheme are held in a separate trustee-administered fund The Company's employees are members of this pension scheme

An actuarial report has been submitted for the Scheme as at an effective date of 5 April 2007 For funding purposes, the Scheme was valued on a market value basis using the Projected Unit Credit Method

Pension costs for the RAC (2003) Pension Scheme are initially borne by the Company and are then recharged to the operating divisions of the RAC Group as part of an overall charge for payroll-related items The recharge is calculated dependent on the employees working in each division

Currently the employer contributes at a rate of 16 8% of Contribution Salaries for members of the RAC final salary section and 18 6% of Contribution Salaries for other final salary members (These rates include allowance for life insurance premiums paid from the Scheme and administrative expenses)

In the absence of any contractual arrangements to allocate the net defined benefit cost for the Scheme, measured in accordance with IAS 19, to individual businesses, it is the policy to allocate this cost fully to RAC plc As required by paragraph 34B of the amendment to IAS 19 issued in December 2004, disclosures for the Scheme are provided below and in the following pages

(b) Charges / (credits) to the income statement

	2007	2006
	£m	£m
Total pension cost (note 17(c)(iii))	14 5	19 2
Less amounts recharged to RAC divisions	(12 4)	(19 1)
Administration expenses charge in the Company	2 1	0 1

(c) IAS 19 disclosures

(i) Assumptions on Scheme liabilities

The inherent uncertainties affecting the measurement of Scheme liabilities 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 Scheme using the projected unit credit method This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings It is based on a number of actuarial assumptions, which vary according to economic conditions, and changes in these assumptions can materially affect the measurement of the pension obligations

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(i) Assumptions on Scheme liabilities (continued)

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 Scheme at 31 December 2007 This updating was made by the Scheme actuary Scheme assets are stated at their fair values as at 31 December 2007

The details for the defined benefit section of the Scheme are shown below Although this Scheme provides both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions

The main financial assumptions used to calculate the Scheme's liabilities under IAS 19 are

	2007 %	2006 %
Inflation rate	3 4	3 1
General salary increases	5 2	4 9
Pension increases	3 4	3 1
Deferred pension increases	3 4	3 1
Discount rate	5 8	5 1

The discount rate and inflation rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate The discount rate is based on current average yields of high quality debt instruments (AA-rated corporate bonds), taking account of the maturities of the defined benefit obligations A 1% increase in this rate (and therefore the net discount rate) would reduce the liabilities by £180 3 million

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the Scheme, particularly given the maturity of these obligations in this Scheme The mortality tables and average life expectancy used at 31 December 2007 for Scheme members are as follows

Mortality table	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
PA92U08MC with a one year age rating deduction and an allowance for future improvements	60	87 8 (27 8)	88 9 (28 9)	90 7 (30 7)	91 7 (31 7)

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(i) Assumptions on Scheme liabilities (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 improvement, 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 Scheme's liabilities by £21 0 million

The Scheme liabilities have an average duration of 22 years

(ii) Assumptions on Scheme assets

The expected rates of return on the Scheme's assets are

	2008	2007
	%	%
Equities	7 6	8 0
Bonds	5 3	4 8
Other	6 5	5 3

The overall rates of return are based on the expected returns within each asset category and on current asset allocations The expected returns are developed in conjunction with external advisors and take into account both current market expectations of future returns, where available, and historical returns The figures for the total expected return on Scheme assets in the following section are stated after deducting investment expenses

(iii) Pension expense

The pension expense / (credit) for this Scheme comprises

	2007	2006
	£m	£m
Current service cost	14 5	19 2
Gain on curtailment	-	(36 0)
Total pension cost	14 5	(16 8)
Expected return on Scheme assets	(62 2)	(53 1)
Interest charge on Scheme liabilities	50 7	46 2
Credit to other income	(11 5)	(6 9)
Total charge/(credit) to the income statement, prior to recharge	3 0	(23 7)

RAC plc

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(iii) Pension expense (continued)

	2007 £m	2006 £m
Expected return on Scheme assets	62 2	53 1
Actual return on these assets	(34 3)	(80 2)
Actuarial losses / (gains) on Scheme assets	27 9	(27 1)
Experience losses arising on Scheme liabilities	12 7	-
Change in assumptions (decreasing) / increasing the present value of Scheme liabilities	(90 6)	15 4
Actuarial gains recognised in the statement of recognised income and expense	(50 0)	(11 7)

The cumulative amount of actuarial losses recognised in the statement of recognised income and expense since 1 January 2004 (the date of transition to IFRS) was £136 million at 31 December 2007 (2006 £186 million)

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(iv) Experience gains and losses

The following disclosures of experience gains and losses will be built up over time to give a five year history

	2007		2006		2005		2004	
	£m	%	£m	%	£m	%	£m	%
Fair value of Scheme assets at the end of the year	936 7		919 2		773 1		506 8	
Present value of Scheme liabilities at the end of the year	(958 6)		(1,001 0)		(983 7)		(722 7)	
Deficit in the Scheme	(21 9)		(81 8)		(210 6)		(215 9)	
Difference between the expected and actual return on Scheme assets								
Amount of losses/(gains)	27 9		(27 1)		(63 5)		(16 0)	
Percentage of the Scheme assets at the end of the year		3 0		(2 9)		(8 2)		(3 2)
Experience losses/(gains) on Scheme liabilities (excluding changes in assumptions)								
Amount of losses/(gains)	12 7		-		(2 7)		55 7	
Percentage of the present value of Scheme liabilities		1 3		-		-		(7 7)

Estimated employer contributions in the financial year ending 31 December 2008 are £12 9 million

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(v) Scheme deficit

The assets and liabilities of the Scheme, attributable to defined benefit members, at 31 December 2007 were

	2007	2006
	£m	£m
Equities	637 5	568 8
Bonds	296 6	289 5
Other	2 6	60 9
Total fair value of assets	936 7	919 2
Present value of Scheme liabilities	(958 6)	(1,001 0)
Deficit in the Scheme	(21 9)	(81 8)

(vi) Movements in the Scheme's deficit

Movements in the Scheme's deficit comprise

	Scheme assets 2007	Scheme liabilities 2007	Net pension deficit 2007
	£m	£m	£m
Balance at 1 January	919 2	(1,001 0)	(81 8)
Employer contributions	12 9	-	12 9
Employee contributions	3 9	(3 9)	-
Benefits paid	(33 6)	33 6	-
Charge to net operating expenses	-	(14 5)	(14 5)
Credit/(charge) to investment income	62 2	(50 7)	11 5
Actuarial (losses)/gains	(27 9)	77 9	50 0
Balance at 31 December	936 7	(958 6)	(21 9)

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(vı) Movements ın the Scheme's deficıt (contınued)

Movements ın the Scheme's deficıt comprıse

	Scheme assets 2006 £m	Scheme lıabılıtıes 2006 £m	Net pensıon deficıt 2006 £m
Balance at 1 January	773 1	(983 7)	(210 6)
Employer contrıbutıons	93 4	-	93 4
Employee contrıbutıons	5 8	(5 8)	-
Benefits paıd	(33 3)	33 3	-
Gaın on curtaılment	-	36 0	36 0
Charge to net operatıng expenses	-	(19 2)	(19 2)
Credıt/ (charge) to ınvestment ıncome	53 1	(46 2)	6 9
Actuarıal gaıns/(losses)	27 1	(15 4)	11 7
Balance at 31 December	919 2	(1,001 0)	(81 8)

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(B) Post-retirement medical benefits scheme

(a) Introduction

The Company 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 2007 was 175 (2006 175)

An actuarial report has been submitted for the scheme as at an effective date of 31 December 2004 For funding purposes, the scheme was valued on a market value basis using the Projected Unit Credit Method

Currently, the employer contributes a flat rate per person to the scheme dependent on their individual circumstances

In the absence of any contractual arrangements to allocate the net defined benefit cost for the scheme, measured in accordance with IAS 19, to individual businesses, it is the policy to allocate this cost fully to RAC plc As required by paragraph 34B of the amendment to IAS 19 issued in December 2004, disclosures for the scheme are provided below and in the following pages

(b) Charges to the income statement

	2007	2006
	£m	£m
Administration expenses	0 3	0 3

(c) IAS 19 disclosures

(i) Assumptions on scheme liabilities

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 scheme at 31 December 2007 This updating was made by the scheme actuary Scheme assets are stated at their fair values at 31 December 2007

The details for the post-retirement medical benefits scheme are shown below

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(i) Assumptions on scheme liabilities (continued)

	2007	2006
	%	%
Inflation rate	3 4%	3 1%
Medical cost trend	6 4% for one year falling over three years to 5 2%	6 9% for one year falling over four years to 4 9%
Discount rate	5 8%	5 1%

The inflation rate is the assumption that has the largest impact on the value of the liabilities A 1% increase in this rate would reduce the liabilities by £0 7 million

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the scheme, particularly given the maturity of these obligations in this scheme The mortality tables and average life expectancy used at 31 December 2007 for scheme members are as follows

Mortality	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
PA92U08MC with a one year age rating deduction and an allowance for future improvements	60	87 8 (27 8)	88 9 (28 9)	90 7 (30 7)	91 7 (31 7)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption The assumptions above include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table The effect on the scheme of assuming all members were one year younger would increase the scheme's liabilities by £0 2 million

The scheme liabilities have an average duration of 22 years

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(ii) Pension expense

	2007 £m	2006 £m
Interest charge on scheme liabilities	0 3	0 3
Charge to other income	0 3	0 3
Total charge to the income statement	0 3	0 3

	2007 £m	2006 £m
Change in assumptions underlying the present value of scheme liabilities	(0 7)	0 2
(Gains) / losses recognised in the statement of recognised income and expense	(0 7)	0 2

The cumulative amount of actuarial losses recognised in the statement of recognised income and expense since 1 January 2004 (the date of transition to IFRS) was £0 6 million at 31 December 2007 (2006 £1 3 million)

(iii) Experience gains and losses

The following disclosures of experience gains and losses will be built up over time to give a five year history

	2007 £m	2006 £m	2005 £m	2004 £m
Present value of scheme liabilities at the end of the year	(5 3)	(6 0)	(5 8)	(4 6)
Deficit in the scheme	(5 3)	(6 0)	(5 8)	(4·6)

(iv) Scheme deficit

Movement in the scheme's deficit comprise

	Scheme liabilities 2007 £m	Net post-retirement medical benefit deficit 2007 £m
Balance at 1 January	(6 0)	(6 0)
Employer contributions	0 3	0 3
Charge to investment income	(0 3)	(0 3)
Actuarial gains	0 7	0 7
Balance at 31 December	(5 3)	(5 3)

Notes to the financial statements (continued)

17 Retirement benefit obligations (continued)

(ıv) Scheme deficıt (contınued)

Movement ın the scheme's deficıt comprıse

	Scheme lıabılıtıes 2006 £m	Net post-retırement medıcal benefit deficıt 2006 £m
Balance at 1 January	(5 8)	(5 8)
Employer contrıbutıons	0 3	0 3
Charge to ınvestment ıncome	(0 3)	(0 3)
Actuarıal losses	(0 2)	(0 2)
Balance at 31 December	(6 0)	(6 0)

RAC plc

Notes to the financial statements (continued)

18 Financial liabilities

(a) Carrying amounts
The following table provides information about the maturity periods of the Company's borrowings

Borrowings are considered current if the contractual repricing or maturity dates are within a year

	Denominated currency	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
		Contractual repricing or maturity dates						
		£m	£m	£m	£m	£m	£m	£m
2007 Amounts owed to credit institutions								
Unsecured loan notes	Sterling	1 9	-	-	-	-	-	1 9
Secured loan notes	Sterling	9 9	-	-	-	-	-	9 9
		11 8	-	-	-	-	-	11 8
2006 Amounts owed to credit institutions								
Unsecured loan notes	Sterling	2 0	-	-	-	-	-	2 0
Secured loan notes	Sterling	10 7	-	-	-	-	-	10 7
		12 7	-	-	-	-	-	12 7

Unsecured loan notes have a maturity date of July 2010 The notes may be redeemed in May and November each year until their maturity

Secured loan notes may be redeemed on the same terms as unsecured loan notes Redemption of any of the secured loan notes will increase the Company's available facilities by an equal amount

(b) Movements during the year
Movements in borrowings during the year were

	2007	2006
	£m	£m
Repayment of borrowings	(0 9)	(1 4)
Net cash outflow	(0 9)	(1 4)
Balance at 1 January	12 7	14 1
Balance at 31 December	11 8	12 7

Notes to the financial statements (continued)

19 Cash flow statement

	2007 £m	2006 £m
(a) The reconciliation of profit before tax to the net cash outflow from operating activities is:		
Profit before tax	114 2	377 4
Adjustments for		
Profit on sale of subsidiaries	-	(223 0)
Impairment/(reversal of impairment) in subsidiary undertakings	708 6	8 0
(Profit)/loss on sale of property and equipment	(0 6)	0 3
Retirement benefit expenses	3 3	12 6
Finance costs	2 1	8 9
Interest receivable	(8 7)	(13 8)
Dividends receivable	(815 7)	(155 4)
Changes in working capital		
(Increase)/ decrease in trade and other receivables	115 4	(18 7)
Increase/ (decrease) in provisions	(8 8)	1 4
Increase/ (decrease) in trade and other payables	(105 8)	72 1
Contributions to the retirement benefit schemes	(13 2)	(93 7)
Net cash outflow from operating activities before exceptional items	(9 2)	(23 9)

	2007 £m	2006 £m
(b) Cash and cash equivalents in the cash flow statement at 31 December comprised:		
Cash at bank and in hand	0 6	1 9
Bank overdrafts	(8 0)	(0 7)
	(7 4)	1 2

	2007 £000	2006 £000
(c) Cash flows in respect of the disposal of subsidiaries		
Cash proceeds from disposal of subsidiaries and joint ventures	-	364 9
Cash flows on disposal	-	364 9

Notes to the financial statements (continued)

20 Risk management policies

The Company has established a risk management framework with the primary objective of protecting the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities This framework is operated by a group of companies, "the NUI Group" (including the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited), within the Aviva plc group ("the Group"), that are engaged in writing general insurance business and in various non-insurance activities in the UK Risk is categorised as follows

- market
- credit
- liquidity
- operational

The NUI Group recognises the critical importance of having efficient and effective risk management systems in place To this end, the NUI Group has an established governance framework, which has three key elements

- defined terms of reference for the legal entity Boards and the associated executive management and other committees within the NUI 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 Group policy framework that sets out risk appetite, risk management, control and business conduct standards for the Group's worldwide operations Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the NUI Group

The NUI Group monitors risk on an ongoing basis and prepares quarterly reports identifying all material risks, along with information on likelihood, severity and mitigating actions taken or planned The NUI Group has also developed a framework, using Individual Capital Assessment ("ICA") principles, for quantifying the impact of risks on economic capital The ICA combines the results of financial and operating stress tests

RAC plc

Notes to the financial statements (continued)

20 Risk management policies (continued)

(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 from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates Market risk arises due to fluctuations in both the value of liabilities and the value of investments held

There is no material risk arising from fluctuations in foreign currency exchange rates

Investments in subsidiary undertakings of £709 3 million (2006 £869 9 million) are included at fair value using a valuation model established by an independent third party

(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 NUI Group's management of credit risk is carried out in accordance with the Group credit risk policy, which includes setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's

Trade and other receivables of £334 3 million (2006 £377 3 million) include amounts due from related parties of £327 6 million (2006 £370 2 million)

(iii) Liquidity risk

The Company's liquidity position is supported through membership of the NUI Group

Notes to the financial statements (continued)

20 Risk management policies (continued)

(iv) Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events This definition is intended to include the majority of risks to which the Company is exposed, other than the financial risks described above and strategic and Company risks considered elsewhere Only financial instrument risk requires quantification under IFRS and consequently no quantification of operational risk is provided

Operational risks include information technology, information security, human resources, project management, outsourcing, tax, legal, financial crime and compliance risks In accordance with Group policies, business unit management has primary responsibility for the effective identification, management, monitoring and reporting of risks to the business unit executive management team and to Group The NUI Group risk management and governance function is responsible for implementing the Group risk management methodologies and frameworks to assist line management in this work It also provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans As a result, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level

Operational risks are assessed according to the potential impact and probability of the event concerned These impact assessments are made against financial, operational and reputational criteria

21 Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and market requirements of the business This note describes the way the Company manages capital and shows where this is employed

(a) General

IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis

Notes to the financial statements (continued)

21 Capital structure (continued)

(b) Capital management

In managing its capital, the Company seeks to

(i) match the profile of its assets and liabilities, taking account of the risks inherent in each business,
(ii) maintain financial strength,
(iii) retain financial flexibility, and
(iv) allocate capital efficiently and repatriate excess capital where appropriate

The Company considers not only the traditional sources of capital funding, but alternative sources when assessing its deployment and usage of capital

(c) Measure of capital

The Company is required to report its results on an IFRS basis

(d) Capital structure

	IFRS net assets 2007	IFRS net assets 2006
	£m	£m
Holding company	685 4	877 6
Total capital employed	685 4	877 6
Financed by		
Equity shareholder's funds	685 4	877 6

Notes to the financial statements (continued)

22 Related party transactions

Transactions with related parties are interest received, interest paid, recharges and items paid on behalf of other Aviva Group undertakings

(i) Services provided to related parties

	2007		2006	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	-	104 8	-	170 3
Fellow subsidiaries	815 7	222 8	165 4	199 9
	815 7	327 6	165 4	370 2

Income received in the year includes £815 7 million (2006 £163 6 million) of dividends from subsidiary undertakings and £nil (2006 £2 1 million) of property rental income from subsidiary undertakings

Loans due from Group undertakings

The Company has loans due from its parent and fellow subsidiary undertakings as follows

	2007		2006	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	7 2	104 8	4 4	157 1
Fellow subsidiaries	1 2	10 0	1 5	38 7
	8 4	114 8	5 9	195 8

Loan to/from Aviva International Insurance Limited
At the year end the balance is £104 8 million (2006 £157 1 million) receivable and interest is receivable at 0 4% above Barclays base rate As part of this agreement, the Company also has an unused revolving credit facility from Aviva International Insurance Limited, its current parent undertaking The maximum facility amount is £500 million and is repayable on demand or by no later than the maturity date of 7 September 2010 Interest is paid on the facility at 0 4% above Barclays base rate

Loan to RAC Financial Services Limited
A £10 million subordinated loan is in operation between the Company and RAC Financial Services Limited, a subsidiary undertaking Interest is charged on this loan at a rate of 1% above Barclays Bank base rate The year end balance is £10 million receivable The principal amount loaned to RAC Financial Services Limited is £10 million and is not repayable before 30 September 2008 The terms of the loan provide that RAC Financial Services Limited cannot repay the loan without the prior written consent of the Financial Services Authority

RAC plc

Notes to the financial statements (continued)

22 Related party transactions (continued)

(i) Services provided to related parties (continued)

Loan to RAC Recovery
On 9 February 2006, the Company entered into a loan agreement with RAC Recovery, a subsidiary undertaking, whereby the Company initially lent RAC Recovery £13 million and then a further £15 million on 29 November 2006 The loan is repayable by February 2011 and interest is receivable on the loan at 0 4% above base rate On 25 June 2007, the Company purchased the entire issued share capital of R A C Motoring Services, a fellow Group undertaking, for consideration of £737 3 million This was settled by the Company entering into a further loan agreement with RAC Recovery On the same date, £28 5 million owed by RAC Recovery to the Company was offset against this loan The year end balance is £nil receivable

(ii) Services provided by related parties

	2007		2006	
	Expenses/funding incurred in year	Payable at year end	Expenses/funding incurred in year	Payable at year end
	£m	£m	£m	£m
Parent	-	5 2	-	-
Fellow subsidiaries	(869 1)	314 8	(312 6)	316 1
	(869 1)	320 0	(312 6)	316 1

Net expense/funding in the year of £857 3 million (2006 £312 6 million) represents recharges of costs incurred and funding to subsidiary undertakings

Loans from Group undertakings

The Company has loans due to its parent and fellow subsidiary undertakings as follows

	2007		2006	
	Expenses/funding incurred in year	Payable at year end	Expenses/funding incurred in year	Payable at year end
	£m	£m	£m	£m
Parent	-	-	1 1	-
Fellow subsidiaries	1 5	23 3	6 8	22 2
	1 5	23 3	7 9	22 2

Notes to the financial statements (continued)

22 Related party transactions (continued)

Loan from RAC Financial Services Limited
The Company has a loan facility from RAC Financial Services Limited The maximum facility amount is £50 million (on 3 May 2006 this was extended from £20 million) and is repayable on demand or by no later than the maturity date of 14 February 2008 Interest is paid on the facility at 1% above Barclays' base rate The year end balance is £23 3 million payable

Current accounts
Other related party balances comprise intercompany balances for transactions in the normal course of business

(iii) Purchase of subsidiaries

On 25 June 2007, the Company purchased the entire issued share capital of R A C Motoring Services, a fellow Group undertaking, for a consideration of £737 3 million This was settled by the Company entering into a loan agreement with RAC Recovery, a fellow Group undertaking On the same date, £28 5 million owed by RAC Recovery to the Company was offset against this loan

On 26 June 2007, the Company purchased the entire issued share capital of RAC Acquisitions, a fellow Group undertaking, for a consideration of £400 million This was settled by the Company entering into a loan agreement with RAC Holdings Limited

On 26 June 2007, the Company also purchased the entire issued share capital of Auto Windscreens Group Limited, a fellow Group undertaking, for a consideration of £113 million This was settled by the Company entering into a loan agreement with RAC Holdings Limited

(v) Key management compensation
The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company including the directors, is as follows

	2007	2006
	£m	£m
Salary and other short-term benefits	4 4	5 1
Post-employment benefits	0 1	0 2
Equity compensation plans	2 0	3 1
Other long term benefits	0 2	1 4
Total	6 7	9 8

Notes to the financial statements (continued)

22 Related party transactions (continued)

(vi) Immediate parent undertaking
The Company's immediate parent undertaking is Aviva International Insurance Limited, registered in England and Wales

(vii) Ultimate controlling entity
The ultimate controlling entity is Aviva plc Its Annual Report and Accounts are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ

23 Post balance sheet events

On 30 May 2008, the Company issued a letter of support to a subsidiary undertaking, RACAW The letter states that in the event that RACAW is unable to meet its obligations, the Company will ensure those obligations are met as they fall due The letter is valid until the earlier of April 2009 and the date of any change in control of RACAW

In the current period the Group commenced a strategic review of its UK non-core operations As a consequence in June 2008, certain businesses have been classified as held for sale at their carrying value in the Company's balance sheet with disposal expected within the next 12 months