Registered in England and Wales: No. 229121

RAC Limited
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
2012

RAC Limited

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Company information

Directors:

D Cougill
R Templeman
M Wood
C Woodhouse

Company Secretary:

S Morrison

Auditor:

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

Registered office:

RAC House
Brockhurst Crescent
Walsall
WS5 4AW

Company number:

Registered in England and Wales No 229121

Incorporation and other information:

The RAC Limited Group ("the Group"), comprising RAC Limited and its subsidiaries (RAC Motoring Services, RAC MS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) was acquired by The Carlyle Group ("Carlyle") in September 2011, which completed the purchase from Aviva The Group also includes RAC Brand Enterprises LLP which was incorporated in August 2012

RAC Insurance Limited is authorised and regulated by the Financial Services Authority ("FSA") RAC Motoring Services and RAC Financial Services Limited are authorised and regulated by the FSA in respect of insurance and mediation activities From 1 April 2013, the FSA split into two bodies, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") There is not expected to be any significant impact on external regulatory reporting perfomed by the Group

RAC Limited

Registered in England and Wales: No. 229121

Directors' report

For the year ended 31 December 2012

The directors present their annual report and financial statements for the Company and the Group for the year ended 31 December 2012

Directors

The names of the current directors of the Company appear on page 1 Those in office during the year have been as follows

D Cougill
R Templeman
M Wood
C Woodhouse (appointed 3 February 2012)

Principal activity

The Group is primarily UK based and offers a range of services to motorists The principal activity of the Group is the provision of services and benefits to members of the Group

Business review

This business review is addressed to, and written for, the members of the Company and the Group with the aim of providing a fair review of the business development, performance during the financial year and position both at the end of the financial year and at the current time 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

The RAC Group is primarily UK based and offers an increasing range of services to motorists with the largest part of the Group continuing to be the breakdown business The business maintained its record levels of customer satisfaction This was evidenced in the RAC s maintained Net Promoter Score of 85%, achieved whilst servicing the increased demand for roadside assistance arising from the extreme weather during the winter and extreme rainfall over the summer and autumn Improving the efficiency of our patrols saw us deliver fuel savings of around 5% through adoption of operational best practice Telematics technology was also successfully trialled for our patrols in 2012, and as such is set to help yield further fuel savings following the launch of RAC Advance in March 2013

Our commitment to be a one-stop-shop for our members was progressed during 2012 Examples include·
• The RAC's insurance product portfolio was broadened with a number of products coming to market, ranging from classic car and bike insurance through to home and van insurance
• The launch of the RAC Shop offers a convenient way to keep our members' cars on the road We also developed our roadside proposition to include mobile battery fitting for our members
• Developing our members' benefits package to include a range of rewards for our members and launched the RAC Car Hire website – an internet comparison site that helps the public decide which option is best suited to their needs

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

Directors' report (continued)

Business review (continued)

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

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

In June 2012 the RAC sold its properties in Bescot and Bradley Stoke under a sale and leaseback agreement.

Trends and outlooks

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

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

The RAC continues to invest in tools and systems to deliver outstanding service, with continuing emphasis on maximising repair rates Repairing vehicles at the roadside is the best outcome for the customer and for the business In addition, members receiving roadside assistance are most likely to renew their membership and exhibit highest satisfaction levels when a permanent repair is achieved on their vehicle We also continue to support a number of vehicle manufacturers through training dealership technical staff and helping them keep up-to-date with new technologies

Research and development

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

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

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

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

RAC Limited

Directors' report (continued)

Business review (continued)

Contractual arrangements

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

Brand and customer relationships

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

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

Financial key performance indicators

The following KPIs are fundamental to the RAC business and reflect management focus on those drivers of value that will enable and inform the management team to achieve their business plans, strategic aims and objectives

	2012	2011
EBITDA before exceptional items and discontinued activities (£m)	129	95
Revenue before exceptional items and discontinued operations (£m)	457	433
Net promoter score* (%)	85	85

* Net promoter score is an industry-wide customer satisfaction measure

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

Financial position and performance

The financial position of the Company and the Group at 31 December 2012 is shown on page 12, with the trading results shown in the consolidated income statement on page 10 and the consolidated statement of cash flows on page 15

Consolidated profit before tax is £119 million in 2012 (2011 £212 million) The factors responsible for this result are detailed below

Interest received for the year is £nil (2011 £10 million)

Administrative expenses before exceptional items and discontinued operations amounted to £106 million (2011 £114 million) or 23% of equivalent revenue (2011 26%) Exceptional items in 2011 included a £150 million gain realised on the transfer of the RAC (2003) pension scheme to Aviva Employment Services Limited

In the consolidated statement of comprehensive income for 2012, actuarial losses on retirement benefit obligations are £1 million (2011 £24 million gain), £1 million expense net of tax (2011 £22 million gain)

Directors' report (continued)

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Group and the Group's risk management policies are set out in note 24 to the financial statements

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements

Major events

In October 2012 RAC Limited received a dividend of £23 million from RAC Motoring Services RAC Limited also paid a dividend of £124 million to RAC Finance (Holdings) Limited

In August 2012 RAC Brand Enterprises LLP was incorporated to hold the Group intangibles and manage license agreements The partnership commenced trading on 1 October 2012

On 30 June 2012, RAC Motoring Services sold its property in Bescot and Bradley Stoke under a sale and leaseback agreement for £30 million, resulting in a profit on disposal of £16 million

On 23 June 2011, Aviva announced the sale to the Carlyle Group of the Company and its trading subsidiaries, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited The sale was completed on 30 September 2011 and RAC Finance (Holdings) Limited, an intermediate holding company of the Carlyle Group, acquired the share capital of RAC Limited Founded in 1987, Carlyle is one of the world's largest alternative asset managers

Events since the balance sheet date

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

Financial instruments

The business of the Company and the Group includes the use of financial instruments Details of the Group's risk management objectives, policies and exposures to risk relating to financial instruments are set out in note 24 to the financial statements

Dividends

Interim dividends totalling £124 million (101 2 pence per share) were paid by the Company during the year (2011 £366 million (298 6 pence per share)) The directors do not recommend the payment of a final dividend

RAC Limited

Directors' report (continued)

Employees

All employees of the Group are employed by RAC Motoring Services as at 31 December 2012 Disclosures relating to employees can be found in note 5 to the financial statements.

The RAC is an equal opportunities employer and encourages diverse and inclusive approaches to employment The RAC values the contribution and involvement of all its colleagues and requires all colleagues to treat each other with respect We invest in the development of our colleagues' skills, abilities and potential To enable RAC colleagues to work to the best of their abilities, while maintaining a good work-life balance, we operate various flexible working initiatives including annualised, part time and compressed hours

The RAC believes in continuous colleague engagement to provide clarity with respect to the vision and future direction of the Group, ensuring that colleagues are clear regarding how they can contribute to this, personally and collectively

The RAC operates a number of highly effective communication channels, ranging from more formal conferences to daily huddles and also utilises various technical media to communicate, in particular with remote colleagues, in a consistent and timely manner, including the award winning Call Sign, conference calls and newsletters

The RAC is committed to ensuring that colleagues are provided with the appropriate training and development to enable them to perform their duties effectively

Political & charitable donations

The Group continues to support and work closely with the Royal Automobile Club Foundation, a registered charity which researches and promotes the economic, mobility, safety and environmental issues related to motoring and responsible road users
Employees of the Group are supported in their charitable fundraising through appropriate time off and through charity related team building events

Auditor

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of section 487 of the Companies Act 2006

Directors' liabilities

RAC Finance Group (Holdings) Limited, the Company's ultimate parent 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 This indemnity was granted in 2011 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 These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of the transitional provisions to the Companies Act 2006

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

Statement of directors' responsibilities

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

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

- present fairly the financial position, cash flows and financial performance of the Group,
- select suitable accounting policies in accordance with IAS8. *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable,
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance, and
- state whether the Group and Company financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for maintaining 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

On behalf of the Board

S Morrison
Company Secretary

RAC Limited

Independent auditor's report

To the members of RAC Limited

We have audited the financial statements of RAC Limited Group for the year ended 31 December 2012, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated statement of changes in equity, the Company statement of changes in equity the Consolidated and Company statement of cash flows, the accounting policies and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group and 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 RAC Limited Group Annual Report and Consolidated Financial Statements 2012 to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group and parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, and
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

RAC Limited

Independent auditor's report (continued)

To the members of RAC Limited

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Angus Millar

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

10 April 2013

RAC Limited

Consolidated income statement
For the year ended 31 December 2012

	Note	2012			2011		
		Before exceptional items and discontinued operations	Exceptional and discontinued items (Notes 7 and 8)	Total	Before exceptional items and discontinued operations	Exceptional and discontinued items (Notes 7 and 8)	Total
		£m	£m	£m	£m	£m	£m
Revenue	1	457	-	457	433	5	438
Cost of sales		(222)	-	(222)	(224)	(2)	(226)
Gross profit		235	-	235	209	3	212
Administrative (expenses)/income	2	(106)	(5)	(111)	(114)	117	3
Group Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)		129	(5)	124	95	120	215
Depreciation	12	(3)	-	(3)	(2)	-	(2)
Amortisation	11	(2)	-	(2)	(4)	-	(4)
Group operating profit/(loss)		124	(5)	119	89	120	209
Financial income	3	-	-	-	10	-	10
Finance expenses	3	-	-	-	(1)	(6)	(7)
Profit/(loss) before tax	2,8	124	(5)	119	98	114	212
Tax (charge)/credit	9	(29)	5	(24)	(8)	7	(1)
Profit for the year		95	-	95	90	121	211

The accounting policies and notes on pages 16 to 53 are an integral part of these financial statements

RAC Limited

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		95	211
Other comprehensive (expense)/income			
Actuarial (losses)/gains on pension schemes	23	(1)	24
Aggregate tax effect of actuarial gains	9(c)	-	(2)
Other comprehensive (expense)/income, net of tax		(1)	22
Total comprehensive income for the year		94	233

The accounting policies and notes on pages 16 to 53 are an integral part of these financial statements

RAC Limited

Registered in England and Wales 0229121

Consolidated and Company statement of financial position

As at 31 December 2012

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
ASSETS					
Non-current assets					
Investments in subsidiaries	10	-	-	653	653
Goodwill and intangible assets	11	361	354	-	-
Property, plant and equipment	12	12	26	-	-
Trade and other receivables	15	-	-	10	10
Deferred tax assets	13	13	16	-	1
Employee benefit asset	23	11	11	11	11
		397	407	674	675
Current assets					
Inventories	14	2	2	-	-
Trade and other receivables	15	99	89	31	6
Loan receivable	16	-	12	-	12
Current tax	13	-	1	7	-
Cash and cash equivalents		32	65	13	49
		133	169	51	67
LIABILITIES					
Current liabilities					
Provisions	17	(6)	(14)	-	(7)
Trade and other payables	18	(272)	(297)	(146)	(55)
Current tax	13	(21)	-	-	-
		(299)	(311)	(146)	(62)
Net current liabilities		(166)	(142)	(95)	5
Non-current liabilities					
Trade and other payables	18	(20)	(22)	(256)	(235)
Employee benefit obligations	23	(8)	(9)	(4)	(5)
Deferred tax liability	13	(22)	(23)	(1)	(1)
		(50)	(54)	(261)	(241)
Net assets		**181**	**211**	**318**	**439**
EQUITY					
Ordinary share capital	19	31	31	31	31
Share premium		153	153	153	153
Other reserves	20	1	1	1	1
Retained earnings		(4)	26	133	254
Total equity		**181**	**211**	**318**	**439**

The accounting policies and notes on pages 16 to 53 are an integral part of these financial statements

Approved by the Board on 8 April 2013

D Cougill, Director 10 April 2013

RAC Limited

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Ordinary share capital £m	Share premium £m	Capital redemption reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2011	31	153	1	159	344
Total comprehensive income for the year					
Profit	-	-	-	211	211
Other comprehensive income	-	-	-	22	22
Total comprehensive income	-	-	-	233	233
Contributions by and distributions to owners					
Dividends	-	-	-	(366)	(366)
Total contributions by and distributions to owners	-	-	-	(366)	(366)
Balance at 31 December 2011	31	153	1	26	211
Total comprehensive income for the year					
Profit	-	-	-	95	95
Other comprehensive expense	-	-	-	(1)	(1)
Total comprehensive income	-	-	-	94	94
Contributions by and distributions to owners					
Dividends	-	-	-	(124)	(124)
Total contributions by and distributions to owners	-	-	-	(124)	(124)
Balance at 31 December 2012	31	153	1	(4)	181

The accounting policies and notes on pages 16 to 53 are an integral part of these financial statements

RAC Limited

Company statement of changes in equity

For the year ended 31 December 2012

	Ordinary share capital £m	Share premium £m	Capital redemption reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2011	31	153	1	202	387
Total comprehensive income for the year					
Profit	-	-	-	396	396
Other comprehensive income	-	-	-	22	22
Total comprehensive income	-	-	-	418	418
Contributions by and distributions to owners					
Dividends	-	-	-	(366)	(366)
Total contributions by and distributions to owners	-	-	-	(366)	(366)
Balance at 31 December 2011	31	153	1	254	439
Total comprehensive income for the year					
Profit	-	-	-	4	4
Other comprehensive expense	-	-	-	(1)	(1)
Total comprehensive income	-	-	-	3	3
Contributions by and distributions to owners					
Dividends	-	-	-	(124)	(124)
Total contributions by and distributions to owners	-	-	-	(124)	(124)
Balance at 31 December 2012	31	153	1	133	318

The accounting policies and notes on pages 16 to 53 are an integral part of these financial statements

RAC Limited

Consolidated and Company statement of cash flows

For the year ended 31 December 2012

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Net cash inflow/(outflow) from continuing operations	22(a)	(12)	87	(18)	(81)
Cash flows from financing activities					
Net decrease in loans from former related parties		-	(42)	-	-
Net increase in loans from Group companies		-	-	-	238
Receipt of other loans		12	-	12	-
Dividends paid		(53)	(366)	(53)	(366)
Net cash used in financing activities		(41)	(408)	(41)	(128)
Cash flows from investing activities					
Purchases of property, plant and equipment		(3)	-	-	-
Investments in intangible assets		(6)	(8)	-	-
Proceeds from sale of subsidiaries		-	1	-	1
Proceeds from sale of owner-occupied properties		29	-	-	-
Dividends received			-	23	260
Net inflow from loans to former related parties		-	357	-	-
Net cash from investing activities		20	350	23	261
Net increase in cash and cash equivalents		(33)	29	(36)	52
Cash and cash equivalents at 1 January		65	36	49	(3)
Cash and cash equivalents at 31 December	22(b)	32	65	13	49

The accounting policies and notes on pages 16 to 53 are an integral part of these financial statements

RAC Limited

Accounting policies

(A) General information

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

These financial statements for the year ended 31 December 2012 were approved for issue by the Board on 8 April 2013

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

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

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

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

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

- IFRS7 Financial Instruments Disclosures - offsetting financial assets and financial liabilities[1]
- IFRS 9 Financial Instruments[4]
- IFRS 10 Consolidated Financial Statements[3]
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosures of interests in Other Entities Transition Guidance[3]
- IFRS 13 Fair Value Measurement[1]
- Amendments to IFRS 7 Disclosure - Offsetting Financial Assets and Financial Liabilities[1]
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures[4]
- IAS 19 (as revised in 2011) Employee Benefits[1]
- IAS 27 (as revised in 2011) Separate Financial Statements[3]
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[2]
- Amendments to IFRSs Annual Improvements to IFRSs 2009-2011 Cycle [1]

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

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

RAC Limited

Accounting policies (continued)

(C) Basis of presentation

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

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

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

On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement The profit for the year was £4 million (2011 £396 million profit)

(D) Use of estimates

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

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

(E) Consolidation principles

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

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

The Company's investments

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

RAC Limited

Accounting policies (continued)

(F) Revenue recognition

Revenue

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

Interest income

Interest income is recognised using the effective interest method

Dividend income

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

(G) Exceptional items

Items which are both material by size and/or nature and non recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items charged to operating profit helps provide an indication of the Group's underlying business performance Events which may give rise to a classification of items as exceptional include costs associated with business acquisitions, gains or losses on the disposal of businesses, restructuring of businesses and asset impairments

(H) Goodwill 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

Intangible assets

Intangible assets consist of the RAC brand and contractual relationships such as access to distribution networks and customer lists The RAC brand has been assessed as having an indefinite life due to the strength and durability of the brand that has existed since 1897 The economic lives of the latter are determined by relevant factors which include, usage of the asset, typical product life cycles, stability of the industry, competitive position and period of control over the assets These intangibles are amortised over their useful lives, which range from five to ten years using the straight line method.

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

Impairment testing

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

Details of the testing performed and carrying values of goodwill and intangibles is shown in note 11

Accounting policies (continued)

(I) Property, plant and equipment

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

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

Vehicles	4 years
Fixtures and fittings	5-10 years
Computer equipment	4 years

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

(J) Inventories

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

(K) Impairment of non-financial assets

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

(L) Derecognition and offset of financial assets and financial liabilities

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

(i) the rights to receive cash flows from the asset have expired,

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or

(iii) the Group has transferred its rights to receive cash flows from the asset and either

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

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

RAC Limited

Accounting policies (continued)

(M) Trade receivables

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

(N) Prepayments and deferred commissions

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

(O) Cash and cash equivalents

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

(P) Provisions and contingent liabilities

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

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable yet still possible or the amount cannot be reliably estimated

(Q) Income taxes

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

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of the 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

RAC Limited

Accounting policies (continued)

(Q) Income taxes (continued)

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

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

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

(R) 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

(S) Employee benefits

Pension obligations

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

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

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

RAC Limited

Accounting policies (continued)

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

Termination benefits

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

(T) 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

RAC Limited

Notes to the consolidated financial statements

1 Revenue

	2012 £m	2011 £m
Sale of goods	18	17
Sale of services	439	421
	457	438

2 Operating profit

The following items have been included in arriving at profit before tax

	2012 £m	2011 £m
Administrative expenses		
Operating lease rentals paid	(15)	(14)
Amortisation of intangible assets	(2)	(4)
Depreciation of property and equipment - owned assets	(3)	(2)
Pension current service cost	(1)	(4)
Gain on the transfer of RAC (2003) pension scheme	-	150
Prepayment fully written down during the year	-	(2)

3 Finance income/(expense)

	2012 £m	2011 £m
Interest receivable from former related parties	-	10
Pension net finance costs (note 23)	-	(7)
	-	3

4 Auditor's remuneration

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

	2012 £000	2011 £000
Audit services		
Audit of financial statements	36	35
Audit of Company and subsidiary financial statements	163	158
	199	193

RAC Limited

Notes to the consolidated financial statements (continued)

5 Employee information

The average number of persons employed by the Group during the period was

	2012 Number	2011 Number
Breakdown Services	3,142	3,403
Insurance and Claims	151	157
Support	242	140
	3,535	3,700

Total staff costs were

	2012 £m	2011 £m
Wages and salaries	118	111
Social security costs	12	11
Termination benefits	-	7
Pension costs	9	8
Healthcare and other benefits	-	1
	139	138

These costs were charged within

	2012 £m	2011 £m
Cost of sales	105	107
Administrative expenses	34	31
	139	138

6 Directors

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

Disclosures relating the directors' remuneration can be found in the Annual Report and Accounts of RAC Finance Group (Holdings) Limited (note 27f)

RAC Limited

Notes to the consolidated financial statements (continued)

7 Exceptional items

Exceptional items include the following	2012	2011
	£m	£m
Profit on sale of property	15	-
Impairment of properties	-	(3)
Pension curtailment gain	2	150
Separation costs	(13)	(16)
Restructuring costs	(8)	(13)
Other	(1)	(1)
Total	(5)	117

On 30 June 2012, the Group sold its owner occupied property in Bescot and Bradley Stoke with a total carrying value of £14 million for £29 million net of selling costs giving rise to a profit on disposal of £15 million

During the year, the Group incurred a total of £8 million (2011 £13 million) of restructuring costs, relating to various initiatives, including the rebalancing of headcount in selling and support teams and a programme to implement new flexible working arrangements for patrols (2011· rebalancing of operational headcount) £4 million of this expenditure is held within provisions in the statement of financial position at 31 December 2012 and is expected to be utilised in 2013 (2011. £6 million within provisions, utilised in 2012)

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

Other exceptional items in 2012 include professional fees associated with the legal entity restructure

8 Discontinued operations

Profit before tax on discontinued operations includes the following

	2012	2011
	£m	£m
Profit before tax on a discontinued business line with former parent	-	3
Pension finance cost	-	(6)
	-	(3)

9 Tax

(a) Tax charged to the income statement

The total tax charge comprises:

	2012	2011
	£m	£m
Current tax:		
For this period	22	21
Total current tax	22	21
Deferred tax:		
For this period	2	(20)
Total tax charged to the income statement	24	1

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

	2012	2011
	£m	£m
Net profit before tax	119	212
Tax calculated at standard UK corporation tax rate of 24 5% (2011 26 5%)	29	56
Disallowed expenses	-	1
Non-taxable income	(4)	(40)
Origination and reversal of temporary differences	-	(15)
Effect of changes in tax rates	(1)	(1)
Total tax charged to income statement (note 9(a))	24	1

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

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

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 20% is expected to be £1 million (equivalent to 3% of the closing gross deferred tax balance)

(c) Tax charged to other comprehensive income

Tax charged directly to other comprehensive income in the period amounted to £nil (2011 £2 million) and is wholly in respect of the tax impact on actuarial gains in employee benefit schemes

Notes to the consolidated financial statements (continued)

10 Investments

(a) Particulars of material subsidiaries held by the Company are given below They have share capital comprising shares of one class only and are incorporated in Great Britain

The Company has taken advantage of section 410 of the Companies Act 2006 which permits it to disclose information only in respect of those undertakings whose results, or financial position, in the opinion of the directors, principally affected the figures shown in the Company's annual accounts Full information (both that which is disclosed in the annual accounts and that which is not) will be annexed to the Company's next Annual Return delivered to the registrar of companies

Company	Type of business	Class of share	Proportion held
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RAC Insurance Limited	General insurance business	Ordinary	100%
RAC Financial Services Limited	Supplying ancillary financial services	Ordinary	100%
RACMS (Ireland) Limited *	Insurance intermediary and roadside assistance	Ordinary	100%

* indirectly held investment incorporated in Ireland

(b) Movement in the Company's investments in its subsidiaries

	2012 £m	2011 £m
Cost at 1 January	653	669
Liquidation of dormant subsidiaries as part of legal entity rationalisation	-	(16)
Cost at 31 December	653	653

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

RAC Limited

Notes to the consolidated financial statements (continued)

10 Investments (continued)

(c) Investments in associates

The Company invested £5 thousand in RAC Brand Enterprises LLP for a 0 5% interest in its capital The principal activities of the associate are the ownership and management of intangible assets, including the managing of license agreements Summarised financial information extracted from the associate's financial statements are as follows

	2012
Statement of financial position as at 31 December 2012	£m
Current assets	11
Non-current assets	623
	634
Income statement from incorporation to 31 December 2012	
Revenue	11
Profit for the period	2

11 Goodwill and other intangible assets

(a) Intangible assets - Group

	Goodwill £m	Brand £m	Customer list £m	Other £m	Total £m
Cost					
At 1 January 2011	125	201	51	-	377
Additions	-	-	-	3	3
At 31 December 2011	125	201	51	3	380
Additions	-	-	-	9	9
At 31 December 2012	**125**	**201**	**51**	**12**	**389**
Amortisation					
At 1 January 2011	-	-	22	-	22
Charge for the year	-	-	2	2	4
At 1 January 2012	-	-	24	2	26
Charge for the year	-	-	1	1	2
At 31 December 2012	-	-	**25**	**3**	**28**
Carrying value					
At 31 December 2012	**125**	**201**	**26**	**9**	**361**
At 31 December 2011	125	201	27	1	354

All intangible assets are stated at cost less accumulated amortisation and any impairment losses 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 recognised in administrative expenses

RAC Limited

Notes to the consolidated financial statements (continued)

11 Goodwill and intangible assets (continued)

(b) Impairment testing of goodwill and intangible assets with indefinite lives - Group

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to one cash-generating unit for impairment testing The carrying value of the goodwill and indefinite-lived intangible assets allocated to the cash-generating unit is £125 million and £201 million respectively

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

The recoverable amount of the unit has been determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecasts up to 2017 The forecasts and budgets take into consideration the positive traing results post acquisition whilst also building in some caution as a result of difficult economic conditions in the UK The growth rate used to extrapolate beyond the Group's forecasts is 2% (2012 2%), based on the expected average long term growth rate of the UK economy The pre-tax discount rate applied to the cash flow projections is 9% (2011 9%) The pre-tax discount rate applied to the cash flow projections is based on Group Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within cash flows The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36

Key assumptions used in management forecasts include

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

The calculation of the value-in-use is most sensitive to assumptions in the discount rate, the growth rate and the customer retention rate

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

(c) Impairment testing of the Brand - Group

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

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

The value of the RAC Brand is further supported by strong financial performance in the year ahead of management expectations and forecasts It is also relevant that the value is based on a fairly recent market-based fair value

12 Property, plant and equipment

(a) Group	Owner-occupied property £m	Equipment, fixtures and motor vehicles £m	Computer equipment £m	Total £m
Cost				
At 1 January 2011	24	26	39	89
Additions	-	-	1	1
Transfers	-	-	12	12
Disposals	(1)	-	-	(1)
Revaluations	(3)	-	-	(3)
At 31 December 2011	20	26	52	98
Additions	-	1	2	3
Disposals	(14)	-	-	(14)
At 31 December 2012	**6**	**27**	**54**	**87**
Depreciation				
At 1 January 2011	-	23	39	62
Transfers	-	-	8	8
Charge for the year	-	1	1	2
At 31 December 2011	-	24	48	72
Charge for the year	-	1	2	3
At 31 December 2012	**-**	**25**	**50**	**75**
Net book value				
At 31 December 2012	**6**	**2**	**4**	**12**
At 31 December 2011	20	2	4	26

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

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

12 Property, plant and equipment (continued)

(b) Company	**Long Leasehold Property £m**
Valuation:	
At 1 January 2011	1
Disposals	(1)
At 31 December 2011 and 31 December 2012	-
Depreciation:	
At 1 January 2011, 31 December 2011 and 31 December 2012	-
Net book value:	
At 31 December 2012	-
At 31 December 2011	-

13 Tax assets and liabilities

	Group		**Company**	
	2012	**2011**	**2012**	**2011**
	£m	**£m**	**£m**	**£m**
Current tax	(21)	1	7	-
Deferred tax assets	13	16	-	1
Deferred tax liabilities	(22)	(23)	(1)	(1)
	(30)	(6)	6	-

The net deferred tax liability arises on the following items

	Group		**Company**	
	2012	**2011**	**2012**	**2011**
	£m	**£m**	**£m**	**£m**
Accelerated capital allowances	9	12	-	-
Intangible assets	(20)	(23)	-	-
Pensions and other post-retirement obligations	3	-	(1)	(1)
Provisions and other temporary differences	(1)	4	-	1
Net deferred tax liability	(9)	(7)	(1)	-

RAC Limited

Notes to the consolidated financial statements (continued)

13 Tax assets and liabilities (continued)

	Group		Company	
	2012	2011	2012	2011
The movement in the net deferred tax liability was as follows	£m	£m	£m	£m
Net deferred tax liability at 1 January	(7)	(25)	-	-
Deferred tax credited to income statement (note 9)	(2)	20	(1)	1
Deferred tax charged to other comprehensive income	-	(2)	-	(1)
Net deferred tax liability at 31 December	(9)	(7)	(1)	-

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

14 Inventories

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Inventories	2	2	-	-

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

15 Trade and other receivables

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Trade receivables	35	47	-	-
Amounts due from related parties (note 27)	17	-	41	12
Reinsurance assets	1	1	-	-
Prepayments and deferred commissions	43	35	-	-
Other receivables	3	6	-	4
Total	99	89	41	16
Expected to be recoverable within one year	99	89	31	6
Expected to be recoverable in more than one year	-	-	10	10
	99	89	41	16

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

16 Loan receivable

The carrying amounts of loans are as follows

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

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

17 Provisions

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

(b) Company	Restructuring	Other	Total
	£m	£m	£m
At 1 January 2012	4	3	7
Utilised during the year	(4)	(3)	(7)
At 31 December 2012	-	-	-

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

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

18 Trade and other payables

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Trade payables and accruals	62	69	2	5
Amounts due to related parties (see note 27)	48	81	400	281
Deferred income	153	148	-	-
Other payables	29	21	-	4
	292	319	402	290
Expected to be payable within one year	272	297	146	55
Expected to be payable in more than one year	20	22	256	235
	292	319	402	290

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

RAC Limited

Notes to the consolidated financial statements (continued)

19 Ordinary share capital

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

	2012	2011
	£m	£m
Allotted, called up and fully paid:		
122,590,168 (2011 122,590,168) ordinary shares of £0 25 each	31	31

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the articles of association adopted by the Company on 11 February 2011 reflect this Directors may exercise any power of the Company to allot shares or grant rights to subscribe for or to convert any security into such shares and are authorised to do so under the Company's articles of association Ordinary shares in issue in the Company rank pari passu All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company

20 Other reserves

	Capital redemption reserve
	£m
Balance at 31 December 2011 and 31 December 2012	1

21 Commitments

(a) Operating lease commitments - Group
Future aggregate minimum lease payments under non-cancellable operating leases are as follows

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

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

Certain property commitments relate to property sold and leased back in June 2012 (note 12)

(b) Operating lease commitments - Company
The Company has no operating lease commitments (2011 none)

Notes to the consolidated financial statements (continued)

22 Statement of cash flows

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
(a) The reconciliation of profit/(loss) before tax to the net cash flow from operating activities is:				
Profit before tax	119	212	(2)	386
Adjustments for				
Amortisation and depreciation	5	6	-	-
Revaluation of properties	-	3	-	-
Interest receivable	-	(10)	-	(11)
Finance costs	-	-	-	20
Profit on sale of subsidiaries	-	-	-	(1)
Profit on sale of property	(15)	-	-	-
Defined benefit expenses	-	11	-	-
Curtailment/settlement of pension scheme	(2)	(150)	-	(150)
Retirement benefit (income)/costs		-	(1)	3
Dividends receivable	-	-	(23)	(260)
Changes in working capital				
(Increase)/decrease in receivables and other financial assets	(10)	14	(2)	7
(Decrease)/increase in provisions	(8)	4	(7)	(1)
(Decrease)/increase in payables and other financial liabilities	(101)	8	17	(65)
Payment of tax to HMRC	-	(1)	-	-
Contributions to the retirement benefit schemes	-	(10)	-	(9)
Net cash inflow/(outflow) from operating activities	(12)	87	(18)	(81)
(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:				
Cash at bank and in hand	32	65	13	49

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations

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

(a) Introduction

The Group operates a number of employee benefit schemes as follows

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

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

Auto Windscreens Pension Scheme ("AW Scheme")

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

Unfunded Unapproved Pension Scheme ("UUP Scheme")

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary) The number of pensioners entitled to this benefit at 31 December 2012 was 8 (2011 8)

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

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

Disability Benefit Scheme ("DB Scheme")

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

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(b) Charges to the income statement

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

	2012	2011
	£m	£m
Employee benefit schemes	1	8
Defined contribution schemes	9	8
Gain on settlement	-	(150)
Curtailment gain	(2)	-
	8	(134)

(c) Pension scheme assumptions and disclosures - Group

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

(i) Assumptions on the liabilities of the Schemes

The projected unit credit method

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

Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2012 This update was made by the Schemes' actuaries The Schemes' assets are stated at their fair values as at 31 December 2012

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

	2012	2011
	%	%
Inflation rate	3 00	3 00
General salary increases	4 80	4 80
Pension increases	2 80	3 00
Deferred pension increases	2 25	2 00
Medical cost trend	6 10	5 40
Discount rate	4 70	4 90

The discount rate is the assumption that has the largest impact on the value of the liabilities The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £5 million and £nil respectively (2011 £3 million and £nil respectively)

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures - Group (continued)

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

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

Mortality table	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances for future improvements	65	87.7	89 9	90 0	92 3
		(22 7)	(24 9)	(25 0)	(27 3)

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

(ii) Assumptions on Scheme assets

The expected rate of return on the Schemes' assets is 2 8% (2011 2 8%)

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

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures - Group (continued)

(iii) Employee benefit expense

The total employee benefit expense for the Schemes comprises

Recognised in the income statement

	2012 £m	2011 £m
Included within administrative expenses		
Current service cost	(1)	(4)
Total employee benefit expense charged within Group operating profit	**(1)**	**(4)**
Included within other exceptional items		
Gain on settlement	-	150
Gain from curtailment and special termination benefits	2	-
Included within finance expenses		
Expected return on assets of the Schemes	1	19
Interest charge on liabilities of the Schemes	(1)	(26)
Total employee benefit credit to finance expenses or exceptional items	**2**	**143**
Total credit to the income statement for defined benefit schemes	**1**	**139**

Recognised in other comprehensive income

	2012 £m	2011 £m
Actuarial (losses)/gains on Scheme assets	(1)	5
Actuarial gains on Scheme liabilities	-	19
Total (losses)/gains recognised in other comprehensive income	**(1)**	**24**

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 (the date of transition to IFRS) was £7 million gain at 31 December 2012 (2011 £8 million gain)

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(c) Pension scheme assumptions and disclosures - Group (continued)

(iv) Experience gains and losses

The following table shows the experience gains and losses over the past five years

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of the Schemes' assets at the end of the year	27	27	919	829	735
Present value of the Schemes' liabilities at the end of the year	(24)	(25)	(1,091)	(1,149)	(919)
Net surplus/(deficit) in the Schemes	**3**	**2**	**(172)**	**(320)**	**(184)**
Difference between the expected and actual return on the Schemes' assets					
Amount of (losses)/gains	(1)	5	55	60	(273)
Percentage of the schemes' assets at the end of the year	(4%)	19%	6%	7%	(37%)
Experience gains/(losses) on the Schemes' liabilities (excluding changes in assumptions)					
Amount of gains/(losses)	1	-	36	(5)	9
Percentage of the present value of the Schemes' liabilities	(4%)	-	(3%)	0%	(1%)

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

(v) Schemes' surplus

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

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

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

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

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

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(c) Pensions assumptions and disclosures - Group (continued)

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

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

	Scheme assets 2011 £m	Scheme liabilities 2011 £m	Net pension surplus 2011 £m
Balance at 1 January 2011	919	(1,091)	(172)
Employer contributions paid	10	-	10
Benefits paid	(16)	16	-
Current service cost	-	(4)	(4)
Interest cost	19	(26)	(7)
Actuarial gains	3	21	24
Other	-	1	1
(Loss)/gain on settlement	(908)	1,058	150
Balance at 31 December 2011	27	(25)	2

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(d) Pension assumptions and disclosures - Company

Disclosures under IAS 19 are given below for the AW Scheme, the Post Retirement Benefits and the RAC (2003) Pension scheme combined

(i) Assumptions on the liabilities of the Schemes

The assumptions on the liabilities of the Company Schemes are the same as those applied for the Group and disclosed in note 23(c)(i)

(ii) Assumptions on scheme assets

The expected rate of return on the Company Schemes' assets is the same as that for the Group and disclosed in note 23(c)(ii)

(iii) Employee benefit expense

The total employee benefit expense for the Schemes comprises

Recognised in the income statement

	2012	2011
	£m	£m
Included within administrative expenses		
Current service cost	-	(3)
Total employee benefit expense charged within operating profit	-	(3)
Included within other exceptional items		
Gain on settlement	-	150
Included within finance expenses		
Expected return on assets of the Schemes	1	19
Interest charge on liabilities of the Schemes	(1)	(26)
Total employee benefit credit to finance expenses or exceptional items	-	143
Total credit to the income statement	-	140

Recognised in other comprehensive income

	2012	2011
	£m	£m
Actuarial (losses)/gains on Scheme assets	(1)	5
Actuarial gains on Scheme liabilities	-	19
Total (losses)/gains recognised in other comprehensive income	(1)	24

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 (the date of transition to IFRS) was £5 million gain at 31 December 2012 (2011 £6 million gain)

23 Employee benefit obligations (continued)

(d) Pensions assumptions and disclosures - Company (continued)

(iv) Experience gains and losses

The following table shows the experience gains and losses over the past five years

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of the Schemes' assets at the end of the year	27	27	20	17	13
Present value of the Schemes' liabilities at the end of the year	(20)	(21)	(23)	(23)	(20)
Net surplus/(deficit) in the Schemes	7	6	(3)	(6)	(7)
Difference between the expected and actual return on the Schemes' assets					
Amount of gains/(losses)	(1)	5	1	2	(5)
Percentage of the Schemes' assets at the end of the year	(4%)	19%	5%	12%	(38%)
Experience gains/(losses) on the Schemes' liabilities (excluding changes in assumptions)					
Amount of (losses)/gains	-	-	-	2	-
Percentage of the present value of the Schemes' liabilities	-	-	-	(10%)	-

Estimated employer contributions on defined benefit schemes for the financial year ending 31 December 2013 are £2 million

(v) Schemes' surplus

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

	2012 £m	2011 £m
Index-linked gilts	27	27
Total fair value of assets	27	27
Present value of defined benefit obligations	(20)	(21)
Net surplus in the Schemes	7	6

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

	2012 £m	2011 £m
Surplus included in non-current assets	11	11
Deficits included in non-current liabilities	(4)	(5)
Net surplus in the Schemes	7	6

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

RAC Limited

Notes to the consolidated financial statements (continued)

23 Employee benefit obligations (continued)

(d) Pensions assumptions and disclosures - Company (continued)

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

	Scheme assets 2012 £m	Scheme liabilities 2012 £m	Net pension surplus 2012 £m
Balance at 1 January 2012	**27**	**(21)**	**6**
Employer contributions paid	2	-	2
Benefits paid	(1)	1	-
Interest cost	-	(1)	(1)
Actuarial gains	(1)	1	-
Balance at 31 December 2012	**27**	**(20)**	**7**

	Scheme assets 2011 £m	Scheme liabilities 2011 £m	Net pension surplus 2011 £m
Balance at 1 January 2011	**20**	**(188)**	**(168)**
Employer contributions paid	2	7	9
Current service cost	-	(3)	(3)
Benefits paid	(1)	1	-
Interest cost	1	(7)	(6)
Gain on settlement (note 7)	-	150	150
Actuarial gains	5	18	23
Other	-	1	1
Balance at 31 December 2011	**27**	**(21)**	**6**

Notes to the consolidated financial statements (continued)

24 Risk management

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

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

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

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

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

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

(a) Financial risk management

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments due to fluctuations in interest rates and foreign currency exchange rates Market risk arises due to fluctuations in both the value of liabilities and the value of investments held

RAC Limited

Notes to the consolidated financial statements (continued)

24 Risk management (continued)

(a) Financial risk management (continued)

(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

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

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

	Credit rating						Carrying value in the statement of financial position
31 December 2012	AAA	AA	A	BBB	Speculative grade	Non-rated	
Group:	£m	£m	£m	£m	£m	£m	£m
Trade receivables	-	-	-	-	-	35	35
Cash and cash equivalents	-	-	32	-	-	-	32
Company:							
Cash and cash equivalents	-	-	13	-	-	-	13

	Credit rating						Carrying value in the statement of financial position
31 December 2011	AAA	AA	A	BBB	Speculative grade	Non-rated	
Group:	£m	£m	£m	£m	£m	£m	£m
Loans	-	-	-	-	12	-	12
Trade receivables	-	-	-	-	-	47	47
Cash and cash equivalents	6	4	55	-	-	-	65
Company:							
Loans	-	-	-	-	12	-	12
Cash and cash equivalents	-	-	49	-	-	-	49

Loan

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

Cash and cash equivalents

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

RAC Limited

Notes to the consolidated financial statements (continued)

24 Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk
Trade receivables

The Company and Group has not been generally exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances At the 31 December 2012 Group trade receivables were £35 million (2011 £47 million)

Impairment of financial assets

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

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

31 December 2011	Neither past due nor impaired	Financial assets that are past due but not impaired: 0 to 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Carrying value of impaired financial assets	Carrying value in the statement of financial position
Group:	£m	£m	£m	£m	£m	£m	£m
Loans	12	-	-	-	-	-	12
Trade receivables	38	4	1	1	-	3	47
Other receivables	6	-	-	-	-	-	4
Company:							
Other receivables	4	-	-	-	-	-	4

(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 RAC Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further

RAC Limited

Notes to the consolidated financial statements (continued)

24 Risk management (continued)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

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

31 December 2012	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed terms	Total
Group.	£m	£m	£m	£m	£m	£m
Trade and other receivables	99	-	-	-	-	99
Cash and cash equivalents	32	-	-	-	-	32
	131	-	-	-	-	131
Company:						
Investments in subsidiaries	-	-	-	-	-	-
Current tax assets	7	-	-	-	-	7
Trade and other receivables	-	-	-	-	-	-
Cash and cash equivalents	13	-	-	-	-	13
	20	-	-	-	-	20

31 December 2011	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed terms	Total
Group·	£m	£m	£m	£m	£m	£m
Loans	12	-	-	-	-	12
Trade and other receivables	89	-	-	-	-	89
Cash and cash equivalents	65	-	-	-	-	65
	166	-	-	-	-	166
Company:						
Investments in subsidiaries	-	-	-	-	653	653
Loans	12	-	-	-	-	12
Trade and other receivables	6	10	-	-	-	16
Cash and cash equivalents	49	-	-	-	-	49
	67	10	-	-	653	730

RAC Limited

Notes to the consolidated financial statements (continued)

24 Risk management (continued)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

The following table shows the Group and Company financial liabilities analysed by duration

31 December 2012	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed terms	Total
Group:	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Trade and other payables	272	20	-	-	-	292
Company:						
Trade and other payables	146	256	-	-	-	402

31 December 2011	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed terms	Total
Group:	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Trade and other payables	297	22	-	-	-	319
Company:						
Trade and other payables	55	235	-	-	-	290

(b) Strategic risks

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

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

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

(c) Operational risk management

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

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

RAC Limited

Notes to the consolidated financial statements (continued)

24 Risk management (continued)

(d) Risk and capital management

Sensitivity test analysis

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

Sensitivity factor	Description of sensitivity factor applied
Administrative expenses on continuing operations before exceptional items	The impact of an increase in expenses by 10%
Cost of sales on continuing operations before exceptional items	The impact of an increase in cost of sales by 5%

The above sensitivity factors are applied, with the following impacts on profit and shareholder's equity at 31 December 2012

	Impact on profit before tax (£m)	Impact on shareholder's equity (£m)
Expenses +10%	(11)	(8)
Cost of sales +5%	(11)	(8)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged In reality, there is a correlation between the assumptions and other factors It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results

25 Contingent liabilities and other risk factors

Levy schemes

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

RAC Limited

Notes to the consolidated financial statements (continued)

26 Capital structure

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

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

(a) General

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

(b) Capital management

In managing its capital, the Group seeks to.

(i) maintain financial strength,

(ii) retain financial flexibility, and

(iii) allocate capital efficiently and repatriate excess capital where appropriate

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

(c) Accounting basis

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

(d) Capital structure

	IFRS net assets 2012	IFRS net assets 2011
	£m	£m
Total capital employed	181	211
Financed by		
Equity shareholder's funds	181	211

RAC Limited

Notes to the financial statements (continued)

27 Related party transactions

(a) The RAC Limited Group had the following transactions with related parties during the year

(i) The RAC Limited Group had the following net amounts due from related parties

	2012	2011
	£m	£m
Other RAC Group companies - current balances	17	-

(ii) The RAC Limited Group had the following net amounts due to related parties

	2012	2011
	£m	£m
Other RAC Group companies - current balances	(48)	(81)

(b) The Company had the following transactions with related parties during the year

(i) The Company had the following amounts due from related parties

	2012	2011
	£m	£m
Other Group companies - current balances	31	2
Other Group companies - loan balances	10	10
	41	12

(ii) The Company had the following amounts due to related parties

	2012	2011
	£m	£m
Other Group companies - current balances	(144)	(46)
Other Group companies - loan balances	(256)	(235)
	(400)	(281)

(iii) In October 2012 RAC Limited received a dividend of £23 million from RAC Motoring Services RAC Limited also paid a dividend of £124 million to RAC Finance (Holdings) Limited

(iv) During the year, the Company received 1,596,000 £1 ordinary shares from its subsidiary RAC Motoring Services in exchange for a 92 3% interest in the members' capital of RAC Brand Enterprises LLP, the Company's associate, for consideration of £1,596,000

RAC Limited

Notes to the financial statements (continued)

27 Related party transactions (continued)

(c) Key management compensation

The details of the total compensation to those employees classified as key management can be found in the financial statements of RAC Finance Group (Holdings) Limited, the controlling entity of the Group.

(d) Key management interests

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

(e) Immediate parent company

RAC Limited's immediate parent company is RAC Finance (Holdings) Limited, registered in England and Wales

(f) Ultimate controlling entity

The controlling entity is RAC Finance Group (Holdings) Limited Its consolidated Report and Accounts are available on application to the Company Secretary, RAC Finance Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, WS5 4AW

The controlling shareholder of RAC Finance Group (Holdings) Limited, and therefore the ultimate controlling entity, is Carlyle European Partners III Investment 16 S à r l The lowest level at which consolidated IFRS financial statements are prepared is RAC Limited

Up to 30 September 2011, the ultimate controlling entity of the Group was Aviva plc