RAC PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
2009

RAC plc

Contents

		Page
Directors and officer		1
Directors' report		2
Independent auditor's report		7
Accounting policies		9
Income statement		16
Statement of comprehensive income		17
Statement of financial position		18
Statement of changes in equity		19
Statement of cash flows		20
Notes to the financial statements		
1	Presentation changes	21
2	Profit/(loss) before tax	22
3	Employee information	22
4	Directors	23
5	Auditor's remuneration	23
6	Tax	23
7	Investments in subsidiaries	25
8	Property and equipment	27
9	Loans	28
10	Financial investments	28
11	Fair value	29
12	Trade and other receivables	31
13	Assets held for sale	31
14	Tax assets and liabilities	32
15	Trade and other payables	33
16	Provisions	33
17	Ordinary share capital	34
18	Other reserves	34
19	Financial guarantees and options	35
20	Commitments	35
21	Retirement benefit obligations	35
22	Financial liabilities	47
23	Statement of cash flows	48
24	Risk management	50
25	Capital structure	55
26	Related party transactions	56
27	Events after the reporting period	58

RAC plc

Directors and officer

Directors:

S Egan
D J R McMillan

Officer - Company Secretary:

R H Spicker

Auditor:

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

Registered office:

8 Surrey Street
Norwich
NR1 3NG

Company number:

Registered in England and Wales No 229121

Other information:

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

RAC plc

Directors' report
For the year ended 31 December 2009

The directors present their annual report and financial statements for the Company for the year ended 31 December 2009

Directors

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

Those in office since 1 January 2009 have been as follows

D K Watson was appointed as a director on 2 January 2009 and resigned on 31 March 2010

A D Hewitt resigned as a director on 31 March 2009

I M Mayer resigned as a director on 31 December 2009

D J R McMillan was appointed as a director on 23 February 2010

J R Kitson resigned as a director on 31 March 2010

S Egan was appointed as a director on 31 March 2010

Principal activity

The principal activity of the Company is that of a holding company for its subsidiaries, which provide a range of motoring and vehicle services to individual and business customers

Business review

Basis of preparation

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

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements The directors consider that the Company's principal activity will continue unchanged into the foreseeable future

Directors' report (continued)

Business review (continued)

Financial key performance indicators

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

Financial position and performance

The financial position of the Company at 31 December 2009 is shown in the statement of financial position on page 18, with the trading results shown in the income statement on page 16 and the statement of cash flows on page 20

Profit before tax is £4 million in 2009 (2008 loss of £105 million) The factors responsible for this result are detailed below

Interest and dividend income received for the year is £33 million (2008 £14 million)

Pension costs recharged are £11 million (2008 £15 million) Additionally, a s75 Pension credit of £10 million arose due to R A C Motoring Services paying the RAC (2003) Pension Scheme as described on page 4

Administration expenses are £22 million (2008 £61 million) In 2009, expenses include impairments and movements in provisions relating to subsidiaries and receivables of £12 million (2008 £47 million)

Losses on disposal of subsidiaries are £6 million (2008 £85 million)

For 2009, fair value gains on investments in subsidiary companies are £31 million (2008 gain of £47 million), due to a higher fair value arising from the successful continuation of the strategy for the marketing and sale of RAC motor insurance Unrealised gains have been retained in the revaluation reserve, resulting in a net surplus of £99 million (2008 £68 million)

In 2009, actuarial losses of £144 million (2008 £174 million) arising on retirement benefit obligations were taken to equity This includes an actuarial gain on scheme assets in 2009 of £61 million (2008 loss of £273 million) offset by an actuarial loss on scheme liabilities of £205 million (2008 gain of £102 million) arising on a change of assumptions

Principal risks and uncertainties

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

RAC plc

Directors' report (continued)

Major events

On 10 February 2009, the Company sold its entire shareholding in The British School of Motoring Limited to Arques Consulting GmbH for a consideration of £4 million, resulting in a loss on disposal of £6 million

On 10 February 2009, the Company subscribed for 14 5 million ordinary shares of £1 each in RAC Brand Management Limited to cover net liabilities of the subsidiary The capital injection was settled by reducing the intercompany receivable due from the subsidiary

When the Royal Automobile Club ("the Club") sold its motoring services division to the Company in September 1999, members of the Club received Loan Notes as consideration for their membership of the Club On 31 July 2009, the Company approved the redemption of all unsecured and guaranteed loan notes on the redemption date of 22 July 2010 At the year end, the value of the loan notes payable was £10 million

Prior to their disposal by the Company in 2008 and 2009 respectively to Arques Consulting GmbH, RAC Auto Windscreens Limited ("RACAW") and The British School of Motoring Limited ("TBSOM") both participated in the RAC (2003) Pension Scheme ("the Scheme") The sale of each subsidiary by the Company triggered a section 75 debt under the Pensions Act 1995 of £10 million in total Under the sale agreements, for both RACAW and TBSOM, the Company indemnified Arques Consulting GmbH for debt arising on the issuance of formal contribution notices These notices were received by RACAW and TBSOM from the Trustees of the Scheme on 21 October 2009 On 18 December 2009, the Company approved payment of £10 million by the Company's subsidiary, R A C Motoring Services ("RACMS") to the Scheme This payment, as acknowledged by the Trustees, constituted full and final settlement of RACAW and TBSOM respective obligations to the Scheme under Pensions law Therefore, no amount is payable under the indemnity and as such the right to claim has been waived by Arques Consulting GmbH

Events after the reporting period

On 20 April 2010, the Group advised its UK staff and the trustees of the RAC (2003) Pension Scheme that it intended to begin consultation with them on a proposal to close the final salary section of the scheme This consultation is under way and is expected to be concluded by the end of the year

RAC plc

Directors' report (continued)

Going concern

After making enquiries, the directors have a reasonable expectation that the Company 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 financial statements

Financial instruments

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

Dividends

No interim dividend for the year was paid (2008 £ nil) The directors do not recommend the payment of a final dividend (2008 £ nil)

Employees

Employees are employed either by the Company or by fellow Group companies

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

Auditor

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

Directors' liabilities

Aviva plc, 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 2004 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

RAC plc

Directors' report (continued)

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period A fair presentation of the financial statements in accordance with IFRS requires the directors to

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

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

On behalf of the Board

S Egan
Director

17 JUNE 2010

RAC plc

Independent auditor's report

To the members of RAC plc

We have audited the financial statements of RAC plc for the year ended 31 December 2009, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows 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 (IFRSs) 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 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit 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 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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Independent auditor's report (continued)

To the members of RAC plc

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

Ernst & Young LLP

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

Date 18 June 2010

RAC plc

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain Its principal activity is that of a holding company

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

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2009

The following recently issued pronouncements are effective for the 2009 financial statements and had been endorsed by the EU as at the date of signing the financial statements With the exception of IAS 1 Presentation of Financial Statements A Revised Presentation and Amendment to IFRS 7 Improving Disclosures about Financial Instruments (see note 1), none of these pronouncements materially impacts the Company's financial reporting

- IAS 1 Presentation of Financial Statements A Revised Presentation
- Amendment to IAS 23 Borrowing Costs
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendment to IAS 39 Reclassification of Financial Assets Effective Date and Transition
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets
- Improvements to IFRSs (issued in May 2008)
- Improvements to IFRSs (issued in April 2009)
- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
- Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellations
- Amendments to IFRS 7 Improving Disclosures about Financial Instruments
- IFRS 8 Operating Segments
- Amendments to IFRIC 9 and IAS 39 Embedded Derivatives
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

The following pronouncements are effective in future years and are not expected to have a material impact on the Company's financial reporting With the exception of the Amendments to IFRS 1, these pronouncements were endorsed by the EU as at the date of authorisation of the financial statements

- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendment to IAS 32 Classification of Rights Issues
- Amendment to IAS 39 Financial Instruments Recognition and Measurement Eligible Hedged Items
- Improvements to IFRSs (issued in April 2009)
- Revised IFRS 1 First Time Adoption of IFRS
- Amendments to IFRS 1 Additional Exemptions for First-time Adopters
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Revised IFRS 3 Business Combinations
- IFRIC 17 Distributions of Non-cash Assets to Owners

Accounting policies (continued)

(A) Basis of presentation (continued)

IFRS 9 Financial Instruments is effective in future years and awaiting endorsement The Company is currently reviewing the potential impact on the financial statements

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

The Company is exempt from preparing group accounts by virtue of Section 400 of the Companies Act 2006, as it is a subsidiary of an EU parent (note 26(d)) The financial statements present information about the Company as an individual company and not about its group

(B) Use of estimates

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

(C) Revenue recognition

(i) Interest income

Interest income is recognised as it accrues using the effective interest method

(ii) Dividend income

Dividend income is recognised on the ex-dividend date

(D) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss (FVPL as defined in policy I) are included in foreign exchange gains and losses in the income statement Translation differences on non-monetary items, such as equities, which are held at fair value through profit or loss, are reported as part of the fair value gain or loss

RAC plc

Accounting policies (continued)

(E) Subsidiaries

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

In the statement of financial position, subsidiaries are stated at their fair values These investments are classified as available for sale ("AFS") financial assets, with changes in their fair value being recognised in other comprehensive income and recorded in a separate investment revaluation reserve within equity Where the cumulative changes recognised in equity represent an unrealised loss, the investments are reviewed to test whether an impairment exists Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the subsidiary or a prolonged decline in their fair value below cost, the unrealised loss recorded in equity is reclassified and charged to the income statement Any subsequent increase in fair value of the impaired investment is recognised in other comprehensive income and recorded in the investment revaluation reserve, unless this increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement In such an event, the reversal of the impairment loss is recognised as a gain in the income statement

(F) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings

(G) 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 where

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

(ii) the Company 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 Company 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, 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 plc

Accounting policies (continued)

(H) Impairment of non-financial assets

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

(I) Financial investments

The Company classifies its financial investments as financial assets at fair value through profit or loss ("FVPL") The FVPL category is used in all cases as the Company's strategy is to manage its financial investments on a fair value basis All securities in the FVPL category are classified as other than trading

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement Investments classified as other than trading are subsequently carried at fair value Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise

Investments carried at fair value are measured using a fair value hierarchy, described in note 11, with values based on quoted bid prices or amounts derived from cash flow models Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer

(J) Loans

Loans with fixed maturities are recognised when cash is advanced to borrowers These loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, including any collateral receivable Subsequent recoveries in excess of the loan's written down carrying value are credited to the income statement

RAC plc

Accounting policies (continued)

(K) Trade receivables

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

(L) Operations held for sale

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the statement of financial position Non-current assets classified as held for sale are recorded at the lower of their carrying amount and their fair value, less estimated selling costs

(M) 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 within trade and other payables in the statement of financial position

(N) Financial guarantee contracts

Financial guarantees are recognised initially at their fair value They are subsequently measured at the higher of the expected receivable or liability under the guarantee and the amount initially recognised less any accumulated amortisation A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon and a receivable is recognised if it is virtually certain

(O) 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 relevant leases

(P) Borrowings

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

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

Accounting policies (continued)

(Q) Income taxes

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

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively Deferred tax related to fair value re-measurement of available for sale investments, owner-occupied properties and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability

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

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

(R) Employee benefits

(i) Pension obligations

The Company operates defined benefit pension plans, the assets of which are held in separate trustee-administered funds The pension plans are funded by payments from employees, the Company's subsidiaries and by the Company

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 outflows, using a discount rate based on market yields for high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms of maturity approximate to the related pension liability The resulting pension scheme surplus or deficit appears as an asset or obligation in the statement of financial position

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

Accounting policies (continued)

(R) Employee benefits (continued)

(ii) Other post-retirement obligations

The Company provides medical benefits on a discretionary basis for certain pensioners and their dependants in the United Kingdom ("UK") Unlike the pension schemes, no assets are set aside in separate funds to provide for the future liability

(S) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made Where the Company expects a provision to be reimbursed, for example for environmental restoration, restructuring costs and legal claims, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

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

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

(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, a financial instrument is treated as equity if

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

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

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

RAC plc

Income statement

For the year ended 31 December 2009

	Note	2009	Restated 2008
		£m	£m
Revenue			
Interest income		16	8
Dividend income		17	6
Pension costs recharged	21(A)(b)	11	15
s75 Pension Credit	21(A)(a)(i)	10	-
Total revenue		54	29
Operating expenses			
Administrative expenses	2	(22)	(61)
Finance costs	2	(22)	12
Loss on sale of subsidiaries	7(b)(ii)	(6)	(85)
Profit/(loss) before tax		4	(105)
Tax credit	6	2	4
Profit/(loss) for the year		6	(101)

The accounting policies on pages 9 to 15 and notes on pages 21 to 58 are an integral part of these financial statements

RAC plc

Statement of comprehensive income

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Profit/(loss) for the year		6	(101)
Other comprehensive income			
Investments classified as available for sale			
Fair value gains	7(b)	31	47
Actuarial gains on retirement benefit obligations			
Actuarial losses on defined benefit schemes	21(A)(c)(iii)	(145)	(174)
Actuarial gains on post retirement medical benefit scheme	21(B)(c)(iv)	1	-
Other comprehensive income, net of tax		(113)	(127)
Total comprehensive income for the year		(107)	(228)

The accounting policies on pages 9 to 15 and notes on pages 21 to 58 are an integral part of these financial statements

RAC plc

Statement of financial position

As at 31 December 2009

	Note	2009 £m	2008 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	7	771	752
Property and equipment	8	1	1
Loans	9	11	11
Financial investments	10	4	4
Trade and other receivables	12	244	155
		1,031	923
Current assets			
Trade and other receivables	12	32	45
Current tax assets	14	1	10
Cash and cash equivalents	23(b)	11	13
Assets held for sale	13	-	8
		44	76
LIABILITIES			
Current liabilities			
Financial liabilities	22	(10)	(11)
Trade and other payables	15	(164)	(127)
Provisions	16	(1)	(2)
		(175)	(140)
Net current liabilities		(131)	(64)
Non-current liabilities			
Retirement benefit obligations	21	(315)	(181)
Trade and other payables	15	(235)	(221)
Net assets		350	457
EQUITY			
Ordinary share capital	17	31	31
Share premium		153	153
Other reserves	18	100	69
Retained earnings		66	204
Total equity		350	457

The accounting policies on pages 9 to 15 and notes on pages 21 to 58 are an integral part of these financial statements

Approved by the Board on 17 JUNE 2010

D J R McMillan
Director

RAC plc

Statement of changes in equity
For the year ended 31 December 2009

	Ordinary share capital	Share premium	Capital redemption reserve	Other reserves	Investment revaluation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2008	31	153	1	20	21	459	685
Total comprehensive income for the year	-	-	-	-	47	(275)	(228)
Transfer to retained earnings (note 18)	-	-	-	(20)	-	20	-
Total movements in the year	-	-	-	(20)	47	(255)	(228)
Balance at 31 December 2008	**31**	**153**	**1**	**-**	**68**	**204**	**457**
Total comprehensive income for the year	-	-	-	-	31	(138)	(107)
Total movements in the year	-	-	-	-	31	(138)	(107)
Balance at 31 December 2009	**31**	**153**	**1**	**-**	**99**	**66**	**350**

The accounting policies on pages 9 to 15 and notes on pages 21 to 58 are an integral part of these financial statements

RAC plc

Statement of cash flows

For the year ended 31 December 2009

	Note	Total 2009 £m	Total 2008 £m
Cash flows from operating activities			
Net cash (outflow to) operating activities	23(a)	(13)	(38)
Net cash (used in) operating activities		(13)	(38)
Cash flows from investing activities			
Capital injections to subsidiaries		-	(22)
Dividend received		-	7
Proceeds from sale of subsidiaries (note 7(b)(ii) and 23(c))		4	67
Interest received		9	-
Net cash from investing activities		13	52
Cash flows from financing activities			
Net repayment of external borrowings		(1)	(1)
Net cash used in financing activities		(1)	(1)
Net (decrease)/increase in cash and cash equivalents		(1)	13
Cash and cash equivalents at 1 January		6	(7)
Cash and cash equivalents at 31 December	23(b)	5	6

The accounting policies on pages 9 to 15 and notes on pages 21 to 58 are an integral part of these financial statements

RAC plc

Notes to the financial statements

1. Presentation changes

(a) The Company has adopted IAS 1 (Revised) Presentation of Financial Statements as at 1 January 2009 The principal effect of this has been in presentation of the financial statements, in the following areas

(i) The titles of some of the prime statements have changed, so that the statement of recognised gains and losses is now called the statement of comprehensive income, the reconciliation of movements in shareholder's equity is now called the statement of changes in equity, the balance sheet is now called the statement of financial position, and the cash flow statement is now called the statement of cash flows

(ii) The standard requires the income tax effect of each component of comprehensive income to be disclosed

(iii) Changes in the year in each element of equity must now be shown on the face of the statement of changes in equity, rather than in the notes

(iv) The standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements None of these conditions applies

(b) The Company has also adopted Amendments to IFRS 7, Improving Disclosures about Financial Instruments, as at 1 January 2009 The principal impact of these amendments is to require the following additional disclosures

(i) An analysis of financial assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of inputs used in making the fair value measurements,

(ii) An analysis of transfers of financial assets and liabilities between different levels of the fair value hierarchy,

(iii) A reconciliation from beginning to end of period of the financial assets and liabilities whose fair value is based on unobservable inputs, and

(iv) An enhanced discussion and analysis of liquidity risk, including a maturity analysis of financial assets held for managing liquidity risk, if that information is necessary to enable users of the financial statements to evaluate the nature and extent of liquidity risk

Comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application

Notes to the financial statements (continued)

2 Profit/(loss) before tax

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

	2009	2008
	£m	£m
Administrative expenses include·		
Impairment of investments in subsidiaries (note 7(b))	(27)	(44)
Impairment of receivables from related parties	-	(15)
Decrease in provisions against receivables from related parties (see below)	15	12

On 10 February 2009, the Company made a capital injection of £15 million to RAC Brand Management Limited to cover the net liabilities of the subsidiary The capital injection was settled by reducing the intercompany receivable due from the subsidiary An impairment provision of £15 million was made against the intercompany receivable at 31 December 2008 This was reversed in 2009 and the investment in subsidiary was impaired

Operating lease charges have been borne directly in 2008 and 2009 by a subsidiary company, R A C Motoring Services

	Note	2009	2008
		£m	£m
Finance costs include			
Interest payable to other Group companies		(7)	(2)
Pensions net finance (cost)/income	21(A)(c)(iii)	(15)	14
		(22)	12

3 Employee information

The average number of persons employed during the year was

	2009	2008
	Number	Number
Administration	14	27

Total staff costs were

	£m	£m
Wages and salaries	-	1
Post-retirement obligations (note 21(A)(b))	8	11
	8	12

These costs were charged within

	2009	2008
	£m	£m
Administrative expenses	8	12

Employees are employed by either the Company or by other Group companies

Notes to the financial statements (continued)

4 Directors

All directors of the Company are remunerated as employees by a fellow Group company, Aviva Employment Services Limited This remuneration is recharged to all operating divisions of the Aviva Group under management service agreements However, no cost is borne by the Company for the services of the directors in their capacity as directors

5 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below The Company is exempt from disclosing other fees payable to its auditors, in respect of other work, by virtue of regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (see note 26(d))

	2009	2008
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	47	47

Audit fees are borne by Aviva Central Services UK Limited, a fellow Group company, and recharged to the Company

6 Tax

(a) Tax credited to the income statement

The total tax credit comprises	2009	2008
	£m	£m
Current tax·		
For this year	(1)	(10)
Adjustment in respect of prior year	(1)	(5)
Total current tax	(2)	(15)
Deferred tax		
Origination and reversal of timing differences	-	11
Total deferred tax	-	11
Total tax credited to income statement	(2)	(4)

Notes to the financial statements (continued)

6 Tax (continued)

(b) Deferred tax charged to the income statement represents movements on the following items

	2009 £m	2008 £m
Pensions and other post retirement obligations	-	11
Total deferred tax charged to income statement	-	11

(c) Tax reconciliation

The tax on the Company's result before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom ("UK") as follows

	2009 £m	2008 £m
Net profit/(loss) before tax	4	(105)
Tax calculated at standard UK corporation tax rate of 28% (2008 28 5%)	1	(30)
Adjustment to tax charge in respect of prior years	(1)	(5)
Non-assessable dividends	(4)	(2)
Non-taxable loss on sale of subsidiaries	2	24
Disallowable expenses	-	1
Deferred tax assets not recognised	(3)	(6)
Impairment of investment in subsidiaries	3	13
Other	-	1
Tax (credited)/charged for the period (note 6(a))	(2)	(4)

Notes to the financial statements (continued)

7 Investments in subsidiaries

(a) Particulars of material subsidiaries are given below Those companies which have been omitted do not materially affect the amount of the result or assets shown in the financial statements The companies have share capital comprising shares of one class only and are incorporated in Great Britain

Company	Type of business	Class of share	Proportion held
R A C 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%

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

	2009	2008
Fair value	**£m**	**£m**
At 1 January	752	709
Additions	-	156
Capital injections (note 7(b)(i))	15	45
Disposals (note 7(b)(ii))	-	(154)
Impairment of investments recognised in income statement	(27)	(44)
Fair value gains on revaluation of subsidiaries (note 18)	31	47
Dividend received	-	(7)
At 31 December	771	752

The fair value of the Company's investments in its subsidiaries is calculated by reference to net asset value and multiples of net asset value Changes in the assumptions that are used in the valuation model, to reasonably possible alternatives, would not significantly affect the fair value of the Company's investments in its subsidiaries

RAC plc

Notes to the financial statements (continued)

7 Investments in subsidiaries (continued)

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

(i) Capital injections

On 10 February 2009, the Company subscribed for 14 5 million ordinary shares of £1 each in RAC Brand Management Limited to cover net liabilities of the subsidiary The capital injection was settled by reducing the intercompany receivable due from the subsidiary An impairment provision of £15 million made against the intercompany current account receivable at 31 December 2008, was released in 2009

(ii) Disposals

On 10 February 2009, the Company completed the disposal of The British School of Motoring Limited and the BSM brand to Arques Consulting GmbH The decision to sell was part of the Group's wider strategy to exit non-core operations

	2009
	£m
Proceeds from sale	
- non-cash consideration - Loans	4
Carrying value of assets disposed of	-
Write-off of intercompany balances	(9)
Pension curtailment gain	1
Transaction costs	(2)
Loss on disposal before tax	(6)

The consideration was settled by cash of £1 and the issue of loan notes, consisting of a £3 million 10% and a £1 million 12% loan note both secured by fixed and floating charges, and which were both redeemed on 30 October 2009

Notes to the financial statements (continued)

8 Property and equipment

	Long leasehold £m
2009	
Valuation	
At 1 January 2009 and at 31 December 2009	1

	Long leasehold £m
2008	
Valuation	
At 1 January 2008 and at 31 December 2008	1

Owner-occupied properties are stated at their fair values as assessed by DTZ Debenham Tie Leung Limited, qualified external independent valuers Values are calculated on Existing Use Value as at 31 December 2009

Notes to the financial statements (continued)

9 Loans

The carrying amounts of loans at 31 December 2009 are as follows

	2009			2008		
	At amortised cost	Impairment	Total	At amortised cost	Impairment	Total
	£m	£m	£m	£m	£m	£m
Unsecured loans	11	-	11	11	-	11

The loan notes were issued during 2008 The loan is 8% unsecured, guaranteed, subordinated loan notes

The fair value of the loan is estimated to be £11 million No impairment is considered necessary as at 31 December 2009

The loan is expected to be recovered on 31 December 2011

During the year, the Company acquired loan notes consisting of £3 million 10% and £1 million 12% loan notes both secured by fixed and floating charges as part of the disposal of its entire shareholding in TBSOM to Arques Consulting GmbH Both loan notes were redeemed on 30 October 2009

10 Financial investments

(a) Carrying amount
Financial investments comprise

	At fair value through profit or loss	
	2009	2008
	£m	£m
Equity securities		
Preference shares	4	4

The investments are expected to be recovered in more than one year after the balance sheet date

(b) The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments

	2009			
	Cost	Unrealised gains	Unrealised losses	Fair value
	£m	£m	£m	£m
Equity securities	9	-	(5)	4

	2008			
	Cost	Unrealised gains	Unrealised losses	Fair value
	£m	£m	£m	£m
Equity securities	9	-	(5)	4

Notes to the financial statements (continued)

11 Fair value

(a) Fair value methodology

For investments carried at fair value, the Company has categorised the measurement basis into a 'fair value hierarchy' as follows

Quoted market prices in active markets – ("Level 1")

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets

Modelled with significant observable market inputs – ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset Level 2 inputs include the following

- quoted prices for similar (i e not identical) assets in active markets,
- quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly,
- inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals volatilities, prepayment speeds, loss severities, credit risks, and default rates), and
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, investment property measured using market observable information, listed debt or equity securities in a market that is inactive, and investments in subsidiaries using models underpinned by Aviva plc's market capitalisation

Modelled with significant unobservable market inputs – ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models) As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset Examples are certain private equity investments and private placements and investments in subsidiaries valued at net asset value

The Company's investments are based on estimates and recorded as Level 3 investments Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly

An analysis of investments according to fair value hierarchy is given overleaf

Notes to the financial statements (continued)

11 Fair value (continued)

(b) Fair value hierarchy

2009

	Fair value hierarchy Level 1	Level 2	Level 3	Sub-total	Amortised cost	Statement of financial position Total
	£m	£m	£m	£m	£m	£m
Investment in subsidiaries	-	-	771	771	-	771
Loans	-	-	-	-	11	11
Equity securities	-	-	4	4	-	4
	-	-	775	775	11	786

2008

	Fair value hierarchy Level 1	Level 2	Level 3	Sub-total	Amortised cost	Statement of financial position Total
	£m	£m	£m	£m	£m	£m
Investment in subsidiaries	-	-	752	752	-	752
Loans	-	-	-	-	11	11
Equity securities	-	-	4	4	-	4
	-	-	756	756	11	767

(c) The table below show movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only)

	2009	2008
	£m	£m
Balance at 1 January	756	709
Purchases	-	165
Capital injections	15	45
Disposals	-	(154)
Dividend received	-	(7)
Unrealised gains/(losses)	4	(2)
Balance at 31 December	775	756

Notes to the financial statements (continued)

12 Trade and other receivables

	2009 £m	2008 £m
Prepayments	-	1
Receivables from related parties (see below)		
Loans	244	155
Current accounts	16	42
Other debtors	16	2
	276	200
Expected to be settled within one year	32	45
Expected to be settled in more than one year	244	155
	276	200
Total amounts due from related parties		
Loans (note 26(a)(vi))	244	155
Trade receivables and current accounts (note 26(a)(vi))	16	42
	260	197

13 Assets held for sale

The assets and liabilities of operations classified as held for sale as at 31 December 2009 are as follows

	2009 £m	2008 £m
Receivables from related parties	-	8
Total assets	-	8

In 2008, the Group decided to sell, and actively market, certain companies as part of its wider strategy to exit non-core businesses As at 31 December 2008, some of these companies were yet to be sold but were expected to be disposed of in the first half of 2009

On 10 February 2009, the Company sold its entire shareholding of The British School of Motoring Limited to Arques Consulting GmbH for a consideration of £4 million less transaction costs of £2 million, resulting in a loss on disposal of £6 million, representing a deterioration in expected proceeds since 31 December 2008

Notes to the financial statements (continued)

14 Tax assets and liabilities

(a) Current tax

	2009	2008
	£m	£m
Tax asset		
Expected to be recoverable in more than one year	1	10
Tax asset recognised in statement of financial position	1	10

Assets for prior years tax settled by group relief of £13 million (2008 £19 million) are included within trade and other receivables (note 12) and within the related party transactions (note 26(a)(iv)) and are recoverable in less than one year

(b) Deferred tax

The movement in the net deferred tax asset was as follows	2009	2008
	£m	£m
Net asset at 1 January	-	11
Amounts charged to profit (note 6(a))	-	(11)
Net asset at 31 December	-	-

The Company has unrecognised temporary differences of £316 million (2008 £179 million) to carry forward indefinitely against future taxable income In addition, the Company has an unrecognised capital loss of £99 million (2008 £101 million)

Notes to the financial statements (continued)

15 Trade and other payables

	2009 £m	2008 £m
Amounts due to related parties (note 26(a)(vii))		
Loans	235	221
Current accounts	149	101
Bank overdrafts (note 23(b))	6	7
Accruals	7	7
Other creditors	2	12
	399	348
Expected to be settled within one year	164	127
Expected to be settled in more than one year	235	221
	399	348
Total amounts due to related parties		
Loans (note 26(a)(vii))	235	221
Trade payables and current accounts (note 26(a)(vii))	149	101
	384	322

16 Provisions

	2009 £m	2008 £m
Vacant leasehold	1	2
Expected to be settled within one year	1	2

	Vacant leasehold £m
At 1 January 2009	2
Utilised during the year	(1)
At 31 December 2009	1

Notes to the financial statements (continued)

17 Ordinary share capital

Details of the Company's ordinary share capital are as follows	2009	2008
	£m	£m
Authorised		
164,940,000 (2008 164,940,000) ordinary shares of 25 pence each	41	41
Allotted, called up and fully paid		
122,590,168 (2008 122,590,168) ordinary shares of 25 pence each	31	31

18 Other reserves

	Capital redemption reserve	Other reserves	Investment revaluation reserve	Total
	£m	£m	£m	£m
Balance at 1 January 2008	1	20	21	42
Revaluation of subsidiaries (note 7)	-	-	47	47
Transfer to retained earnings	-	(20)	-	(20)
Total movements in the year	-	(20)	47	27
Balance at 31 December 2008	1	-	68	69
Revaluation of subsidiaries (note 7)	-	-	31	31
Total movements in the year	-	-	31	31
Balance at 31 December 2009	1	-	99	100

The "other reserves" arose in 2002 on the assignment of certain trademarks to RAC Brand Management Limited, a subsidiary company, at market value As the relevant trademarks had been either sold or fully impaired in RAC Brand Management Limited by 31 December 2008, this reserve has been fully released in 2008

Notes to the financial statements (continued)

19 Financial guarantees and options

The Company and certain of its subsidiary companies have given cross guarantees in respect of joint bank accounts The Company has also given other guarantees in respect of certain bank overdrafts and loans to subsidiary companies

In the opinion of the directors the fair value of these guarantees is not material and no material loss is expected to arise therefrom

20 Commitments

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

	2009	2008
	£m	£m
Within 1 year	2	2
Later than 1 year and not later than 5 years	2	3
	4	5

21 Retirement benefit obligations

Pension deficits	2009	2008
	£m	£m
Defined benefits schemes (see (A) below)	(311)	(176)
Post-retirement medical benefits scheme (see (B) below)	(4)	(5)
	(315)	(181)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme

(a) Introduction

In the UK, RAC plc operates two main pension schemes for its subsidiaries, the RAC (2003) Pension Scheme (see (i) below) and the smaller Auto Windscreens Pension Scheme (see (ii) below) Under these schemes, members receive benefits on a defined benefit basis (generally related to final salary) The assets of each scheme are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees

(i) RAC (2003) Pension Scheme ("RAC Scheme")

For funding purposes, an actuarial valuation report has been prepared for the RAC Scheme as at an effective date of 31 March 2009, with the obligations calculated using the Projected Unit Credit Method

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

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(a) Introduction (continued)

(i) RAC (2003) Pension Scheme ("RAC Scheme") (continued)

Contributions to the RAC Scheme throughout 2009 were 22 2% of employees' pensionable salaries (these rates include allowance for life insurance premiums paid from the Scheme and administrative expenses) During the year, additional deficit funding payments were made of £8 million Contribution and deficit funding payments are expected to continue unchanged in 2010

Prior to their disposal by the Company in 2008 to Arques Consulting GmbH, Auto Windscreens Limited and BSM Limited both participated in the RAC Scheme The sale of each subsidiary by the Company triggered a section 75 debt under the Pensions Act 1995 of £10 million in total Under the sale agreements, for both Auto Windscreens Limited and BSM Limited, the Company indemnified Arques Consulting GmbH for debt arising on the issuance of formal contribution notices These notices were received by Auto Windscreens Limited and BSM Limited from the Trustees of the RAC Scheme on 21 October 2009 On 18 December 2009, the Company approved payment of £10 million by the Company's subsidiary, R A C Motoring Services to the RAC Scheme This payment, as acknowledged by the Trustees, constituted full and final settlement of Auto Windscreens Limited and BSM Limited obligations to the RAC Scheme under Pensions law Therefore, no amount is payable under the indemnity and as such the right to claim has been waived by Arques Consulting GmbH

In the absence of any contractual arrangements to allocate the net defined benefit cost for the RAC Scheme, measured in accordance with IAS 19, to individual businesses, it is the policy to allocate this cost fully to the Company

(ii) Auto Windscreens Pension Scheme ("AW Scheme")

For funding purposes, an actuarial valuation report has been prepared for the AW Scheme as at an effective date of 5 April 2006, with the obligations calculated using the projected unit credit method

On 8 December 2008, the Company assumed the role of principal employer for the AW Scheme The Company assumed full obligation for the benefit provided and as such has booked a loss on acquisition of the AW Scheme of £3 million to the statement of comprehensive income

On 30 December 2008, RAC Auto Windscreens Limited, the main employing company, was sold at which point all members of the AW Scheme became deferred A curtailment gain of £1 million was recognised in the income statement Pension costs for the AW Scheme are borne by the Company

During the year, deficit funding and administrative expense payments were made of £2 million This is expected to continue unchanged in 2010

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

	2009	2008
	£m	£m
Pension cost (note 21(A)(c)(iii))	8	11
Less amounts recharged to RAC operating businesses	(11)	(15)
Less s75 Pension Credit (note 21(A)(a)(i))	(10)	-
(Income)/expense retained in the Company	(13)	(4)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(c) IAS 19 disclosures

Disclosures under IAS 19 for the RAC Scheme and A W Scheme are given below on a consolidated basis ("the Schemes")

(i) Assumptions on the liabilities of the Schemes

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 pension obligations

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 2009 This update was made by the Scheme's actuary The Schemes' assets are stated at their fair values as at 31 December 2009

The details for the defined benefit section of the Schemes are shown below Although these Schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions

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

	2009	2008
	%	%
Inflation rate	3 6	2 9
General salary increases	5 4	4 7
Pension increases	3 6	3 1
Deferred pension increases	3 6	3 1
Discount rate	5 7	6 2

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate The discount rate is based on current average yields of high quality debt instruments (AA-rated corporate bonds), taking account of the maturities of the defined benefit obligations A 1% increase in this rate (and therefore the net discount rate) would reduce the liabilities by £208 million and the service cost for the year by £3 million

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

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

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the Schemes, particularly given the maturity of obligations in these Schemes The mortality tables and average life expectancy used at 31 December 2009 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
PA92U2010MC with a one year age rating deduction and an allowance for future improvements	60	89 4 (29 4)	92 5 (32 5)	91 8 (31 8)	93 9 (33 9)

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 include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table and incorporating underpins to the rate of future improvement equal to 1 5% p a for males and 1 0% p a for females The effect on the Schemes of assuming all members were one year younger would increase the Schemes' liabilities by £23 million The Schemes' liabilities have an average duration of 20 years

(ii) Assumptions on the assets of the Schemes

The expected rates of return on the assets of the Schemes are

	2010	2009
	%	%
Equities	7 8	6 3
Bonds	4 8	5 2
Property	6 3	4 8
Cash	0 9	3 2
Derivatives	4 1	3 4

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(ii) Assumptions on the assets of the Schemes (continued)

The overall rates of return are based on the expected returns within each asset category and on current asset allocations The expected returns for equities and properties have been aligned with the rates used by Aviva plc, the ultimate controlling entity, for longer-term investment return assumptions The figures for the total expected return on the Schemes' assets in the following section are stated after deducting investment expenses

(iii) Pension expense

	2009 £m	2008 £m
The pension (expense)/credit for the Schemes comprises		
Current service cost	(9)	(12)
Gain on curtailment	1	1
Total pension cost	(8)	(11)
Expected return on the Schemes' assets	41	69
Interest charge on the Schemes' liabilities	(56)	(55)
Net Finance (Cost)/Income	(15)	14
Total (charge)/credit to the income statement, prior to recharge	(23)	3

	2009 £m	2008 £m
Expected return on the Schemes' assets	(41)	(69)
Actual positive/(negative) return on these assets	101	(204)
Actuarial gains/(losses) on the Schemes' assets	60	(273)
Experience (losses)/gains arising on the Schemes' liabilities	(5)	9
Change in assumptions (increasing)/decreasing the present value of the Schemes' liabilities	(200)	93
Loss on scheme transfers	-	(3)
Actuarial losses recognised in the statement of comprehensive income	(145)	(174)

The cumulative amount of actuarial losses recognised in the statement of comprehensive income since 1 January 2004 (the date of transition to IFRS) was £455 million at 31 December 2009 (2008 £310 million)

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(iv) Experience gains and losses

	2009		2008		2007		2006		2005	
	£m	%	£m	%	£m	%	£m	%	£m	%
Fair value of the Schemes' assets at the end of the year	830		735		937		919		773	
Present value of the Schemes' liabilities at the end of the year	(1,141)		(911)		(959)		(1,001)		(984)	
Deficit in the Schemes	(311)		(176)		(22)		(82)		(211)	
Difference between the expected and actual return on the Schemes' assets										
Amount of losses/(gains)	(60)		273		28		(27)		(64)	
Percentage of the Schemes' assets at the end of the year		(7)		37		3		(3)		(8)
Experience losses/(gains) on the Schemes' liabilities (excluding changes in assumptions)										
Amount of losses/(gains)	(5)		(9)		13		-		(3)	
Percentage of the present value of the Schemes' liabilities		-		1		1		-		-

Estimated employer contributions for the financial year ending 31 December 2010 are £23 million

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(v) Schemes' deficit

The assets and liabilities of the Schemes, attributable to defined benefit members, at 31 December 2009 comprise

	2009 £m	2008 £m
Equities	295	323
Bonds	390	300
Property	57	65
Cash and derivatives	88	47
Total fair value of assets	830	735
Present value of the Schemes' liabilities	(1,141)	(911)
Deficit in the Schemes'	(311)	(176)

(vi) Movements in the Schemes' deficit

Movements in the Schemes' deficit are as follows

2009	Schemes' assets 2009 £m	Schemes' liabilities 2009 £m	Net pension deficit 2009 £m
Balance at 1 January	735	(911)	(176)
Employer contributions	23	-	23
Employee contributions	3	(3)	-
Section 75 payment by subsidiary company	10	-	10
Benefits paid	(42)	42	-
Charge to net operating expenses	-	(9)	(9)
Gain on curtailment	-	1	1
Credit/(charge) to investment income	41	(56)	(15)
Actuarial (losses)/gains	60	(205)	(145)
Balance at 31 December	830	(1,141)	(311)

RAC plc

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(A) RAC (2003) Pension Scheme and Auto Windscreens Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(vi) Movements in the Schemes' deficit (continued)

2008	Schemes' assets 2008 £m	Schemes' liabilities 2008 £m	Net pension deficit 2008 £m
Balance at 1 January	937	(959)	(22)
Employer contributions	17	-	17
Employee contributions	3	(3)	-
Benefits paid	(32)	32	-
Charge to net operating expenses	-	(12)	(12)
Gain on curtailment	-	1	1
Credit/ (charge) to investment income	69	(55)	14
Transfer from other schemes	14	(17)	(3)
Actuarial (losses)/gains	(273)	102	(171)
Balance at 31 December	735	(911)	(176)

The change in the Schemes' deficit during 2009 is mainly attributable to the adverse changes in assumptions underlying the present value of the Schemes' liabilities, partly offset by the gains in equity and property investment values

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(B) Post-retirement medical benefits scheme

(a) Introduction

The Company provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK The number of pensioners entitled to this benefit at 31 December 2009 was 152 (2008 152)

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

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

(b) Charges to the income statement

	2009	2008
	£m	£m
Administration expenses	-	-

(c) IAS 19 disclosures

(i) Assumptions on scheme's liabilities

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the scheme at 31 December 2009 This update was made by the scheme actuary

RAC plc

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(B) Post-retirement medical benefits scheme (continued)

(c) IAS 19 disclosures (continued)

(i) Assumptions on scheme's liabilities (continued)

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

	2009	2008
	%	%
Inflation rate	3 6%	2 9%
Medical cost trend	4 5% throughout	6 0% for one year falling over three years to 5 2%
Discount rate	5 7%	6 2%

The inflation rate is the assumption that has the largest impact on the value of the liabilities A 1% increase in this rate would increase the liabilities by £0 4 million

The effect of a 1% increase in the assumed medical cost trend rate would increase liabilities and service costs by £0 4 million and £nil respectively The effect of a 1% decrease in the assumed medical cost trend rate would decrease liabilities and service costs by £0 3 million and £nil respectively

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the scheme, particularly given the maturity of these obligations in this scheme The mortality tables and average life expectancy used at 31 December 2009 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
PA92U2010MC with a one year age rating deduction and an allowance for future improvements	60	89 4 (29 4)	92 5 (32 5)	91 8 (31 8)	93 9 (33 9)

RAC plc

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(B) Post-retirement medical benefits scheme (continued)

(c) IAS 19 disclosures (continued)

(i) Assumptions on scheme's liabilities (continued)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption The assumptions above include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table The effect on the scheme of assuming all members were one year younger would increase the scheme's liabilities by £0 1million

The scheme's liabilities have an average duration of 20 years

(ii) Pension expense

	2009 £m	2008 £m
Gains recognised in the statement of comprehensive income	1	-

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since 1 January 2004 (the date of transition to IFRS) was £1 million at 31 December 2009 (2008 £ nil)

(iii) Experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of scheme's liabilities at the end of the year	(4)	(5)	(5)	(6)	(6)
Deficit in the scheme	(4)	(5)	(5)	(6)	(6)
Experience gains on the scheme's liabilities					
Amount of gains/(losses)	1	-	1	-	(1)
Percentage of the present value of the scheme's liabilities	25	-	20	-	17

Notes to the financial statements (continued)

21 Retirement benefit obligations (continued)

(B) Post-retirement medical benefits scheme (continued)

(c) IAS 19 disclosures (continued)

(iv) Scheme's deficit

Movement in the scheme's deficit comprise

2009	Scheme's liabilities 2009 £m	Net post-retirement medical benefit deficit 2009 £m
Balance at 1 January	(5)	(5)
Actuarial gains	1	1
Balance at 31 December	(4)	(4)

2008	Scheme's liabilities 2008 £m	Net post-retirement medical benefit deficit 2008 £m
Balance at 1 January	(5)	(5)
Balance at 31 December	(5)	(5)

Notes to the financial statements (continued)

22 Financial liabilities

(a) Carrying amounts

The following table provides information about the maturity periods of the Company's borrowings

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

	Denominated currency	Total £m
2009 Amounts owed to credit institutions		
Unsecured loan notes	Sterling	2
Guaranteed loan notes	Sterling	8
		10
2008 Amounts owed to credit institutions		
Unsecured loan notes	Sterling	2
Guaranteed loan notes	Sterling	9
		11

All amounts owed to credit institutions have contractual repricing or maturity dates within one year

Unsecured loan notes have a maturity date of July 2010 On 31 July 2009, the Company approved the redemption of all unsecured and guaranteed loan notes on the redemption date of 22 July 2010

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

(b) Movements during the year

Movements in borrowings during the year are

	2009 £m	2008 £m
Repayment of borrowings	(1)	(1)
Net cash outflow	(1)	(1)
Balance at 1 January	11	12
Balance at 31 December	10	11

Notes to the financial statements (continued)

23 Statement of cash flows

	2009 £m	2008 £m
(a) The reconciliation of profit/(loss) before tax to the net cash outflow from operating activities is:		
Profit/(loss) before tax	4	(105)
Adjustments for		
Loss on sale of subsidiaries	6	85
Impairment in subsidiary companies	27	44
Increase in provision against receivables from related parties	(15)	15
Retirement benefit income	(13)	(3)
Finance costs	22	2
Interest receivable	(16)	(8)
Dividends receivable	(17)	-
Changes in working capital		
(Increase)/decrease in trade and other receivables	(47)	114
Increase/(Decrease) in provisions	(1)	2
Increase/(decrease) in trade and other payables	60	(167)
Contributions to the retirement benefit schemes	(23)	(17)
Net cash (outflow to) operating activities	(13)	(38)

"(Increase)/decrease in trade and other receivables" is stated after eliminating
- £15 million of capital injection to a subsidiary settled by reducing intercompany receivables,
- £11 million of pension costs recharged to intercompany receivables,
- £7 million of interest receivable capitalised on intercompany receivables,
- £15 million of impairments released to the income statement, and
- £12 million of corporation tax recoverable settled or to be settled by group relief

"Increase/(decrease) in trade and other payables" is stated after eliminating
- £2 million of transaction costs charged to the loss on disposal of subsidiaries in 2009, and
- £7 million of interest payable capitalised on intercompany payables
- £17 million dividends receivable

"Contributions to the retirement benefit schemes" is stated after eliminating £144 million of actuarial losses on pension schemes and £13 million of retirement benefit credits

Notes to the financial statements (continued)

23 Statement of cash flows (continued)

	2009 £m	2008 £m
(b) Cash and cash equivalents in the cash flow statement at 31 December comprise:		
Cash at bank and in hand	11	13
Bank overdrafts	(6)	(7)
	5	6

	2009 £m	2008 £m
(c) Cash flows in respect of the disposal of subsidiaries		
Cash proceeds from disposal of subsidiaries (note 7(b))	4	67
Cash flows on disposal	4	67

RAC plc

Notes to the financial statements (continued)

24 Risk management

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

- financial risks, which cover market, credit and liquidity risks,
- strategic risks, which include issues such as customer, products and markets as well as any risks to the Company's business model arising from changes in the market, and risks arising from mergers and acquisitions, and
- operational risks, which arise from inadequately controlled internal processes or systems, human error or non-compliance as well as from external events Operational risks include taxation, reputation and regulatory risks, such as compliance

In addition, the Company is exposed to risks associated with pension scheme, which are dealt with in the notes

The risk management framework provides the means to identify, assess, measure, manage and monitor all of the different types of risk faced by UKGI to provide a single picture of the threats and uncertainties faced and opportunities that exist

UKGI sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UKGI is willing to accept) UKGI assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders Where risks are outside appetite, actions are agreed to mitigate the exposure

UKGI's risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable assurance against material financial misstatement or loss New risks or risks currently considered immaterial may also impair the future achievement of business objectives

UKGI recognises the critical importance of maintaining an efficient and effective risk management framework To this end, UKGI 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 within UKGI,

- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and

- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The policies also set out the roles and responsibilities of businesses, regions, policy owners, and risk oversight committees

RAC plc

Notes to the financial statements (continued)

24 Risk management (continued)

UKGI has developed economic capital models that support the measurement, comparison and further understanding of its risks The results of the modelling are incorporated into key strategic planning and decision-making processes These models show the relative impact to economic capital from the risks faced In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside appetite

The Financial Services Authority also requires UKGI to assess its economic capital requirements to ensure that it adequately reflects business and control risks

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

UKGI manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets UKGI's market risk appetite is set by the UKGI Capital Management Committee, which also receives regular information on market risk

The Company is exposed to movements in the value of the pension scheme's assets and liabilities from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates Further details of the assets and liabilities of the pension scheme are set out in note 21

The Company operates predominantly within the UK and there is no material exposure to foreign currency exchange rates

Investments in subsidiary companies of £771 million (2008 £752 million) are included at fair value using a valuation model established by an independent third party

Derivatives are used within policy guidelines agreed by the Aviva plc Board of Directors Derivatives are only used for efficient portfolio management or risk hedging purposes The Company did not have any derivatives during the year or at the year-end

(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

UKGI's management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's Exposure levels are reported to, and reviewed by, the UKGI Investment Committee

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

Notes to the financial statements (continued)

24 Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure of the Company "Non-rated" assets captures assets not rated by external ratings agencies

31 December 2009	Credit rating AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the statement of financial position
	£m	£m	£m	£m	£m	£m	£m
Loans	-	-	-	-	11	-	11
Financial investments	-	-	-	-	-	4	4
Other debtors	-	13	-	-	-	3	16
Cash and cash equivalents	-	11	-	-	-	-	11

31 December 2008	Credit rating AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the statement of financial position
	£m	£m	£m	£m	£m	£m	£m
Loans	-	-	-	-	11	-	11
Financial investments	-	-	-	-	-	4	4
Other debtors	-	-	-	-	-	2	2
Cash and cash equivalents	-	13	-	-	-	-	13

At 31 December 2009, no financial assets have been impaired or are overdue

Trade and other receivables of £276 million (2008 £200 million) include amounts due from related parties of £260 million (2008 £197 million)

Notes to the financial statements (continued)

24 Risk management (continued)

(a) Financial risk management (continued)

(iii) Liquidity risk

The Company is supported through its participation in UKGI

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 2009	Total	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms
	£m	£m	£m	£m	£m	£m
Investments in subsidiaries	771	-	-	-	-	771
Loans	11	-	11	-	-	-
Financial investments	4	-	4	-	-	-
Current tax assets	1	-	1	-	-	-
Trade and other receivables	276	32	244	-	-	-
Cash and cash equivalents	11	11	-	-	-	-
	1,074	43	260	-	-	771

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company

Included in receivables and other financial assets is a revolving credit agreement to Aviva International Insurance Limited (see note 26(vi))

As explained in note 1(b), comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application and so no table for 2008 is presented above

The following table shows the Company's financial liabilities analysed by duration

31 December 2009	Total	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years
	£m	£m	£m	£m	£m
Financial liabilities	10	10	-	-	-
Trade and other payables	399	164	235	-	-
	409	174	235	-	-

31 December 2008	Total	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years
	£m	£m	£m	£m	£m
Financial liabilities	11	11	-	-	-
Trade and other payables	348	127	221	-	-
	359	138	221	-	-

RAC plc

Notes to the financial statements (continued)

24 Risk management (continued)

(b) Strategic risks

(i) Types of strategic risk

UKGI is exposed to a number of strategic risks UKGI's strategy needs to support its vision, purpose and objectives and be 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 and improving longevity)

(ii) Management of strategic risks

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

UKGI actively engages with external bodies to share the benefit of their expertise in supporting responses to emerging risks, as well as challenging developments that could be damaging to the 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

UKGI is responsible for identifying and managing operational risks in line with minimum standards of control set out in Group policies Each operational risk is assessed by considering the potential impact and the probability of the event occurring Impact assessments are considered against financial, operational and reputational criteria Business management teams must be satisfied that all material risks falling outside the Group's risk appetite are being mitigated, monitored and reported to an appropriate level Any risks with a high potential impact level are monitored locally

The UKGI risk management and governance function is responsible for ensuring implementation of the Group risk management methodologies and frameworks to assist line management in this work It also provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans

The management of operational risk is overseen by the UKGI Operational Risk Committee

As a consequence of the above, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level

Notes to the financial statements (continued)

25 Capital structure

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

(a) General

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

(b) Capital management

In managing its capital, the Company seeks to

(i) maintain financial strength,
(ii) retain financial flexibility, and
(iii) allocate capital efficiently and repatriate excess capital where appropriate

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

(c) Measure of capital

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

(d) Capital structure

	IFRS net assets 2009 £m	IFRS net assets 2008 £m
Holding company	350	457
Total capital employed	350	457
Financed by		
Equity shareholder's funds	350	457

RAC plc

Notes to the financial statements (continued)

26 Related party transactions

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

(i) The Company received income and incurred expenses on behalf of, and is party to funding arrangements with, fellow Group companies in the course of business The net funding in 2009 was £23 million (2008 £70 million)

(ii) Dividends received in the year from subsidiaries comprise £17 million (2008 £6 million) Interest of £7 million (2008 £8 million) was received from parent and fellow Group companies

(iii) During 2009, intercompany balances were assigned between Group companies The impact of the assignments on the Company was to reduce the payable and receivable current account balance by £2 million

(iv) Transactions with Group companies for settlement of corporation tax assets and liabilities by group relief are detailed in note 14 Current accounts receivable for group relief of £17 million were settled during the year

(v) On 10 February 2009, the Company made a capital injection of £15 million to RAC Brand Management Limited to cover net liabilities of the subsidiary The capital injection was settled by reducing the intercompany receivable due from the subsidiary Accordingly, an impairment provision of £15 million was made against the intercompany current account receivable at 31 December 2008 and this was released against the impairment during the year ended 31 December 2009

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

	2009	2008
	£m	£m
Parent - loan account	234	145
Other Group companies - loan accounts	10	10
Other Group companies - current accounts	16	42
	260	197

Loan to Aviva International Insurance Limited

With effect from 1 July 2009, the Company renewed a revolving loan facility to Aviva International Insurance Limited of up to an aggregate value of £500 million This is repayable on 30 June 2012 or on termination of the agreement Interest is paid on the facility at a fixed rate of 5% At the year end the balance is £234 million (2008 £145 million) receivable During 2009, interest of £6 million was capitalised

Loan to RAC Financial Services Limited

A £10 million subordinated loan is in operation between the Company and RAC Financial Services Limited, a subsidiary company Interest is paid on the facility at 1% above Barclays Bank base rate The year end receivable balance is £10 million (2008 £10 million) The principal amount loaned to RAC Financial Services Limited is £10 million The terms of the loan provide that RAC Financial Services Limited cannot repay the loan without the prior written consent of the Financial Services Authority

26 Related party transactions (continued)

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

	2009	2008
	£m	£m
Other Group companies - loan accounts	235	221
Other Group companies - current accounts	149	101
	384	322

Loan from RAC Financial Services Limited

The Company has a loan facility from RAC Financial Services Limited The maximum facility amount is £50 million and is repayable on demand or by no later than the maturity date of 30 June 2012 Interest is paid on the facility at a fixed rate of 5% The year end payable balance is £10 million (2008 £26 million)

Loan from R A C. Motoring Services

On 18 December 2009, the Company renewed a revolving credit facility from R A C Motoring Services The maximum facility amount is £300 million, with effect from 1 July 2009, and is repayable on demand or by no later than the maturity date of 30 June 2012 During the year interest of £6 million was capitalised The year end balance is £192 million payable (2008 £186 million)

Loan from Bluecycle com Limited

On 30 December 2009, the Company approved a revolving credit facility from Bluecycle com Limited The maximum facility amount is £20 million, with effect from 1 July 2009 and is repayable on demand or by no later than the maturity date of 30 June 2012 Interest is paid on the facility at a fixed rate of 5% During the year £3 million was drawn down and at the year end the balance is £12 million payable (2008 £9 million)

Loan from Solus (London) Limited

On 30 December 2009, the Company approved a revolving credit facility from Solus (London) Limited The maximum facility amount is £40 million, with effect from 1 July 2009 and is repayable on demand or by no later than the maturity date of 30 June 2012 Interest is paid on the facility at a fixed rate of 5% During the year £20 million was drawn down and at the year end the balance is £20 million payable (2008 £nil)

Notes to the financial statements (continued)

26 Related party transactions (continued)

(b) Key management compensation

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

	2009 £000	2008 £000
Salary and other short-term benefits	3,010	3,115
Post-employment benefits	718	419
Other long-term benefits	77	146
Equity compensation plans	1,270	1,669
Total	5,075	5,349

(c) Immediate parent company

The Company's immediate parent company is Aviva International Insurance Limited, registered in England and Wales

(d) Ultimate controlling entity

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

27 Events after the reporting period

On 20 April 2010, the Group advised its UK staff and the trustees of the RAC (2003) Pension Scheme that it intended to begin consultation with them on a proposal to close the final salary section of the scheme This consultation is under way and is expected to be concluded by the end of 2010