

Registered in England and Wales No: 00229121

RAC GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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RAC Group Limited

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RAC Group Limited

Company information

Directors:

R Fairman
R Templeman
C Woodhouse
M Wood

Company Secretary:

S Morrison

Registered office:

RAC House
Brockhurst Crescent
Walsall
West Midlands
United Kingdom
WS5 4AW

Auditor:

Deloitte LLP
Chartered Accountants and Statutory Auditor
Four Brindleyplace
Birmingham
B1 2HZ

Company number:

Registered in England and Wales: No. 00229121

Other information:

The RAC Group Limited group of companies ("The RAC Group Limited Group" or "RAC"), comprises RAC Group Limited ("Company") and its subsidiaries (RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, Net Cars Limited and Risk Telematics UK Limited). The Company is a member of the RAC Group (Holdings) Limited group of companies ("Group").

These Consolidated Financial Statements are presented for the year ended 31 December 2016. Comparatives are presented for the year ended 31 December 2015.

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

RAC Group Limited

Strategic report

For the year ended 31 December 2016

The Directors present their Strategic Report for the year ended 31 December 2016.

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

Principal activities

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

Review of the business

Business overview

2016 was another exciting year for the business, building on the success of recent years. The RAC's achievements during the year are testament to the hard work and efforts of its employees and partners, and the Directors would like to take this opportunity to thank them. Their dedication enables the RAC to continue as "The Motorist's Champion", serving Members and motorists throughout the UK and abroad.

2016 was a successful year for the RAC Group Limited Group financially, with strong performance against a backdrop of challenging market conditions. The RAC Group Limited Group delivered further growth in revenue whilst maintaining its earnings and most importantly, its customer base. A number of new corporate partner deals were secured in 2016 including Mercedes-Benz Cars UK Limited, one the RAC Group Limited Group is immensely proud to have won. This latest deal adds to the established portfolio of well-known brands to whom the RAC Group Limited Group provides a range of breakdown, accident management and increasingly telematics services.

RAC now has over 8.6 million (2015: 8.6 million) individual and corporate roadside members in the UK whom we would like to thank for their continued support.

RAC has delivered a range of new products and services to its members and other motorists over the past few years and we see innovation and technological development as fundamental to the Group's success and vision to be The Motorist's Champion. In 2016, smaller towing vans have been introduced in trial areas that are capable of fully lifting a vehicle for short recoveries. The continued development and training of the RACScan diagnostic platform provides patrols with the broadest vehicle coverage and information available to diagnose and repair electronic system issues at the roadside.

The RAC's high levels of customer service continued in 2016, including consistently high levels in roadside repair rate and arrival time to Members at the roadside. We strongly believe that fixing cars at the roadside is optimal for RAC customers, thereby enabling them to continue their journeys. This approach is recognised by the RAC members with our Net Promoter Score increasing once again to an industry leading 94 in 2016 (2015: 93).

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Business overview (continued)

RAC continues to work in Parliament and beyond to put the motorist's case forward and support the interests and issues affecting them. Acting as the voice of the motorist in Westminster, the RAC has successfully led and supported on road safety issues such as increased funding and investment to improve the state of the UK road network and raised issues on the illegal use of hand-held mobile phones at the wheel. The RAC has successfully influenced the government to increase the penalty for this crime.

RAC members continue to be concerned about the both the state of the country's road network and the cost of motoring and RAC continues to play an active and vocal role in both these areas. The cost of motoring in the UK is rising year-on-year and we recognise the pressures this brings to RAC Members. For a number of years the RAC has pushed for increased visibility and fairness in fuel prices and we were pleased to see pump prices reduce in the first few months of 2016 as retailers passed on reductions in wholesale prices to customers.

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

The KPIs set out in the table below are fundamental to the RAC's business and reflect its focus on the drivers of value that will enable and inform the management team to achieve the RAC's business plans, strategic aims and objectives.

	2016	2015	2014
Revenue (£m)	506	501	498
EBITDA before exceptional items* (£m)	181	179	169
Roadside repair rate (%)	81	81	81
Roadside retention rate (%)	80	81	83
Net Promoter Score **	94	93	92

* Earnings before Interest, Other gains and losses, Tax, Amortisation, Depreciation, and Exceptional items as set out on page 17

** Industry-wide customer satisfaction measure

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

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Financial review

The RAC Group Limited Group's Financial Statements are set out on page 17 onwards.

Income statement

The RAC Group Limited Group generated Revenue of £506 million in 2016 (2015: £501 million), reflecting growth across the business.

EBITDA before exceptional items of £181 million was generated in 2016 (2015: £179 million), an increase of 1% compared to the prior year, which is an excellent achievement in a highly competitive market environment.

Exceptional items of £9 million have been incurred in 2016. Exit costs of £3 million in respect of the rebalancing of non-customer facing staff have been incurred, along with a further £1 million in respect of the impairment of intangible assets relating to Risk Telematics UK Limited (see note 11). In addition, the Group has made a provision of £5 million (2015: £nil) for the estimated costs of providing refunds to a limited number of customers who have enjoyed roadside cover through holding a packaged bank account or other policy provided by a corporate partner, whilst also being an individual member of RAC. In 2015, exceptional items Amortisation of intangible assets of £29 million was charged in 2016 (2015: £26 million). This represents amortisation of both customer acquisition intangible assets and other assets, being amortised their useful economic lives.

Operating profit of £138 million (2015: £149 million) decreased by £11 million, primarily due to an increase in exceptional items.

The RAC Group Limited Group generated a profit before tax of £134 million for the year (2015: profit before tax of £148 million).

Statement of financial position

The RAC Group Limited Group had Goodwill and Intangible assets of £449 million at 31 December 2016 (2015: £438 million) and these principally represent goodwill and the RAC brand. The movement reflects new investment in the year of £41 million (2015: £28 million) in developing the business, offset by an amortisation charge of £29 million (2015: £26 million). There were £1 million of impairment charges during the year as described above (2015: £nil).

Property, plant and equipment of £15 million was held at 31 December 2016 (2015: £15 million) and includes the Group's Stretford property. In 2016 there was a decrease of £0.4 million (2015: increase of £0.2 million) in the valuation of the Stretford property.

The RAC Group Limited Group had net current liabilities of £196 million at 31 December 2016 (2015: net current liabilities of £35 million) with the movement in the year reflecting a decrease in amounts due from

The RAC Group Limited Group had total shareholder funds of £3 million at 31 December 2016 (2015: funds of £379 million).

Statement of cash flows

The net decrease in cash and cash equivalents during the year was £45 million (2015: increase of £34 million) primarily driven by investments in customer acquisition intangibles of £41 million (2015: £28 million).

The RAC Group Limited Group achieved operating cash generation in 2016 of £265 million (2015: £142 million) through continued disciplined management of working capital and the repayment of intercompany balances via dividends received of £485 million. In addition, RAC Group Limited Group paid a dividend to its immediate parent undertaking of £485 million (2015: £nil).

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Risk management

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

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

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

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

The new 'Solvency II' requirements came into force effective 1 January 2016 to further enhance and standardise the measurement and reporting of the financial strength of regulated businesses across the European Union. Solvency II has introduced tougher, more rigorous standards for capital adequacy and the calculation thereof. The Group has undertaken a detailed programme of work in order for RAC Insurance Limited to comply with the requirements of Solvency II and has been in compliance throughout the period.

Financial risk management

Market risk

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

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

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Financial risk management (continued)

Credit risk

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

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

Liquidity risk

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

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

Capital structure

The Group maintains an efficient capital structure comprising equity shareholders' funds and bank borrowings, consistent with the Group's overall risk profile and the regulatory and market requirements of the business (see the review of the statement of financial position on page 4).

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Key strategic and operational risks

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

Risk	Mitigation
By virtue of the fact that RAC has a highly visible and widely recognised brand, it is particularly exposed to reputational damage from mistakes or misconduct, or allegations thereof, by its Patrols and other employees, contractors or agents, or poor customer service. A decline in favourable recognition of RAC's brand could impact its ability to attract or retain Members or other customers, which could have a material adverse effect on its business, financial condition and results of operations.	All RAC Patrols and other employees are subject to rigorous vetting and training procedures to ensure they meet the high standards required. Where RAC engages contractors or agents, these third parties are vetted and approved before providing services to the Group's Members and customers. Service levels are regularly monitored to ensure the Group continues to deliver the high level of service expected. The RAC has in place appropriate committees and other forums to ensure that risks to good customer outcomes are identified and mitigated, and that customer complaints are being addressed appropriately. In addition, a specific entity (RAC Brand Enterprises LLP) has been established with responsibility for ensuring the appropriate use of the brand.
The majority of RAC's revenue is attributable to its roadside assistance service which is the product offering most closely associated with RAC's brand. A material gap in RAC's ability to repair vehicles at the roadside could have an adverse impact on the quality of its roadside assistance services.	The RAC's repair rate at roadside is a key measure monitored by its operations team and the Group continues to deliver market leading repair rates. The Group's Technical Department monitors vehicle technology developments to ensure that its patrols have the skills and equipment required to maintain the high roadside repair levels.
RAC's volume of Individual Members, both new and retained, is one of the most significant drivers of its business results. While the volume of new Individual Members acquired has a direct impact on RAC's results, the margins associated with the various acquisition channels vary, making the sales mix an important driver of profitability. If RAC's acquisition volumes are concentrated in a lower margin acquisition channel, its results may be adversely impacted.	RAC monitors acquisition and renewal performance closely through weekly and monthly reporting and reviews of performance. The Group uses a variety of acquisition channels and has flexibility to ensure that volumes are not inappropriately concentrated in any one channel.
Pricing for Individual Members in the roadside assistance segment is relatively transparent between RAC and its principal competitors, and RAC's competitors may seek to compete aggressively on the basis of price in order to protect or gain market share. Although there has been limited pricing pressure in recent years among RAC's primary competitors in the roadside assistance market, it may, in the future, face increased competition and price pressure.	RAC sets acquisition and renewal prices at appropriate levels in accordance with the cover provided. Prices are regularly monitored to ensure the Group remains competitive.

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Key strategic and operational risks (continued)

Risk	Mitigation
RAC's margins are impacted by its Members' usage levels, which are, in turn, impacted by a variety of factors including Member volumes, vehicle age and type, fuel prices, weather and driving habits. RAC has access to a large volume of data about its Members and their driving habits, which it uses to make assumptions about likely usage levels. These assumptions inform the pricing of RAC's products and the allocation of its resources in providing its services. If these assumptions prove to be inaccurate or if Member usage levels increase in a way that RAC is not able to plan for or adjust to, its performance, business, financial condition and results of operations could be adversely impacted.	RAC employs a specialist Demand Forecasting function to monitor usage levels and to make predictions of future usage. These predictions are used both in pricing and profitability decisions, but more importantly in the rostering and deployment of resources to ensure the Group's high customer service levels are maintained. Investment has been made in improving weather forecasting and analysis in order to better predict the impact of short term weather variations and to maintain service levels in the event of extreme weather.
RAC has a number of important Corporate Partners, principally in its roadside assistance segment. The loss of one or more of these significant contracts with Corporate Partners, due to the financial difficulty of the Corporate Partner, a deterioration in the business relationship or otherwise, or the renewal of those contracts on less advantageous terms, could adversely affect RAC's business, financial condition and results of operations.	RAC has a range of Corporate Partner customers across a number of sectors and the Group does not have a material dependency on any one Corporate Partner for the delivery of its overall results. Corporate Partner contracts tend to be for a period of three to five years and renewal times vary such that the Group is not overly exposed to renewals in any one year. RAC actively seeks to provide services to new corporate partners to supplement its existing customer base.
RAC depends on its IT and communication systems to conduct its business, including receiving calls from Members experiencing vehicle breakdowns and allocating the appropriate resources to assist those Members, as well as maintaining accurate customer service records and managing its fleet of Patrols. If RAC is unable to maintain and improve its IT and communication systems and infrastructure, or effectively resolve any service disruption, reliability or quality issues, its business, financial condition and results of operations could be adversely impacted.	RAC employs a specialist IT team who are responsible for maintaining and developing appropriate IT systems. RAC recognises the importance of maintaining viable capability to continue business processes with minimal impact in the event of an emergency incident and has appropriate business continuity and disaster recovery plans and processes in place. RAC will continue to monitor, maintain and develop appropriate IT systems.
RAC competes with global and national insurance companies, including direct writers of insurance coverage, as well as non-insurance financial services companies, such as banks, many of which offer alternative products or more competitive pricing for segments of the insurance market in which RAC operates. If RAC is unable to price its products competitively, its ability to cross-sell its insurance products, its margins and/or market share may suffer.	RAC operates insurance broker panels covering motor, home and other insurance products. RAC works with a panel of leading underwriters to ensure competitive and appropriate policies are offered to its customers. RAC has developed a new range of complementary products which are offered to customers where appropriate. RAC closely monitors these markets to ensure it is able to respond to industry changes or competitor activity.
Following the UK referendum decision to leave the European Union there is increased uncertainty for business and consumers which may impact overall confidence in the UK economy.	RAC is a UK focussed and robust business which has performed strongly over recent years and has a clear strategy for growth. Whilst there remains uncertainty over the ultimate Brexit deal the UK Government will negotiate, the Government and the Bank of England are taking steps to stabilise the pound and the financial markets. RAC has very limited business outside of the UK's borders. Should there be any negative impact from Brexit to growth prospects for the UK economy, our business has proved in the past to be resilient during recessionary times. We will continue to monitor the impact of the Brexit vote and will take appropriate steps to maintain RAC's competitive position.

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

Key strategic and operational risks (continued)

Risk	Mitigation
RAC regularly collects, processes, stores and handles non-public data from its Members, Corporate Partners and others as part of the operation of its business, and therefore must comply with data protection laws in the United Kingdom and the European Union ("EU"). Failure to comply with data protection laws and data being wrongfully accessed, used, disclosed or processed, could potentially lead to regulatory censure, fines, civil and criminal liability, and reputational and financial costs.	RAC is committed to ensuring that its information assets are secure and protected from potential threats. RAC has specialist Data, Legal and Compliance teams and appropriate forums to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations. RAC adopts industry best practice in relation to information security in order to facilitate an appropriately secure environment.
RAC is dependent on third party providers for many critical aspects of its business, including the provision of certain IT systems and services, the provision of its insurance products and European breakdown cover, the lease of its Patrol vehicles and the supply of batteries and parts. If RAC is unable to maintain its existing contracts and agreements with suppliers of the various products and services which it relies upon or enters into new contracts on less commercially favourable terms, its business, financial condition and results of operations could be adversely impacted.	RAC maintains relationships with a number of suppliers in order to ensure there is no undue dependency on any one supplier. Supplier relationships are managed in the appropriate interests of both RAC and the suppliers themselves.
The industries in which RAC operates are affected by government regulation in the form of national and local laws and regulations in relation to health and safety, the conduct of operations and taxation. RAC is subject to prudential and consumer protection measures imposed by insurance and financial services regulators. RAC's roadside assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business. RAC may also be subject to regulatory and governmental inquiries and investigations, the impact of which may be difficult to assess or quantify. Any negative publicity arising in connection with any inquiries and litigation or regulatory investigation affecting RAC's business could adversely affect its reputation.	RAC has appropriate policies, processes and controls in place in order to minimise the risk of any legal/compliance failure or breach. Employees are made aware of the requirements and are given appropriate training. Legislative and regulatory developments are monitored and assessed in order that RAC can adapt to any changes and minimise any impact. Whilst responsibility for compliance rests with business areas, RAC employs specialist Risk, Regulatory and Legal teams to provide support and oversight. RAC's Internal Audit function provides a third line of defence, through undertaking periodic reviews with findings reported to the Group Audit, Risk and Compliance Committee.
RAC's roadside operations necessarily require attendance by Patrols or third party contractors to inspect and repair Members' vehicles at the roadside. In view of this there is an inherent risk of serious injury or death of employees, members or third parties from road traffic collisions.	RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by business activities and that effective health and safety management improves performance, reduces injuries, ill health, costs and liabilities. Appropriate policies are maintained and RAC regards health and safety at work as of equal importance to profitability and business ethics, and it is an integral part of the roles of RAC's employees. RAC has a health and safety management system which is mandatory in all areas of the business and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. RAC's Health & Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety.

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2016

General

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

Capital management

In managing its capital, RAC seeks to:

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

Regulatory bases

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

By order of the Board on 2 March 2017.



S Morrison
Company Secretary

RAC Group Limited

Directors' report

For the year ended 31 December 2016

The Directors present their Annual Report on the affairs of the RAC Group Limited Group, together with the Financial Statements and independent auditor's report for the year ended 31 December 2016.

An indication of likely future developments in RAC's business are included in the Strategic Report. Information about the use of financial instruments by the Group including objectives, risks, policies and exposures is given in note 24 to the Consolidated Financial Statements.

Directors

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

D Cougill (resigned 5 September 2016)
R Fairman (appointed 5 September 2016)
R Templeman
C Woodhouse
M Wood

None of the Directors had any interest in the shares of the Company during the year.

Results and dividends

The results of the RAC Group Limited Group for the year ended 31 December 2016 are set out on page 17 and show an EBITDA before exceptional items of £181 million (2015: £179 million), an operating profit of £138 million (2015: £149 million) and a profit before tax of £134 million for the year (2015: profit before tax of £148 million) which are discussed in the Strategic Report on pages 2 to 10. Interim dividends totalling £485 million were paid by the Company during the year (2015: £nil). The Directors do not recommend the payment of a final dividend (2015: £nil).

Capital Structure

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

Directors' indemnities

RAC Group (Holdings) Limited, the Company's ultimate Parent Company, has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. This indemnity was first granted in 2011 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 236 of the Companies Act 2006. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of the transitional provisions to the Companies Act 2006.

RAC Group Limited

Directors' report (continued)

For the year ended 31 December 2016

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash facilities are set out in note 16 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 24 to the Consolidated Financial Statements.

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

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 2 to 10. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The RAC Group Limited Group has net assets of £3 million. This largely reflects the value of goodwill and brand within the RAC Group Limited Group offset by amounts due to related parties.

The Company has net assets of £274 million and net current liabilities of £137 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Group Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2016 Company and RAC Group Limited Group Financial Statements to be prepared on a going concern basis.

RAC Group Limited

Directors' report (continued)

For the year ended 31 December 2016

Employees

All employees of the RAC Group Limited Group are employed by RAC Motoring Services. Disclosures relating to employees can be found in note 8 to the Financial Statements.

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practical in the same or alternative position and to provide appropriate training to achieve this aim.

The Company recognises the importance of communications in order to engage with all colleagues through a variety of different media. Consultation forums and a culture of two-way communication are actively promoted. The Company engages and involves colleagues in the development and direction of the business through colleague forums and a strong partnership with UNITE, the Union. We share information and updates with UNITE and Your Forum representatives and consult fully with them when decisions affect colleagues.

Auditor

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

Disclosure of information to the auditor

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

RAC Group Limited

Directors' report (continued)

For the year ended 31 December 2016

Statement of Directors' responsibilities

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

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

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

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

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

Events since the statement of financial position date

There have been no events since the statement of financial position date which have a material impact on the Company's or RAC Group Limited Group's financial position as at 31 December 2016.

On behalf of the Board on 2 March 2017



S Morrison
Company Secretary

RAC Group Limited

Independent auditor's report to the members of RAC Group Limited

We have audited the Financial Statements of RAC Group Limited for the year ended 31 December 2016, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the accounting policies and the related notes 1 to 25, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cash flows, and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no 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 auditor

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the Financial Statements

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

RAC Group Limited

Independent auditor's report to the members of RAC Group Limited (continued)

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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



Andrew Halls FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
United Kingdom
Date: 2 March 2017

RAC Group Limited
Consolidated Financial Statements 2016
Consolidated Income statement
For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Revenue	1	506	501
Cost of sales		(230)	(215)
Gross profit		276	286
Administrative expenses		(138)	(137)
Operating profit	2	138	149
EBITDA before exceptional items		181	179
Depreciation	12	(5)	(4)
Amortisation of customer acquisition intangible assets	11	(14)	(10)
Amortisation of non customer acquisition intangible assets	11	(15)	(16)
Exceptional items	3	(9)	-
Operating profit		138	149
Finance expenses	6	(4)	(1)
Profit before tax		134	148
Tax charge	10	(25)	(27)
Profit for the year		109	121

The Company has no comprehensive income other than that included in the results above and therefore a separate statement of comprehensive income has not been presented.

The accounting policies and notes on pages 21 to 58 are an integral part of these Financial Statements.

RAC Group Limited

Consolidated Financial Statements 2016 (continued)

Consolidated Statement of financial position

As at 31 December 2016

	Note	2016	2015
		£m	£m
ASSETS			
Non-current assets			
Goodwill and intangible assets	11	449	438
Property, plant and equipment	12	15	15
Deferred tax asset	17	8	7
Trade and other receivables	15	-	3
		<u>472</u>	<u>463</u>
Current assets			
Inventories	14	2	3
Trade and other receivables	15	79	178
Cash and cash equivalents	16	43	88
		<u>124</u>	<u>269</u>
LIABILITIES			
Current liabilities			
Provisions	18	(6)	(1)
Current tax payable	17	(45)	(64)
Trade and other payables	19	(269)	(239)
		<u>(320)</u>	<u>(304)</u>
Net current liabilities		<u>(196)</u>	<u>(35)</u>
Non-current liabilities			
Employee benefit liability	23(c)(iv)	(6)	(6)
Trade and other payables	19	(230)	(3)
Deferred tax liability	17	(37)	(40)
		<u>(273)</u>	<u>(49)</u>
Net assets		<u>3</u>	<u>379</u>
EQUITY			
Ordinary share capital	20	31	31
Other reserves	21	1	1
Retained earnings		(29)	347
Total equity		<u>3</u>	<u>379</u>

The accounting policies and notes on pages 21 to 58 are an integral part of these Financial Statements.

Approved by the Board on 2 March 2017.



R Fairman
Chief Financial Officer

RAC Group Limited

Consolidated Financial Statements 2016 (continued)

Consolidated Statement of changes in equity

For the year ended 31 December 2016

	Note	Ordinary share capital £m	Share premium £m	Own shares £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015		31	-	1	226	258
Profit for the year		-	-	-	121	121
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	121	121
Balance at 31 December 2015		31	-	1	347	379
Profit for the year		-	-	-	109	109
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	109	109
Dividends	4	-	-	-	(485)	(485)
Balance at 31 December 2016		31	-	1	(29)	3

The accounting policies and notes on pages 21 to 58 are an integral part of these Financial Statements.

RAC Group Limited

Consolidated Financial Statements 2016 (continued)

Consolidated Statement of cash flows

For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Operating activities			
Profit before tax		134	148
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of owned tangible assets	12	5	4
Amortisation of intangible assets	11	29	26
Finance expenses	6	4	1
Exceptional costs	3	1	-
Increase in provisions	18	5	-
Working capital adjustments:			
Decrease/(increase) in inventories	14	1	(1)
Decrease/(increase) in trade and other receivables	15	6	(13)
Increase/(decrease) in trade and other payables	19	(16)	-(23)
Net cash flows from operating activities		169	142
Investing activities			
Purchase of property, plant and equipment		(5)	(6)
Purchase of intangible assets		(41)	(28)
Net cash used in investing activities		(46)	(34)
Financing activities			
Dividends paid		(389)	-
Proceeds from related party loan		224	-
Interest paid		(3)	(74)
Net cash flows used in financing activities		(168)	(74)
Net increase in cash and cash equivalents		(45)	34
Cash and cash equivalents brought forward	16	88	54
Cash and cash equivalents carried forward	16	43	88

The accounting policies and notes on pages 21 to 58 are an integral part of these Financial Statements.

RAC Group Limited

Accounting policies

(A) Corporate information

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

Information on RAC Group Limited Group's structure is provided in note 13. Information on other related party relationships is provided in note 25.

The Group and Parent Company Financial Statements of RAC Group Limited for the year ended 31 December 2016 were approved for issue by the Board on 2 March 2017.

(B) Basis of preparation and basis of consolidation

Basis of preparation

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

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

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

The separate Financial Statements of the Parent Company are set out from page 59. On publishing the Parent Company Financial Statements here together with the RAC Group Limited Group Consolidated Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Parent Company's profit for the year ended 31 December 2016 was £446 million (2015: £50 million).

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash facilities are set out in note 16 to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 24 to the Consolidated Financial Statements.

RAC Group Limited

Accounting policies (continued)

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

Going concern (continued)

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

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 2 to 10. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The RAC Group Limited Group has net assets of £3 million. This largely reflects the value of goodwill and brand within the RAC Group Limited Group offset by amounts due to related parties.

The Company has net assets of £275 million and net current liabilities of £136 million. The Directors have considered the financial position and future prospects of the Company. As the Company is in a net current liabilities position, a letter of support has been provided by its Parent Company, RAC Limited in order to ensure it is able to pay any liabilities as they become due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Group Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2016 Company and RAC Group Limited Group Financial Statements to be prepared on a going concern basis.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2016.

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

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

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

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

RAC Group Limited

Accounting policies (continued)

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

Basis of consolidation (continued)

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

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

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

Investments in associates

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

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

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

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

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

RAC Group Limited

Accounting policies (continued)

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

Investments in associates (continued)

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

Business combinations

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

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

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

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

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

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

RAC Group Limited

Accounting policies (continued)

(C) Revenue recognition

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

For all other revenue, income is recognised at point of delivery of goods or on provision of service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

Service revenue

Revenue which represents sales of roadside assistance subscription services and is recognised on a straight-line basis over the length of the contract, usually twelve months. For non-subscription income, revenue is recognised on provision of the service.

For non-subscription revenue, income is recognised on provision of service.

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

Products

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

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

Insurance brokerage

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

Rental income

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

Other income

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

Dividend income

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

RAC Group Limited

Accounting policies (continued)

(D) Exceptional items

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

(E) Goodwill and intangible assets

Goodwill

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

Brand

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

Customer lists and other intangible assets

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

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

Customer acquisition intangibles

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

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

Intangible assets acquired in a business combination

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

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

RAC Group Limited

Accounting policies (continued)

(E) Goodwill and intangible assets (continued)

Impairment testing

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

(F) Property, plant and equipment

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

All other items classified as property, plant and equipment within the Consolidated statement of financial position are carried at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

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

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

(G) Inventories

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

(H) Impairment of non-financial assets

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

RAC Group Limited

Accounting policies (continued)

(I) Trade receivables

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

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks 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 Consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities in the Consolidated statement of financial position.

(K) Borrowings

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

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

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

(L) Derivative financial instruments

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

(M) Provisions and contingent liabilities

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

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

RAC Group Limited

Accounting policies (continued)

(N) Income taxes

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

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

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

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

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

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

(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 Consolidated income statement on a straight-line basis over the period of the lease.

(P) Employee benefits

Pension obligations and other post-retirement benefit obligations

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

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

RAC Group Limited

Accounting policies (continued)

(P) Employee benefits (continued)

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

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

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

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

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

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

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

Termination benefits

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

(Q) Share capital and dividends

Equity instruments

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

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

Dividends

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

RAC Group Limited

Accounting policies (continued)

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

The following new and amended IFRS's are effective for the 2016 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Group or the Parent Company's Financial Statements.

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11 Accounting for Acquisitions of Interest and in Joint Operations
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012 – 2014 Cycle

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

- Amendments to IAS 7 Disclosure Initiative ¹
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses ¹
- IFRS 9 Financial Instruments ²
- IFRS 15 Revenue from contracts with customers ²
- Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions ²
- IFRS 16 Leases ³

The RAC Group Limited Group is currently in the process of evaluating the impact of the adoption of the above new and revised standards on the Group's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

¹ Effective for annual periods commencing on or after 1 January 2017

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

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

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

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

RAC Group Limited

Accounting policies (continued)

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

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

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the RAC Group Limited Group's accounting policies.

(ii) Key sources of estimation uncertainty

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

Tax provisions

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

Provisions and contingent liabilities

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

Customer acquisition intangibles

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

Fair value measurements and valuation process

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

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

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

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

RAC Group Limited

Accounting policies (continued)

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

(ii) Key sources of estimation uncertainty (continued)

Fair value measurements and valuation process (continued)

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

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

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

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

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

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

Employee benefit obligations

Determining the amount of the RAC Group Limited Group's employee benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning inflation, salary and pension increases, investment returns and expected mortality of scheme members. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The RAC Group Limited Group makes assumptions concerning these matters with the assistance from independently qualified actuaries. Details of the assumptions made are set out in note 23 to the Consolidated Financial Statements.

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating unit to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at both 31 December 2016 and 31 December 2015 was £354 million. No impairment loss of goodwill or the brand has been recognised in any of the reported periods.

RAC Group Limited

Notes to the Consolidated Financial Statements

1 Revenue

	2016	2015
	£m	£m
Sale of products	23	24
Sale of services	483	477
Total revenue	506	501

2 Operating items

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

	2016	2015
	£m	£m
Depreciation of owned tangible assets (see note 12)	5	4
Amortisation of customer acquisition intangible assets (see note 11)	14	10
Amortisation of non customer acquisition intangible assets (see note 11)	15	16
Employee costs (see note 8)	144	145
Operating lease rentals paid	13	13
Rental income	-	(1)

3 Exceptional items

	2016	2015
	£m	£m
Impairment of intangible assets (see note 11)	1	-
Restructuring costs	3	-
Customer refund costs	5	-
	9	-

During the year, the RAC Group Limited Group incurred a total of £3 million (2015: £nil) of restructuring costs in respect of the realignment of non-customer facing staff.

The RAC Group Limited Group also incurred £1 million (2015: nil) in respect of the impairment of intangibles relating to the acquisition of Risk Telematics UK Limited. Additionally, the RAC Group Limited Group also incurred costs associated with providing refunds to customers, further details are given in note 18.

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

4 Dividends

The RAC Group Limited Group paid ordinary dividends of £485 million during the year, amounting to 395.76 pence per share (2015: £nil) of which £96 million was a dividend in specie. No interim or final dividend was paid in the year ended 31 December 2015.

5 Operating segments

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

Roadside

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

Insurance broking

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

Motoring services

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

Telematics and Data services

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

5 Operating segments (continued)

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

	2016	2015
	£m	£m
Revenue of products		
Roadside	25	24
Revenue of services		
Roadside	392	395
Insurance broking	57	56
Motoring services	27	21
Telematics and Data services	5	5
Group Revenue	506	501
Segment EBITDA before exceptional items and head office costs		
Roadside	187	187
Insurance broking	30	31
Motoring services	5	3
Telematics and Data services	1	3
Group EBITDA before exceptional items and head office costs	223	224
Head office costs*	(42)	(45)
Group EBITDA before exceptional items	181	179
Amortisation of intangible assets	(29)	(26)
Depreciation	(5)	(4)
Exceptional items*	(9)	-
Operating profit	138	149
Finance expenses	(4)	(1)
Profit before tax from continuing operations	134	148

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

Assets and liabilities

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

6 Finance expenses

	2016	2015
	£m	£m
Interest payable - related parties	3	-
Interest payable - third parties	1	1
	4	1

7 Auditors' remuneration

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

	2016	2015
	£000	£000
Audit Services		
Audit of Financial Statements	47	45
Audit of subsidiaries	202	191
	249	236
Other Services		
Taxation compliance services	282	77
	531	313
Total remuneration payable to Deloitte LLP		

8 Employee information

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

The average number of persons employed during the year was:

	2016	2015
	Number	Number
Roadside	3,007	3,020
Insurance and claims	135	133
Support	324	285
	3,466	3,438

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

8 Employee information (continued)

Total staff costs were:

	2016	2015
	£m	£m
Wages and salaries	124	124
Social security costs	12	12
Pension costs	8	8
Termination benefits	-	1
	144	145
These costs were charged within:		
Cost of sales	102	100
Administrative expenses	42	45
	144	145

9 Directors

Details of the aggregate remuneration of the Directors of the Company for qualifying services in respect of the Group comprise:

	2016	2015
	£000	£000
Fees and benefits	1,087	1,691
	1,087	1,691
Emoluments of the highest paid Director:		
Fees and benefits	516	824
	516	824

- (a) Fees and benefits include relevant Directors' bonuses.
- (b) Retirement benefits are accruing to 1 Director (2015: none) under a money purchase scheme.
- (c) During the year no Directors (2015: none) were awarded shares under long-term incentive schemes.

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

10 Tax

(a) Tax charged to the Income statement

The total tax charge comprises:

	2016	2015
	£m	£m
Current tax:		
For the year	29	29
Adjustment in respect of prior years	-	4
Total current tax	29	33
Deferred tax:		
Origination and reversal of temporary differences	(2)	2
Effect of tax rate change	(2)	(4)
Adjustment in respect of prior years	-	(4)
Total deferred tax credit	(4)	(6)
Total tax charged to the Income statement	25	27

(b) Tax reconciliation

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

	2016	2015
	£m	£m
Profit before tax	134	148
Tax calculated at standard UK corporation tax rate of 20.00% (2015: 20.25%)	27	30
Effect of change in tax rate	(2)	(4)
Adjustment in respect of prior years	-	1
Total tax charged to the income statement (note 10(a))	25	27

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

10 Tax (continued)

(b) Tax reconciliation (continued)

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

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

Accordingly, as the future reductions of the corporation tax rate to 19% and 17% were substantively enacted on 26 October 2015 and 6 September 2016 respectively, the deferred tax balances at 31 December 2016 have been reflected at the tax rates at which they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax charged directly to other comprehensive income in the year amounted to £nil (2015: £nil).

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

11 Goodwill and intangible assets

	Goodwill	Brand	Customer List	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles subtotal	Total
	£m	£m	£m	£m	£m	£m	£m
Cost:							
At 1 January 2015	153	201	52	52	458	51	509
Additions	-	-	-	11	11	17	28
At 31 December 2015	153	201	52	63	469	68	537
Additions	-	-	-	21	21	20	41
At 31 December 2016	153	201	52	84	490	88	578
Amortisation:							
At 1 January 2015	-	-	30	16	46	27	73
Charge for the year	-	-	2	14	16	10	26
At 31 December 2015	-	-	32	30	62	37	99
Charge for the year	-	-	2	13	15	14	29
Impairment	-	-	-	1	1	-	1
At 31 December 2016	-	-	34	44	78	51	129
Net book value:							
At 31 December 2016	153	201	18	40	412	37	449
At 31 December 2015	153	201	20	33	407	31	438

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated income statement. Impairment losses of £1 million (2015: nil) have been recognised in respect of intangibles relating to the acquisition of Risk Technology UK Limited. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated income statement.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the one cash generating unit ("CGU") that existed as at the date of acquisition for the purpose of impairment testing. The carrying value of the goodwill and indefinite-lived intangible assets allocated to the CGU is £153 million and £201 million respectively.

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

11 Goodwill and intangible assets (continued)

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

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2019. The growth rate used to extrapolate revenue beyond the Group's forecasts for the CGU is 2% (2015: 2%), based on the expected average long term growth rate of the UK economy. The pre-tax discount rate applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key assumptions used in management's forecasts include:

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

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

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

12 Property, plant and equipment

	Owner-occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost or valuation:				
At 1 January 2015	6	33	60	99
Additions	-	2	4	6
Disposals	-	(23)	(39)	(62)
At 31 December 2015	6	12	25	43
Additions	-	5	-	5
Disposals	-	(2)	(6)	(8)
Transfer	-	4	(4)	-
At 31 December 2016	6	19	15	40
Depreciation:				
At 1 January 2015	3	28	55	86
Charge for the year	-	2	2	4
Disposals	-	(23)	(39)	(62)
At 31 December 2015	3	7	18	28
Charge for the year	-	3	2	5
Disposals	-	(2)	(6)	(8)
Transfer	-	-	-	-
At 31 December 2016	3	8	14	25
Net book value:				
At 31 December 2016	3	11	1	15
At 31 December 2015	3	5	7	15

In line with the Group accounting policy, the owner-occupied property was revalued during 2015 by Colliers International, an accredited independent valuer. The valuation performed by the valuer was based on active market prices, adjusted for any differences in the nature, location or condition of the specific property. There has been no material change in the fair value of the property. The date of the revaluation was 30 October 2015 and no significant change in value has occurred between this date and 31 December 2016. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2016 and 31 December 2015 would be £6 million.

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

Following a review of asset categories, £5 million of assets relating to the Telematics business were reclassified from computer equipment to other equipment. There has been no impact on the net book value or estimated useful life of these assets.

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

13 Group information

(a) Information about subsidiaries

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

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

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

(b) Ultimate controlling entity

Until 6 May 2016 the immediate parent company of RAC Group Limited was RAC Finance (Holdings) Limited, registered in England and Wales. On 6 May 2016 RAC Group Limited was sold to RAC Limited, an indirect parent company of RAC Group Limited, registered in England and Wales.

The ultimate controlling entity of the RAC Group Limited Group is RAC Group (Holdings) Limited.

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

14 Inventories

	2016	2015
	£m	£m
Inventories	2	3

The cost of inventories recognised as an expense and included within Cost of sales in the year ended 31 December 2016 amounted to £11 million (2015: £10 million).

All inventories are classified as finished goods.

15 Trade and other receivables

	2016	2015
	£m	£m
Trade receivables	41	37
Amounts due from related parties (note 25(a)(ii))	15	123
Prepayments and accrued income	22	20
Other receivables	1	1
Total	79	181
Expected to be recoverable within one year	79	178
Expected to be recoverable in more than one year	-	3
Total	79	181

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

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

The balance above of £79 million (2015: £181 million) is considered to be neither past due nor impaired.

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

16 Cash and cash equivalents

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

	2016	2015
	£m	£m
Unrestricted cash at bank and in hand	31	76
Restricted cash at bank	12	12
Total	43	88

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

17 Tax assets and liabilities

	2016	2015
	£m	£m
Current tax payable	(45)	(64)
Deferred tax asset	8	7
Deferred tax liability	(37)	(40)
	(74)	(97)

The Group's balance sheet current tax provision includes £22m relating to uncertain tax positions currently under discussion with HM Revenue & Customs ("HMRC"), which arose in prior periods. Based on professional advice, the Group claimed tax deductions in its returns for several years and reduced its tax payments accordingly. HMRC have indicated that they do not agree with the Group's interpretation of the relevant tax legislation. The Group has provided HMRC with all information requested in support of the deductions claimed, and discussions continue in order to reach a conclusion on the differing interpretations. It cannot currently be reliably estimated how long it will take to reach an agreed resolution of this issue.

Deferred tax

	Property, plant & equipment	Intangible assets	Retirement benefit obligations	Other temporary differences	Total
	£m	£m	£m	£m	£m
At 1 January 2015	5	(45)	1	-	(39)
(Charge)/credit to the Consolidated income statement	(1)	6	-	1	6
At 31 December 2015	4	(39)	1	1	(33)
Credit to the Consolidated income statement	-	2	-	1	3
At 31 December 2016	4	(37)	1	2	(30)

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

17 Tax assets and liabilities (continued)

	2016	2015
	£m	£m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability brought forward	(33)	(39)
Deferred tax credited to the Consolidated income statement (note 10(a))	4	6
Net deferred tax liability carried forward	(29)	(33)

The RAC Group Limited Group has unrecognised capital losses of £147 million (2015: £146 million) to carry forward indefinitely against future taxable income. No asset has been recognised as there are no capital gains expected in the foreseeable future.

Liabilities for corporation tax include amounts to be settled by group relief of £23 million (2015: £42 million) and are payable within one year.

18 Provisions

	Customer refunds	Other	Total
	£m	£m	£m
At 1 January 2016	-	1	1
Additional provisions	5	-	5
Utilised during the year	-	-	-
At 31 December 2016	5	1	6

Customer refunds

We have identified that some of our Individual Members may also have roadside cover with RAC in the event of a breakdown as a result of other financial arrangements. Some customers choose to have these cover arrangements in order to benefit from a full range of services. However, we are undertaking a correction programme for those customers for whom the benefits of holding these separate covers are not clear.

We have provided for our best estimate of the cost of providing possible refunds and associated costs. This provision is by its nature an estimate and includes significant management judgement about the number of customers who may be impacted. The actual costs will be dependent on the individual circumstances of each relevant customer. We anticipate this provision being utilised over the course of the next 12 to 18 months.

Other provisions

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

19 Trade and other payables

	2016	2015
	£m	£m
Trade payables and accruals	41	50
Amounts due to related parties (note 25(a)(iii))	271	3
Deferred income	149	151
Other payables	38	38
Total	499	242
Expected to be payable within one year	269	239
Expected to be payable in more than one year	230	3
Total	499	242

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

20 Ordinary share capital

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

	2016	2015
	£m	£m
Allotted, called up and fully paid:		
122,590,168 (2015: 122,590,168) ordinary shares of £0.25 each	31	31

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

21 Other reserves

	Capital redemption reserve
	£m
Balance at 1 January 2016 and 31 December 2016	1

22 Commitments

Operating lease commitments

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

	2016	2015
	£m	£m
Within 1 year	11	11
Later than 1 year and not later than 5 years	29	25
Later than 5 years	65	66
	105	102

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

As at 31 December 2016, the RAC Group Limited Group had committed to spend £4 million for the acquisition of intangible assets (2015: £2 million).

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

23 Employee benefit obligations

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

(a) Introduction

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

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

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

Unfunded Unapproved Pension Scheme ("UUP Scheme")

An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2016 was 8 (2015: 8).

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2016 was 139 (2015: 139).

Disability Benefit Scheme ("DB Scheme")

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

(b) Charges to the Consolidated income statement

During the year, £8 million (2015: £8 million) was charged to the RAC Group Limited Group's income statement in respect of the employee defined contribution schemes and £234 thousand (2015: £236 thousand) in respect of employee defined benefit schemes.

(c) Employee benefit scheme assumptions and disclosures

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

(i) Assumptions on the liabilities of the Schemes

The projected unit credit method

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

23 Employee benefit obligations (continued)

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

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

Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2016. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2016.

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

	2016	2015
	%	%
Inflation rate	3.20	2.90
Pension increases	3.20	2.90
Deferred pension increases	3.20	2.90
Discount rate	2.60	3.70

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £87 thousand and Enil respectively (2015: £507 thousand and Enil respectively).

Mortality assumptions of the Schemes

Mortality assumptions are significant in measuring the RAC Group Limited Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2016 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S2 tables, including allowances for future improvements	65.0	88.3	90.5	90.1	92.0
		(23.3)	(25.5)	(25.1)	(27.0)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming all members were one year younger would decrease the Schemes' liabilities by £130 thousand (2015: £391 thousand).

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

23 Employee benefit obligations (continued)

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

(ii) Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprise £234 thousand (2015: £236 thousand) in respect of net interest expense recognised in the Consolidated income statement and £442 thousand loss (2015: £455 thousand gain) recognised in the Consolidated statement of comprehensive income.

(iii) Experience gains and losses

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

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Fair value of the Scheme assets at the end of the year	-	-	-	19	27
Restriction on asset recognised	-	-	-	(2)	-
Present value of the Schemes' liabilities at the end of the year	(6)	(6)	(7)	(24)	(24)
Net (deficit)/surplus in the Schemes	(6)	(6)	(7)	(7)	3

Estimated employer contributions for the year ending 31 December 2017 are £1 million in respect of the defined benefit schemes and £8 million in respect of the defined contribution scheme.

(iv) Schemes' deficit

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

	2016	2015
	£m	£m
Total fair value of assets	-	-
Present value of defined benefit obligations	(6)	(6)
Net deficit in the Schemes	(6)	(6)

Amounts recognised in the Consolidated statement of financial position:

	2016	2015
	£m	£m
Deficits included in non-current liabilities	(6)	(6)
	(6)	(6)

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

23 Employee benefit obligations (continued)

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

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

	2016		2015	
	Scheme liabilities	Net deficit	Scheme liabilities	Net deficit
	£m	£m	£m	£m
Balance at 1 January	(6)	(6)	(7)	(7)
Benefits paid	1	1	1	1
Remeasurement losses				
Actuarial loss arising from change in assumption	(1)	(1)	-	-
Balance at 31 December	(6)	(6)	(6)	(6)

24 Risk management

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

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

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

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

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

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

24 Risk management (continued)

(a) Treasury

The Group Treasury department's main responsibilities are to:

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group.

(i) Market risk

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

The RAC Group Limited Group has no borrowings based on market interest rates. Therefore there would be no impact in any reported year on profit before tax or shareholders' equity as a result of changes in market interest rate.

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

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

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

(ii) Credit risk

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

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

	2016	2015
	£m	£m
Trade and other receivables	79	161
Cash and cash equivalents	43	88
	122	249

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

24 Risk management (continued)

(a) Treasury (continued)

(ii) Credit risk (continued)

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

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

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

The RAC Group Limited Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the periods reported on were held with institutions who are A rated. The RAC Group Limited Group's largest cash and cash equivalent counterparty is Morgan Stanley (2015: Morgan Stanley). At 31 December 2016 the balance held by this counterparty was £20 million (2015: £20 million).

(iii) Liquidity risk

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks and investment funds to mitigate this risk further. The RAC Group Limited Group does not have any obligations outside of its Group for which liquidity risk would be significant.

Liquidity risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements.

(b) Strategic and operational risk

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

24 Risk management (continued)

(c) Capital risk management

The RAC Group Limited Group's capital structure consists of £31 million (2015: £31 million) of funds from shareholders.

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external bank debt, being principal bank and other third party borrowings, associated accrued

In managing its capital, the Group seeks to:

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

The Group monitors its capital using its financial covenants, Debt cover (the ratio of net external bank debt to Earnings Before Interest, Tax, Depreciation and Amortisation "EBITDA") and Interest cover (the ratio of EBITDA to external interest expense). The Group did not breach any of its covenants during any of the periods reported.

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

(d) Regulatory risk

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

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

Following a detailed programme of preparatory work in 2015 undertaken by the RAC Group Limited Group, RAC Insurance Limited, a wholly owned subsidiary, has transitioned to comply with the requirements Solvency II from 1 January 2016.

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

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

25 Related party transactions

(a) The RAC Group Limited Group had the following related party transactions in 2016 and 2015:

(i) Amounts due from related parties

	2016	2015
	£m	£m
Other Group companies - current accounts	15	120
Other Group companies - loan accounts	-	3
	15	123

During the year, RAC Group Limited Group, paid interest of £4 million in respect of bank borrowings on behalf of RAC Bidco Limited, a Parent Company, and these are included as amounts due from Group companies (2015: £73 million).

Loans receivable as at 31 December 2016 from RAC Finance Limited were £nil (2015: £3 million)

(ii) Amounts due to related parties

	2016	2015
	£m	£m
Other Group companies - current accounts	(271)	(3)

(b) Key management compensation

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

	2016	2015
	£000	£000
Fees and benefits	2,695	4,209
Contributions to defined contribution pension scheme	79	70
	2,774	4,279

Fees and benefits include key management bonuses. During the year, payments of £118 thousand (2015: £125 thousand) were made to key management for loss of office.

RAC Group Limited

Notes to the Consolidated Financial Statements (continued)

25 Related party transactions (continued)

(c) Key management interests

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

No key management personnel held equity stakes in the business at 31 December 2016 or 31 December 2015.

(d) Immediate Parent Company

The immediate Parent Company of the RAC Group Limited Group is RAC Limited, registered in England and Wales.

Until 6 May 2016, the immediate Parent Company was RAC Finance (Holdings) Limited, registered in England and Wales.

(e) Ultimate controlling party

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

RAC Group Limited

Company Financial Statements

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The accounting policies on pages 21 to 33 also form an integral part of these Financial Statements.

RAC Group Limited

Registered in England and Wales: No. 00229121

Company Financial Statements 2016

Company statement of financial position

As at 31 December 2016

	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	5	655	660
Deferred tax asset	8	1	1
Other receivables	6	10	13
		<u>666</u>	<u>674</u>
Current assets			
Other receivables	6	7	121
Current tax receivable	8	-	7
Cash and cash equivalents	7	25	72
		<u>32</u>	<u>200</u>
LIABILITIES			
Current liabilities			
Other payables	9	(145)	(219)
Current tax payable	8	(23)	(8)
		<u>(168)</u>	<u>(227)</u>
Net current liabilities		<u>(136)</u>	<u>(27)</u>
Non-current liabilities			
Employee benefit liability	12(iv)	(2)	(3)
Other payables	9	(253)	(330)
		<u>(255)</u>	<u>(333)</u>
Net assets		<u>275</u>	<u>314</u>
EQUITY			
Ordinary share capital	10	31	31
Other reserves	11	1	1
Retained earnings		243	282
Total equity		<u>275</u>	<u>314</u>

The accounting policies on pages 21 to 33 and the notes on pages 63 to 72 are an integral part of these Financial Statements.

The Company's profit for the year was £446 million (2015: £50 million).

Approved by the Board on 2 March 2017.



R Fairman
Chief Financial Officer

RAC Group Limited

Company Financial Statements 2016 (continued)

Company statement of changes in equity

For the year ended 31 December 2016

	Note	Ordinary share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015		31	1	232	264
Total comprehensive income for the year					
Profit for the year		-	-	50	50
Other comprehensive expense		-	-	-	-
Total movements in the year		-	-	50	50
Balance at 31 December 2015		31	1	282	314
Total comprehensive income for the year					
Profit for the year		-	-	446	446
Other comprehensive expense		-	-	-	-
Total comprehensive income		-	-	446	446
Dividends paid	4	-	-	(485)	(485)
Total movements in the year		-	-	(39)	(39)
Balance at 31 December 2016		31	1	243	275

The accounting policies on pages 21 to 33 and the notes on pages 63 to 72 are an integral part of these Financial Statements.

RAC Group Limited

Company Financial Statements 2016 (continued)

Company statement of cash flows

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Operating activities			
Profit before tax		447	47
Adjustments to reconcile profit before tax to net cash flows:			
Exceptional costs		5	-
Finance expenses and other gains		6	14
Dividends received		(454)	(60)
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		21	(12)
(Decrease)/increase in trade and other payables		99	56
Net cash flows (used in)/generated from operating activities		124	45
Investing activities			
Dividends received	13(a)(ii)	224	60
Net cash generated from investing activities		224	60
Financing activities			
Dividends paid	4	(389)	-
Interest paid		(6)	(73)
Net cash flows used in financing activities		(395)	(73)
Net (decrease)/ increase in cash and cash equivalents		(47)	32
Cash and cash equivalents brought forward	7	72	40
Cash and cash equivalents carried forward	7	25	72

The accounting policies on pages 21 to 33 and the notes on pages 63 to 72 are an integral part of these Financial Statements.

RAC Group Limited

Notes to the Company Financial Statements

1 Auditor's remuneration

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

2 Employee information

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

3 Directors

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

4 Dividends

The Company paid ordinary dividends of £485 million during the year, amounting to 395.76 pence per share (2015:£nil), of which £96m were a dividend in specie. No interim or final dividend was paid in the year ended 31 December 2015.

5 Investments in subsidiaries

(a) Movements in the Company's investments in subsidiaries and associates

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

	2016	2015
	£m	£m
At 1 January	660	660
Impairment	(5)	-
At 31 December	655	660

The Company incurred a £5 million impairment (2015: nil) in respect of its investment in Risk Telematics UK Limited.

RAC Group Limited

Notes to the Company Financial Statements (continued)

5 Investments in subsidiaries (continued)

(b) Information about subsidiaries

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

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

The RAC Group Limited Group includes companies which are regulated by the PRA and the FCA. RAC Insurance Limited is authorised and regulated by both bodies. RAC Motoring Services and RAC Financial Services Limited are authorised by the FCA in respect of insurance and mediation activities.

(c) The holding company

The immediate controlling entity of the Company is RAC Limited. Until 6 May 2016, the immediate controlling entity of the Company was RAC Finance (Holdings) Limited.

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

RAC Group Limited

Notes to the Company Financial Statements (continued)

5 Investments in subsidiaries (continued)

(d) Investments in Associates

The Company holds an investment in RAC Brand Enterprises LLP. At 31 December 2015 and 31 December 2016, the Company's share of the associate was 0.5%, but indirectly the Company holds 100% of the Membership interest. The principal activities of RAC Brand Enterprises LLP are the ownership and management of intangible assets, including the managing of license agreements. Summary financial information extracted from the financial statements of RAC Brand Enterprises LLP are as follows:

	2016	2015
	£m	£m
Statement of financial position as at 31 December:		
Non-current assets	597	561
Current assets	40	77
Current liabilities	(1)	(1)
Equity	636	637
Income statement for the year ended 31 December:		
Revenue	45	44
Profit for the year	4	4

6 Other receivables

	2016	2015
	£m	£m
Amounts due from related parties (see note 13(b))	17	134
Total	17	134
Expected to be recoverable within one year	7	121
Expected to be recoverable in more than one year	10	13
	17	134

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

The balance above of £17 million (2015: £134 million) is considered to be neither past due nor impaired.

RAC Group Limited

Notes to the Company Financial Statements (continued)

7 Cash and cash equivalents

	2016	2015
	£m	£m
Unrestricted cash at bank and in hand	25	72
Total	25	72

8 Tax assets and liabilities

	2016	2015
	£m	£m
Current tax receivable	-	7
Current tax payable	(23)	(8)
Deferred tax asset	1	1
Total	(22)	-

Current tax payable include amounts to be settled by group relief of £1 million (2015: £7 million receivable) within one year.

(a) Deferred tax	Retirement benefit obligations	Other temporary differences	Total
	£m	£m	£m
At 31 December 2015	-	1	1
Credit to OCI	-	-	-
Credit to income statement	-	-	-
At 31 December 2016	-	1	1

There was no movement in the net deferred tax asset in 2016 (2015: £nil).

RAC Group Limited

Notes to the Company Financial Statements (continued)

8 Tax assets and liabilities (continued)

The Company has unrecognised capital losses of £137 million (2015: £137 million) to carry forward indefinitely against future capital gains in the Company.

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

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

Accordingly, as the future reductions of the corporation tax rate to 19% and 17% were substantively enacted on 26 October 2015 and 6 September 2016 respectively, the deferred tax balances at 31 December 2016 have been reflected at the tax rates at which they are expected to be realised or settled.

RAC Group Limited

Notes to the Company Financial Statements (continued)

9 Other payables

	2016	2015
	£m	£m
Amounts due to related parties (see note 13(c))	398	549
Total	398	549
Expected to be recoverable within one year	145	219
Expected to be payable in more than one year	253	330
Total	398	549

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

10 Ordinary share capital

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

	2016	2015
	£m	£m
Allotted, called up and fully paid:		
122,590,168 (2015: 122,590,168) ordinary shares of £0.25 each	31	31

11 Other reserves

	Capital redemption reserve
	£m
Balance at 31 December 2016 and 31 December 2015	1

RAC Group Limited

Notes to the Company Financial Statements (continued)

12 Employee benefit obligations

(a) Pension scheme assumptions and disclosures

Disclosures under IAS 19 Employee Benefits are given below and on the following pages for the Post Retirement Medical Benefit Scheme ("PRMB Scheme").

(i) Assumptions on the liabilities of the Schemes

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

(ii) Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprise £94 thousand (2015: £94 thousand) in respect of net interest expense recognised in the income statement and £261 thousand gain (2015: £257 thousand gain) recognised in other comprehensive income.

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since 1 January 2004 (the date of transition to IFRS) was £6 million loss at 31 December 2016 (2015: £6 million loss).

(iii) Experience gains and losses

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

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Fair value of the Scheme assets at the end of the	-	-	-	19	27
Restriction on asset recognised	-	-	-	(2)	-
Present value of the Schemes' liabilities at the end of	(2)	(3)	(3)	(20)	(20)
Net (deficit)/ surplus in the Schemes	(2)	(3)	(3)	(3)	7

Estimated employer contributions for the financial year ending 31 December 2017 are £nil in respect of the Defined Benefit schemes and £8 million in respect of the Defined Contribution scheme.

RAC Group Limited

Notes to the Company Financial Statements (continued)

12 Employee benefit obligations (continued)

(a) Pension scheme assumptions and disclosures (continued)

(iv) Schemes' deficit

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

	2016	2015
	£m	£m
Present value of defined benefit obligations	(2)	(3)
Net deficit in the Schemes	(2)	(3)

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

	2016	2015
	£m	£m
Deficits included in non-current liabilities	(2)	(3)
Net deficit in the Schemes	(2)	(3)

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

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

	2016		2015	
	Scheme liabilities	Net deficit	Scheme liabilities	Net deficit
	£m	£m	£m	£m
Balance at 1 January	(3)	(3)	(3)	(3)
Remeasurement gain- change in actuarial assumptions	1	1	-	-
Balance at 31 December	(2)	(2)	(3)	(3)

RAC Group Limited

Notes to the Company Financial Statements (continued)

13 Related party transactions

(a) The Company had the following related party transactions in 2016 and 2015:

- (i) During the year, the Company paid a dividend of £203 million (2015: £nil) to RAC Limited and of £282 million (2015: £nil) to RAC Finance (Holdings) Limited.
- (ii) In 2016, the Company received dividends of £424 million (2015: £60 million) from RAC Motoring Services (Holdings) Limited and of £30 million (2015: £nil) from RAC Financial Services Limited, of which £230 million was received as a dividend in specie.
- (iii) During the year, a loan between RAC Motoring Services, a fellow Group company, and the Company, was reassigned to RAC Motoring Services (Holdings) Limited. This loan was subsequently repaid by the Company.

(b) The Company had the following net amounts due from related parties at year end:

	2016	2015
	£m	£m
Other Group companies - current accounts	7	121
Other Group companies - loan accounts	10	13
	17	134

During the year, the Company paid interest of £6 million (2015: £73 million) in respect of bank borrowings on behalf of RAC Bidco Limited, a Parent Company, and these are included as amounts due from Group companies (2015: £73 million).

During the year, a loan of £3 million plus accrued interest was repaid by RAC Finance Limited.

RAC Group Limited

Notes to the Company Financial Statements (continued)

13 Related party transactions (continued)

(c) The Company had the following amounts due to related parties at year end:

	2016	2015
	£m	£m
Other Group companies - current accounts	(145)	(219)
Other Group companies - loan accounts	(253)	(330)
	(398)	(549)

The Company has revolving credit facilities with RAC Motoring Services and RAC Financial Services Limited, fellow Group companies, which were renewed in 2014. The maximum facility amount with RAC Motoring Services is £300 million, with effect from 30 November 2012, and is repayable on demand or by no later than the maturity date of 30 November 2018. The year end balance is £107 million payable (2015: £232 million). The maximum facility amount with RAC Financial Services Limited is £50 million, with effect from 30 November 2012, and is repayable on demand or by no later than the maturity date of 30 November 2017. The year end balance is £10 million payable (2015: £44 million). The Company also has a loan with RAC Brand Enterprises LLP. The year end balance is £ 117 million (2015: £46 million).

(d) Key management compensation

The Directors and key management of the Company are considered to be the same as for RAC Group Limited Group. Information on key management compensation may be found in the note 25 of the Consolidated Financial Statements.

(e) Key management interests

No key management personnel held equity stakes in the business at 31 December 2016 or 31 December 2015.

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

(f) Immediate Parent Company

The Company's immediate Parent Company is RAC Limited, registered in England and Wales.

Until 6 May 2016, the immediate Parent Company was RAC Finance (Holdings) Limited, registered in England and Wales.

(g) Ultimate controlling entity

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