Registered in England and Wales: No. 00229121

RAC GROUP LIMITED

ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

RAC Group Limited

Contents

RAC Group Limited

Company information

Directors:

R Fairman
D Hobday
R Templeman
M Wood

Company Secretary:

S Morrison

Auditor:

Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham
United Kingdom
B1 2HZ

Registered office:

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

Company number:

Registered in England and Wales: No. 00229121

Other information:

RAC Group Limited ("the Company") is a member of the RAC Group of Companies ("the Group"), which during 2017 included RAC Group (Holdings) Limited and its subsidiaries, RAC Midco Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited, RAC Midco II Limited, Nebula Systems Limited, Maverick Technology (UK) Limited, RAC Bidco Limited, RAC Bond Co PLC, RAC Limited, 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.

RAC Group Limited

Strategic report

For the year ended 31 December 2017

Basis of preparation

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

Principal activity

The principal activity of the Company is that of a holding company for its subsidiaries. There were no significant changes in that activity in the year.

Review of the business including major events

During the year the business has operated in line with expectation and there have been no major events.

Objectives and future developments

The strategy for the Company is determined by the Directors of the Company's ultimate Parent company, RAC Group (Holdings) Limited and disclosed in the Consolidated Annual Report and Financial Statements of that company (see note 18(g)).

Key Performance Indicators ("KPI"s)

As the principal activity of the Company is that of a holding company, the Directors consider there are no KPIs to report.

The Company's Directors are also Directors of RAC Group (Holdings) Limited, the ultimate Parent Company. A detailed performance review is included in the Consolidated Annual Report and Financial Statements of that company.

Financial review

The financial position of the Company at 31 December 2017 is shown in the Statement of financial position on page 12, with the results shown in the Income statement on page 10 and the Statement of cash flows on page 14.

The Company made a profit before tax of £268 million during the year ended 31 December 2017 (2016: £446 million). The main factors for this result are:

- recharges payable to other Group companies of £9 million (2016: £6 million) in respect of a Management Services Agreement;

RAC Group Limited

Strategic report (continued)

For the year ended 31 December 2017

Financial review (continued)

- a dividend of £268 million received from its subsidiary, RAC Motoring Services (Holdings) Limited (2016: 424 million received from RAC Motoring Services (Holdings) Limited and £30 million received from RAC Financial Services Limited)
- recharges recievable from other Group companies of £18 million (2016: £13 million) in respect of a Management Services Agreement;
- exceptional costs of £5 million incurred in relation to restructuring costs following a strategic review of the business (2016: £5 million, in relation to the impairment of the Company's investment in Risk Telematics UK Limited).

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 17 to the Financial Statements.

Capital management

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 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.

By order of the Board on 27 February 2018

S Morrison
Company Secretary

RAC Group Limited

Directors' report

For the year ended 31 December 2017

The Directors present their Annual Report on the affairs of RAC Group Limited, together with the Financial Statements and independent auditor's report for the year ended 31 December 2017.

Directors

The names of the current Directors of the Company appear on page 1.

Those in office during the year have been as follows:

R Fairman
D Hobday (appointed 2 March 2017)
R Templeman
M Wood
C Woodhouse (resigned 2 March 2017)

At 31 December 2017 and 31 December 2016, none of the Directors had any interest in the shares of the Company.

Objectives and future developments

The strategy for the 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.

Results and dividends

The Company paid ordinary interim dividends of £339 million during the year, amounting to 276.12 pence per share (2016: £485 million during the year, amounting to 395.76 pence per share, of which £96m were a dividend in specie). The Directors do not recommend payment of a final dividend (2016: £nil).

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.

Employees

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

Directors' report (continued)

For the year ended 31 December 2017

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. 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 17 to the 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 terms of its bank debt.

The 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 3. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

As at 31 December 2017, the Company has net assets of £203 million (2016: £275 million) and net current liabilities of £204 million (2016: £136 million). 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. The Directors have considered the financial position and future prospects of the Company. 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 has adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2017 Company Financial Statements to be prepared on a going concern basis.

Auditor

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

RAC Group Limited

Directors' report (continued)

For the year ended 31 December 2017

Disclosure of information to the auditor

Each person who was a Director of the Company on the date that this report was approved confirms that, so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Each director has taken all the steps that he 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.

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 Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

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

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 financial position as at 31 December 2017.

By order of the Board on 27 February 2018

S Morrison
Company Secretary

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

Report on the audit of the Financial Statements

Opinion

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of RAC Group Limited (the 'Company') which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity;
- the Statement of cash flows;
- the accounting policies; and
- the related notes 1 to 18.

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Other information (continued)

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Use of our report

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.

Report on other legal and regulatory requirements

Opinions 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 or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Andrew Halls FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom
Date: 27 February 2018

RAC Group Limited

Financial Statements 2017

Income statement

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Revenue	1	287	467
Administrative expenses			
- Exceptional items	2	(5)	(5)
- Other administrative expenses		(9)	(10)
Administrative expenses		(14)	(15)
Operating profit		**273**	**452**
Net finance expenses	7	(5)	(6)
Profit before tax		268	446
Tax charge	8	(1)	-
Profit for the year		**267**	**446**

The accounting policies and the notes on pages 15 to 35 are an integral part of these Financial Statements.

RAC Group Limited

Financial Statements 2017 (continued)

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Profit for the year		267	446
Other comprehensive expense not to be reclassified to profit or loss in subsequent years:			
Actuarial losses on employee benefit schemes	16(c)(ii)	-	-
Net other comprehensive expense not to be reclassified to profit or loss in subsequent years		-	-
Other comprehensive expense, net of tax		-	-
Total comprehensive income for the year		**267**	**446**

The accounting policies and the notes on pages 15 to 35 are an integral part of these Financial Statements.

RAC Group Limited

Registered in England and Wales: No. 00229121

Financial Statements 2017 (continued)

Statement of financial position

As at 31 December 2017

	Note	2017	2016
ASSETS		**£m**	**£m**
Non-current assets			
Investments in subsidiaries	9	655	655
Deferred tax asset	12	1	1
Other receivables	11	11	10
		667	666
Current assets			
Other receivables	11	-	7
Cash and cash equivalents	10	63	25
		63	32
LIABILITIES			
Current liabilities			
Other payables	13	(249)	(145)
Current tax payable	12	(18)	(23)
		(267)	(168)
Net current liabilities		(204)	(136)
Non-current liabilities			
Employee benefit liability	16(c)(iv)	(2)	(2)
Other payables	13	(258)	(253)
		(260)	(255)
Net assets		**203**	**275**
EQUITY			
Ordinary share capital	14	31	31
Other reserves	15	1	1
Retained earnings		171	243
Total equity		**203**	**275**

The accounting policies and the notes on pages 15 to 35 are an integral part of these Financial Statements.

Approved by the Board on 27 February 2018.

R Fairman

Chief Financial Officer

RAC Group Limited
Financial Statements 2017 (continued)
Statement of changes in equity
For the year ended 31 December 2017

	Note	Ordinary share capital	Other Reserves	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 1 January 2016		**31**	**1**	**282**	**314**
Total comprehensive income for the year					
Profit for the year		-	-	446	446
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	446	446
Dividends paid	3	-	-	(485)	(485)
Total movements in the year		-	-	(39)	(39)
Balance at 31 December 2016		**31**	**1**	**243**	**275**
Total comprehensive income for the year					
Profit for the year		-	-	267	267
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	267	267
Dividends paid	3	-	-	(339)	(339)
Total movements in the year		-	-	(72)	(72)
Balance at 31 December 2017		**31**	**1**	**171**	**203**

The accounting policies and the notes on pages 15 to 35 are an integral part of these Financial Statements.

RAC Group Limited
Financial Statements 2017 (continued)
Statement of cash flows
For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Operating activities			
Profit before tax		268	446
Adjustments to reconcile profit before tax to net cash flows:			
Exceptional items	2	5	5
Net finance expenses	7	5	6
Dividends received	18a(ii)	(269)	(454)
Working capital adjustments:			
Decrease in trade and other receivables	11	6	21
Increase in trade and other payables		77	100
Tax paid		(9)	-
Net cash flows generated from operating activities		**83**	**124**
Investing activities			
Dividends received	18a(ii)	-	224
Net cash generated from investing activities		**-**	**224**
Financing activities			
Dividends paid	3	(40)	(389)
Interest paid		(5)	(6)
Net cash flows used in financing activities		**(45)**	**(395)**
Net increase/(decrease) in cash and cash equivalents		**38**	**(47)**
Cash and cash equivalents brought forward		25	72
Cash and cash equivalents carried forward	10	**63**	**25**

The accounting policies and the notes on pages 15 to 35 are an integral part of these Financial Statements.

RAC Group Limited

Accounting policies

(A) Corporate information

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The principal activity of the Company is that of a holding company for its subsidiaries. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

Information on related party relationships of the Company is provided in note 18.

The Financial Statements of RAC Group Limited for the year ended 31 December 2017 were approved for issue by the Board on 27 February 2018.

(B) Basis of preparation

The Financial Statements of the Company have been prepared on the historical cost basis. Historical cost is generally based on the fair value of consideration given in exchange for assets. The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

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

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

The Company is exempt from preparing group financial statements by virtue of Section 400 of the Companies Act 2006, as it is a subsidiary of an EU parent (note 18(g)). The Financial Statements present information about the Company as an individual company and not about its group.

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. The Company'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 17 to the 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 terms of its bank debt.

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 3. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

As at 31 December 2017, the Company has net assets of £203 million (2016: £275 million) and net current liabilities of £204 million (2016: £136 million). The Company has net current liabilities of £204 million. 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. The Directors have considered the financial position and future prospects of the Company. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

(B) Basis of preparation (continued)

Going concern (continued)

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

(C) Investments in subsidiaries

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

In the Statement of financial position, subsidiaries are stated at cost less any impairment.

(D) Revenue recognition

Revenue

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.

Other income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of this income 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 shareholder's 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).

(E) Exceptional items

Items which are considered by management to be material by size and/or nature or are non-recurring are presented separately on the face of the Income statement. Management believe that the separate reporting of exceptional items helps provide an indication of the Company'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.

(F) Property, plant and equipment

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

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

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

(G) Impairment of non-financial assets

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

(H) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All financial assets are recognised initially at the fair value of consideration given plus transaction costs. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The resulting amortisation is included in income in the Income statement. The losses arising from impairment are recognised in the Income statement in finance costs for loans and in other operating expenses for other receivables.

(I) Cash and cash equivalents

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

Accounting policies (continued)

(J) Provisions and contingent liabilities

Provisions are recognised when the Company 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 Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

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.

(K) 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 Statement of financial position 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 recognition 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 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.

(L) Employee benefits

Pension obligations and other post-retirement benefit obligations

The Company provides medical benefits scheme on a discretionary basis for certain pensioners and their dependants in the UK. No assets are set aside in separate funds to provide for the future liability.

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

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

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under 'cost of sales' and 'administrative expenses' in the 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 Company provides termination benefits. All termination costs are charged to the Income statement when constructive obligation to such costs arises.

(M) 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 ordinary shares are recognised when they have been approved by shareholders.

(N) Application of new and revised International Financial Reporting Standards

The following new and amended IFRSs are effective for the 2017 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Financial Statements.

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Un-realised Losses
- Amendments to IAS 7 Disclosure Initiative
- Annual Improvements to IFRSs 2014 – 2016 Cycle

At 31 December 2017, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments [1]
- IFRS 15 Revenue from contracts with customers [1]
- IFRS 16 Leases [2]
- IFRS 17 Insurance contracts [3]
- IFRIC 22 Foreign currency transactions and advance consideration [1]
- IFRIC 23 Uncertainty over income tax treatments [2]

1 Effective for annual periods commencing on or after 1 January 2018
2 Effective for annual periods commencing on or after 1 January 2019
3 Effective for annual periods commencing on or after 1 January 2021

The Group is currently in the process of evaluating the impact of the adoption of IFRS 16 'Leases' and IFRS 17 'Insurance contracts' 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.

IFRS 15 'Revenue from contracts with customers' comes into force for accounting periods commencing on or after 1 January 2018. The Group has conducted a full review of all revenue streams across its operating segments in order to establish the impact of the revised accounting standard on the Group's revenue. Following this review, the Directors have concluded that there will be no material impact on the Group's revenue for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017 presented in these Financial Statements.

IFRS 9 'Financial Instruments' also comes into force for accounting periods commencing on or after 1 January 2018. The Directors have reviewed the impact of this standard and concluded that there will be no material impact on the Financial Statements for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017.

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

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

(i) Critical judgements in applying the Company'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 Company's accounting policies on the amounts recognised in the Financial Statements.

(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. The Group has provided for the full amount of tax in question therefore management do no consider there to be any sensitivities regarding tax provisions.

RAC Group Limited
Notes to the Financial Statements

1 Revenue

	2017	2016
	£m	£m
Dividends received from subsidiaries (note 18(a)(ii))	269	454
Management charge received (note 18(a)(iv)	18	13
Total investment income	**287**	**467**

2 Exceptional items

	2017	2016
	£m	£m
Impairment of investment in subsidiary (note 9)	-	5
Strategic restructuring costs	5	-
	5	**5**

During the year, the Company incurred £5 million of costs following a strategic review of the business.

Exceptional items in 2016 related to the impairment of the Company's investment in Risk Telematics UK Limited. See note 9 for details.

3 Dividends

The Company paid ordinary interim dividends of £339 million during the year, amounting to 276.12 pence per share, of which £299 million were a non-cash dividend (2016: £485 million during the year, amounting to 395.76 pence per share, of which £96 million were a dividend in specie). The Directors do not recommend payment of a final dividend (2016: £nil).

4 Auditor's remuneration

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

	2017	2016
	£000	£000
Audit services		
Audit of financial statements	8	47
Total remuneration payable to Deloitte LLP	**8**	**47**

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company.

5 Employee information

The average number of persons employed during the year was:

	2017	2016
	Number	Number
Support	41	45
	41	**45**

Total staff costs were:

	2017	2016
	£m	£m
Wages and salaries	3	3
	3	**3**

These costs were charged within administrative expenses.

All employees have their employment contracts with RAC Motoring Services, a fellow Group company.

6 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services, a fellow Group company. Management recharges for the wider executive group, which includes the executive Directors of the Company, have been charged to the main trading subsidiaries of the Group. It is not deemed practical to separate the remuneration of the executive Directors from the wider management recharges.

Disclosures relating to Directors' remuneration can be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

7 Net finance expenses

	2017	2016
	£m	£m
Interest payable - related parties	5	6
	5	**6**

8 Tax

(a) Tax charged to the income statement

The total tax charge comprises:

	2017	2016
	£m	£m
Current tax:		
For the year	1	-
Total current tax	1	-
Total tax charged to the income statement	**1**	**-**

(b) Tax reconciliation

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

	2017	2016
	£m	£m
Profit before tax	268	446
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20.00%)	52	89
Non taxable dividends	(52)	(91)
Non deductible expenses	1	2
Total tax charged to the income statement (note 8(a))	**1**	**-**

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

9 Investments in subsidiaries

(a) Movement in the Company's investments in subsidiaries

	2017	2016
Cost	**£m**	**£m**
At 1 January	655	660
Impairment	-	(5)
At 31 December	**655**	**655**

There was no impairment recognised in the year (2016: £5 million in respect of its investment in Risk Telematics UK Limited).

9 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 held:			
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 held:			
RAC Motoring Services	Roadside assistance	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	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 is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registed office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

(c) The holding company

The immediate controlling entity of the Company is RAC Limited.

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

10 Cash and cash equivalents

Cash and cash equivalents in the Statement of cash flows at 31 December 2017 comprises £63 million (2016: £25 million) of cash at bank and in hand.

11 Other receivables

	2017	2016
	£m	£m
Amounts due from related parties (see note 18(b))	11	17
Total	**11**	**17**
Expected to be recoverable within one year	-	7
Expected to be recoverable in more than one year	11	10
Total	**11**	**17**

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

12 Tax assets and liabilities

	2017	2016
	£m	£m
Current tax payable	(18)	(23)
Deferred tax asset	1	1
	(17)	(22)

Deferred tax

The net deferred tax asset arose on the following items:

	2017	2016
	£m	£m
Other temporary differences	1	1
Net deferred tax asset at 31 December	1	1

There was no movement in the deferred tax asset in the year (2016: no movement).

Net current tax payable include amounts to be settled by group relief of £5 million receivable (2016: £1 million payable) within one year.

Statement of financial position current tax provision includes £22 million (2016: £22 million) relating to uncertain tax positions currently under discussion with HM Revenue & Customs ("HMRC"), which arose in prior periods.

Based on professional advice, companies within the Group claimed tax deductions in their 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.

12 Tax assets and liabilities (continued)

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

The company has an unrecognised deferred tax asset of £1 million (2016: £1 million) in respect of interest disallowed under the corporate interest restriction rules.

The Company has unrecognised capital losses of £136 million (2016: £137 million) to carry forward indefinitely against future capital gains in the Company.

The headline rate of UK corporation tax reduced from 20% to 19% on 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 finanicial position date.

Accordingly, as the future reduction of the corporation tax rate to 17% was enacted on 15 September 2016, the deferred tax balances at 31 December 2017 have been reflected at the tax rates they are expected to be realised or settled.

13 Other payables

	2017	2016
	£m	£m
Amounts due to related parties (note 18(c))	506	398
Other payables	1	-
Total	**507**	**398**
Expected to be payable within one year	249	145
Expected to be payable in more than one year	258	253
Total	**507**	**398**

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

14 Ordinary share capital

	2017	2016
	£m	£m
Allotted, called up and fully paid:		
122,590,168 ordinary shares of £0.25 each	31	31
	31	31

15 Other reserves

	Capital redemption reserve
	£m
Balance at 31 December 2017 and 31 December 2016	1

16 Employee benefit obligations

This note describes the RAC Group Limited's employee benefit arrangement for its employees and explains how the obligations to this scheme are calculated.

(a) Introduction

The RAC Group Limited operates the following employee benefit scheme:

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

Under the PRMB Scheme the Company provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2017 was 104 (2016: 139).

(b) Charges to the Income statement

During the year, £58 thousand (2016: £94 thousand) was charged to the RAC Group Limited's Income statement in respect of the PRMB Scheme.

(c) Employee benefit scheme assumptions and disclosures

Disclosures under IAS 19 Employee Benefits are given below and on the following pages for the PRMB Scheme.

(i) Assumptions on the liabilities of the Scheme

The projected unit credit method

The inherent uncertainties affecting the measurement of the liabilities of the Scheme require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash outflows from the Scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes 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.

16 Employee benefit obligations (continued)

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

(i) Assumptions on the liabilities of the Scheme (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 Scheme at 31 December 2017. This update was made by the Scheme actuaries. The Scheme' assets are stated at their fair values as at 31 December 2017.

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

	2017	2016
	%	%
Inflation rate	3.10	3.20
Pension increases	3.10	3.20
Deferred pension increases	3.10	3.20
Discount rate	2.50	2.60

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% decrease in the discount rate would increase liabilities and service costs by £187 thousand and £nil respectively (2016: 1% increase in discount rate increased liabilities and service cost by £142 thousand and £nil respectively).

Mortality assumptions of the Scheme

Mortality assumptions are significant in measuring the RAC Group Limited's obligations under the defined benefit schemes, particularly given the maturity of these obligations in this Scheme. The mortality tables and average life expectancy used at 31 December 2017 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	88.1 (23.1)	89.8 (24.8)	89.7 (24.7)	91.3 (26.3)

The assumptions above are based on commonly used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme if life expectancy was one year higher would increase the Schemes' liabilities by £153 thousand (2016: £130 thousand).

16 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 £58 thousand (2016: £94 thousand) in respect of net interest expense recognised in the income statement and £28 thousand gain (2016: £261 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 2017 (2016: £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:

	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
Fair value of the Scheme assets at the end of the year	-	-	-	-	19
Restriction on asset recognised	-	-	-	-	(2)
Present value of the Schemes' liabilities at the end of the year	(2)	(2)	(3)	(3)	(20)
Net deficit in the Schemes	**(2)**	**(2)**	**(3)**	**(3)**	**(3)**

Estimated employer contributions for the financial year ending 31 December 2018 are £nil in respect of the Defined Benefit scheme.

16 Employee benefit obligations (continued)

(c) Employee benefit 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:

	2017	2016
	£m	£m
Present value of defined benefit obligations	(2)	(2)
Net deficit in the Schemes	**(2)**	**(2)**

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

	2017	2016
	£m	£m
Deficits included in non-current liabilities	(2)	(2)
Net deficit in the Schemes	**(2)**	**(2)**

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

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

	2017		2016	
	Scheme liabilities	Net deficit	Scheme liabilities	Net deficit
	£m	£m	£m	£m
Balance at 1 January	(2)	(2)	(3)	(3)
Remeasurement losses				
Actuarial loss arising from change in assumption	-	-	1	1
Balance at 31 December	**(2)**	**(2)**	**(2)**	**(2)**

17 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 the 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.

(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 Company 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 Company 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 rates.

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

17 Risk management (continued)

(ii) Credit risk

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

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:

	2017	2016
	£m	£m
Trade and other receivables	11	17
	11	**17**

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.

The Company 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 Company 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 Company's largest cash and cash equivalent counterparty is Credit Agricole (2016: Barclays). At 31 December 2017 the balance held by this counterparty was £13 million (2016: £241 thousand).

(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 Company does not have any external obligations for which liquidity risk would be significant.

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

(b) Strategic and operational risk

The strategy (including operational risks) for the 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.

17 Risk management (continued)

(iii) Liquidity risk (continued)

(c) Capital risk management

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.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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;
(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.

18 Related party transactions

(a) The Company had the following related party transactions in 2017 and 2016:

(i) During the year, the Company paid a dividend of £339 million (2016: £203 million) to RAC Limited and £nil (2016: £282 million) to RAC Finance (Holdings) Limited.
(ii) In 2017, the Company received dividends of £268 million from RAC Motoring Services (Holdings) Limited which was a non-cash dividend (2016: £424 million from RAC Motoring Services (Holdings) Limited and £30 million from RAC Financial Services Limited, of which £230 million was received as a dividend in specie). During the year, the Company also received distributions of £75 thousand (2016: £68 thousand) from RAC Brand Enterprises LLP.
(iii) During 2016, 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.
(iv) During 2017, the Company incurred recharges payable to other group companies of £9 million (2016: £6 million) and recharges receivable of £18 million (2016: £13 million) in respect of the Management Services Agreement.
(v) Audit fees of £8 thousand (2016: £47 thousand) were borne by RAC Motoring Services, a fellow Group company.

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

	2017	2016
	£m	£m
Other Group companies - current accounts	-	7
Other Group companies - loan accounts	11	10
	11	**17**

During the year, the Company paid interest of £nil (2016: £6 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

During 2016, a loan of £3 million plus accrued interest was repaid by RAC Finance Limited.

18 Related party transactions (continued)

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

	2017	2016
	£m	£m
Other Group companies - current accounts	(248)	(145)
Other Group companies - loan accounts	(258)	(253)
	(506)	**(398)**

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 (2016: £107 million) with accrued interest payable of £4 million (2016: £2 million) .

The maximum facility amount with RAC Financial Services Limited is £50 million, with effect from 30 November 2017, and is repayable on demand or by no later than the maturity date of 30 November 2022. The year end balance is £20 million payable (2016: £20 million) with accrued interest payable of £6 million

The Company also has a loan with RAC Brand Enterprises LLP. The year end balance is £ 117 million (2016: £117 million) with accrued interest of £5 million (2016: £3million) and is repayable on demand.

(d) Key management compensation

The Directors and key management of the Company are the same as for RAC Group (Holdings) Limited. Information on key management compensation may be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

(e) Key management interests

No key management personnel held equity stakes in the business at 31 December 2017 or 31 December 2016.

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.

(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 Bidco Limited.