Registered in England and Wales No: 01424399

RAC MOTORING SERVICES

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

RAC Motoring Services

Contents

RAC Motoring Services

Company information

Directors:

J Baker
P Gale
D Hobday
P Ryan
R Templeman
G M Wood

Company Secretary:

P Barrett

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. 01424399

Other information:

RAC Motoring Services, ("the Company") is authorised and regulated by the Financial Conduct Authority ("FCA") in respect of insurance and mediation activities. For the year ended 31 December 2018, the Company was a member of the RAC Group of Companies ("the Group"), which includes RAC Group (Holdings) Limited and its subsidiaries, which during 2018 included RAC Midco Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited, RAC Midco II Limited, Nebula Systems Limited (until 25 January 2018), Maverick Technology (UK) Limited (until 25 January 2018), RAC Bidco Limited, RAC Bond Co plc, RAC Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, RAC Cars Limited (formerly Net Cars Limited) and Risk Telematics UK Limited.

These Financial Statements are presented for the year ended 31 December 2018. Comparatives are presented for the year ended 31 December 2017.

RAC Motoring Services

Strategic report

For the year ended 31 December 2018

The Directors present their Strategic report for the year ended 31 December 2018. The Directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

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 business development and performance during 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 the provision of services and benefits to Members of RAC and other motorists. There were no significant changes in these activities during the year.

Review of the business including major events

No interim dividends were paid to the Company's parent company, RAC Motoring Services (Holdings) Limited during the year (2017: £nil).

During the year the Company changed its accounting framework from International Financial Reporting Standards (IFRS) to FRS 101. This transition has not had a material effect on the financial statements.

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 Annual Report and Financial Statements of that company.

Key Performance Indicators ("KPIs")

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

	2018	**2017**
Revenue (£m)	439	449
EBITDA before exceptional items (£m)[1, 2]	98	107
Operating profit (£m) [2]	60	83
Roadside repair rate [3]	80%	80%
Roadside retention rate [4]	79%	80%

[1] Earnings before interest, tax, depreciation, amortisation and exceptional items. The Board believes that the use of EBITDA pre-exceptional items gives a better indication of the underlying performance of the Company. This is consistent with how business performance is measured internally.

[2] EBITDA and operating profit for the year ended 31 December 2018 reflects the impact of adopting IFRS 16 'Leases'. This has increased EBITDA by £12 million and decreased Operating profit by £2 million

[3] UK roadside repair rate excluding Road Traffic Collisions

[4] The percentage of Members renewing each year as a proportion of prior year Members

The Company also uses a range of other financial and non-financial performance indicators to monitor its performance.

Financial review

The financial position of the Company at 31 December 2018 is shown in the Statement of financial position on page 12, with the trading results shown in the Income statement on page 10 and the Statement of cash flows on page 14.

RAC Motoring Services

Strategic report (continued)

For the year ended 31 December 2018

Revenue decreased by £10 million (2017: increase of £13 million), cost of sales increased by £16 million (2017: increase of £46 million) and administrative expenses decreased by £3 million (2017: decrease of £25 million) in the year ended 31 December 2018.

The decrease in revenue reflects primarily the arrangement and administration fee payable by Individual Members now recognised in RAC Financial Services Limited. The increase in cost of sales reflects higher roadside costs arising from 6% growth in volume of breakdowns due primarily to the increase in both business and consumer membership.

The net assets of the Company increased by £51 million (2017: increase of £72 million), due primarily to an increase in amounts owed from another group company within Trade and other receivables.

Principal risks and uncertainties

The Company's principal risks and uncertainties include credit risk and liquidity risk as set out below:

Credit & Liquidity Risk Management

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.

Cash and cash equivalents throughout the periods reported on were held with institutions that are A rated. The Company's largest cash and cash equivalent counterparty is Barclays (2017: Barclays). At 31 December 2018 the balance held by this counterparty was £3 million (2017: £1 million).

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 obligations outside of the Group for which liquidity risk would be significant.

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.

General

The Company is a regulated company which holds sufficient capital to meet acceptable solvency levels based on applicable FCA regulations. There have not been any breaches in the reported periods.

Regulatory bases

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

As approved by the Board on 26 February 2019

P Barrett
Company Secretary

RAC Motoring Services

Directors' report

For the year ended 31 December 2018

The Directors present their Annual Report on the affairs of RAC Motoring Services, together with the audited Financial Statements and independent auditor's report for the year ended 31 December 2018.

Directors

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

Those who have served in office during the year and up to the date of approval of the Financial Statements have been as follows:

J Baker (appointed 2 July 2018)
R Fairman (resigned 27 February 2018)
P Gale
D Hobday
P Ryan
R Templeman
G M Wood

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

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 Financial Statements of that Company.

Results and Dividends

No interim dividends were paid during the year (2017: £nil). The Directors do not recommend the payment of a final dividend (2017: £nil).

Employees

All employees of the Group are employed and remunerated by the Company, which acts as the employment company for the Group. Disclosures relating to employees may 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.

RAC Motoring Services

Directors' report (continued)

Directors' indemnities

RAC Group (Holdings) Limited, the Company's ultimate Parent Company, has granted an indemnity to all RAC Company 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.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit of £51 million for the year ended 31 December 2018 (2017: £70 million) and at 31 December 2018 had net assets of £258 million (2017: £207 million) and net current liabilities of £7 million (2017: £48 million) however within net current liabilities is £153 million of deferred income and £11 million of IFRS 16 lease liabilities. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 and 3. Details of its cash and cash equivalents are set out in note 17 to the Financial Statements.

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 and its exposure to credit risk and liquidity risk are set out in the Strategic Report.

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 bank debt. The Directors also considered what mitigating actions the Group and Company could take to limit any adverse consequences.

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, at least 12 months from the date of this report. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

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.

Strategic Report

The Companies Act 2006 requires the Company to prepare a Strategic Report, set out on pages 2 to 3. The Strategic Report includes information about the Company's operations and business model, financial performance throughout the year, financial instruments and risk management, likely future developments, key performance indicators, and principal risks.

RAC Motoring Services

Directors' report (continued)

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

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, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 2018.

As approved by the Board on 26 February 2019

P Barrett
Company Secretary

Independent auditor's report to the members of RAC Motoring Services

Report on the audit of the Financial Statements

Opinion

In our opinion the Financial Statements of RAC Motoring Services (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of 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; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

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 Financial Reporting Council's ("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.

RAC Motoring Services

Independent auditor's report to the members of RAC Motoring Services (continued)

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 Directors' responsibilities statement, 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 FRC'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 Motoring Services (continued)

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.

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.

Andrew Halls FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom
Date: 26 February 2019

RAC Motoring Services
Financial Statements 2018
Income statement
For the year ended 31 December 2018

	Note	2018	2017
		£m	£m
Revenue	1	439	449
Cost of sales		(277)	(261)
Gross profit		**162**	**188**
Administrative expenses		(102)	(105)
Operating profit	2	**60**	**83**
EBITDA before exceptional items		98	107
Exceptional items	3	(3)	(7)
Depreciation of owned tangible assets	12	(4)	(5)
Depreciation of right of use assets	13	(12)	-
Amortisation of non customer acquisition intangible assets	11	(19)	(12)
Operating profit		**60**	**83**
Finance income	6	2	2
Finance expenses	5	(4)	(1)
Investment income	14	6	4
Profit before tax		**64**	**88**
Tax charge	10	(13)	(18)
Profit for the year		**51**	**70**

All activities relate to continuing operations.

The accounting policies and notes on pages 15 to 42 are an integral part of these Financial Statements.

RAC Motoring Services
Financial Statements 2018 (continued)
Statement of comprehensive income
For the year ended 31 December 2018

	Note	2018	2017
		£m	£m
Profit for the year		51	70
Actuarial losses on employee benefit schemes	22(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		**51**	**70**

The accounting policies and notes on pages 15 to 42 are an integral part of these Financial Statements.

RAC Motoring Services
Financial Statements 2018 (continued)
Registered in England and Wales: No. 01424399
Statement of financial position
As at 31 December 2018

	Note	2018	2017
ASSETS		£m	£m
Non-current assets			
Intangible assets	11	40	46
Plant and equipment	12	18	15
Right of use asset	13	75	-
Investments in subsidiaries and associates	14	58	58
Deferred tax asset	18	35	31
Trade and other receivables	16	113	112
		339	262
Current assets			
Inventories	15	2	2
Trade and other receivables	16	313	219
Cash and cash equivalents	17	3	4
		318	225
LIABILITIES			
Current liabilities			
Trade and other payables	20	(307)	(246)
Current tax payable	18	(15)	(20)
Provisions	19	(1)	(7)
		(323)	(273)
Net current liabilities		(5)	(48)
Non-current liabilities			
Employee benefit liability	22(c)(iv)	(3)	(4)
Trade and other payables	20	(73)	(3)
		(76)	(7)
Net assets		**258**	**207**
EQUITY			
Ordinary share capital	21	30	30
Retained earnings		228	177
Total equity		**258**	**207**

The accounting policies and notes on pages 15 to 42 are an integral part of these Financial Statements.

Approved by the Board on 26 February 2019.

Jo Baker

J Baker
Chief Financial Officer

RAC Motoring Services
Financial Statements 2018 (continued)
Statement of changes in equity
For the year ended 31 December 2018

	Note	Ordinary share capital	Retained earnings	Total equity
		£m	£m	£m
Balance at 1 January 2017		**30**	**105**	**135**
Profit for the year		-	70	70
Total comprehensive income		-	70	70
Contribution from Group Company		-	2	2
Balance at 31 December 2017		**30**	**177**	**207**
Profit for the year		-	51	51
Total comprehensive income		-	51	51
Contribution from Group Company		-	-	-
Balance at 31 December 2018		**30**	**228**	**258**

The accounting policies and notes on pages 15 to 42 are an integral part of these Financial Statements.

RAC Motoring Services
Financial Statements 2018 (continued)
Statement of cash flows
For the year ended 31 December 2018

	Note	2018	2017
		£m	£m
Operating activities			
Profit before tax		64	88
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation of intangible assets	11	19	12
Depreciation of owned tangible assets	12	4	5
Depreciation of right of use assets	13	12	-
Exceptional costs	3	2	2
Finance income	2 & 14	(8)	(6)
Finance expense	5	4	1
Working capital adjustments:			
Increase in trade and other receivables		(117)	(105)
Increase in trade and other payables		54	24
Decrease in provisions		(5)	-
Net cash flows from operating activities		**29**	**21**
Purchase of plant and equipment	12	(7)	(8)
Purchase of intangible assets	11	(17)	(15)
Distributions received	14	6	4
Net cash used in investing activities		**(18)**	**(19)**
Financing activities			
Repayment of obligations under leases		(12)	-
Net cash flows used in financing activities		**(12)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(1)**	**2**
Cash and cash equivalents brought forward		4	2
Cash and cash equivalents carried forward	17	**3**	**4**

The accounting policies and notes on pages 15 to 42 are an integral part of these Financial Statements.

RAC Motoring Services

Accounting policies

(A) Corporate information

RAC Motoring Services is a private unlimited liability company incorporated and domiciled in the United Kingdom and registered in England & Wales. The principal activity of the Company is the provision of services and benefits to members of the 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.

The Financial Statements of RAC Motoring Services for the year ended 31 December 2018 were approved for issue by the Board on 26 February 2019.

(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 goods and services.

The Company meets the definition of a qualifying entity under FRS 100 'Application on Financial Reporting Requirements' issued the FRC. Accordingly in the year ended 31 December 2018 the Company has undergone transition from reporting under IFRSs adopted by the EU to FRS 101 'Reduced Disclosure Framework'. This transition has not had a material effect on the financial statements.

In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of IFRSs as adopted by the EU but has made amendments where necessary in order to comply with the Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard as detailed below.

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

Disclosure exemptions applied

(i) The requirements of IFRS 7 *Financial Instruments: Disclosures* and IAS 1 paragraphs 134 to 136;
(ii) The requirements of IAS 24 *Related Party Disclosure; and*
(iii) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

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. The Financial Statements present information about the Company as an individual company and not about its group.

Application of new Standards

The following new IFRSs are effective for the 2018 Financial Statements.

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from contracts with customers*
- IFRS 16 *Leases* (early adopted)

Tthe adoption of IFRS 9 has not had a material impact on the disclosures or on the amounts reported in the Company's Financial Statements

The adoption of IFRS 15 has not had a material impact on the Financial Statements due to a significant proportion of the Company's revenue being accounted for under IFRS 4 and the remaining recognition policy is not significantly impacted by the requirements of IFRS 15.

RAC Motoring Services
Accounting policies (continued)

(B) Basis of preparation (continued)

Application of new Standards (continued)

In the current year, the Company has applied IFRS 16 'Leases' (as issued by the IASB in January 2016) in advance of its effective date of 1 January 2019 for EU IFRS adopters. IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases.

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2018. The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018.

In adopting IFRS 16 'Leases', the Company has utilised the cumulative catch up approach for initial recognition of assets and liabilities. The effect on the Financial Statements is to recognise a lease liability equal to the present value of the minimum lease payments from 1 January 2018 onwards, and to recognise a right of use asset of equal value on the same date. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

The Company determined a weighted incremental borrowing rates of 4.81% and 5.09% for the right of use assets with lease terms of 5 years (primarily patrol vehicles) and more than 5 years (primarily buildings) respectively on adoption of IFRS 16. The Directors considered all the borrowings at the date of adoption in the determination of the considered all the incremental borrowing rates depending on the remaining lease term of the underlying leases.

The standard permits the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The Company has applied this practical expedient to its operating leases on adoption for leases with a similar class and remaining lease term.

A reconciliation of the Group's operating lease commitments disclosed applying IAS 17 at 31 December 2017 to the present value of the minimum lease payments at the date of initial application is set out below:

	Property £m	Vehicles £m	Total £m
Operating lease commitment at 31 December 2017	77	37	114
Reassessment of average annual rent increases	9	-	9
Continuation of rental agreement post break clause	3	-	3
Vehicles committed to but lease not yet commenced at 31 December 2017	-	(7)	(7)
Exclusion of VAT from lease liability	-	(6)	(6)
Effect of discounting	(41)	(2)	(43)
Lease liability recognised on adoption	48	22	70

RAC Motoring Services

Accounting policies (continued)

(B) Basis of preparation (continued)

Application of new Standards (continued)

The impact of adopting IFRS 16 on the financial statements is as follows:

	Pre adoption of IFRS 16 £m	Impact of adopting IFRS 16 £m	As reported at 31 December 2018 £m
Impact on Income Statement			
EBITDA	86	12	98
Depreciation	(5)	(11)	(16)
Amortisation	(19)	-	(19)
Exceptional items	(3)	-	(3)
Operating profit	59	1	60
Finance income	2	-	2
Finance expenses	(1)	(3)	(4)
Investment income	6	-	6
Profit before tax	66	(2)	64
Tax charge	(13)	-	(13)
Reported profit/(loss)	**53**	**(2)**	**51**
Impact on Statement of Financial Position			
Non-current assets	264	75	339
Current assets	318	-	318
Current liabilities	(316)	(9)	(325)
Non-current liabilities	(6)	(68)	(74)
Retained earnings	**260**	**(2)**	**258**
Impact on Statement of Cash Flows			
Net cash flows generated from operating activities	17	12	29
Net cash flows used in investing activities	(18)	-	(18)
Net cash flows used in financing activities	-	(12)	(12)
Net decrease in cash and cash equivalents	**(1)**	**-**	**(1)**

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

Accounting policies (continued)

(B) Basis of preparation (continued)

Going concern (continued)

The Company made a profit of £51 million for the year ended 31 December 2018 (2017: £70 million) and at 31 December 2018 had net assets of £258 million (2017: £207 million) and net current liabilities of £7 million (2017: £48 million) however within net current liabilities is £153 million of deferred income and £11 million of IFRS 16 lease liabilities. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 and 3. Details of its cash and cash equivalents are set out in note 17 to the Financial Statements.

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 and its exposure to credit risk and liquidity risk are set out in the Strategic Report.

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 bank debt. The Directors also considered what mitigating actions the Group and Company could take to limit any adverse consequences.

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, at least 12 months from the date of this report. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

Investment in subsidiaries

Subsidiaries are those 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.

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

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and contractual voting rights.

The Company 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.

At each reporting date, the Company determines whether there is objective evidence that the investment in the subsidiary is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value, then recognises the loss in the Income statement.

RAC Motoring Services

Accounting policies (continued)

(B) Basis of preparation (continued)

Investments in associates

An associate is an entity over which the Company 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 cost method on the basis of the exemption available in IAS 28 Investments in Associates.

At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company 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 Income statement.

Upon loss of significant influence over the associate, the Company 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 Income statement.

(C) Revenue recognition

Revenue is measured in accordance with relevant accounting standards. For all contracts within the scope of IFRS 15, the Company determines whether enforceable rights and obligations have been created with the customer and recognises revenue based on the total transaction price as estimated at the contract inception, being the amount which the Company expects to be entitled and has present enforceable rights under the contract. Revenue is allocated proportionally across the contract performance obligations and recognised either over time or at a point in time as appropriate.

Service revenue

Revenue represents sales of roadside assistance and related claims services and is either an insured or "pay on use" service. For insured services this is recognised on a straight line basis over the length of the contract, usually twelve months in accordance with IFRS 4. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income. For "pay on use" contracts revenue is recognised in accordance with IFRS 15 at the point in time when the performance obligation is satisfied.

Products

Revenue relating to the sale of products, such as batteries and parts, is recognised according to the terms of the sale, at the point in time when the performance obligations are satisfied.

Interest income

Interest income is recognised in accordance with IFRS 9 when it is probable that the economic benefits will flow to the Company 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 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).

RAC Motoring Services

Accounting policies (continued)

(D) Exceptional items

Items which are considered by management to be material by size and/or nature and 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.

(E) Intangible assets

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 Income statement in administrative expenses. A provision for impairment is 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 Company expenses acquisition costs as incurred, with the exception of commissions and fees arising as a result of a direct sale of an insurance product, which are capitalised as customer acquisition intangibles. The customer acquisition intangible is initially recognised at cost and subsequently amortised using a straight-line method over the life of the policy, typically two to five years, which is driven by customer retention rate analysis.

Impairment testing

The carrying amount of intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Indefinite life intangibles are impaired where the recoverable amount is insufficient to support their carrying amount. Amortisation is included within Administrative expenses in the Income statement.

(F) Plant and equipment

All items classified as 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	2-10 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 equipment are determined by reference to their carrying amount and are recorded in the Income statement.

RAC Motoring Services

Accounting policies (continued)

(G) Leases

All items classified as Right of Use assets within the Statement of financial position are carried at the present value of the minimum lease payments less accumulated depreciation and any provision for impairment. Depreciation is calculated using the straight-line method over the life of the lease, typically either five or twenty five years for vehicles and properties respectively. Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made in the period.

The nature of the leases included in the right of use assets are vehicles and properties.

(H) 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.

(I) 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.

(J) 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 recognised on trade receivables if there is considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income statement in other operating expenses.

(K) 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 Statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the Statement of financial position.

Accounting policies (continued)

(L) 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.

(M) 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 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.

RAC Motoring Services

Accounting policies (continued)

(N) Employee benefits

Pension obligations and other post-retirement benefit obligations

The Company operates an unfunded, unapproved pension scheme which is a defined benefit pension plan. The assets of this scheme are held in separate trustee-administered funds.

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

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

Re-measurements, 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. Re-measurements 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 the Company).

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 the Company 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.

RAC Motoring Services

Accounting policies (continued)

(O) 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:

- 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
- 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.

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

The preparation of the Financial Statements in conformity with FRS 101 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 made by the Directors in applying the Company's accounting policies.

(ii) Key sources of estimation uncertainty

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

Incremental borrowing rate

In calculating the Group's lease liability, in accordance with IFRS 16, management have determined that the Group is unable to calculate the rate implicit within the lease ('IRIL') for all its lease liabilities and has therefore utilised the Group's incremental borrowing rate of 5% for the purposes of discounting the minimum value of future lease obligations.

In calculating this measure, management have made certain judgements regarding the finance spread adjustment applicable to the Group and lease specific adjustments. Inherently there is an element of judgment in determining these amounts.

The effect of a 1% decrease in the discount rate would increase both the asset and liability by £6 million and increase the combined interest and depreciation charge by £1 million. The effect of a 1% increase in the discount rate would decrease both the asset and liability by £5 million and decrease the combined interest and depreciation charge by £1 million.

RAC Motoring Services
Notes to the Financial Statements

1 Revenue

	2018	2017
	£m	£m
Sale of products	26	23
Sale of services - Insurance related	280	310
Sale of services - Non-insurance related	133	116
Total revenue	439	449

2 Operating items

The following items have been charged to operating profit:

	2018	2017
	£m	£m
Depreciation of owned tangible assets (note 12)	4	5
Depreciation of right of use assets (note 13)	12	-
Amortisation of non customer acquisition intangible assets (note 11)	19	12
Employee costs (note 8)	135	129
Cost of inventories recognised in cost of sales	15	14
Operating lease rentals paid	2	14

3 Exceptional items

	2018	2017
	£m	£m
Cost of customer refunds	1	-
Impairment (note 11)	2	2
Restructuring and other costs	-	5
	3	7

During the year the Group charged £1 million for the estimated costs of a contact and remediation programme, further details of which are set out in note 20. In the prior year the Group incurred £5 million of restructuring and other costs following a strategic review of the business.

During the year, the Company also recognised a charge of £2 million (2017: £2 million) against the carrying value of capitalised development costs for which the expected benefits no longer support the carrying value of these costs.

4 Dividends

No ordinary dividends were paid during the year (2017: £nil).

5 Finance expenses

	2018	2017
	£m	£m
Interest payable - third parties	-	1
Interest payable - lease liabilities	4	-
	4	1

6 Finance income

	2018	2017
	£m	£m
Interest receivable - related parties	2	2
	2	2

7 Auditor's remuneration

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

	2018	2017
	£000	£000
Audit services		
Audit of financial statements	114	132
Total remuneration payable to Deloitte LLP	**114**	**132**

There were no fees payable to Deloitte LLP in respect of non-audit services (2017: £nil).

8 Employee information

The average number of persons employed during the year was:

	2018	2017
	Number	Number
Roadside	2,823	2,833
Insurance and claims	95	132
Support	353	301
	3,271	3,266

Total staff costs were:

	2018	2017
	£m	£m
Wages and salaries	115	110
Social security costs	12	12
Defined contribution scheme pension costs	8	7
	135	129
These costs were charged within:		
Cost of sales	114	113
Administrative expenses	21	16
	135	129

9 Directors

Executive Directors are remunerated as employees of the 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, which includes RAC Motoring Services. 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.

RAC Motoring Services
Notes to the Financial Statements (continued)

10 Tax

(a) Tax charged to the Income statement

The total tax charge comprises:

	2018	2017
	£m	£m
Current tax:		
For the year	17	21
Adjustment in respect of prior years	-	(1)
Total current tax	17	20
Deferred tax:		
Origination and reversal of timing differences	(4)	(3)
Adjustment in respect of prior years	-	1
Total deferred tax	(4)	(2)
Total tax charged to the Income statement	**13**	**18**

(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:

	2018	2017
	£m	£m
Profit before tax	64	88
Tax calculated at standard UK corporation tax rate of 19.00% (2017: 19.25%)	12	17
Disallowable expenses	-	1
Effect of tax rate change	1	-
Total tax charged to the Income statement (note 10(a))	**13**	**18**

10 Tax (continued)

(b) Tax reconciliation (continued)

The headline rate of UK corporation tax is currently 19% and will reduce 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 reduction of the corporation tax rate to 17% was enacted on 15 September 2016, the deferred tax balances at both 31 December 2017 and 31 December 2018 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 (2017: £nil).

11 Intangible assets

	Customer list	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 January 2017	1	77	78	1	79
Additions	-	18	18	-	18
Impairment (note 3)	-	(2)	(2)	-	(2)
At 31 December 2017	1	93	94	1	95
Additions	-	15	15	-	15
Impairment (note 3)	-	(2)	(2)		(2)
At 31 December 2018	**1**	**106**	**107**	**1**	**108**
Amortisation:					
At 1 January 2017	-	37	37	-	37
Charge for the year	-	12	12	-	12
At 31 December 2017	-	49	49	-	49
Charge for the year	1	18	19	-	19
At 31 December 2018	**1**	**67**		**-**	**68**
Net book value:					
At 31 December 2018	**-**	**39**	**39**	**1**	**40**
At 31 December 2017	1	44	45	1	46

All intangible assets are stated at cost less accumulated amortisation. Other intangible assets comprise the value of customer relationships and IT development.

During the year, impairment of £2 million has been recognised in relation to cessation of customer contracts (2017: £2 million). The recoverable amount of the assets were measured at value in use.

RAC Motoring Services
Notes to the Financial Statements (continued)

12 Plant and equipment

	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m
Cost or valuation:			
At 1 January 2017	20	15	35
Additions	6	2	8
At 31 December 2017	**26**	**17**	**43**
Additions	6	1	7
At 31 December 2018	**32**	**18**	**50**
Depreciation:			
At 1 January 2017	8	15	23
Charge for the year	4	1	5
At 31 December 2017	**12**	**16**	**28**
Charge for the year	3	1	4
At 31 December 2018	**15**	**17**	**32**
Net book value:			
At 31 December 2018	**17**	**1**	**18**
At 31 December 2017	14	1	15

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

13 Right of use asset

	Property	Vehicles	Total
	£m	£m	£m
Cost or valuation:			
At 1 January 2018 - on transition	48	22	70
Additions	-	17	17
Disposals	-	(2)	(2)
At 31 December 2018	**48**	**37**	**85**
Depreciation:			
At 1 January 2018 - on transition	-	-	-
Charge for the year	3	9	12
Disposals	-	(2)	(2)
At 31 December 2018	**3**	**7**	**10**
Net book value:			
At 31 December 2018	45	30	75
At 1 January 2018 - on transition	48	22	70

RAC Motoring Services
Notes to the Financial Statements (continued)

14 Investments in subsidiaries and associates

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

	2018	2017
	£m	£m
Cost		
At 1 January and 31 December	**58**	**58**

(b) Information about subsidiaries

Particulars of the Company's subsidiary are given below. It has share capital comprising shares of one class only.

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
RACMS (Ireland) Limited	Dormant	Ordinary	100%	Ireland

RACMS (Ireland) Limited is registered in Ireland. Its registered office is Marine House, Clanwilliam Court, Dublin 2.

(c) Information about associates

Company	Principal activity	Class of share	Proportion held	Country of incorporation and operation
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' Capital	93.1%	United Kingdom

The principal activities of the associate are the ownership and management of intangible assets, including the managing of license agreements. Summary financial information extracted from the associate's Financial Statements are as follows:

Its registered office is the same as the Company's.

	2018	2017
	£m	£m
Statement of financial position as at 31 December:		
Non-current assets	527	563
Current assets	118	79
Current liabilities	-	-
Equity	**645**	**642**
Income statement for the year ended 31 December:		
Revenue	52	49
Profit for the year	13	9
Income received from RAC Brand Enterprise LLP	6	4

RAC Motoring Services
Notes to the Financial Statements (continued)

15 Inventories

	2018	2017
	£m	£m
Inventories	2	2

All inventories are classified as finished goods.

16 Trade and other receivables

	2018	2017
	£m	£m
Trade receivables	17	16
Amounts due from related parties	384	290
Prepayments and accrued income	25	24
Other receivables	-	1
Total	**426**	**331**
Expected to be recoverable within one year	313	219
Expected to be recoverable in more than one year	113	112
Total	**426**	**331**

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 £426 million (2017: £331 million) is considered to be neither past due nor impaired.

17 Cash and cash equivalents

Cash and cash equivalents at 31 December 2018 comprised of £3 million of cash at bank and in hand (2017: £4 million).

18 Tax assets and liabilities

	2018	2017
	£m	£m
Current tax payable (see note 18(a))	(15)	(20)
Deferred tax asset (see note 18(b))	35	31
	20	**11**

(a) Current tax payable	2018	2017
	£m	£m
The balance at 31 December comprises:		
Current tax payable	(15)	(20)

(b) Deferred tax asset	2018	2017
	£m	£m
The balance at 31 December comprises:		
Deferred tax asset	35	31
Net deferred tax asset recognised in the Statement of financial position	35	31

	2018	2017
	£m	£m
The net deferred tax asset arises on the following items:		
Accelerated capital allowances	3	3
Unremitted profits from RAC Brand Enterprises LLP	30	26
Pensions and other post-retirement obligations	1	1
Provisions and other temporary differences	1	1
Net deferred tax asset	35	31

18 Tax assets and liabilities (continued)

(b) Deferred tax asset (continued)

	Plant & equipment £m	Unremitted profits £m	Retirement benefit obligations £m	Other temporary differences £m	Total £m
At 1 January 2017	4	23	1	1	29
(Charge)/credit to Income statement	(1)	3	-	-	2
At 31 December 2017	**3**	**26**	**1**	**1**	**31**
Credit to Income statement	-	4	-	-	4
At 31 December 2018	**3**	**30**	**1**	**1**	**35**

	2018 £m	2017 £m
The movement in the net deferred tax asset was as follows:		
Net deferred tax asset brought forward	31	29
Deferred tax credited to the Income statement	4	2
Net deferred tax asset carried forward	**35**	**31**

A deferred tax asset is recognised in respect of income taxable in the current or previous periods but which has not yet been recognised for accounting purposes.

The Company has gross unrecognised temporary differences of £nil (2017: £nil) to carry forward indefinitely against future taxable income.

Liabilities for corporation tax include amounts to be settled by group relief of £15 million (2017: £20 million) and are payable within one year. During the year an amount of £21 million (2017: £19 million) in respect of group relief was settled by an intercompany transfer.

19 Provisions

	Customer refunds	Strategic restructure	Other	Total
	£m	£m	£m	£m
At 1 January 2018	3	3	1	7
Provided during the year	3	-	-	3
Utilised during the year	(4)	(3)	-	(7)
Released during the year	(2)	-	-	(2)
At 31 December 2018	-	-	1	1

Customer refunds

During the year the Group made a provision of £3 million for the estimated costs of a contact and remediation programme for customers whose breakdown renewal documentation did not present renewal information as prominently as it should have done. This amount was charged to exceptional items in the Income statement and was fully utilised during the year, with the programme reaching completion in late 2018.

Strategic restructure

During 2017 the Company conducted a strategic review of the business and as a result, the Company has incurred £nil (2017: £3 million) in associated restructuring costs.

Other

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).

20 Trade and other payables

	2018	
	£m	£m
Trade payables and accruals	53	49
Amounts due to related parties	103	46
Deferred income	108	117
Other payables	116	37
Total	**380**	**249**
Expected to be payable within one year	307	246
Expected to be payable in more than one year	73	3
Total	**380**	**249**

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

Included within other payables are £4 million of social security payables (2017: £3 million) and £1 million of pensions payables (2017: £1 million).

RAC Motoring Services
Notes to the Financial Statements (continued)

20 Trade and other payables (continued)

Included within other payables is £77 million (2017: £nil) in relation to lease liabilities recognised as a result of the Group adopting IFRS 16 (note 13).

	2018	2017
	£m	**£m**
Within 1 year	9	-
1 to 5 years	25	-
5 to 10 years	43	-
	77	**-**

Lease Commitments

As at 31 December 2018 the company had committed to aggregated undiscounted future lease payments of £2 million payable over a period up to 5 years.

21 Ordinary share capital

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

	2018	2017
	£m	**£m**
Allotted, called up and fully paid:		
29,596,002 (2017: 29,596,002) ordinary shares of £1 each	30	30

22 Employee benefit obligations

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

(a) Introduction

The Company operates a number of employee benefit schemes as follows:

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 2018 was 8 (2017: 8).

Disability Benefit Scheme ("DB Scheme")

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

RAC Motoring Services
Notes to the Financial Statements (continued)

22 Employee benefit obligations (continued)

(b) Charges to the Income statement

The total losses of the Company's employee defined benefit schemes were:

	2018	2017
	£000	£000
Other operating losses	(95)	(107)
Total	(95)	(107)

(c) Employee benefit scheme assumptions and disclosures

Disclosures under IAS 19 Employee Benefits are given on the following pages on a consolidated basis for the UUP Scheme and the DB Scheme ("the Schemes").

(i) Assumptions for 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.

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 2018. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2018. The main actuarial assumptions used to calculate the UUP Scheme and the DB Scheme liabilities under IAS 19 are:

	2018	2017
	%	%
Inflation rate	3.2	3.1
Pension increases	3.2	3.1
Discount rate	2.8	2.5

The inflation rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the inflation rate would increase liabilities and service costs by £308 thousand and £nil respectively (2017: 1% increase in discount rate would increase liabilities and service costs by £348 thousand and £nil respectively).

RAC Motoring Services
Notes to the Financial Statements (continued)

22 Employee benefit obligations (continued)

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

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

Valuations and assumptions (continued)

Mortality assumptions (UUP and the DB Schemes)

Mortality assumptions are significant in measuring the Company'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 2018 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 S1 tables, including allowances for future improvements	65.0	87.9 (22.9)	89.7 (24.7)	89.7 (24.7)	91.2 (26.2)

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 £323 thousand (2017: £317 thousand).

(ii) Employee defined benefit expense

The total employee defined benefit expense for the Schemes comprise:

	2018	2017
Recognised in the Income statement	**£000**	**£000**
Net interest expense	(95)	(107)
Total employee benefit losses credited within profit or loss	(95)	(107)

	2018	2017
Recognised in other comprehensive income	**£000**	**£000**
Actuarial (loss) on scheme liabilities	(206)	(152)
Actuarial gains arising from change in assumptions	81	43
Total losses recognised in other comprehensive income	(125)	(109)

RAC Motoring Services
Notes to the Financial Statements (continued)

22 Employee benefit obligations (continued)

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

(ii) Employee defined benefit expense (continued)

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 £3,344 thousand loss at 31 December 2018 (2017: £3,219 thousand loss).

(iii) Experience gains and losses

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

	2018	2017
	£000	£000
Fair value of the Scheme assets at the end of the year	-	-
Present value of the Schemes' liabilities at the end of the year	(3,413)	(3,758)
Net deficit in the Schemes	(3,413)	(3,758)

Estimated employer contributions for the financial year ending 31 December 2019 are £500 thousand in respect of the Defined Benefit schemes.

(iv) Schemes' deficit

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

	2018	2017
	£000	£000
Total fair value of assets	-	-
Present value of defined benefit obligations	(3,413)	(3,758)
Net deficit in the Schemes	(3,413)	(3,758)

Amounts recognised in the Statement of financial position:

	2018	2017
	£000	£000
Surplus included in non-current assets	-	-
Deficits included in non-current liabilities	(3,413)	(3,758)
Net deficit in the Schemes	(3,413)	(3,758)

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

RAC Motoring Services
Notes to the Financial Statements (continued)

22 Employee benefit obligations (continued)

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

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

	Scheme liabilities 2018	Net deficit 2018	Scheme liabilities 2017	Net deficit 2017
	£000	£000	£000	£000
Balance at 1 January	(3,758)	(3,758)	(4,066)	(4,066)
Benefits paid	565	565	524	524
Interest expense	(95)	(95)	(107)	(107)
Remeasurement gains/losses				
Loss on liabilities	(206)	(206)	(152)	(152)
Actuarial (loss)/gain arising from change in assumptions	81	81	43	43
Balance at 31 December	(3,413)	(3,413)	(3,758)	(3,758)

23 Related party transactions

(a) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2018 or 31 December 2017.

At no time during the reported 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 a service contract between each Director and a Group company.

(b) Immediate Parent company

The Company's immediate Parent company is RAC Motoring Services (Holdings) Limited, registered in England and Wales.

(c) Ultimate controlling entity

The Company's ultimate controlling entity is RAC Group (Holdings) Limited. Its 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.