Registered in England and Wales No: 01424399

RAC MOTORING SERVICES

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

RAC Motoring Services

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RAC Motoring Services

Company information

Directors:

R Fairman
P Gale
D Hobday
P Ryan
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. 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 2017, the Company is a member of the RAC Group of Companies ("Group"), which 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 Motoring Services

Strategic report

For the year ended 31 December 2017

The Directors present their Strategic report for the year ended 31 December 2017. 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 (2016: £200 million at 675.8 pence per share).

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 financial 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.

	2017	2016
Revenue (£m)	449	436
EBITDA before exceptional items (£m)*	107	119
Growth in revenue	3%	1%
Operating profit (£m)	83	91
Operating profit as a percentage of revenue	18%	21%
Roadside repair rate **	80%	80%
Roadside retention rate ***	79%	80%

* 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 group. This is consistent with how business performance is measured internally.

** UK roadside repair rate excluding Road Traffic Collisions

*** 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.

RAC Motoring Services
Strategic report (continued)
For the year ended 31 December 2017

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 trading results shown in the Income statement on page 10 and the Statement of cash flows on page 14.

The profit before tax for the year ended 31 December 2017 is £88 million (2016: £97 million).

There has been an increase in revenue of £13 million from 2016 (2016: increase of £3 million). There has been a £46 million increase in cost of sales compared to 2016 (2016: £10 million increase). The increase in revenue during 2017 is due to additional new business contracts won in the Business Roadside and Motor Claims Services businesses. The increase in cost of sales is due to higher roadside operational costs and expenditure on servicing new Motor Claims Services contracts. Administrative expenses for the year ended 31 December 2017 are £105 million (2016: £130 million).

The net assets of the Company have increased by £72 million to £207 million (2016: £135 million), this was due to an increase in Trade and other receivables.

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 23 to the Financial Statements.

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 that is underwritten.

By order of the Board on 27 February 2018.

S Morrison
Company Secretary

RAC Motoring Services

Directors' report

For the year ended 31 December 2017

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 2017.

Directors

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

Those who have served in office during the year have been as follows:

R Fairman
P Gale
D Hobday (appointed 2 March 2017)
P Ryan (appointed 9 March 2017)
R Templeman
M Wood
C Woodhouse (resigned 2 March 2017)

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 (see note 24(e)).

Results and Dividends

No interim dividends were paid during the year (2016: £200 million at 675.80 pence per share). The Directors do not recommend the payment of a final dividend (2016: £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 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.

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of the cash and cash facilities are set out in note 16. The Group'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 note 23 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 the 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 page 2. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

The Company has net assets of £207 million (2016: £135 million) and net current liabilities of £48 million (2016: £108 million). 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 2017

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 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 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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

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

RAC Motoring Services

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:

- 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 Motoring Services (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 24.

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.

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.

Statement of Directors' responsibilities
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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

RAC Motoring Services

Independent auditor's report to the members of RAC Motoring Services (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 Motoring Services
Financial Statements 2017
Income statement
For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Revenue	1	449	436
Cost of sales		(261)	(215)
Gross profit		**188**	**221**
Administrative expenses		(105)	(130)
Operating profit	2	**83**	**91**
EBITDA before exceptional items		107	119
Exceptional items	3	(7)	(7)
Depreciation	12	(5)	(5)
Amortisation of customer acquisition intangible assets	11	-	(5)
Amortisation of non customer acquisition intangible assets	11	(12)	(11)
Operating profit		**83**	**91**
Finance income	6	2	3
Finance expenses	5	(1)	(1)
Investment income	24(a)(iii)	4	4
Profit before tax		**88**	**97**
Tax charge	10	(18)	(21)
Profit for the year		**70**	**76**

The accounting policies and notes on pages 15 to 46 are an integral part of these Financial Statements.

RAC Motoring Services
Financial Statements 2017 (continued)
Statement of comprehensive income
For the year ended 31 December 2017

	Note	2017	2016
		£m	£m
Profit for the year		70	76
Other comprehensive expense not to be reclassified to profit or loss in subsequent years:			
Actuarial losses on employee benefit schemes	22(c)(ii)	-	(1)
Net other comprehensive expense not to be reclassified to profit or loss in subsequent years		-	(1)
Other comprehensive expense, net of tax		-	(1)
Total comprehensive income for the year		**70**	**75**

The accounting policies and notes on pages 15 to 46 are an integral part of these Financial Statements.

RAC Motoring Services
Financial Statements 2017 (continued)
Registered in England and Wales: No. 01424399
Statement of financial position
As at 31 December 2017

	Note	2017	2016
ASSETS		**£m**	**£m**
Non-current assets			
Intangible assets	11	46	42
Plant and equipment	12	15	12
Investments in subsidiaries and associates	13	58	58
Deferred tax asset	17	31	29
Trade and other receivables	15	112	109
		262	250
Current assets			
Inventories	14	2	2
Trade and other receivables	15	219	133
Cash and cash equivalents	16	4	2
		225	137
LIABILITIES			
Current liabilities			
Trade and other payables	19	(246)	(219)
Current tax payable	17	(20)	(20)
Provisions	18	(7)	(6)
		(273)	(245)
Net current liabilities		(48)	(108)
Non-current liabilities			
Employee benefit liability	22(c)(iv)	(4)	(4)
Trade and other payables	19	(3)	(3)
		(7)	(7)
Net assets		**207**	**135**
EQUITY			
Ordinary share capital	20	30	30
Retained earnings		177	105
Total equity		**207**	**135**

The accounting policies and notes on pages 15 to 46 are an integral part of these Financial Statements.

Approved by the Board on 27 February 2018.

R Fairman
Chief Financial Officer

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

	Note	Ordinary share capital	Retained earnings	Total equity
		£m	£m	£m
Balance at 1 January 2016		**30**	**230**	**260**
Profit for the year		-	76	76
Other comprehensive expense		-	(1)	(1)
Total comprehensive income		-	75	75
Dividends paid	4	-	(200)	(200)
Balance at 31 December 2016		**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**

The accounting policies and notes on pages 15 to 46 are an integral part of these Financial Statements.

RAC Motoring Services
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		88	97
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation of intangible assets	11	12	16
Depreciation of plant and equipment	12	5	5
Exceptional costs		2	-
Finance income		(6)	(7)
Finance expense	5	1	1
Increase in provisions		-	5
Working capital adjustments:			
Increase in trade and other receivables		(105)	-
Increase/(decrease) in trade and other payables		24	(90)
Decrease in inventories		-	1
Net cash flows from operating activities		**21**	**28**
Purchase of plant and equipment	12	(8)	(5)
Purchase of intangible assets	11	(15)	(29)
Distributions received	24(a)(iii)	4	4
Net cash used in investing activities		**(19)**	**(30)**
Net increase/(decrease) in cash and cash equivalents		**2**	**(2)**
Cash and cash equivalents brought forward		2	4
Cash and cash equivalents carried forward	16	**4**	**2**

The accounting policies and notes on pages 15 to 46 are an integral part of these Financial Statements.

RAC Motoring Services

Accounting policies

(A) Corporate information

RAC Motoring Services is an unlimited liability company incorporated and domiciled in the United Kingdom. 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.

Information on other related party relationships of the Company is provided in note 24.

The Financial Statements of RAC Motoring Services 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, except for certain financial instruments that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The Financial Statements of the Company have been prepared in accordance with IFRSs as adopted by the 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 ftatements by virtue of Section 400 of the Companies Act 2006, as it is a subsidiary of an EU parent (note 24(d)). 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. Details of the cash and cash facilities are set out in note 16. The Group'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 note 23 to the Financial Statements.

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 page 2. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

Accounting policies (continued)

(B) Basis of preparation (continued)

Going concern (continued)

The Company has net assets of £207 million and net current liabilities of £48 million. 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 2017 Annual Report and Financial Statements.

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.

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 arrangement 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.

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.

Accounting policies (continued)

(B) Basis of preparation (continued)

Investments in associates (continued)

The Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. 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 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.

Service revenue

Revenue represents sales of roadside assistance and services and is recognised on a straight line basis over the length of the contract, usually twelve months. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income.

Products

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

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

RAC Motoring Services

Accounting policies (continued)

(C) Revenue recognition (continued)

Rental income

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

Interest income

Interest income is recognised 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).

(D) Exceptional items

Items which are considered by management to be material by size and/or nature or non-recurring are presented separately on the face of the 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 will be charged where evidence of such an impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Customer acquisition intangibles

The Company expenses acquisition costs as incurred, with the exception of commissions and fees arising as a result of a direct sale, which are capitalised as customer acquisition intangibles. The customer acquisition intangible is initially recognised at cost and subsequently amortised over the life of the policy, typically two to five years, which is driven by customer retention rate analysis.

Accounting policies (continued)

(E) Intangible assets (continued)

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	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 equipment are determined by reference to their carrying amount and are recorded in the Income statement.

(G) Inventories

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

(H) Impairment of non-financial assets

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

(I) Trade receivables

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

RAC Motoring Services

Accounting policies (continued)

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values. For the purposes of the 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.

(K) 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.

(L) 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.

Accounting policies (continued)

(L) Income taxes (continued)

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.

(M) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income statement on a straight-line basis over the period of the lease.

(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 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.

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).

Accounting policies (continued)

(N) Employee benefits (continued)

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

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.

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

The following new and amended IFRS 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 Group or the Parent Company's 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

RAC Motoring Services

Accounting policies (continued)

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

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.

(Q) 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.

Accounting policies (continued)

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

(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:

Provisions and contingent liabilities

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

RAC Motoring Services
Notes to the Financial Statements

1 Revenue

	2017	2016
	£m	£m
Sale of products	23	23
Sale of services	426	413
Total revenue	449	436

2 Operating items

The following items have been charged to operating profit:

	2017	2016
	£m	£m
Depreciation of owned tangible assets (note 12)	5	5
Amortisation of customer acquisition intangible assets (note 11)	-	5
Amortisation of non customer acquisition intangible assets (note 11)	12	11
Employee costs (note 8)	129	138
Cost of inventories recognised in cost of sales (note 14)	14	11
Operating lease rentals paid	14	13

3 Exceptional items

	2017	2016
	£m	£m
Restructuring and other costs	5	2
Cost of customer refunds	-	5
Impairment	2	-
	7	7

During the year, the Company incurred £3 million (2016: £2 million) of restructuring costs following a strategic review of the business. The Company also impaired £2 million of intangibles relating to cessation of a contract (note 11).

4 Dividends

No ordinary dividends were paid during the year (2016: £200 million at 675.8 pence per share). In 2016 the dividend was paid as a dividend in specie.

5 Finance expenses

	2017	2016
	£m	£m
Interest payable - third parties	1	1
	1	1

6 Finance income

	2017	2016
	£m	£m
Interest receivable - related parties (note 24(a)(iii))	2	3
	2	3

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.

	2017	2016
	£000	£000
Audit services		
Audit of financial statements	132	128
Total remuneration payable to Deloitte LLP	**132**	**128**

There were no fees payable to Deloitte LLP in respect of non-audit services (2016: £nil).

8 Employee information

The average number of persons employed during the year was:

	2017	2016
	Number	Number
Roadside	2,833	3,007
Insurance and claims	132	135
Support	301	324
	3,266	3,466

Total staff costs were:

	2017	2016
	£m	£m
Wages and salaries	110	119
Social security costs	12	11
Pension costs	7	8
	129	138
These costs were charged within:		
Cost of sales	113	102
Administrative expenses	16	36
	129	138

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.

10 Tax

(a) Tax charged to the Income statement

The total tax charge comprises:

	2017	2016
	£m	£m
Current tax:		
For the year	21	24
Adjustment in respect of prior years	(1)	-
Total current tax	20	24
Deferred tax:		
Origination and reversal of timing differences	(3)	(5)
Change in tax rates	-	2
Adjustment in respect of prior years	1	-
Total deferred tax	(2)	(3)
Total tax charged to the Income statement	**18**	**21**

(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	88	97
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20%)	17	19
Disallowable expenses	1	-
Effect of tax rate change	-	2
Total tax charged to the Income statement (note 10(a))	**18**	**21**

10 *Tax (continued)*

(b) Tax reconciliation (continued)

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 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 31 December 2017 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 (2016: £nil).

RAC Motoring Services
Notes to the Financial Statements (continued)

11 Intangible assets

	Customer list	Other	Non customer acquisition intangibles subtotal	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 January 2016	1	45	46	47	93
Additions	-	21	21	8	29
Transfer between asset categories	-	11	11	(11)	-
Disposals	-	-	-	(43)	(43)
At 31 December 2016	1	77	78	1	79
Additions	-	18	18	-	18
Impairment	-	(2)	(2)		(2)
At 31 December 2017	**1**	**93**	**94**	**1**	**95**
Amortisation:					
At 1 January 2016	-	26	26	20	46
Charge for the year	-	11	11	5	16
Disposals	-	-	-	(25)	(25)
At 31 December 2016	-	37	37	-	37
Charge for the year	-	12	12	-	12
Impairment	-	-	-	-	-
At 31 December 2017	**-**	**49**	**49**	**-**	**49**
Net book value:					
At 31 December 2017	**1**	**44**	**45**	**1**	**46**
At 31 December 2016	**1**	**40**	**41**	**1**	**42**

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 respect of intangibles related to contracts that are due to be terminated (2016: nil)

During 2016, customer acquisition intangibles amounting to £18m were sold to RAC Financial Services Limited, a fellow subsidiary, at net book value.

Following a review of asset categories in 2016, £11 million of assets relating to intangible assets were reclassified from customer acquisition intangibles to other intangibles. There was no impact on the net book value or estimated useful life of these assets.

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 2016	12	26	38
Additions	5	-	5
Transfer between asset categories	5	(5)	-
Disposals	(2)	(6)	(8)
At 31 December 2016	**20**	**15**	**35**
Additions	6	2	8
At 31 December 2017	**26**	**17**	**43**
Depreciation:			
At 1 January 2016	7	19	26
Charge for the year	3	2	5
Disposals	(2)	(6)	(8)
At 31 December 2016	**8**	**15**	**23**
Charge for the year	4	1	5
At 31 December 2017	**12**	**16**	**28**
Net book value:			
At 31 December 2017	**14**	**1**	**15**
At 31 December 2016	12	-	12

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

13 Investments in subsidiaries and associates

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

	2017	2016
	£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:

	2017	2016
	£m	£m
Statement of financial position as at 31 December:		
Non-current assets	563	597
Current assets	79	40
Current liabilities	-	(1)
Equity	**642**	**636**
Income statement for the year ended 31 December:		
Revenue	49	45
Profit for the year	9	4

RAC Motoring Services
Notes to the Financial Statements (continued)

14 Inventories

	2017	2016
	£m	£m
Inventories	2	2

The cost of inventories recognised as an expense and included within 'Cost of sales' in the year ended 31 December 2017 amounted to £14 million (2016: £11 million).

All inventories are classified as finished goods.

15 Trade and other receivables

	2017	2016
	£m	£m
Trade receivables	16	12
Amounts due from related parties (note 24(a)(i))	290	211
Prepayments and accrued income	24	18
Other receivables	1	1
Total	**331**	**242**
Expected to be recoverable within one year	219	133
Expected to be recoverable in more than one year	112	109
Total	**331**	**242**

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 £331 million (2016: £242 million) is considered to be neither past due nor impaired.

16 Cash and cash equivalents

Cash and cash equivalents at 31 December 2017 comprised of £4 million of cash at bank and in hand (2016: £2 million).

17 Tax assets and liabilities

	2017	2016
	£m	£m
Current tax payable (see note 17(a))	(20)	(20)
Deferred tax asset (see note 17(b))	31	29
	11	**9**

(a) Current tax payable

	2017	2016
	£m	£m
The balance at 31 December comprises:		
Current tax payable	(20)	(20)

(b) Deferred tax asset

	2017	2016
	£m	£m
The balance at 31 December comprises:		
Deferred tax asset	31	29
Net deferred tax asset recognised in the Statement of financial position	31	29

	2017	2016
	£m	£m
The net deferred tax asset arises on the following items:		
Accelerated capital allowances	3	4
Unremitted profits from RAC Brand Enterprises LLP	26	23
Pensions and other post-retirement obligations	1	1
Provisions and other temporary differences	1	1
Net deferred tax asset	31	29

RAC Motoring Services
Notes to the Financial Statements (continued)

17 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 2016	4	19	1	2	26
Credit/(charge) to Income statement	-	4	-	(1)	3
At 31 December 2016	**4**	**23**	**1**	**1**	**29**
(Charge)/credit to Income statement	(1)	3	-	-	2
At 31 December 2017	**3**	**26**	**1**	**1**	**31**

	2017 £m	2016 £m
The movement in the net deferred tax asset was as follows:		
Net deferred tax asset brought forward	29	26
Deferred tax credited to the Income statement	2	3
Net deferred tax asset carried forward	**31**	**29**

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 (2016: £nil) to carry forward indefinitely against future taxable income.

Liabilities for corporation tax include amounts to be settled by group relief of £20 million (2016: £20 million) and are payable within one year. During the year an amount of £19 million (2016: £57 million) in respect of group relief was settled by an intercompany transfer.

RAC Motoring Services
Notes to the Financial Statements (continued)

18 Provisions

	Customer refunds	Strategic restructure	Other	Total
	£m	£m	£m	£m
At 1 January 2017	5	-	1	6
Provided during the year	-	3	1	4
Utilised during the year	(2)	-	(1)	(3)
At 31 December 2017	3	3	1	7

Customer refunds
In 2016 the Company identified that some of its Individual Members may also have roadside cover with RAC in the event of a breakdown as a result of other financial arrangements. Some customers choose to have these cover arrangements in order to benefit from a full range of services. However, the Company has been undertaking a correction programme for those customers for whom the benefits of holding these separate covers are not clear.

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

Strategic restructure
During 2017 the Group conducted a strategic review of its business. As a result, the Group is amending its operating model and has provided for the best estimate of the associated cost. This provision is expected to be utlitised within 12 months.

Other
Other provisions include amounts payable at the end of patrol vehicle leases to correct modifications made and is expected to be utilised at the end of each vehicle's lease term (usually five years).

19 Trade and other payables

	2017	2016
	£m	£m
Trade payables and accruals	49	35
Amounts due to related parties (see note 24(a)(ii))	46	14
Deferred income	117	137
Other payables	37	36
Total	**249**	**222**
Expected to be payable within one year	246	219
Expected to be payable in more than one year	3	3
Total	**249**	**222**

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.

20 Ordinary share capital

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

	2017	2016
	£m	£m
Allotted, called up and fully paid:		
29,596,002 (2016: 29,596,002) ordinary shares of £1 each	30	30

21 Commitments

Operating lease commitments

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

	2017	2016
	£m	£m
Within 1 year	13	11
Later than 1 year and not later than 5 years	36	29
Later than 5 years	65	65
	114	105

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

As at 31 December 2017, the Company had committed to spend £6 million for the purchase of intangible assets (2016: £4 million).

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 2017 was 8 (2016: 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:

	2017	2016
	£000	£000
Other operating losses	(107)	(140)
Total	(107)	(140)

(c) Employee benefit scheme assumptions and disclosures

Disclosures under IAS 19 Employee Benefits are given below and on the following pages on a consolidated basis for the UUP Scheme 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 2017. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2017. The main actuarial assumptions used to calculate the UUP Scheme and the DB Scheme liabilities under IAS 19 are:

	2017	2016
	%	%
Inflation rate	3.1	3.2
Pension increases	3.1	3.2
Discount rate	2.5	2.6

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 £348 thousand and £nil respectively (2016: 1% increase in discount rate would increase liabilities and service costs by £316 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 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 S1 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 £317 thousand (2016: £316 thousand).

(ii) Employee defined benefit expense

The total employee defined benefit expense for the Schemes comprise:

	2017	2016
Recognised in the Income statement	**£000**	**£000**
Net interest expense	(107)	(140)
Total employee benefit losses credited within profit or loss	(107)	(140)

	2017	2016
Recognised in other comprehensive income	**£000**	**£000**
Actuarial (loss) on scheme liabilities	(152)	(245)
Actuarial gains/(losses) arising from change in assumptions	43	(458)
Total (losses) recognised in other comprehensive income	(109)	(703)

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 £3,219 thousand loss at 31 December 2017 (2016: £3,003 thousand loss).

(iii) Experience gains and losses

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

	2017	2016
	£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	(3,758)	(4,066)
Net deficit in the Schemes	(3,758)	(4,066)

Estimated employer contributions for the financial year ending 31 December 2017 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:

	2017	2016
	£000	£000
Total fair value of assets	-	-
Present value of defined benefit obligations	(3,758)	(4,066)
Net deficit in the Schemes	(3,758)	(4,066)

Amounts recognised in the Statement of financial position:

	2017	2016
	£000	£000
Surplus included in non-current assets	-	-
Deficits included in non-current liabilities	(3,758)	(4,066)
Net deficit in the Schemes	(3,758)	(4,066)

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

22 Employee benefit obligations (continued)

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

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

	Scheme liabilities 2017	Net deficit 2017	Scheme liabilities 2016	Net deficit 2016
	£000	£000	£000	£000
Balance at 1 January	(4,066)	(4,066)	(3,690)	(3,690)
Benefits paid	524	524	467	467
Interest expense	(107)	(107)	(140)	(140)
Remeasurement gains/losses				
Loss on liabilities	(152)	(152)	(245)	(245)
Actuarial (loss)/gain arising from change in assumptions	43	43	(458)	(458)
Balance at 31 December	(3,758)	(3,758)	(4,066)	(4,066)

23 Risk management

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

Financial risks are usually grouped by risk type: market, credit, liquidity, strategic, operational, capital and regulatory risk. Risks falling within these types may affect a number of key metrics including those relating to Statement of financial position strength, liquidity and profit. They may also affect the performance of the products that the Company 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 Company 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.

23 Risk management (continued)

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.

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

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.

The Company has no material foreign currency balances as at the Statement of financial position date and therefore is not materially exposed to movements in foreign currency exchange rates.

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

(ii) Credit risk

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

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

	2017	2016
	£m	£m
Trade and other receivables	331	242
Cash and cash equivalents	4	2
	335	244

23 Risk management (continued)

(a) Treasury (continued)

(ii) Credit risk (continued)

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

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 Barclays (2016: Barclays). At 31 December 2017 the balance held by this counterparty was £1 million (2016: £2 million).

(iii) Liquidity risk

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due.

The 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.

The Company does not have any obligations outside of the Group for which liquidity risk would be significant.

(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 Financial Statements of that company.

23 Risk management (continued)

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Company'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 as they fall due;

(ii) maintain financial strength to support new business growth and satisfy the requirements of its Members and regulators;

(iii) retain financial flexibility by maintaining strong liquidity; and

(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

(d) Regulatory risk

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

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

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

RAC Motoring Services

Notes to the Financial Statements (continued)

24 Related party transactions

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

(i) The Company had the following amounts due from related parties at 31 December:

	2017	2016
	£m	£m
Parent - loan account	111	109
Other Group companies - current accounts	179	102
	290	211

The Company provides a revolving credit facility to RAC Group Limited. The maximum facility amount is £300 million, with effect from 1 December 2015, and is repayable on demand or by no later than the maturity date of 30 November 2021. During the year, interest of £2 million (2016: £2 million) was capitalised. The year end balance is £111 million receivable (2016: £109 million).

(ii) The Company had the following amounts due to related parties at 31 December:

	2017	2016
	£m	£m
Other Group companies - current accounts	46	14

(iii) Transactions with related parties

- During the year, the Company paid £36 million (2016: £38 million) to RAC Brand Enterprises LLP in respect of brand license fees. These costs have been charged to the Income statement as incurred.
- Distributions received in the year from associates comprised £4 million (2016: £4 million). Interest of £2 million (2016: £3 million) was received from the parent and fellow Group companies.
- Audit fees £200 thousand were borne and paid by the Company on behalf of other Group companies.

(b) Key management compensation

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

(c) Key management interests

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

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.

24 Related party transactions (continued)

(d) Immediate Parent company

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

(e) 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.