

Registered in England and Wales: No. 10084638

**RAC BOND CO PLC**

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2018**



# RAC Bond Co plc

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# **RAC Bond Co plc**

## **Company information**

### **Directors:**

J Baker  
T Gallico  
V Nagarajan  
D Wynne (Non-Executive Director)

### **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. 10084638

### **Other information:**

The Company was incorporated for the purpose of issuing bonds and on-lending the proceeds to RAC Limited, a fellow Group company, as part of the refinancing by a Whole Business Securitisation ("WBS") of the RAC Bidco Limited Group. Bonds issued by the Company are listed on the Irish Stock Exchange.

The Company is 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.

# **RAC Bond Co plc**

## **Strategic report**

### **For the year ended 31 December 2018**

The Directors present their Strategic report for the year ended 31 December 2018.

#### **Business review**

##### **Basis of preparation**

This business review is addressed to, and written for, the Members of the Company with the aim of providing a fair review of business development and performance during the financial period. 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 activities**

The Company was incorporated for the purpose of issuing bonds and on-lending the proceeds to RAC Limited, a fellow Group company, as part of the refinancing by a Whole Business Securitisation ("WBS") of the RAC Bidco Limited Group.

##### **Objectives and future developments**

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

#### **Financial review**

##### **Key Performance Indicators ("KPIs")**

As the Company's sole function is to act as the funding vehicle for the Group, the Directors do not consider there to be any Key Performance Indicators to report.

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

# **RAC Bond Co plc**

## **Strategic report (continued)**

### **For the year ended 31 December 2018**

#### **Principal risks and uncertainties**

##### **Liquidity risk**

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

In order to satisfy its obligations to bondholders, RAC Bond Co plc needs to receive the corresponding payments from RAC Limited. Therefore the principal risk is that RAC Limited is unable to meet its payment schedule. Appropriate controls are in place within the RAC Group (Holdings) Limited group to ensure liquidity risks are managed appropriately.

##### **Credit risk**

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 rating agencies such as Standard & Poor's. The Company is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits.

RAC Limited's indirect subsidiaries include the main trading companies of the RAC Group. The Directors meet regularly to review business performance and cash flow forecasts to ensure that obligations can be met.

##### **Regulatory risk**

The bonds issued by the Company are highly regulated financial instruments, subject to a number of covenants. RAC Bond Co plc retains a number of specialist advisors to ensure its ongoing compliance.

##### **Capital management**

In managing its capital, the Company seeks to:

- (i) match the expected cash inflows from its assets with the expected cash outflows from the Company's 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.

As approved by the Board on 26 February 2019



P Barrett  
Company Secretary

# **RAC Bond Co plc**

## **Directors' report**

### **For the year ended 31 December 2018**

The Directors present their Annual Report on the affairs of RAC Bond Co plc, together with the Audited Financial Statements 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 period are as follows:

- J Baker (appointed 2 July 2018)
- R Fairman (resigned 27 February 2018)
- T Gallico
- V Nagarajan
- D Wynne (Non-Executive Director)

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

#### **Results and dividends**

The Company made a profit after tax for the year ended 31 December 2018 of £1 thousand (2017: £1 thousand). The Company's results for the year ended 31 December 2018 are set out on page 14. The Directors do not recommend the payment of a final dividend.

#### **Directors' indemnities**

RAC Group (Holdings) Limited, the 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 Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 8 and 13 respectively to the Financial Statements. 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 note 15 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 borrowings, including the impact of the bond covenants.

# **RAC Bond Co plc**

## **Directors' report (continued)**

**For the year ended 31 December 2018**

### **Going concern (continued)**

The Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report in the Annual Report and Consolidated Financial Statements of RAC Bidco Limited. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

As at 31 December 2018 the Company has net assets of £53 thousand (2017: £52 thousand). This largely reflects obligation to repay £1,179 million of issued bonds and associated interest, offset by the on-lending to RAC Limited, a fellow Group company. Bond covenants are managed on a group basis, and no issues have arisen during the year.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, at least 12 months from the date of this report, and so determine that it is appropriate for the 2018 Financial Statements to be prepared on a going concern basis.

### **Financial instruments**

Details of the Company's risk management objectives, policies and exposures to risk relating to financial instruments are set out in note 15 to the Financial Statements.

### **Employees**

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

### **Auditor**

Deloitte LLP has expressed its willingness to continue in office as auditor of the Company and its reappointment will be put to shareholders at the AGM.

### **Disclosure of information to the auditor**

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

### **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 Partnership's operations and business model, financial performance throughout the year, likely future developments, key performance indicators, and principal risks.

# **RAC Bond Co plc**

## **Directors' report (continued)**

**For the year ended 31 December 2018**

### **Statement of Directors' responsibilities**

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

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

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

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

### **Events since the Statement of financial position date**

There have been no events since the Statement of financial position date which have a material impact on the Company's financial position as at 31 December 2018.

As approved by the Board on 26 February 2019



P Barrett  
Company Secretary



# RAC Bond Co plc

## Independent auditor's report to the members of RAC Bond Co plc

### Opinion

In our opinion the Financial Statements of RAC Bond Co plc (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 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 which comprise:

- the Income statement;
- 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 17.

The financial reporting framework that has been applied in their preparation is applicable law and 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

<b>Key audit matters</b>	The key audit matter that we identified in the current year is the recoverability of the intercompany receivable, including the ability of the company to repay bond holders when due.
<b>Materiality</b>	The materiality that we used in the current year was £6.0m which represents 0.5% of the external debt of the company.
<b>Scoping</b>	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	We revised our identification of key audit matters as described below.

# RAC Bond Co plc

## Independent auditor's report to the Members of RAC Bond Co plc (continued)

### Conclusions relating to going concern

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

- 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.**

### Key audit matters

The key audit matter is that matter which, in our professional judgement, was of most significance in our audit of the financial statements of the current period and includes the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. This matter had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

The company issued Class B1 loan notes on the Irish Stock Exchange in in 2017. Our key audit matter in the prior year related to the appropriateness of the accounting for this transaction and the judgement involved in the capitalisation of associated issue costs. We downgraded the risk rating from significant to higher in the current year based on our reduced consideration of the likelihood for material misstatement compared to the initial recognition on issue of the class B1 debt in prior year. As a result, the key audit matter for the current year was assessed to be the recoverability of the intercompany receivable, including the ability of the company to repay bond holders when due.

Recoverability of the intercompany receivable	
Key audit matter description	<p>The company's principal activity is to secure external funding for the RAC group of companies. The cash inflows from debt raising activities are distributed to the group companies through loans to RAC Limited, a fellow subsidiary and parent company of the RAC Group trading group.</p> <p>As a result, there is a significant intercompany receivable included in other receivables between the company and RAC Limited of £1.2bn at 31 December 2018 (2017: £1.2bn).</p> <p>We identified our key audit matter to be recoverability of the intercompany receivable given the significance of the balance on the financial statements of the company and the impact of the balance potentially being impaired on the ability of the company to meet its debt obligations when they fall due.</p> <p>Management's accounting policies are detailed in accounting policy F to the financial statements while the key sources of assessing the impairment estimate are outlined in note J. Note 10 discloses the outstanding balance as at year end.</p>

## RAC Bond Co plc

### Independent auditor's report to the Members of RAC Bond Co plc (continued)

<b>Recoverability of the intercompany receivable (continued)</b>	
How the scope of our audit responded to the key audit matter	<p>We independently re-calculated the value of the RAC trading group and compared this to management's valuation. This included assessing the performance of the RAC trading group against the assumptions used in previous such models</p> <p>We utilised our financial instruments specialists to review the appropriateness of the discount rate used in the business valuation assessment.</p> <p>We evaluated the historical accuracy of forecasts made by Management by comparing them to actual results. This included performing sensitivity analysis on the inputs to the forecasts and assessed the reasonableness of the most sensitive assumptions used in the impairment and business valuation review. This assessment also involved validating that the same forecasts and assumptions are used across the preparation of the financial statements including the evaluation of going concern for the RAC trading group and goodwill impairment assessment. We also benchmarked our valuation of the business to that of comparable peer groups of similar size and risk profile.</p> <p>Finally, given the inherent susceptibility to misstatements in estimates, we considered evidence, which supports or contradicts management's judgements for indicators of management bias.</p>
Key observations	<p>We concluded that the intercompany receivable is not impaired and that the company has the ability to meet external debt obligations when they fall due</p> <p>We observed that management used the same forecasts and assumptions across the preparation of the financial statements including the evaluation of going concern for the RAC trading group and goodwill impairment assessment.</p>

#### **Our application of materiality**

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

# RAC Bond Co plc

## Independent auditor's report to the Members of RAC Bond Co plc (continued)

### Our application of materiality (continued)

Group materiality	£6.0m (2017: £5.3m)
Basis for determining materiality	<p>When determining materiality, as the Company is part of RAC Group (Holdings) Limited group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into that group's results.</p> <p>Materiality of £6.0m (2017: £5.3m) represents 0.5% of the external debt balance held by the company.</p>
Rationale for the benchmark applied	<p>The purpose of the company is to issue bonds and on-lend to fellow companies within the RAC Group (Holdings) Limited group. Given the resulting capital structure of the company, we determined external debt to be the most appropriate benchmark in determining materiality.</p>

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £299,000 (2017: £265,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

### An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

### 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.

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.**

# **RAC Bond Co plc**

## **Independent auditor's report to the Members of RAC Bond Co plc (continued)**

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the Financial Statements**

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### ***Identifying and assessing potential risks related to irregularities***

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, financial instruments and information technology specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in management override of controls and related party transactions; and

# **RAC Bond Co plc**

## **Independent auditor's report to the Members of RAC Bond Co plc (continued)**

### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

#### ***Identifying and assessing potential risks related to irregularities (continued)***

- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the Irish Stock Exchange Listing Rules, the Companies Act 2006 and tax legislations.

#### ***Audit response to risks identified***

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the group Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

### **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.

# RAC Bond Co plc

## Independent auditor's report to the Members of RAC Bond Co plc (continued)

### Matters on which we are required to report by exception

#### *Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

**We have nothing to report in respect of these matters.**

#### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

**We have nothing to report in respect of this matter.**

### Other matters

#### *Auditor tenure*

Following the recommendation of the group Audit Committee, we were appointed by the Board of Directors on 12 October 2016 to audit the Financial Statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm is three years, covering the period from our initial appointment through to the period ending 31 December 2018

#### *Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### 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, UK  
26 February 2019

**RAC Bond Co plc**  
**Financial Statements 2018**  
**Income statement**  
**For the year ended 31 December 2018**

	Note	2018	2017
		£000	£000
Revenue	<b>1</b>	57,845	50,182
Administrative income	<b>2</b>	1	1
Finance expenses	<b>3</b>	(57,845)	(50,182)
<b>Profit before tax</b>		<b>1</b>	<b>1</b>
Tax charge	<b>7</b>	-	-
<b>Profit for the year</b>		<b>1</b>	<b>1</b>

All activities relate to continuing operations.

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

The accounting policies and notes on pages 18 to 32 are an integral part of these Financial Statements.



# RAC Bond Co plc

Registered in England and Wales: No. 10084638

## Financial Statements 2018 (continued)

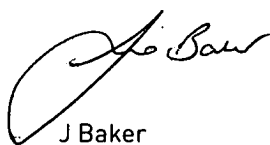
### Statement of financial position

As at 31 December 2018

	Note	2018 £000	2017 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Other receivables	10	1,169,844	1,168,664
		<u>1,169,844</u>	<u>1,168,664</u>
<b>Current assets</b>			
Other receivables	10	8,898	8,901
Cash and cash equivalents	8	154	162
		<u>9,052</u>	<u>9,063</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	13	(8,898)	(8,901)
Other payables	11	(101)	(110)
		<u>(8,999)</u>	<u>(9,011)</u>
<b>Net current assets</b>		<u>53</u>	<u>52</u>
<b>Non-current liabilities</b>			
Borrowings	13	(1,169,844)	(1,168,664)
		<u>(1,169,844)</u>	<u>(1,168,664)</u>
<b>Net assets</b>		<u>53</u>	<u>52</u>
<b>EQUITY</b>			
Ordinary share capital	14	50	50
Retained earnings		3	2
<b>Total equity</b>		<u>53</u>	<u>52</u>

The accounting policies and notes on pages 18 to 32 are an integral part of these Financial Statements.

Approved by the Board on 26 February 2019



J Baker  
Chief Financial Officer

**RAC Bond Co plc**  
**Financial Statements 2018 (continued)**  
**Statement of changes in equity**  
**For the year ended 31 December 2018**

	Note	Ordinary share capital £000	Retained earnings £000	Total equity £000
<b>Balance at 1 January 2017</b>		<b>50</b>	<b>1</b>	<b>51</b>
Profit for the year		-	1	1
Other comprehensive income		-	-	-
Total comprehensive income		-	1	1
<b>Balance at 31 December 2017</b>		<b>50</b>	<b>2</b>	<b>52</b>
Profit for the year		-	1	1
Other comprehensive income		-	-	-
Total comprehensive income		-	1	1
<b>Balance at 31 December 2018</b>		<b>50</b>	<b>3</b>	<b>53</b>

The accounting policies and notes on pages 18 to 32 are an integral part of these Financial Statements.

**RAC Bond Co plc**  
**Financial Statements 2018 (continued)**  
**Statement of cash flows**  
**For the year ended 31 December 2018**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>£000</b>	<b>£000</b>
<b>Operating activities</b>			
Profit before tax		1	1
Adjustments to reconcile profit before tax to net cash flows:			
Finance income	<b>1</b>	(57,845)	(50,055)
Finance expenses	<b>3</b>	57,845	50,055
Working capital adjustments:			
(Decrease) / Increase in other payables	<b>11</b>	(9)	110
<b>Net cash flows (used in)/ generated from operating activities</b>		<b>(8)</b>	<b>111</b>
<b>Investing activities</b>			
Loan to related party		-	(272,001)
Interest received		56,668	47,088
<b>Net cash flows generated from/(used in) investing activities</b>		<b>56,668</b>	<b>(224,913)</b>
<b>Financing activities</b>			
Proceeds from bond issuance	<b>13</b>	-	272,250
Interest and debt issue costs paid		(56,668)	(47,337)
<b>Net cash flows (used in)/ generated from financing activities</b>		<b>(56,668)</b>	<b>224,913</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(8)</b>	<b>111</b>
Cash and cash equivalents brought forward		162	51
<b>Cash and cash equivalents carried forward</b>	<b>8</b>	<b>154</b>	<b>162</b>

The accounting policies and notes on pages 18 to 32 are an integral part of these Financial Statements.

# **RAC Bond Co plc**

## **Accounting policies**

### **(A) Corporate information**

RAC Bond Co plc is a public limited company incorporated and domiciled in the United Kingdom, registered in England & Wales. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

Information on related party relationships of RAC Bond Co plc is provided in note 17.

The Financial Statements of RAC Bond Co plc 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 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 thousands of pounds sterling ("£000").

#### **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)

The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Company's Financial Statements. IFRS 9 has not had a material impact as the financial assets of the Company are solely receivables from a fellow group company.

#### **Going concern**

The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 8 and 13 to the Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 15 to the Financial Statements.

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

The RAC Bidco Limited 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 in the Annual Report and Consolidated Financial Statements of RAC Bidco Limited. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

As at 31 December 2018 the Company has net assets of £53 thousand (2017: £52 thousand). This largely reflects obligation to repay £1,179 million of issued bonds and associated interest, offset by receivables arising from on-lending to RAC Limited, a fellow Group company.

# **RAC Bond Co plc**

## **Accounting policies (continued)**

### **(B) Basis of preparation (continued)**

#### **Going concern (continued)**

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, at least 12 months from the date of this report, and so determine that it is appropriate for the 2018 Financial Statements to be prepared on a going concern basis.

### **(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.

#### **Revenue**

Revenue is related to interest income and is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable in accordance with IFRS 9 Financial Instruments. The effective interest rate is fixed and quoted. Other finance income relates to the accretion of capitalised finance costs which have been charged to RAC Limited.

#### **Other income**

Other income, including administrative income, is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

### **(D) Borrowings**

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

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

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

### **(E) Cash and cash equivalents**

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks and treasury bills 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 in the Statement of financial position.

# **RAC Bond Co plc**

## **Accounting policies (continued)**

### **(F) Loans and other receivables**

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

#### **(i) Impairment of financial assets**

An impairment is recognised on financial assets 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 finance costs for loans and in other operating expenses for other receivables.

### **(G) Income taxes**

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

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

Deferred tax is provided using the Statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not provided for the initial recognition of goodwill, nor the initial recognition of assets or liabilities that affect neither the accounting profit nor taxable profit or loss other than in a business combination.

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

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

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

# **RAC Bond Co plc**

## **Accounting policies (continued)**

### **(H) Share capital and dividends**

#### **Equity instruments**

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

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

#### **Dividends**

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

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

As at 31 December 2018, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

- Amendments to IFRS 9 Prepayment Features with Negative Compensation<sup>1</sup>
- Amendments to IAS 28 Long Term Interests in Associates and Joint Ventures<sup>1</sup>
- Annual Improvements to IFRS Standards 2015-2017<sup>1</sup>
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement<sup>1</sup>
- IFRIC 23 Uncertainty over income tax treatments<sup>1</sup>
- IFRS 17 Insurance Contracts<sup>2</sup>

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

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

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

# **RAC Bond Co plc**

## **Accounting policies (continued)**

### **(J) Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the Financial Statements in conformity with IFRSs 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, that the Directors have made in the process of applying the Company's accounting policies on the amounts recognised in the Financial Statements.

#### **(ii) Key sources of estimation uncertainty**

There are no key assumptions concerning the future nor any other key sources of estimation uncertainty at the Statement of financial position date.



# RAC Bond Co plc

## Notes to the Financial Statements

### 1 Revenue

	2018	2017
	£000	£000
Interest receivable from related parties (note 17(a)(iii))	56,665	49,357
Other finance income (note 17(a)(iii))	1,180	825
	<b>57,845</b>	<b>50,182</b>

### 2 Administrative income

	2018	2017
	£000	£000
Administrative income (note 17(a)(iii))	1	1
	<b>1</b>	<b>1</b>

### 3 Finance expenses

	2018	2017
	£000	£000
Interest payable to third parties	(56,665)	(49,357)
Other finance expense	(1,180)	(825)
	<b>(57,845)</b>	<b>(50,182)</b>

### 4 Auditor remuneration

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

	2018	2017
	£000	£000
<b>Audit services</b>		
Audit of Financial Statements	13	10
<b>Total remuneration payable to Deloitte LLP</b>	<b>13</b>	<b>10</b>

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Non-audit fees payable to Deloitte LLP were £nil.

### 5 Employee information

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

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 6 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services, a fellow Group company. It is not deemed practical to recharge this remuneration across the operating divisions of the Group.

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

Fees totalling £7 thousand (2017: £7 thousand) were paid to third parties for services of the Non-Executive Director. These were recharged to RAC Limited.

### 7 Tax

#### (a) Tax charged to the Income statement

The total tax charge comprises:

	2018	2017
	£000	£000
Current tax:		
For the period	-	-
<b>Total tax charged to the Income statement</b>	<b>-</b>	<b>-</b>

Secondary tax legislation ensures that for companies that meet the definition of a 'securitisation company', corporation tax will be calculated by reference to the retained profit of the securitisation company required to be retained under the agreement that governs the company.

The Directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by the relevant tax legislation and that no incremental unfunded tax liabilities arose.

#### (b) Tax reconciliation

The charge for the period can be reconciled to the profit in the Income statement as follows:

	2018	2017
	£000	£000
Profit before tax	1	1
Tax calculated at standard UK corporation tax rate of 19.00% (2017: 19.25%)	-	-
<b>Total tax charged to the Income statement (note 7(a))</b>	<b>-</b>	<b>-</b>

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

### 8 Cash and cash equivalents

Cash and cash equivalents at 31 December 2018 comprises £154 thousand of cash at bank and in hand (2017: £162 thousand).

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 9 Tax assets and liabilities

	2018	2017
	£000	£000
Current tax payable	-	-
	-	-

### 10 Other receivables

	2018	2017
	£000	£000
Receivables from related parties (note 17(a)(i))	1,178,742	1,177,565
<b>Total</b>	<b>1,178,742</b>	<b>1,177,565</b>
Expected to be recoverable within one year	8,898	8,901
Expected to be recoverable in more than one year	1,169,844	1,168,664
<b>Total</b>	<b>1,178,742</b>	<b>1,177,565</b>

All receivables and other financial assets are carried at amortised cost. The Directors consider that the carrying amount of other receivables is approximately equal to their fair value. The balance above of £1,178,742 thousand is considered to be neither past due nor impaired. There have been no credit losses recognised in the year and no changes to loss allowances have been made.

### 11 Other payables

	2018	2017
	£000	£000
Amounts due to related parties (note 17(a)(ii))	101	110
<b>Total</b>	<b>101</b>	<b>110</b>
Expected to be payable within one year	101	110

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

### 12 Financial Liabilities

	2018	2017
	£000	£000
<b>Financial liabilities at amortised cost</b>		
Other payables (note 11)	101	110
Borrowings (note 13)	1,178,742	1,177,565
<b>Total financial liabilities</b>	<b>1,178,843</b>	<b>1,177,675</b>

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 13 Borrowings

#### Analysis of borrowings

	Bonds			Total
	Class A1 Notes	Class A2 Notes	Class B1 Notes	
Interest rate	4.565%	4.870%	5.000%	
<b>At 31 December 2018</b>				
Fair value (£000)	302,124	604,603	277,171	1,183,898
Amounts due within one year (£000)	2,124	4,603	2,171	8,898
Amounts due in more than one year (£000)	299,070	597,797	272,977	1,169,844
<b>Book value (£000)</b>	<b>301,194</b>	<b>602,400</b>	<b>275,148</b>	<b>1,178,742</b>
<b>At 31 December 2017</b>				
Fair value (£000)	302,153	604,603	277,145	1,183,901
Amounts due within one year (£000)	2,153	4,603	2,145	8,901
Amounts due in more than one year (£000)	298,855	597,497	272,312	1,168,664
<b>Book value (£000)</b>	<b>301,008</b>	<b>602,100</b>	<b>274,457</b>	<b>1,177,565</b>

In May 2016, RAC Bidco Limited Group, the Company's immediate parent undertaking, completed a Whole Business Securitisation ("WBS"). Under the WBS, the Company entered into agreements to issue listed bonds on the Irish Stock Exchange. The bonds comprised two tranches: Class A1 Notes and Class A2 Notes. £300 million of Class A1 Notes were issued at a coupon of 4.565%, and have an initial period to 6 May 2023, after which interest will be charged at 5.065% per annum. £600 million of Class A2 Notes were issued at a coupon of 4.870%, and have an initial period to 6 May 2026, after which interest will be charged at 5.370% per annum. Interest is payable on the bonds semi-annually in May and November. In addition, RAC Limited entered into a new agreement to borrow £280 million under an Initial Senior Term Facility and the Group repaid its previous banking facilities.

Fees relating to the issuance of the Class A Notes of £4,500 thousand, incurred on inception of the debt, have been capitalised and are being amortised over the life of the bonds to which they relate. As the proceeds have been on-lent to RAC Limited, a fellow Group company, these associated debt issue costs along with an additional £7,500 thousand have been charged to RAC Limited. The fees have been capitalised and will be amortised in RAC Limited over the remaining life of the bonds to which they relate, in accordance with IFRS 9 Financial Instruments.

In July 2017, RAC Bond Co plc issued £275 million of bonds under a Class B facility, and on lent these funds, net of issuance costs, to RAC Limited as borrower. These Class B1 Notes were issued at a coupon of 5.000% and have an initial period to 6 November 2022, after which interest will be charged at 4.500% per annum. Interest is payable on the bond semi-annually on 6 May and 6 November.

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 13 Borrowings (continued)

Fees relating to the issuance of the Class B1 Notes of £2,999 thousand, incurred on inception of the debt, have been capitalised and are being amortised over the remaining life of the bonds to which they relate. As the proceeds have been on-lent to RAC Limited, a fellow Group company, these associated debt issue costs along with an additional £2,999 thousand have been charged to RAC Limited. The fees have been capitalised and will be amortised in RAC Limited over the remaining life of the bonds to which they relate, in accordance with IFRS 9 Financial Instruments.

The Class A Notes and Class B Notes are secured by way of first ranking security in respect of the undertakings and assets of RAC Bidco Limited and certain of its subsidiaries, including RAC Bond Co plc.

The Class A1 Notes and Class A2 Notes (together "Class A Debt") are subject to one financial covenant, being the ratio of free cash flow to Class A Debt service charges. The Class B1 Notes are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges. The Group has complied with these financial covenants throughout the periods since issue of the Class A Debt and Class B Notes respectively.

### 14 Ordinary share capital

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

	2018	2017
	£000	£000
<b>Allotted, called-up and fully paid:</b>		
50,000 ordinary shares of £1.00 each	50	50
	<b>50</b>	<b>50</b>

### 15 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 balance sheet strength, liquidity and profit. They may also affect the performance of the products that the Group delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation. The key risks faced by the 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.

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 15 Risk management (continued)

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

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

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

#### (a) Treasury

The Group Treasury department's main responsibilities are to:

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Company's current borrowing facilities are disclosed in note 13.

#### (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.

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

The Company's borrowings have fixed interest rates and therefore the Company is not exposed to fluctuations in interest rates.

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

#### (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:

	2018	2017
	£000	£000
Other receivables (note 10)	1,178,742	1,177,565
Cash and cash equivalents (note 8)	154	162
	<b>1,178,896</b>	<b>1,177,727</b>

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 15 Risk management (continued)

#### (a) Treasury (continued)

#### (ii) Credit risk (continued)

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

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

The 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 (2017: Barclays). At 31 December 2018 the balance held by this counterparty was £154 thousand (2017: £162 thousand).

#### (iii) Liquidity risk

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Company maintains significant committed borrowing facilities from a range of highly rated investors to mitigate this risk further (see note 13).

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 Group also monitors covenants on a regular basis to ensure there are no breaches, which would lead to an "Event of Default". There have been no breaches of covenants during the reported period.

The following table shows the Company's contractual maturity of borrowings, including estimated interest, analysed by duration:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Bonds</b>		
Less than 1 month	4,813	4,813
1 to 3 months	9,160	9,160
3 months to 1 year	42,693	42,693
1 to 5 years	776,988	499,743
5 to 10 years	668,527	1,002,437
<b>Total borrowings</b>	<b>1,502,181</b>	<b>1,558,846</b>

# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 15 Risk management (continued)

#### (b) Strategic and operational risk

The strategy (including operational risks) for the Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Annual Report and Financial Statements of that company.

#### (c) Capital risk management

The Company's capital structure consists of borrowings amounting to £1,178,742 thousand and equity of £50 thousand.

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external debt, being principal bank borrowings, bonds, associated accrued interest and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group 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.

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

### 16 Reconciliation of financial liabilities

The table below details changed in the Company's liabilities arising from financing activities including both cash and non-cash changes

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
As at 1 January	1,177,565	902,470
Financing cash flows	-	272,250
Movement in interest accruals	(3)	2,020
Other finance expense (note 3)	1,180	825
<b>At 31 December</b>	<b>1,178,742</b>	<b>1,177,565</b>



# RAC Bond Co plc

## Notes to the Financial Statements (continued)

### 17 Related party transactions

#### (a) The Company had the following transactions with related parties in 2018 and 2017:

##### (i) Amounts due from related parties

	2018	2017
	£000	£000
Other Group companies - loan	1,178,742	1,177,565
	<b>1,178,742</b>	<b>1,177,565</b>

Amounts due from Group companies represent the bond proceeds and associated interest that have been on-lent to RAC Limited, a fellow Group company. The associated fees have also been transferred to RAC Limited. Interest accrues on the bonds at the coupon rate totalling £56,665 thousand in the year to 31 December 2018 (£49,357 thousand in the period to 31 December 2017).

##### (ii) Amounts due to related parties

	2018	2017
	£000	£000
Other Group companies - current account	101	110
	<b>101</b>	<b>110</b>

##### (iii) Transactions with related parties

Transactions included within the Income statement that have taken place during the reported period are as follows:

	2018	2017
	£000	£000
Accrued interest receivable from group companies	56,665	49,357
Other finance income received from group companies	1,180	825
Administrative income	1	1
	<b>57,846</b>	<b>50,183</b>

Audit fees of £13 thousand (2017: £10 thousand) were borne and paid by RAC Motoring Services, a fellow Group company

#### (b) Key management compensation

The Executive Directors and key management of the Company are the same as for RAC Group (Holdings) Limited. Information on key management compensation may be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited. It is not practicable to determine the proportion of management compensation which are attributed to the services of the Company.

Fees totalling £7 thousand (2017: £7 thousand) were paid to third parties for services of the Non-Executive Director. These were recharged to RAC Limited.

# **RAC Bond Co plc**

## **Notes to the Financial Statements (continued)**

### **17 Related party transactions (continued)**

#### **(c) Key management interests**

No key management personnel held equity stakes in the Company at 31 December 2018 (2017: nil).

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

#### **(d) Immediate Parent Company**

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

#### **(e) Ultimate controlling entity**

The 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.