
# RAC GROUP | ANNUAL REPORT & ACCOUNTS 2011

rac
the driving people

Registered number: 07665596

## Company information

**Directors:**
R Templeman
C Woodhouse
D Cougill
A Burgess
A Stirling
Z Bain
M Wood

**Company Secretary:**
S Morrison

**Auditor:**
Ernst & Young LLP
Statutory Auditor
1 More London Place, London SE1 2AF

**Registered office:**
RAC House, Brockhurst Crescent
Walsall WS5 4AW

Company number: 07665596
Registered in England and Wales

**Incorporation and other information**

RAC Finance Group (Holdings) Limited ("the Company") was incorporated on 10 June 2011 when the Company's name was Stag Topco Limited. The Company's name was changed to RAC Finance Group (Holdings) Limited with effect from 21 December 2011.

The RAC Group ("the Group") comprises RAC Finance Group (Holdings) Limited and its subsidiaries as set out on page 64.

"The RAC Ltd Group", comprising RAC Limited and its subsidiaries (RAC Motoring Services, RAC MS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) was acquired by The Carlyle Group ("Carlyle") in September 2011, which completed the purchase from Aviva.

These consolidated financial statements are presented for the period from incorporation to 31 December 2011, which includes the trading results of The RAC Ltd Group from the date of acquisition, being 30 September 2011.


# Contents



# The brand & heritage...

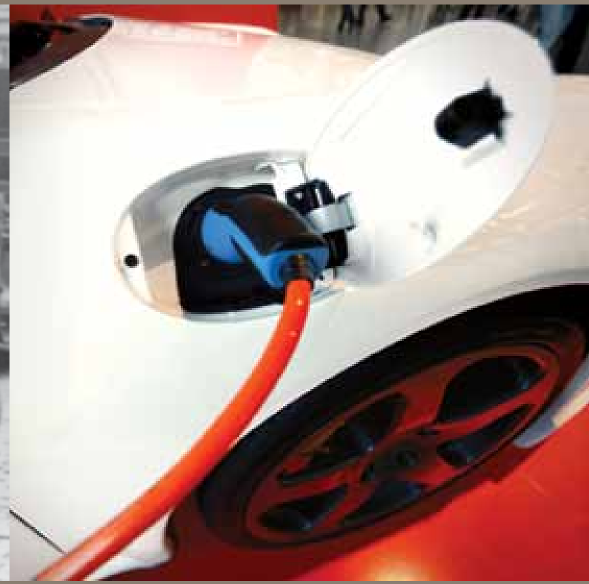
the driving people

## Championing UK motorists and providing outstanding service to RAC members and customers for 115 years


- A top 25 brand in the UK
- Best in class customer satisfaction

| 1897 | 1901 | 1905 | 1907 | 1912 | 1932 |
|---|---|---|---|---|---|
| RAC founded | Uniformed patrols introduced | Legal Services introduced | Royal approval granted | Emergency telephone boxes introduced | Sponsor first RAC rally |





# 1897 to 2012 & beyond...

## The highest ranked breakdown provider for customer satisfaction by the Institute of Customer Service

- Winner of JD Power customer satisfaction award for four years running
- Most patrols per member of any breakdown provider

| 1999 | 2000 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Flexible working for patrols introduced | Rapid deployment trailer developed | Begin providing real time breakdown data to vehicle manufacturers direct from roadside patrol vehicles | Launch motor insurance panel | Launch home insurance panel + Acquired by The Carlyle Group |


"Our strong consumer brand and great customer service position RAC well to deliver its growth plans"

# CEO review

I am delighted to have joined the RAC during such a significant period in the history of the organisation.

## A New RAC

2011 was a landmark year as the RAC Group was acquired by The Carlyle Group in September 2011. Founded in 1987, The Carlyle Group is one of the world's largest alternative asset managers.

This new ownership signifies a period of strategic change for the RAC Group as we build standalone capability, systems and processes and have a renewed energy and focus on our business and the service we provide to our customers.

## Our Brand and Our Business

The RAC's brand strength and core offering as a premier breakdown provider has been established over 115 years and has resulted in industry and customer recognition for service and innovation consistently during this time, making RAC a flagship brand in the UK. Complementing this brand position RAC shows tremendous strength across the business, from sector leading repair rates through to our highest ever Net Promoter Score of 85%. This is all supported and delivered by our skilled and passionate team. This platform, along with delivering further efficiencies and sales and revenue growth, provides a unique opportunity to transform and grow the RAC.

## Our Customers

The RAC is passionate about customer service and 2011 saw us deliver further efficiencies and enhancements to our customers' experience. This customer service has been recognised through our improved Net Promotor Score and by leading UK companies who have chosen the RAC as their corporate partner. Furthermore, the RAC is currently the highest ranked breakdown provider for customer satisfaction by the Institute of Customer Service.

## Our Structure

Ensuring the Group is operating from an efficient cost base is key to our future success. In 2011 we announced the closure of our Norwich site, and the on-shoring of a significant number of roles from Sri Lanka and India. This consolidates the business across three key locations in Bescot, Bristol and Stretford.

As part of the organisational re-structuring we have established a new Board and Executive team, blending over 50 years combined RAC experience with 115 years combined industry and management buy out knowledge. Marrying this knowledge and experience with RAC's strength and strategic positioning under Carlyle ownership provides a tremendous opportunity to drive value for the RAC Group.

## Our Future

During 2012 we will pursue our mission to make the RAC the premier organisation for motorists through both responding to our customers' needs and developing opportunities for growth. Underpinning our plans across the Group remains our commitment to continually enhance the excellent customer service we are renowned for.

Our business is all about people and we have some of the most talented, committed and hard-working individuals and teams in the industry. On behalf of the Board I would like to thank them for their effort during this year of change.

**Chris Woodhouse**

Members per employee[■]

**2,000**

# 2011 Highlights

The following KPIs are fundamental to the RAC business and reflect management focus on those drivers of value that will enable and inform the management team to achieve RAC business plans, strategic aims and objectives.

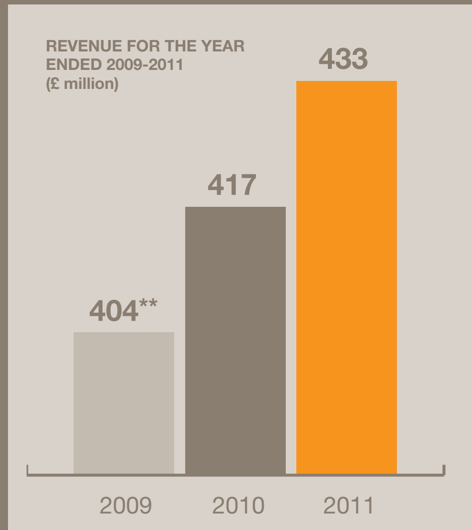
The RAC also uses a range of other financial and non-financial performance indicators to monitor business performance.

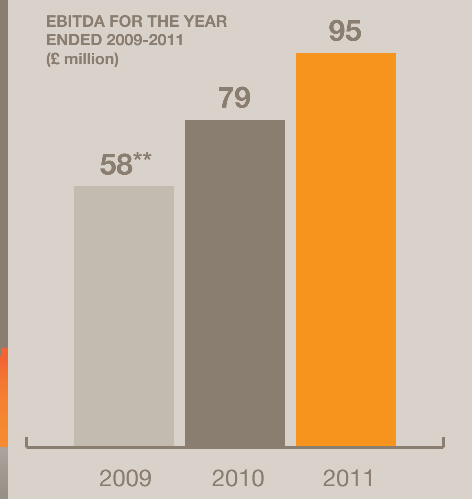
Net Promoter Score[▲] **85%**

## Financial KPIs for the period to 31 December 2011

**Revenue*** **£433 Million**

**EBITDA*** **£95 Million**




*Before discontinued and exceptional items for the RAC Ltd Group, as set out on page 21.
▲ Industry-wide customer satisfaction measure. ■ Approximate for the period.

**2009 unaudited proforma

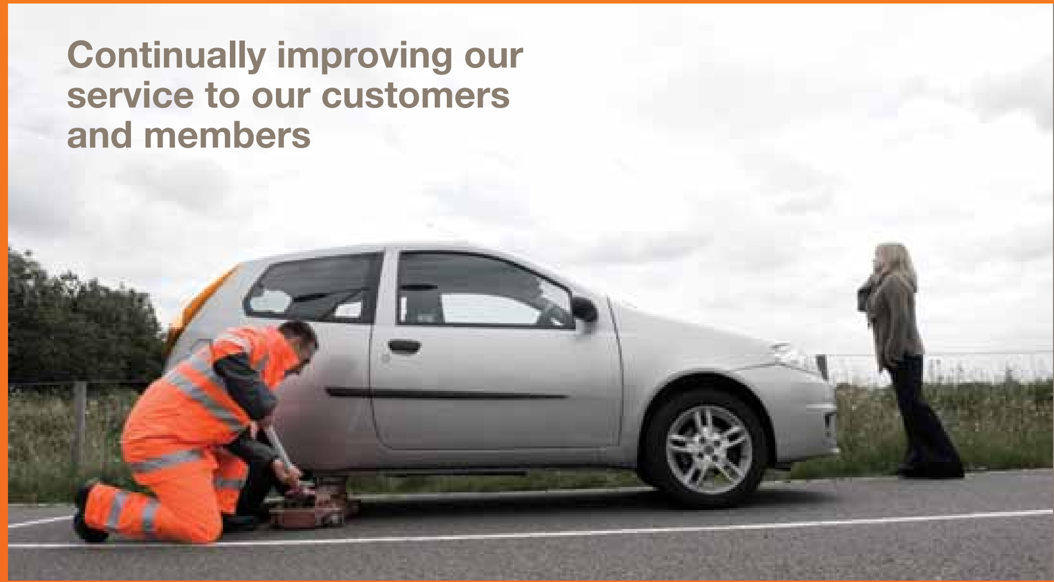

Delivering our insurance offering


Valuing our colleagues

# We will make RAC the premier organisation for motorists through...

RAC
the driving people





Continually improving our service to our customers and members

RAC
the driving people

"....we will achieve our mission through expanding our product offering to meet our members' needs whilst developing new opportunities for growth..."

Chris Woodhouse, CEO

Seeking new partnerships

Delivering our Legal and Motor Claims offering

# Directors' report part I


## Ownership

"The RAC Ltd Group", comprising RAC Limited and its subsidiaries (RAC Motoring Services, RAC MS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) was acquired by The Carlyle Group ("Carlyle") in September 2011, which completed the purchase from Aviva.

Founded in 1987 The Carlyle Group is one of the world's largest alternative asset managers.

The controlling interest is owned by CEP III Participations S.à r.l. SICAR, a company owned by Carlyle Europe Partners III, L.P., all parts of the entities doing business as The Carlyle Group. As at 31 December 2011 a total of six senior managers had equity stakes in the business.

The equity funding is split between preference and ordinary share capital, with the ordinary capital being designated 'A' and 'B' for ownership identification. All shares are of 1p nominal value.

## Results & dividends

The results of the RAC Ltd Group set out on pages 21 to 23 show that the underlying trading entities generated an EBITDA before exceptional and discontinued items of £95 million for the full year (2010: £79 million).

The directors do not recommend the payment of a dividend.

## KPIs – financial & non-financial

The KPIs set out in the table below represent those of the RAC Group (RAC Finance Group (Holdings) Limited and its subsidiaries) had it acquired the RAC Ltd Group on 1 January 2011. These are fundamental to the RAC business and reflect focus on the drivers of value that will enable and inform the management team to achieve the RAC business plans, strategic aims and objectives.

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

## Market environment & context

The RAC Group operates in an increasingly competitive market. Road travel remains key to UK transport despite increasing costs of motoring.

- 92% of all passenger travel in the UK remains by road despite marked rises in fuel and insurance costs in recent years
- Two thirds of all journeys are made by car, with a trend towards shorter trips and lower speeds resulting in fewer road accidents and breakdowns

The RAC plays a leading role promoting UK motoring interests and issues, as follows:

- In 2011, the RAC published its 23rd annual "Report on Motoring"
- The RAC is a core member of the Fair Fuel UK campaign
- The RAC continues to work closely with the RAC Foundation across a range of safety, environmental and other motoring issues

OWNERSHIP STRUCTURE

| Number of Shares | Management | Carlyle | Total |
|---|---|---|---|
| 'A' ordinary (million) | 0.7 | 0.5*** | 1.2 |
| 'B' ordinary (million) | 0.0 | 6.8 | 6.8 |
| Total | 0.7 | 7.3 | 8.0 |

FINANCIAL KPIs FOR THE YEAR TO 31 DECEMBER 2011

| | 2011 | 2010 |
|---|---|---|
| EBITDA (£m)* | 95 | 79 |
| Revenue (£m)* | 433 | 417 |
| Net External Bank Debt (£m)** | 455 | n/a |
| Net External Bank Debt / EBITDA | 4.8x | n/a |
| Net Promoter Score (%) | 85 | 83 |

**Before discontinued and exceptional items for The RAC Ltd Group, as set out on page 21.*
***As set out on page 16. *** Including shares currently held in reserve for management by Carlyle.*

## Review of the business

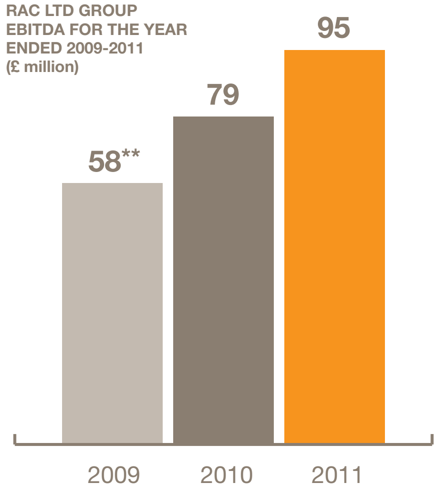
The RAC Group is primarily UK based and also has a presence in Ireland. The RAC offers a range of services to motorists with the largest part of the Group being the breakdown business.

2011 was another successful year for the RAC with the business now servicing more than 7.5 million customers, representing a quarter of all Britain's motorists. 2011 saw the launch of our new Home Insurance business to complement our existing product range.

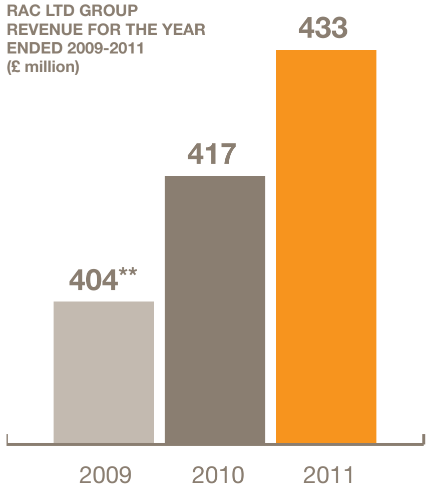
RAC is recognised for its strength in customer service and we remain focused on maintaining the highest levels of roadside repairs. Through getting our members on their way, with record repair rates, we have received excellent customer feedback in 2011. This is reflected in the achievement in 2011 of our highest ever Net Promoter Score of 85%. Through systems development and an operational rebalancing of our patrol force, we are maintaining our market leading ratio of patrols to members. We are seeing the benefits from investing in the flexibility in our patrol fleet and are now better placed than ever to maintain our high levels of customer service, optimise breakdown services at a local level and to respond to changes in weather conditions across the UK.

In our core Breakdown business we have maintained our market share. Our membership base has increased further with the addition of significant new deals with various partners, including UK leading brands, to complement our existing portfolio of corporate partner relationships. Further growth and continued strong performance across our product portfolio enabled the continued development of the RAC in 2011.

RAC LTD GROUP
EBITDA FOR THE YEAR
ENDED 2009-2011
(£ million)




RAC LTD GROUP
REVENUE FOR THE YEAR
ENDED 2009-2011
(£ million)




***2009 unaudited proforma*

The separation of the business from our previous owners, Aviva, is progressing well with the remaining separation activities to be completed in 2012. As part of the separation we have now closed our Norwich location and on-shored a significant number of roles from Sri Lanka and India, refocusing the business to our three core sites of Bescot, Bristol and Stretford.

The acquisition of RAC by Carlyle was a significant milestone for the Group and positions us well to further improve our customer service and product offering, thereby delivering further profitable growth in 2012.

## Trends & outlook

In recent years a positive environmental trend has been seen with the growth of low emission technologies ($CO_2$ emissions have reduced by c.25% over the last 10 years) and with increasing numbers of hybrid vehicles being sold. This trend is only expected to increase for the foreseeable future. The RAC remains at the forefront of this trend and in 2011 was again the proud sponsor of the RAC Future Car Challenge, showcasing the performance of new technologies under real-life motoring conditions.

# Directors’ report part I





RAC Operations is on track to achieve its 3 year target of a 20% reduction in carbon dioxide emissions by the end of 2013.

The RAC continuously invests to maintain best-in-class systems, technology and training to meet the changing demands of motoring in the UK. For example, repair rates for hybrid vehicles are achieved at the same levels as for traditional technologies.

We also support a number of vehicle manufacturers by training dealership technical staff and helping them keep up-to-date with new technologies.

## Research & development

As a leading provider of breakdown services we continually strive to both inform our members on motoring related matters and improve the services we offer. Our Annual Report on Motoring reflects research we undertake on motoring related matters and general developments in the motor industry. We actively contribute to debate and policy in motoring related areas and campaign on behalf of our members on matters which directly impact them, such as the price of fuel.

Our Technical Team continue to develop new solutions to improve our members’ experience. We were the first breakdown provider to introduce a Rapid Deployment Trailer which enables patrols to undertake towing where necessary and avoids the customer having to wait for a second resource. We continually develop our patrol fleet and have introduced diagnostic equipment on each van to improve fault diagnostics at point of breakdown. We are currently upgrading our patrol satellite navigation systems further.

We will continue to invest in the development of innovative member enhancements in order to both improve our customers’ experience and to maintain our position as a leading provider of breakdown services in the UK.

## Brand & customer relationships

We are proud of the RAC heritage and reputation and of the trust placed in us by our members, many of whom remain with us for many years. Market surveys consistently show that the RAC brand is considered by consumers to denote reliability and service.

We will continue to invest in and promote the RAC brand, while carefully controlling its use to ensure that it is associated only with products and services of the highest quality.

During 2012, ownership and management of the brand and other intangibles will be centralised within a single legal entity within the RAC group. This will facilitate improved measurement and reporting of the financial benefits of these assets, as well as strengthening controls over their use and facilitating development of branding opportunities with carefully-selected external partners.

## Financial review

In order to enhance the transparency and understanding of the financial information provided, the consolidated income statement and consolidated statement of comprehensive income of the RAC Ltd Group are set out on pages 21 to 23 for the full year, thus facilitating trend and comparative analysis. The RAC Group’s financial statements are set out on page 29 onwards.

### Income statement

The RAC Group delivered an EBITDA of £27 million before exceptional and discontinued items for the trading quarter ended 31 December 2011, following acquisition by The Carlyle Group. The RAC Ltd Group full year EBITDA before exceptional and discontinued items was £95 million, which represents an increase year on year. Revenue in the quarter ended 31 December 2011 amounted to £112 million. The full year equivalent of £433 million (2010: £417 million) before exceptional and discontinued items – an increase of 4% compared to last year, an excellent achievement in a difficult trading environment.

Amortisation of intangible assets in the RAC Group amounted to £27 million in the quarter ended 31 December 2011, representing amortisation of Acquired Value In Force (AVIF) intangibles at the acquisition date, as well as of the value of customer lists which are being amortised over their expected useful life of eight years. The amortisation of AVIF during 2011 amounted to £18 million with the balance of £17 million due to be fully written down during 2012.

Taking into account depreciation of £1 million, this gives an RAC Group EBIT before exceptional and discontinued items of £1 million loss. After exceptional items of £23 million, which include fees resulting from the acquisition of the RAC Ltd Group in the period and finance expenses of £25 million, this gives a loss before tax of £49 million. Allowing for a tax credit of £14 million, the loss after tax for the period amounts to £35 million.

### Statement of financial position

Goodwill and intangible assets amount to £1,163 million and arise from the acquisition of the RAC Ltd Group from Aviva in September 2011. Property and equipment of £27 million relates primarily to freehold property of the three main operating sites – Bescot, Bristol and Stretford.

Trade and other receivables of £90 million are primarily comprised of trade receivables of £46 million and prepayment and deferred commissions of £35 million.

Trade and other payables of £239 million are primarily comprised of deferred income of £141 million relating to annual subscriptions received and £76 million of trade payables and accruals.

Borrowings amounted to circa £1 billion. This is comprised of £520 million of senior debt facilities, £437 million of 12% shareholder loan notes, £80 million of preference shares, less costs of raising finance and including interest capitalised. Both the shareholder loan notes and preference shares were primarily funded by Carlyle. Further details are set out in ‘Funding requirements’.

Total shareholders’ equity was a deficit of £21 million, primarily due to the loss incurred after tax in the quarter ended 31 December 2011 of £35 million.

## Capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders’ funds, preference share capital, loan notes and borrowings, consistent with the Group’s overall risk profile and the regulatory and market requirements of the business.

### General

The Group includes regulated companies which hold sufficient capital to meet acceptable solvency levels based on applicable FSA regulations.

### Capital management

In managing its capital, the RAC seeks to:

I. Match the expected cash inflows from its assets with the expected cash out-flows 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

### Regulatory bases

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

## Funding requirements

The initial funding for the Group at completion of the acquisition by Carlyle was as follows:

| **External Sources** | **£m** | **%** |
|---|---|---|
| Senior Bank Debt | 520 | 49.8 |
| **Internal Sources** | | |
| Shareholder Loan Notes | 437 | 41.8 |
| Preference Shares | 80 | 7.6 |
| Ordinary Shares | 8 | 0.8 |
| **Total Sources** | **1,045** | **100.0** |
| Undrawn Revolving Credit Facility | 50 | |
| Undrawn Capital Facility | 50 | |
| **Total Committed Facilities** | **1,145** | |

All loans have bullet repayments. The terms of the funding sources are as follows:

- The senior debt is repayable on 30 September 2018, interest payments are calculated based on prevailing floating rates and hedged rates as applicable over the period.
- The loan notes earn a 12% cumulative




- compound dividend and are redeemable on sale or listing. They can also be redeemed by the Group with the written consent of the majority of the loan note holders. Loan notes and dividends (primarily funded by Carlyle) are due for repayment on 31 December 2021.
- The preference shares earn a 12% fixed dividend. These shares, along with associated dividends, are redeemable on sale or listing and are also primarily funded by Carlyle.

## Year end debt

Management defines net debt as set out in the Senior Debt Agreement, which solely includes external bank debt, therefore excluding internal debt (including loan notes and preference shares). Following the completion of the acquisition from Aviva in September 2011 the closing net external bank debt at 31 December 2011 was £455 million.

| Sources | £m |
|---|---|
| Senior Debt | 520 |
| Cash | (65) |
| **Total Net External Bank Debt** | **455** |

## Events since the balance sheet date

In March 2012 we concluded discussions with Aviva on the accounting treatment of the acquisition which has been reflected as applicable in these financial statements.

In 2012 we have made early repayments totalling £70 million against the senior debt facility, facilitated by the strong cash generation of RAC Group.

Following a board decision the undrawn Revolving Credit Facility and the undrawn Capital Facility was reduced by £20 million and £15 million respectively.

## Principal risks & uncertainties

### Risk management

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

Risks are usually grouped by risk type: market, credit, liquidity and operational 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 RAC 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 RAC
- A clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management
- Adoption of the risk policy framework that sets out risk management and control standards

Primary responsibility for risk identification and management lies with business management. Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions.

## Financial risk management

### Interest rate risk

The Group is exposed to interest rate risk arising primarily on borrowings of the Group. The risk is managed by the Group through the use of interest rate swap and basis rate swap agreements to hedge the variability of cash flows associated with the borrowings.

### Foreign exchange risk

The Group operates internationally and as a result is exposed to foreign currency exchange risk. However, foreign currency transactions are not material, due to the low level of foreign operations, and therefore exposure is minimal to fluctuations arising from movements in exchange rates, predominantly in Euros.

### Credit risk

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

The RAC's 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.

### Liquidity risk

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

RAC has set its investment strategy to ensure it has sufficient liquid funds generated from its operations to meet its expected obligations as they fall due. This is achieved by accurate and detailed short term cash forecasting and management, holding sufficient available funds to meet obligations as they fall due. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further.

## Strategic & operational risks

The principal strategic and operational risks RAC is exposed to relate to the following areas:

- Emerging changes to regulation and legislation (UK and European)
- Health and Safety risks relating to our customers and patrols
- Market and strategic risks
- Technology developments
- Fuel risks and rising prices for motorists
- Extreme weather conditions
- Business continuity and disaster recovery

The above risks are actively managed, including mitigation by the following key measures:

- Market and strategic risk is explicitly considered throughout the strategic review and planning process. Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered
- The RAC actively engages with external bodies to share 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
- The RAC maintains close working relationships with a number of motor manufacturers and industry leaders, sharing technical knowledge and developments to ensure RAC is well placed to meet the changing technological landscape
- A prudent fuel hedging policy has been implemented in 2012 to reduce fuel price uncertainty and de-risk the business from short-term fuel price changes
- The RAC patrol fleet operates on a flexible basis across each region and maintains the capability to engage pre-approved third party contractors to maintain appropriate levels of service during periods of severe weather
- In addition to regular employee health and safety training, RAC works with the SURVIVE Group to ensure that the highest safety standards are maintained for all employees and public at the roadside. The SURVIVE Group is a partnership between the Highways Agency, the Association of Chief Police Officers, the breakdown / recovery industry and other service providers. The SURVIVE Group has been established to improve the safety of those who work on the road network and the travelling public and is also dedicated to the promotion of driving safety
- Disaster recovery and business continuity are central to the ongoing strategy and operations of the RAC. Specifically during the separation from Aviva key controls have been put in place through Transitional Service Agreements with Aviva to ensure no disruption to business as usual

## Employees

The RAC operates from three sites throughout the UK and employed an average of 3,700 colleagues nationally throughout the period, including our dedicated patrol force.

The RAC values the contribution and involvement of all its colleagues and requires all colleagues to treat each other with respect.


The RAC is an equal opportunities employer and encourages diverse and inclusive approaches to employment.

We invest in the development of our colleagues' skills, abilities and potential. To enable RAC colleagues to work to the best of their abilities, while maintaining a good work-life balance, we operate various flexible working initiatives including annualised, part time and compressed hours.

## UNITE

Over the years we have developed a strong partnership relationship with the Union, UNITE.

Within the RAC a significant proportion of the workforce is unionised – and a full recognition agreement exists which covers frontline colleagues within Operations and Sales & Service

- 70% of the patrol and remote workforce are members of UNITE
- 35% of the frontline call centre colleagues are members of UNITE

As part of the recognition agreement, UNITE has an established, dedicated RAC branch with a full time branch convenor, supported by a Union Executive and team of stewards who are given time off to conduct their official union activities.

## Colleague Engagement

The RAC believes in continuous colleague engagement to provide clarity with respect to the vision and future direction of the Group, ensuring that colleagues are clear regarding how they can contribute to this, personally and collectively.

The RAC operates a number of highly effective communication channels, ranging from more formal conferences to daily huddles and also utilises various technical media to communicate - in particular with remote colleagues - in a consistent and timely manner, including the award winning Call Sign, conference calls and newsletters.

## Reward & Recognition

The RAC operates and maintains a remuneration policy which is consistent with the Group business strategy and objectives:

- which attracts, retains and motivates individuals of high calibre
- is responsive to both Group and personal performance
- is competitive within relevant employment markets

This is achieved by ensuring the design and delivery of remuneration arrangements which focuses colleagues on achieving the long-term business objectives.

The RAC formally recognises and rewards colleagues through two recognition schemes:

- Ambassador Awards: recognising the performance of the top 2% of colleagues at an annual award ceremony attended by colleagues and their partners
- Long Service Awards: recognising those colleagues who have achieved 25 years service with the Group

## Training & Development

The RAC is committed to ensuring that colleagues are provided with the appropriate training and development to enable them to perform their duties effectively.

Upon joining the RAC, colleagues attend a comprehensive local and company wide induction which covers technical, soft skills, customer facing and policy training. Dependent upon the role this can last up to six weeks in duration.

The RAC is determined to ensure that its patrols remain the best in the industry, through a commitment to a flexible training approach. Patrols receive a scheduled number of training days per year, when they undertake bespoke training courses delivered by RAC trainers at regional training centres. In addition, patrols receive in-van coaching from patrol trainers and ongoing career and performance management from patrol team managers.

# Environment, Social & Community

During 2011 we made good progress across all areas of Corporate Responsibility. We are proud of our heritage, business reputation and the loyalty of our members. Put simply, RAC's Corporate Responsibility strategy and policy is about how we conduct business with our members, customers, colleagues, and other business partners.

It reflects our support of equality and diversity, treating our members and customers fairly, how we manage health and safety issues, our responsibility and actions in the community, as well as our commitment to the environment. Corporate Responsibility affects every aspect of our day-to-day business and involves every colleague.

During 2012-2014 we plan to build on our agenda by:

- Setting public targets, including a map of how we plan to achieve them
- Creating a Corporate Responsibility forum which includes key stakeholders across the business that influence and manage the Corporate Responsibility plan for RAC
- Creating a framework and tools to embed Corporate Responsibility principles and ways of working across the business
- Integrating communications that promote our efforts and help to achieve our aims

The Corporate Responsibility issues that we have identified as our priorities are:

## Trust & Integrity

We know it's more important than ever to listen to our members and customers. RAC is committed to delivering consistently high standards of service and satisfaction. We take pride in looking after our members and endeavour to provide them with efficient and cost effective motoring solutions. Our vision is to become the motorists' champion: this will only be achieved by treating our customers fairly, conducting our business with integrity and providing motoring solutions that are valued.

During the coldest December since records began; snow and ice hit many regions of the UK and brought chaos to our roads. RAC teams were ready to help them stay safe and on the move in these exceptional circumstances. Despite the high volumes of service breakdowns our teams still achieved very high customer satisfaction scores.

## Environment & safety

The environment and our commitment to safety are a fundamental and integral part of our business; we aim to deliver continuous improvement in our environmental performance by identifying opportunities that reduce our $CO_2$ footprint and increase our efficiency. The safety of colleagues, members and customers is at the forefront of our mind. We believe we have the responsibility to use our position as a premier breakdown provider to influence motoring developments that help improve safety on our roads and promote new low-energy technology.

The RAC is on track to achieve its 3 year target of a 20% reduction in carbon dioxide emissions by the end of 2013.

The RAC is working closely with Carlyle to further improve its environmental performance as part of Carlyle's EcoValuScreen project.

Delivery of our environmental management programme has successfully gained us IS014001 certification, the international standard for environmental management.

The RAC are also lead sponsors of Drive the Future, the UK's first interactive, low-carbon motor show. This event is further demonstration of our commitment to the vehicle technology of the future.

The RAC is an enthusiastic contributor to schools initiatives at Ashfield in the East Midlands and Great Sankey, near Warrington to provide technical training for 14-16 year olds aspiring to become motor vehicle technicians. Training is undertaken at purpose built RAC branded training facilities funded by the school and RAC provides training free of charge in return for use of the facilities for patrol and motor manufacturer apprentice training.

In February 2011 RAC launched a new apprentice programme. Offering a Modern Apprenticeship Programme, the scheme offers learners between the ages of 16 and 18 to gain a Level 3 NVQ in Vehicle Maintenance.

## Our local communities

We contribute to the communities in which we operate, particularly those neighbouring our sites, through the support of community

# Directors' report part I

initiatives and local charities. We also use our position to champion the issues that impact motorists in the UK.

The RAC Report on Motoring 2011 is based on the views of over 1,000 drivers in Britain and provides a snapshot of motorists' attitudes and behaviour with regard to their vehicles, the road network, Government transport policy and other drivers.

RAC became the first motoring organisation to support the Fair Fuel UK Campaign. The Fair Fuel UK Campaign which fights for lower fuel prices in order to get the UK economy moving again.

## Political & charitable donations

The Group continues to support and work closely with the Royal Automobile Club Foundation, a registered charity which researches and promotes the economic, mobility, safety and environmental issues related to motoring and responsible road users.

Employees of the Group are supported in their charitable fundraising through appropriate time off and through charity related team building events.

## Contractual arrangements

RAC Group has a diverse contract portfolio not dependent on any particular supplier, customer or sector. The duration of contracts varies and standardised payment terms are agreed at outset.

## Going concern

The Group's business activities and factors likely to affect its future development, performance and position are set out earlier in this report. The Group has resilient profits, and strong cash flows supported by considerable long term facilities. Therefore after making relevant enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

## Disclosure of information to the auditor

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



# Directors' report part II

The Consolidated income statement, Consolidated statement of comprehensive income and the Consolidated statement of financial position on pages 21 to 23 are extracted from the audited Consolidated financial statements of RAC Limited. The RAC Limited Group holds all of the trading entities (RAC Limited, RAC Motoring Services Limited, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) of the RAC Group. These therefore exclude the holding companies (RAC Finance Group (Holdings) Limited, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited) and the Group's borrowings. Presentation of these statements are considered by the Directors to provide additional relevant and useful information to users of the financial statements.

## RAC Limited
### Consolidated income statement
**Relevant trading entities for the year ended 31 December 2011**

| | 2011 Before exceptional and discon-tinued items | 2011 Exceptional items | 2011 Discon-tinued operations | 2011 Total | 2010 Before exceptional and discon-tinued items | 2010 Exceptional items | 2010 Discon-tinued operations | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Revenue | 433 | - | 5 | 438 | 417 | - | 25 | 442 |
| Cost of sales | (224) | - | (2) | (226) | (228) | - | - | (228) |
| Gross profit | 209 | - | 3 | 212 | 189 | - | 25 | 214 |
| Administrative (expenses) / income | (114) | 117 | - | 3 | (99) | (4) | 3 | (100) |
| Stand alone* | - | - | - | - | (11) | - | - | (11) |
| Group Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) | 95 | 117 | 3 | 215 | 79 | (4) | 28 | 103 |
| Depreciation | (2) | - | - | (2) | (2) | - | - | (2) |
| Amortisation | (4) | - | - | (4) | (2) | - | - | (2) |
| Group operating profit | 89 | 117 | 3 | 209 | 75 | (4) | 28 | 99 |
| Financial income | 10 | - | - | 10 | 16 | - | - | 16 |
| Finance expenses | (1) | - | (6) | (7) | - | - | (21) | (21) |
| Profit / (loss) on sale of subsidiaries | - | - | - | - | - | 5 | - | 5 |
| **Profit before tax** | 98 | 117 | (3) | 212 | 91 | 1 | 7 | 99 |
| Tax (expense) / credit | (8) | 8 | (1) | (1) | (16) | - | 1 | (15) |
| **Profit for the year** | 90 | 125 | (4) | 211 | 75 | 1 | 8 | 84 |

** Stand alone costs represent management's estimate, which is unaudited, of the incremental cost that would have been incurred had the company been stand alone from 1 January 2010.*

The Consolidated income statement, Consolidated statement of comprehensive income and the Consolidated statement of financial position on pages 21 to 23 are extracted from the audited Consolidated financial statements of RAC Limited. The RAC Limited Group holds all of the trading entities (RAC Limited, RAC Motoring Services Limited, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) of the RAC Group. These therefore exclude the holding companies (RAC Finance Group (Holdings) Limited, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited) and the Group's borrowings. Presentation of these statements are considered by the Directors to provide additional relevant and useful information to users of the financial statements.

## RAC Limited
### Consolidated statement of comprehensive income
**Relevant trading entities for the year ended 31 December 2011**

| | 2011 | 2010 |
|---|---|---|
| | £m | £m |
| **Profit for the year** | 211 | 84 |
| **Other comprehensive income / (expense)** | | |
| Actuarial gains on pension schemes | 24 | 130 |
| Aggregate tax effect of actuarial gains | (2) | - |
| Other comprehensive income, net of tax | 22 | 130 |
| **Total comprehensive income for the period** | 233 | 214 |

The Consolidated income statement, Consolidated statement of comprehensive income and the Consolidated statement of financial position on pages 21 to 23 are extracted from the audited Consolidated financial statements of RAC Limited. The RAC Limited Group holds all of the trading entities (RAC Limited, RAC Motoring Services Limited, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited) of the RAC Group. These therefore exclude the holding companies (RAC Finance Group (Holdings) Limited, RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited) and the Group's borrowings. Presentation of these statements are considered by the Directors to provide additional relevant and useful information to users of the financial statements.

## RAC Limited
### Consolidated statement of financial position
**Relevant trading entities as at 31 December 2011**

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | £m | £m |
| **Non-current assets** | | |
| Goodwill and intangible assets | 354 | 355 |
| Property, plant and equipment | 26 | 27 |
| Trade and other receivables | - | 358 |
| Loan receivable | - | 11 |
| Deferred tax assets | 16 | - |
| Employee benefit asset | 11 | 2 |
| | 407 | 753 |
| **Current assets** | | |
| Inventories | 2 | 2 |
| Trade and other receivables | 89 | 91 |
| Loan receivable | 12 | - |
| Current tax | 1 | 3 |
| Cash and cash equivalents | 65 | 39 |
| | 169 | 135 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Provisions | (14) | (10) |
| Trade and other payables | (297) | (249) |
| Current tax | - | (31) |
| | (311) | (290) |
| **Net current liabilities** | (142) | (155) |
| **Non-current liabilities** | | |
| Trade and other payables | (22) | (55) |
| Employee benefit liability | (9) | (174) |
| Deferred tax liability | (23) | (25) |
| | (54) | (254) |
| **Net assets** | 211 | 344 |
| **EQUITY** | | |
| Ordinary share capital | 31 | 31 |
| Share premium | 153 | 153 |
| Other reserves | 1 | 1 |
| Retained earnings | 26 | 159 |
| **Total equity** | 211 | 344 |

## Board composition

### Rob Templeman - Chairman

Rob joined the RAC as Chairman in September 2011 and has extensive experience in leading retail organisations – transforming their profitability and customer service following private equity transactions. Prior to joining RAC Rob was Chief Executive of Debenhams for eight years and his previous roles also include Chief Executive and Chairman of Halfords, Chief Executive of Homebase and Harveys Furnishing Group. Rob is also Chairman of the Gala Coral Group and the British Retail Consortium, alongside his charitable interests.

### Chris Woodhouse - Chief Executive Officer

Chris joined the RAC as CEO in February 2012 and brings over 25 years of experience and knowledge having performed leading roles in the success and transformation of retail organisations under private equity ownership. Chris was Deputy Chief Executive of Debenhams prior to joining RAC and his previous roles include Deputy Chairman of Halfords, Commercial Director and Deputy Chief Executive of Homebase, Commercial Director of Birthdays Group and numerous Finance Director roles. Chris is also Chairman of Gondola Group.

### Diane Cougill - Chief Finance Officer

Diane is a chartered accountant with extensive knowledge and experience in executive finance and commercial roles. Diane joined the RAC in 2010 and led the RAC sale process from Aviva. Diane previously held senior positions in the Aviva UK General Insurance business, including Chief Risk Officer, Financial Control Director and Portfolio Director. Prior to this Diane worked in the energy sector where she held senior finance positions for TXU Europe and Yorkshire Electricity Group.

### Andrew Burgess - Non-Executive Director, Carlyle Group

Andrew is a Partner of Carlyle and Managing Director of Carlyle Europe Partners, with a focus on originating and leading buy-outs for services and consumer businesses. He also serves on the board of Talaris, the cash services solutions group and was formerly on the board of Britax Childcare, the market leading child safety seat manufacturer. Prior to joining Carlyle, Andrew was a Director of Bridgepoint, the pan-European Private Equity fund manager, where he was responsible for deal origination, execution, portfolio management and realisations.

### Alex Stirling - Non-Executive Director, Carlyle Group

Alex is a Director in Carlyle’s European buyout team, with a particular focus on business and consumer services sectors. Prior to joining Carlyle, Alex was an Investment Director with Apax Partners and PPM Capital. Alex is currently a member of the Board of Directors of IDH, NBTY Europe and is, or has previously been an observer on the Boards of Focus Wickes, PCM Uitgevers, Promethean and Orizonia.

### Zeina Bain - Non-Executive Director, Carlyle Group

Zeina is Director in Carlyle’s European buyout team having joined the firm in May 2001. Prior to this Zeina was an associate at European Digital Capital, a technology venture capital fund. Before that, she was an investment banking analyst at Merrill Lynch in their Emerging Markets group. Zeina has been a Board member of Britax Childcare, AZ Electronic Materials and Stahl and observer on the Boards of Firth Rixson and IDH.

### Mark Wood - Non-Executive Director

Mark joined the RAC Board in September 2011 from the financial services industry. Mark’s previous positions include Managing Director of AA for Financial Services, Chief Executive of AXA UK and Chief Executive of Prudential UK and Europe. Mark founded and was Chief Executive of the hugely successful Paternoster Pension Investment Company, which was acquired by Goldman Sachs in January 2011. Mark is also Chairman of Chaucer - the Lloyds underwriter, Digitalis Media and Jardin Lloyd Thompson Benefit Solutions. Mark is also Chairman of the Trustees of the National Society for the Prevention of Cruelty to Children.

## Board changes during the period

Angela Seymour-Jackson was an Executive Director during 2011 before stepping down in January 2012.

## Corporate Governance Report

The RAC is committed to complying with the highest standards of good corporate governance practice. RAC recognises that strong governance is a key element underpinning the responsible sustainable, long term growth of the business.

A comprehensive corporate governance framework has been put in place which documents the following: Terms of Reference for the Board and the committees which sit under it, processes for financial governance (including delegations of authority, transactions limits, treasury procedures), comprehensive group policies, registers of interests and guidance for directors on their duties and for Approved Persons (in the context of FSA authorisation).

### The Board

The Board has been in place since the acquisition of RAC by The Carlyle Group in September 2011. The Board considers that the team has an appropriate balance of Executive and Non-Executive Directors and of skills, knowledge and experience commensurate with the nature and breadth of the business.

The Board provides practical leadership to the business, setting the tone for a culture across the business committed to achieving great outcomes for customers and thereby delivering long term value both for the business and the wider community.

The Board meets regularly and leads the strategic direction of the RAC Group, monitors operational performance and ensures appropriate internal controls are in place. Standing items on the agenda of each board meeting are Health and Safety and Treating Customers Fairly. Through ongoing review of suitably detailed management information the board ensures that risks are monitored and managed.

Proper delegations and controls are in place providing for all the various aspects of the day to day management of the business to be dealt with at an appropriate level. In particular, the senior executive management team meets weekly to review the operational performance of the business in the widest sense.

### Division of Responsibilities

There is a clear division of responsibility between the non-executive Chairman, the Chief Executive and the other executive and non-executive directors.

The Chairman is responsible for:

- The leadership of the Board, ensuring its effectiveness and setting its agenda
- Facilitation of the effective contribution of non-executive directors and ensuring constructive relations between them and the executive directors

The Chief Executive is responsible for:

- Overseeing day to day management of the Group
- Allocating decision making and responsibilities
- Ensuring the successful execution of the strategic objectives agreed by the Board

The executive directors are responsible for:

- Setting the strategic direction of the Group and implementing and delivering the strategy
- Preparing annual budgets and medium term projections for the Group and monitoring performance against plans and budgets and annual financial statements
- Day-to-day management of the Group, ensuring risks are managed and any lessons learnt
- Effective communication with equity holders
- Safeguarding the assets of the Group and for the prevention and detection of fraud

The non-executive directors are responsible for:

- Using their wide and varied commercial experience to offer independent advice and objectivity
- Monitoring and offering objective challenge to executive management decisions when appropriate
- Bringing specific expertise to the board. For example, the team includes a non-executive with extensive financial services experience in senior positions of several major financial institutions

The Company Secretary ensures that the RAC Board (and the boards of all other companies in the group) follows best corporate governance practice and that all discussions and decisions are properly recorded and management information is supplied at an appropriate level to support constructive debate in the meetings.

### Board Committees

Specific written Terms of Reference are in place which set out clearly the responsibilities, membership and workings of the committees.

### Audit, Risk & Compliance Committee

This committee is chaired by Mark Wood. It is attended by the board members, the external auditors, the Head of Financial Control, the Head of Legal, Risk and Compliance and also members of the RAC senior management team as required.

The Audit, Risk and Compliance Committee assists the board in discharging its responsibilities for the integrity of the Group’s financial statements and the effectiveness of the systems of risk management and internal controls and also monitors the effectiveness, performance and objectivity of the internal and external auditors.

# Directors' report part III

Key areas for which the committee is responsible include:

- Reviewing the Group's financial statements prior to approval on behalf of the Board and reviewing the external auditors' reports thereon
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately
- Review, as appropriate the design and implementation of the risk management framework, assessing the effectiveness of the Group's management of risk and regulatory compliance, including the specific risk appetite for each area
- Ensuring that the principles of Treating Customers Fairly are understood by all staff and embedded consistently across the business
- Reviewing internal controls, in particular the internal audit plan to monitor the effectiveness of those controls
- Considering the consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where different approaches are possible
- Assessing the independence and objectivity of the external auditors

### Remuneration Committee

This committee comprises the Group's Chairman, Chief Executive and at least one of the other investor directors and members of the senior management team as required and is responsible for the following key areas:

- Determining the participation of directors and employees in the equity holding
- Agreeing the framework for the remuneration of the executive directors and other senior executives, and determining the total individual remuneration packages of each person, including pension arrangements. The Chief Executive is not present when his own remuneration package is determined
- Determining specific incentives for the executive directors and senior management to encourage enhanced performance by being rewarded in a fair manner for their individual contributions to the success of the Group
- Ensuring that contractual terms on termination and any payments made are fair to the individual and to the Group (and that failure is not rewarded)
- Evaluating the performance of the executive directors against challenging objectives, including non-financial objectives

### Other Committees & Working Groups

There is a structure of other Committees and Working Groups responsible which meet regularly to oversee various aspects of the business and ensure appropriate safeguards are in place and that detailed management information is being properly monitored. For example, an executive Risk and Compliance Working Group, various Health and Safety Committees, and a Customer Working Group (reviewing customer feedback / complaints).

## Directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and which present fairly the financial position of the Company and Group at the end of the period, and the financial performance and cash flows of the Group for the period. A fair presentation of the financial statements in accordance with IFRS requires the directors to:

- Select suitable accounting policies and verify they are applied consistently in preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and Group will continue in business
- 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and Group's financial position and Group's financial performance
- State that the Company and Group has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for maintaining adequate accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company and Group at that time. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities.

By order of the Board on 22 June 2012

S. Morrison
Company Secretary

## Independent Auditor's report to the members of RAC Finance Group (Holdings) Limited

We have audited the financial statements of RAC Finance Group (Holdings) Limited for the period ended 31 December 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity and the Consolidated statement of cash flows and the related notes 1 to 26 and the Company statement of financial position, the Company statement of changes in equity and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the RAC Group Annual Report and Accounts 2011 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

Angus Millar (Senior statutory auditor)
Date: Friday 22 June 2012
for and on behalf of Ernst & Young LLP, Statutory Auditor, London





## Consolidated income statement

**From the date of incorporation, including the three month trading period ended 31 December 2011**

| | Note | 2011 Before exceptional items | 2011 Exceptional items (Note 7) | 2011 Total |
|---|---|---|---|---|
| | | £m | £m | £m |
| Revenue | | 112 | - | 112 |
| Cost of sales | | (53) | - | (53) |
| Gross profit | | 59 | - | 59 |
| Administrative expenses | | (32) | (23) | (55) |
| Group Earnings Before Interest, Taxation Depreciation and Amortisation (EBITDA) | | 27 | (23) | 4 |
| Depreciation | 10 | (1) | - | (1) |
| Amortisation | 9 | (27) | - | (27) |
| Group Earning Before Interest and Taxation (EBIT) | | (1) | (23) | (24) |
| Finance expenses | 3 | (25) | - | (25) |
| **Loss before tax** | 2 | (26) | (23) | (49) |
| Tax credit | 8 | 10 | 4 | 14 |
| **Loss for the period** | | (16) | (19) | (35) |

All activities relate to continuing operations.

The accounting policies and notes on pages 34 to 60 are an integral part of these financial statements.

## Consolidated statement of comprehensive income

**From the date of incorporation, including the three month trading period ended 31 December 2011**

| | Note | 2011 |
|---|---|---|
| | | £m |
| **Loss for the period** | | **(35)** |
| **Other comprehensive income / (expense)** | | |
| Actuarial gains on pension schemes | 23(c)(iii) | 8 |
| Aggregate tax effect of actuarial gains | 8(c) | (2) |
| Other comprehensive income, net of tax | | 6 |
| **Total comprehensive expense for the period** | | (29) |

The accounting policies and notes on pages 34 to 60 are an integral part of these financial statements.

## Consolidated statement of financial position

**As at 31 December 2011**

| | Note | 2011 |
|---|---|---|
| | | £m |
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets – goodwill | 9 | 517 |
| Intangible assets – other | 9 | 646 |
| Property, plant and equipment | 10 | 27 |
| Deferred tax assets | 12 | 17 |
| Employee benefit asset | 23(c)(v) | 11 |
| | | 1,218 |
| **Current assets** | | |
| Inventories | 13 | 2 |
| Trade and other receivables | 14 | 90 |
| Loan receivable | 11 | 12 |
| Current tax | 12 | 1 |
| Cash and cash equivalents | | 65 |
| | | 170 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Provisions | 15 | (14) |
| Trade and other payables | 16 | (220) |
| Derivative financial instruments | 17 | (1) |
| | | (235) |
| Net current liabilities | | (65) |
| **Non-current liabilities** | | |
| Borrowings | 18 | (1,019) |
| Employee benefit liability | 23(c)(v) | (9) |
| Trade and other payables | 16 | (19) |
| Deferred tax liability | 12 | (127) |
| | | (1,174) |
| **Net liabilities** | | (21) |
| **EQUITY** | | |
| Ordinary share capital | 19 | - |
| Share premium | | 8 |
| Retained earnings | | (29) |
| **Total equity** | | (21) |

The accounting policies and notes on pages 34 to 60 are an integral part of these financial statements.
Approved by the Board on 22 June 2012.

D Cougill
Chief Financial Officer



Registered in England and Wales: No. 07665596

## Consolidated statement of changes in equity

**From the date of incorporation, including the three month trading period ended 31 December 2011**

| | Note | Ordinary share capital | Hedging instruments reserves | Investment revaluation reserves | Share premium | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m |
| **Balance at 10 June 2011** | | - | - | - | - | - | - |
| **Total comprehensive expense for the period** | | | | | | | |
| Loss for the period | | - | - | - | - | (35) | (35) |
| Other comprehensive income | | - | - | - | - | 6 | 6 |
| Total comprehensive expense | | - | - | - | - | (29) | (29) |
| Issue of ordinary shares | 19 | - | - | - | 8 | - | 8 |
| Total movements in the period | | - | - | - | 8 | (29) | (21) |
| **Balance at 31 December 2011** | | - | - | - | 8 | (29) | (21) |

The accounting policies and notes on pages 34 to 60 are an integral part of these financial statements.

## Consolidated statement of cash flows

**From the date of incorporation, including the three month trading period ended 31 December 2011**

| | Note | 2011 |
|---|---|---|
| | | £m |
| **Cash flows from operating activities** | | |
| Net cash inflow from operations before exceptional items and funding of defined benefit schemes | 22(a) | 32 |
| Defined benefit schemes funding | | (1) |
| Restructuring activities | | (1) |
| Separation and completion activities | | (7) |
| Other costs of acquisition | | (10) |
| Cash flows from operating activities after exceptional costs | | 13 |
| **Cash flows from financing activities** | | |
| Issue of ordinary share capital | 19 | 8 |
| Net proceeds from senior debt | | 499 |
| Net proceeds from loan notes | | 425 |
| Net proceeds from preference shares | | 78 |
| Interest paid | | (8) |
| Net cash from financing activities | | 1,002 |
| **Cash flows from investing activities** | | |
| Acquisition of companies | 1(d) | (906) |
| Payments to Aviva | | (73) |
| Cash proceeds from acquisition of companies | 1(d) | 29 |
| Net cash used in investing activities | | (950) |
| **Net increase in cash and cash equivalents** | | 65 |
| **Cash and cash equivalents at 31 December** | 22(b) | 65 |

The accounting policies and notes on pages 34 to 60 are an integral part of these financial statements.

RAC Finance Group (Holdings) Limited (the 'Company'), a limited liability company incorporated and domiciled in the United Kingdom, together with its subsidiaries (collectively, the 'Group' or 'RAC') provides services and benefits to members of the RAC.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

**(A) BASIS OF PRESENTATION**

The company was incorporated on 10 June 2011. These consolidated financial statements are presented for the period from incorporation to 31 December 2011, including the trading results of RAC Limited and its' subsidiaries from the date of acquisition of RAC Limited, being 30 September 2011.

The financial statements of the Company and the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as adopted by the EU, applicable at 31 December 2011.

The following new and amended IFRS and IFRIC interpretations are effective for the 2011 financial statements but do not materially impact the Group's financial reporting:

- IFRS 1 *Limited exemption from comparative IFRS 7 disclosures for first-time adopters*
- IAS 24 *Related Party Disclosures*
- IAS 32 *Classification of Rights Issues*
- IFRIC 14 *Prepayment of a Minimum Funding Requirement*
- IFRIC 19 *Extinguishing financial liabilities with equity instruments*
- *Improvements to IFRSs (May 2010)*

External reporting developments effective in future years continue to be proactively monitored. Further amendments to *IFRS 1*, IFRS 7, *Financial Instruments – Disclosures,* IAS 12, *Income Taxes,* and IAS 32 have been issued but have not yet been endorsed. These are applicable prospectively for accounting periods commencing 1 July 2011 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any material impact on the Group's financial reporting. IFRS 9 *Financial Instruments: Classification and Measurement* is effective for periods beginning on or after 1 January 2015 and applies to classification and measurement of financial assets and financial liabilities. IFRS 9 is not expected to materially impact the Group's financial reporting.

During 2011, the IASB issued IFRS 10, *Consolidated Financial Statements,* IFRS 11, *Joint Arrangements,* IFRS 12, *Disclosure of Interests in Other Entities,* IFRS 13, *Fair Value Measurement,* and reissued IAS 27, *Separate Financial Statements,* and IAS 28, *Investments in Associates* and *Joint Ventures*. It also issued amendments to IAS 1, *Presentation of Financial Statements,* and IAS 19, *Employee Benefits.* They are applicable for accounting periods commencing 1 July 2012 or later, and are therefore not applicable for the current accounting period. None of these are expected to have a material impact.

The consolidated and Company financial statements are stated in pounds sterling, which is the Group's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling ("£m").

The separate financial statements of the Company are set out from page 61. On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The loss for the period was £276,000. The Company has not presented a separate cash flow statement as it does not hold any cash.

**(B) USE OF ESTIMATES**

The preparation of the consolidated financial statements requires the Group to make estimates and assumptions that affect items reported in the consolidated statement of financial position and consolidated income statement and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. All these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, however, actual results ultimately may differ from those estimates, possibly significantly. The table below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

| Item | Accounting policy |
|---|---|
| Provisions and contingent liabilities | Q |
| Employee benefits | T |
| Income taxes | R |
| Goodwill and intangible assets | G |
| Fair value of net assets acquired in business combinations | C |

**(C) CONSOLIDATION PRINCIPLES**

Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from the date when such control ceases to exist. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

The acquisition method of accounting is used for business combinations. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group has the option to measure the non-controlling interest in the acquiree either at fair value or the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the net assets and liabilities of the subsidiary acquired is recorded as goodwill. Acquisition related costs are expensed as incurred. Transactions that do not result in a loss of control are treated as equity transactions with non-controlling interests.

### The Company's investments

Subsidiaries are those entities in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. In the statement of financial position, subsidiaries are stated at cost less any impairment.

**(D) FOREIGN CURRENCY TRANSLATION**

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the period (€1.174:£1), which are considered to be reasonable estimates for the actual exchange rate at the date of transaction. Statements of financial position are translated at the period end exchange rates (€1.197:£1). Exchange differences arising from the translation of the net investment in foreign subsidiaries are recognised in other comprehensive income and taken to the currency translation reserve within equity. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

**(E) REVENUE RECOGNITION**

### Revenue

Revenue comprises the fair value derived from the sale of services to customers during the year, net of value added tax, rebates and discounts. Revenue represents sales of roadside assistance and related products and services, excluding any sales-based taxes or duties or levies. Where amounts have been invoiced in advance, the portion not recognised in revenue is included in deferred income. Revenue relating to the sale of services is recognised on a straight line basis over the length of the contract, usually 12 months. Revenue relating to the sale of goods is recognised according to the terms of the sale, when the significant risks and rewards of ownership have been transferred to the customer.

### Interest income

Interest income is recognised using the effective interest method.

**(F) EXCEPTIONAL ITEMS**

Items which are both material by size and / or nature and non recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items charged to operating profit helps provide an indication of the Group's underlying business performance. Events which may give rise to a classification of items as exceptional include costs associated with business acquisitions, gains or losses on the disposal of businesses, restructuring of businesses and asset impairments.

**(G) GOODWILL, ACQUIRED VALUE IN-FORCE AND INTANGIBLE ASSETS**

### Goodwill

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

### Acquired value in-force business (AVIF)

The acquired value in force represents future margins in deferred revenue in the statement of financial position at the date of acquisition. This intangible is amortised over its useful life of less than twelve months.

Intangible assets consist of the RAC brand and contractual relationships such as access to distribution networks and customer lists. The RAC brand has been assessed as having an indefinite life due to the strength and durability of the brand that has existed since 1897. The economic lives of the latter 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 five to ten years using the straight line method.

**(G) GOODWILL, ACQUIRED VALUE IN-FORCE AND INTANGIBLE ASSETS (CONTINUED)**

### Intangible assets

The amortisation charge for the year is included separately within the income statement. 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.

### Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to one cash-generating unit as this represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount.

**(H) PROPERTY, PLANT AND EQUIPMENT**

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. All other items classified as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation. Third party valuations are obtained every three years.

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:

| | |
|---|---|
| Vehicles | 4 years |
| Fixtures and fittings | 10 years |
| Computer equipment | 4 years |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

**(I) INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (“FIFO”) method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

**(J) 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.

**(K) DERECOGNITION AND OFFSET OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(i) the rights to receive cash flows from the asset have expired;
(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
(iii) the Group has transferred its rights to receive cash flows from the asset and either:

(a) has transferred substantially all the risks and rewards of the asset; or
(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(L) TRADE RECEIVABLES**

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

**(M) PREPAYMENTS**

The incremental costs directly attributable to the acquisition of new business for roadside assistance are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts. Prepayments are released over the period in which the related revenues are earned.

**(N) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments 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.

**(O) BORROWINGS**

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

**(P) DERIVATIVE FINANCIAL INSTRUMENTS**

The Group holds derivative financial instruments, which include interest rate swaps, to hedge its interest rate exposures. Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value. Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised immediately in the income statement.

**(Q) PROVISIONS AND CONTINGENT LIABILITIES**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. 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.

**(R) INCOME TAXES**

Income taxes include both current and deferred taxes. Income taxes are charged / (credited) to the consolidated income statement except where they relate to items charged / (credited) directly to shareholders’ equity. In this instance the income taxes are also charged / (credited) directly to shareholders’ equity.

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses 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.

**(R) INCOME TAXES (CONTINUED)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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.

**(S) 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.

**(T) EMPLOYEE BENEFITS**

**Pension obligations**

The Group operates defined benefit pension plans; the Auto Windscreens Pension Scheme ("AW Scheme"), a funded plan (the assets of which are held in separate trustee-administered funds, funded by payments from employees and the Group); and an unfunded unapproved pension scheme.

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

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 Group). In addition, the difference between the expected return on scheme assets, less investment expenses, and the interest cost of unwinding the discount on the scheme liabilities (to reflect the benefits being one period closer to being paid out) is booked to finance income or expense. All actuarial gains and losses, being the difference between the actual and expected returns on scheme assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, are recognised immediately in other comprehensive income.

**Other post-retirement obligations**

The Group 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.

**Termination benefits**

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

**(U) 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.





## 1 Business combinations

**(a) Introduction**

On 23 June 2011, the sale was announced by Aviva to CEP III Participations S.à r.l. SICAR, a company owned by Carlyle Europe Partners III, L.P., all part of the entities doing business as The Carlyle Group, of RAC Limited and its trading subsidiaries, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited, with an anticipated completion date of 30 September 2011.

On 30 September 2011, the sale completed and the Group acquired the entire share capital of RAC Limited. The purchase cost is made up as follows:

**(b) Purchase cost**

| | 2011 |
|---|---|
| | £m |
| Cash paid | 906 |
| Liability assumed | 12 |
| Indemnity asset | (2) |
| | 916 |

Transaction fees and stamp duty of £10 million arising on acquisition have been recognised separately as an exceptional item within administrative expenses.

**(c) Fair value of net assets acquired**

The fair value of the identifiable assets and liabilities as at the date of acquisition were:

| | 2011 |
|---|---|
| | £m |
| Intangible assets | 673 |
| Property and equipment | 28 |
| Cash and cash equivalents | 29 |
| Trade and other receivables | 86 |
| Loan receivable | 12 |
| Pension and other provisions | (15) |
| Tax liabilities | (43) |
| Deferred tax assets | 12 |
| Deferred tax liabilities | (134) |
| Trade and other payables | (249) |
| **Net assets acquired** | 399 |
| Goodwill arising on acquisition | 517 |
| **Total consideration** | 916 |

The goodwill arising on acquisition is represented by the assembled workforce and future profit opportunities through a renewed focus and leveraging of the brand. Goodwill is not deductible for tax purposes. RAC Finance Group (Holdings) Limited acquired the RAC Limited Group, a high quality business with significant growth potential and a renowned brand of trust and reliability.

Trade and other receivables are shown net of a bad debt provision of £4 million. The gross contractual amount is £90 million.

## 1 Business combinations (continued)

| (d) Cash outflow on acquisition | 2011 |
|---|---|
| | £m |
| Net cash acquired with subsidiary | 29 |
| Cash paid | (906) |
| Net cash outflow | (877) |

In addition, on acquisition £61 million of Aviva intercompany debt, including corporation tax settled by group relief, was settled in cash. The assets and companies acquired have contributed all of the revenue, EBITDA before exceptional and discontinued items and £16 million of profit after tax for the period. If the companies had been acquired at the beginning of the year, revenue would have been £438 million, EBITDA before exceptionals and discontinued items would have been £95 million. Profit after tax would have been £47 million.

## 2 Result before tax

| The following items have been included in arriving at result before tax: | 2011 |
|---|---|
| | £m |
| **Administration expenses** | |
| Amortisation of intangible assets | 27 |
| Depreciation of property and equipment | |
| Owned assets | 1 |
| Operating lease rentals paid | 3 |

## 3 Finance expenses

| | 2011 |
|---|---|
| | £m |
| Interest payable | 21 |
| Preference share dividends payable | 3 |
| Amortisation of capitalised finance costs | 1 |
| Interest payable on financial liabilities not held at fair value through profit or loss | 25 |

## 4 Auditor's remuneration

The total remuneration payable by the Group, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below.

| | 2011 |
|---|---|
| **Audit services** | £000's |
| Statutory audit of consolidated financial statements | 21 |
| Statutory audit of subsidiary financial statements | 179 |
| | 200 |
| Other services | |
| Tax | 87 |
| Non-audit services | 25 |
| Total remuneration payable to Ernst & Young LLP | 312 |

## 5 Employee information

| The average number of persons employed during the period was: | 2011 |
|---|---|
| | Number |
| Direct | 3,032 |
| Selling | 260 |
| Support | 408 |
| | 3,700 |

Total staff costs were:

| | 2011 |
|---|---|
| | £m |
| Wages and salaries | 29 |
| Social security costs | 3 |
| Termination benefits | 1 |
| Pension costs | 2 |
| | 35 |
| These costs were charged within: | |
| Cost of sales | 27 |
| Administrative expenses | 8 |
| | 35 |

## 6 Directors

Details of the aggregate remunerations, (excluding payments for compensation for loss of office) of the directors of the Company for qualifying services in respect of the RAC Group comprise:

| | 2011 |
|---|---|
| | £000's |
| Fees and benefits | 560 |
| Contributions paid into money purchase pension schemes | 71 |
| | 631 |
| **Emoluments of the highest paid director:** | |
| Fees and benefits | 229 |
| Contributions paid into money purchase pension schemes | 30 |
| | 259 |

(a) Fees and benefits include directors' bonuses. Bonuses include: amounts earned in respect of the 2011 performance under the Annual Bonus Plan; but exclude amounts payable in respect of services for the Aviva Group, which include amounts payable under its respective share award schemes.

(b) Retirement benefits are accruing to 5 directors under a money purchase scheme.

(c) During the period no directors exercised share options, see (a) above.

(d) During the period no directors were awarded shares under long-term incentive schemes, see (a) above.

(e) A payment of £317 thousand was made to a director for loss of office in the period.

## 7 Exceptional items

Exceptional items of £23 million include the following:

| | 2011 |
|---|---|
| | £m |
| Transaction and debt related fees | 5 |
| Stamp duty | 5 |
| Restructuring costs (see note 15) | 7 |
| Separation and completion activities | 8 |
| Other | (2) |
| Total exceptional items | 23 |

Transaction fees and stamp duty relate to the acquisition of RAC Limited. Separation and completion activities relate to enhancing standalone capabilities following the disposal of RAC Limited by Aviva.

## 8 Tax

**(a) Tax credited to the income statement**

The total tax credit comprises:

| | 2011 |
|---|---|
| | £m |
| **Current tax:** | |
| For this period | - |
| Total current tax | - |
| **Deferred tax:** | |
| For this period | 14 |
| Total tax credited to the income statement | 14 |

**(b) Tax reconciliation**

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

| | 2011 |
|---|---|
| | £m |
| Net loss before tax | (49) |
| Tax calculated at standard UK corporation tax rate of 26.5% | (13) |
| Effect of tax rate change | (1) |
| Changes in recognised deductible temporary differences | (3) |
| Disallowable expenses | 3 |
| Total tax credited to income statement (note 8(a)) | (14) |

On 23 March 2011, the UK Government announced a reduction in the standard UK corporation tax rate from 28% to 26% effective from 1 April 2011. On 21 March 2012, the UK Government announced a further reduction to the standard UK corporation tax rate from the already announced 25% to 24% effective from 1 April 2012. The UK Government also confirmed its intention to reduce the standard UK corporation tax rate further by 1% per annum, falling to 23% from 1 April 2013 and 22% from 1 April 2014. The 23% rate is expected to be substantively enacted in July 2012.

The closing deferred tax assets and liabilities have been calculated at a rate of 25%, being the substantively enacted and enacted rate at 31 December 2011.

## 8 Tax (continued)

**(b) Tax reconciliation (continued)**

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 22% is expected to be £13 million (equivalent to 3% of the closing gross deferred tax balance).

**(c) Tax charged to other comprehensive income**

Tax charged directly to other comprehensive income in the period amounted to £2 million and is wholly in respect of the tax impact on actuarial gains.

## 9 Goodwill and other intangible assets

**(a) Goodwill and other intangible assets**

| | Goodwill | Brand | Acquired value in force | Customer list | Other | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Cost:** | | | | | | |
| At 10 June 2011 | - | - | - | - | - | - |
| Acquired through business combinations | 517 | 341 | 35 | 291 | 6 | 1,190 |
| **At 31 December 2011** | **517** | **341** | **35** | **291** | **6** | **1,190** |
| **Amortisation:** | | | | | | |
| At 10 June 2011 | - | - | - | - | - | - |
| Charge for the period | | | 18 | 9 | - | 27 |
| **At 31 December 2011** | **-** | **-** | **18** | **9** | **-** | **27** |
| Net book value: | | | | | | |
| At 10 June 2011 | - | - | - | - | - | - |
| **At 31 December 2011** | **517** | **341** | **17** | **282** | **6** | **1,163** |

All intangible assets are stated at cost less accumulated amortisation and any impairment losses. Other intangible assets comprise of the value of customer relationships.

**(b) Impairment testing of goodwill and other intangible assets with indefinite lives**

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to one cash-generating unit for impairment testing. The carrying value of the goodwill and indefinite-lived intangible assets allocated to the cash-generating unit is £517 million and £341 million respectively.

The Group performed impairment testing as at 31 December 2011.

The recoverable amount of the unit has been determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecasts up to 2015. The growth rate used to extrapolate beyond the Group's forecasts is 2%, based on the average long term growth rate of the UK economy. The pre-tax discount rate applied to the cash flow projections is 9%.

The calculation of the value-in-use is most sensitive to the following assumptions:

- Discount rate
- Growth rate
- Persistency

## 9 Goodwill and other intangible assets (continued)

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

Discount rate – the discount rate was based on the weighted average cost of capital for the Group.

Growth rate – the value-in-use calculation for the years beyond the Group's forecasts is derived from the cash flows in the last year of the strategy period and applies a growth rate in line with the average long term growth rate of the UK economy.

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

The value of the RAC Brand is further supported by strong financial performance in the 3 months to 31 December 2011 ahead of both management and acquirer business development case at acquisition. Clearly it is also relevant that the value is based on a very recent market-based fair value.

## 10 Property, plant and equipment

| | Owner-occupied property | Equipment, fixtures and motor vehicles | Computer equipment | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| At 10 June 2011 | - | - | - | - |
| Acquired through business combinations | 20 | 26 | 52 | 98 |
| **At 31 December 2011** | 20 | 26 | 52 | 98 |
| **Depreciation** | | | | |
| At 10 June 2011 | - | - | - | - |
| Acquired through business combinations | - | 23 | 47 | 70 |
| Charge for the period | - | 1 | - | 1 |
| **At 31 December 2011** | - | 24 | 47 | 71 |
| **Carrying amount at 31 December 2011** | **20** | **2** | **5** | **27** |

The net fair value of property and equipment acquired through business combinations was £28 million.

Owner-occupied properties were revalued by an external independent valuer on an existing use basis as at 30 September 2011.

Owner-occupied property shown in the table above is consistent with disclosure on a historical cost basis.

## 11 Loan receivable

| The carrying amounts of loans are as follows: | 2011 |
|---|---|
| | £m |
| Unsecured loans at amortised cost | 12 |

The loan notes were issued during 2008. The loan is 8% unsecured, guaranteed, subordinated loan notes.

The fair value of the loan is estimated to be £12 million. No impairment is considered necessary as at 31 December 2011 and the loan was repaid in full on 3 January 2012.

## 12 Tax assets and liabilities

| | 2011 |
|---|---|
| | £m |
| Current tax | 1 |
| Deferred tax assets | 17 |
| Deferred tax liabilities | (127) |
| | (109) |

| The net deferred tax liability arises on the following items: | £m |
|---|---|
| Accelerated capital allowances | 13 |
| Intangible assets | (127) |
| Provisions and other temporary differences | 4 |
| Net deferred tax liability | (110) |

| The movement in the net deferred tax asset / (liability) was as follows: | £m |
|---|---|
| Net deferred tax asset at 10 June 2011 | - |
| Acquired through business combinations | 12 |
| Deferred tax on intangibles | (134) |
| Deferred tax credited to income statement | 14 |
| Deferred tax debited to other comprehensive income | (2) |
| Net deferred tax liability at 31 December | (110) |

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

The Group has unrecognised temporary differences of £nil to carry forward indefinitely against future taxable income.

## 13 Inventories

| | 2011 |
|---|---|
| | £m |
| Inventories | 2 |

The cost of inventories recognised as an expense and included in "Cost of sales" amounted to £2 million.

## 14 Trade and other receivables

| | 2011 |
|---|---|
| | £m |
| Trade receivables | 46 |
| Reinsurance assets | 1 |
| Prepayments and deferred commissions | 35 |
| Other receivables | 8 |
| Total | 90 |
| Expected to be recoverable within one year | 90 |
| Expected to be recoverable in more than one year | - |
| | 90 |

All receivables and other financial assets other than prepayments are carried at amortised cost. No impairment to amortised cost is considered necessary as at 31 December 2011.

## 15 Provisions

| | Other | Restructuring | Total |
|---|---|---|---|
| | £m | £m | £m |
| **At 10 June 2011** | **-** | - | - |
| Acquired on business combinations | 4 | 4 | 8 |
| Additional provisions | - | 7 | 7 |
| Utilised during the period | - | (1) | (1) |
| **At 31 December 2011** | **4** | 10 | 14 |

A restructuring provision of £7 million was recognised in the period in respect of the re-balancing of operational headcount in line with current and forecast demand. The proposals were announced in October 2011.

Of the £7 million provided, £1 million of costs have been incurred during the period due to the exit of Management colleagues. The majority of the remaining provision will be utilised as Patrols exit commencing from January through to May 2012.

Other provisions include amounts for onerous contracts and dehire costs for patrol vehicles, all of which are expected to be incurred in 2012.

## 16 Trade and other payables

| | 2011 |
|---|---|
| | £m |
| Trade payables and accruals | 76 |
| Deferred income | 141 |
| Other payables | 22 |
| | 239 |
| Expected to be payable within one year | 220 |
| Expected to be payable in more than one year | 19 |
| | 239 |

All payables other than deferred income are financial liabilities and carried at amortised cost. The equivalent fair value of the above amounts is not considered to be materially different from the carrying values above.

## 17 Derivative financial instruments

**(a) Hedged derivatives**
The Group uses a variety of derivative financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy.

The Group has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IAS 39 *Financial Instruments: Recognition and measurement.*

**(b) Cash flow hedges**
The Group has used interest rate swap and basis rate swap agreements in order to hedge the variability of cash flows associated with the Group's variable rate borrowings. The notional value and fair value of these are as follows:

| | 2011 | |
|---|---|---|
| | Contract / notional amount | Fair value liability |
| | £m | £m |
| Interest rate | 350 | (1) |
| Basis rate | 350 | - |
| Total | 700 | (1) |

This hedge is achieved through using a combination of interest rate swap contracts to pay fixed and receive three month LIBOR and a basis rate swap on which RAC pays three month LIBOR and receives one month LIBOR plus a spread. In combination, the hedge portfolio works to fix the LIBOR rate to 1.17% less a spread to 31 December 2013, and 1.17% between 1 January 2014 and 30 November 2014.

## 18 Borrowings

**(a) Analysis of borrowings**

| | Senior Debt £m | 12% Loan notes £m | 12% Preference shares £m | 2011 Total £m |
|---|---|---|---|---|
| Capital | 520 | 437 | 80 | 1,037 |
| Less costs of raising finance | (21) | (12) | (2) | (35) |
| | 499 | 425 | 78 | 1,002 |
| Interest capitalised in the period | - | 13 | - | 13 |
| Accrued dividends on preference shares | - | - | 3 | 3 |
| Cost amortisation in the period | 1 | - | - | 1 |
| | 500 | 438 | 81 | 1,019 |

**(b) Senior debt**

The contractual maturity dates of undiscounted cash flows for senior borrowings are:

| | Principal £m | Interest £m | 2011 Total £m |
|---|---|---|---|
| Within 1 year | - | 31 | 31 |
| 1 to 5 years | - | 122 | 122 |
| 5 to 10 years | 520 | 61 | 581 |
| | 520 | 214 | 734 |

The senior debt is a bullet repayment, repayable on 30 September 2018. Contractual undiscounted interest payments are calculated based on prevailing floating rates (LIBOR +4.75%) and hedged rates as applicable. Under the terms of the Senior Debt Agreement interest and dividends on the loan notes and preference shares respectively cannot be paid until October 2013. The fair value of the debt is £520 million.

At 31 December 2011 there were undrawn capital and revolving credit facilities of £50 million and £50 million respectively at terms consistent with the senior debt, which expire in 2017. These were voluntarily reduced by the Group to £35 million and £30 million on 18 May 2012 respectively.

In 2012 early repayments of £70 million have been made against the senior debt facility.

The covenants relevant to the RAC Group are cash flow cover, interest cover, debt cover and thresholds on capital expenditure.

**(c) Shareholder loan notes**

The 12% loan notes are repayable on 31 December 2021 or are redeemable on a sale or listing. Interest accrues at 12%, is compounded annually and repayable on redemption. The loan notes are redeemable at the principal amount of the loan note plus any accrued and unpaid interest. They can also be redeemed by the Group with the written consent of the majority of the loan note holders. The fair value of the debt is £450 million.

**(d) Preference shares**

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Company's residual assets The preference shares earn a 12% fixed dividend and are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1) plus any accrued and unpaid dividends. The fair value of the debt is £83 million.

## 19 Ordinary share capital

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

| | 2011 £000's |
|---|---|
| **Authorised** | |
| 80,120,000 ordinary shares of £0.01 each | 801 |
| **Allotted, called up and fully paid:** | |
| 1,200,000 ordinary 'A' shares of £0.01 each | 12 |
| 6,800,000 ordinary 'B' shares of £0.01 each | 68 |
| | 80 |

During the period the Group issued 8,000,000 £0.01 ordinary shares for a consideration of £8 million, settled in cash, resulting in a share premium of £8 million.

The 'A' and 'B' ordinary shares have the same rights except that the 'A' ordinary shares held by employees are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

## 20 Commitments

**Operating lease commitments**

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

| | 2011 £m |
|---|---|
| Within 1 year | 10 |
| Later than 1 year and not later than 5 years | 17 |
| Later than 5 years | - |
| Operating lease commitments arise in respect of the patrol fleet | 27 |

## 21 Contingent liabilities and other risk factors

**Levy schemes**

The Group pays contributions into levy schemes in the UK in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

In the course of conducting roadside assistance and related business, various Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, no provisions need to be recognised for such claims as no material loss will arise.

## 22 Statement of cash flows

| | 2011 |
|---|---|
| | £m |
| **(a) The reconciliation of loss before tax to the net cash flow from operating activities is:** | |
| Loss before tax | (49) |
| Adjustments for: | |
| Amortisation and depreciation | 28 |
| Impairment | 1 |
| Interest | 25 |
| Transaction fees and stamp duty | 10 |
| Provisions | 7 |
| Separation and completion activities | 8 |
| Changes in working capital: | |
| Increase in receivables and other financial assets | (3) |
| Increase in payables and other financial liabilities | 5 |
| | 32 |

| | 2011 |
|---|---|
| | £m |
| **(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:** | |
| Cash at bank and in hand | 59 |
| Cash equivalents | 6 |
| | 65 |

## 23 Employee benefit obligations

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

**(a) Introduction**

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

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

The RAC GPP Plan is a defined contribution pension plan open to RAC employees with effect from 1 October 2011.

**Auto Windscreens Pension Scheme ("AW Scheme")**

Under the AW Scheme, members receive benefits on a defined benefit basis (generally related to final salary). New entrants join a defined contribution scheme, as the defined benefit schemes are closed. The assets of the scheme are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The number of pensioners entitled to this benefit at 31 December 2011 was 1,059.

**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 2011 was 8.

## 23 Employee benefit obligations (continued)

**(a) Introduction (continued)**

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

Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2011 was 146.

**Disability Benefit Scheme**

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

**(b) Charges to the income statement**

The total pension costs of all Group's employee benefit schemes and defined contribution schemes were:

| | 2011 |
|---|---|
| | £m |
| Employee benefit schemes | - |
| Defined contribution schemes | 1 |
| | 1 |

**(c) IAS 19 disclosures**

Disclosures under IAS 19 are given below on a consolidated basis for the AW Scheme, the UUP Scheme, the PRMB Scheme and the Disability Benefit Scheme ("the Schemes").

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

**The projected unit credit method**

The inherent uncertainties affecting the measurement of the liabilities of the Schemes require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by 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 allowance 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 2011. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2011.

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

| | 2011 |
|---|---|
| | % |
| Inflation rate | 3.0 |
| General salary increases | 4.8 |
| Pension increases | 3.0 |
| Deferred pension increases | 2.0 |
| Medical cost trend | 5.4 |
| Discount rate | 4.9 |

The discount rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the discount rate would decrease liabilities and service costs by £3 million and £nil respectively.

## 23 Employee benefit obligations (continued)

**(c) IAS 19 disclosures (continued)**
**(i) Assumptions on the liabilities of the Schemes (continued)**

**Mortality assumptions**
Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the schemes, particularly given the maturity of these obligations in these schemes. The mortality tables and average life expectancy used at 31 December 2011 for scheme members are as follows:

| Mortality table | Normal retirement age (NRA) | Life expectancy at NRA of a male | | Life expectancy 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 | 89.3 | 92.2 | 91.8 | 93.8 |
| | | 24.3* | 27.2* | 26.8* | 28.8* |

*Pension duration.*

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 improvement, based on the actuarial profession's medium cohort projection table. The effect on the schemes of assuming all members were one year younger would increase the scheme's liabilities by £2 million.

**(ii) Assumptions on scheme assets**

| The expected rate of return on the Schemes' assets are: | 2012 |
|---|---|
| | % |
| Index-linked gilts | 2.8 |
| Cash and money market | 2.6 |
| Overall (weighted average) | 2.8 |

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

**(iii) Employee benefit expense**
The total employee benefit expense for the Schemes comprises:

**Recognised in the income statement**

| | 2011 |
|---|---|
| | £m |
| Current service cost | - |
| **Total employee benefit expense charged within group operating profit** | - |
| Expected return on scheme assets | - |
| Interest charge on scheme liabilities | - |
| **Total employee benefit charge to finance expenses** | - |
| **Total charge to the income statement** | - |

## 23 Employee benefit obligations (continued)

**(c) IAS 19 disclosures (continued)**
**(iii) Employee benefit expense (continued)**

**Recognised in other comprehensive income**

| | 2011 |
|---|---|
| | £m |
| Expected return on scheme assets | - |
| Actual return on scheme assets | 5 |
| Actuarial gains on scheme assets | 5 |
| Actuarial gains on scheme liabilities | 3 |
| **Total gains recognised in other comprehensive income** | 8 |

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since acquisition was £8 million gain at 31 December 2011.

**(iv) Experience gains and losses**

Experience gain and losses as follows will be built up to give a five year history:

| | 2011 |
|---|---|
| | £m |
| Fair value of the scheme assets at the end of the year | 27 |
| Present value of the scheme liabilities at the end of the year | (25) |
| **Net surplus in the Schemes** | **2** |
| Difference between the expected and actual return scheme assets | |
| Amount of gains | 5 |
| Percentage of the Schemes' assets at the end of the year | 19% |
| Experience gains / (losses) on the schemes liabilities (excluding changes in assumptions) | |
| Amount of gains / (losses) | - |
| Percentage of the present value of the schemes liabilities | 0% |

Estimated employer contributions for the financial year ending 31 December 2012 are £3 million.

## 23 Employee benefit obligations (continued)

**(c) IAS 19 disclosures (continued)**

**(v) Schemes' surplus**

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

| | **2011** |
|---|---|
| | **£m** |
| Index-linked gilts | 27 |
| Cash and money market funds | - |
| Total fair value of assets | 27 |
| Present value of scheme liabilities | (25) |
| | 2 |

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

| | **2011** |
|---|---|
| | **£m** |
| Surplus included in non-current assets | 11 |
| Deficits included in non-current liabilities | (9) |
| Net surplus in the schemes | **2** |

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

**(vi) Movement in the Schemes' deficit and surpluses comprise:**

| | **Schemes' assets 2011** | **Schemes' liabilities 2011** | **Net pension (deficit) / surplus 2011** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Acquired at 30 September 2011 | 21 | (28) | (7) |
| Employer contributions paid | 1 | - | 1 |
| Benefits paid | - | - | - |
| Current service cost | - | - | - |
| Charge to finance expenses | - | - | - |
| Actuarial gains / (losses) | 5 | 3 | 8 |
| Balance at 31 December | 27 | (25) | 2 |



## 24 Risk management

RAC 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.

Risks are usually grouped by risk type: market, credit, liquidity and operational 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 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 conditions envisaged.

RAC 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 RAC;
- 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.

Primary responsibility for risk identification and management lies with business management. Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions.

**(a) Financial risk management**

**(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 due to fluctuations in interest rates and foreign currency exchange rates. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

**Interest rate risk**

The Group is exposed to interest rate risk arising primarily on borrowings of the Group. The risk is managed by the Group by the use of interest rate swap and basis rate swap agreements to hedge the variability of cash flows associated with the borrowings. The Group's exposure to interest rates on these borrowings are detailed in the liquidity risk management section and sensitivity test analysis section of this note.

**Foreign currency exchange rate risk**

The Group operates internationally and as a result is exposed to foreign currency transactional and translational exchange risk arising from fluctuations in exchange rates, predominantly in Euros. The exposure to currency risk is not considered material due to the low level of foreign currency operations and for this reason no sensitivity analysis is given.

**(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.

RAC's 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 concerned.

## 24 Risk management (continued)

**(a) Financial risk management (continued)**
**(ii) Credit risk (continued)**

**Credit rating**

| 31 December 2011 | AAA | AA | A | BBB | Speculative grade | Non-rated | Carrying value in the statement of financial position |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Loans | - | - | - | - | 12 | - | 12 |
| Cash and cash equivalents | 6 | 4 | 55 | - | - | - | 65 |
| Trade receivables | - | - | - | - | - | 46 | 46 |

**Loans**
The fair value of the loan is estimated to be £12 million. No impairment is considered necessary as at 31 December 2011 as the loan was repaid in full on 3 January 2012.

**Cash and cash equivalents**
The Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. The Group's largest cash and cash equivalent counterparty is Credit Agricole Group (including subsidiaries). At 31 December 2011 the balance was £24 million.

**Trade receivables**
The Group has not been generally exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances. At the 31 December 2011 trade receivables was £46 million.

**Impairment of financial assets**
The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

| 31 December 2011 | Neither past due nor impaired | Financial assets that are past due but not impaired | | | | Carrying value of impaired financial assets | Carrying value in the statement of financial position |
|---|---|---|---|---|---|---|---|
| | | 0 to 3 months | 3 to 6 months | 6 months to 1 year | Greater than 1 year | | |
| | £m | £m | £m | £m | £m | £m | £m |
| Loans | 12 | - | - | - | - | - | 12 |
| Trade receivables | 37 | 4 | 1 | - | - | 4 | 46 |
| Other receivables | 8 | - | - | - | - | - | 8 |

## 24 Risk management (continued)

**(a) Financial risk management (continued)**
**(iii) Liquidity risk**

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

RAC has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due, through detailed short-term cash forecasting and management. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 18).

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise:

| 31 December 2011 | Within 1 year | 1 to 5 years | 5 to 10 years | Over 10 years | No fixed terms | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Loans | 12 | - | - | - | - | 12 |
| Trade and other receivables | 54 | - | - | - | - | 54 |
| Cash and cash equivalents | 65 | - | - | - | - | 65 |
| | 131 | - | - | - | - | 131 |

The following table shows the Group's contractual financial liabilities analysed by duration:

| 31 December 2011 | Within 1 year | 1 to 5 years | 5 to 10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Trade and other payables | 98 | - | - | - | 98 |
| Senior debt | - | - | 520 | - | 520 |
| Loan notes | - | - | 450 | - | 450 |
| | 98 | - | 970 | - | 1,068 |

Trade and other payables excludes £141 million of deferred income.

The preference share liability of £83 million (£80 million principal and £3 million accrued dividends) is redeemable on a sale or listing and is excluded from the table above.

The loan notes and related accrued interest have been reflected as repayable on 31 December 2021 as per the terms of the loan notes. The terms also require repayments of the notes and related accrued interest on a sale or listing.

**(b) Strategic risks**
RAC is exposed to a number of strategic risks. RAC's strategy supports its vision, purpose and objectives and is responsive to both the external and internal environment, for example, changes in the competitive landscape arising from economic conditions, customer demands and competitor activity, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change, pandemic events).

Strategic risk is explicitly considered throughout the strategic review and planning process. Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered.

RAC 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.

## 24 Risk management (continued)

**(c) Operational risk management**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include taxation, reputation and regulatory risks, such as compliance. Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided.

**(d) Risk and capital management**

**Sensitivity test analysis**

The Group uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently.

Some results of sensitivity testing for the Group are set out below.

| Sensitivity factor | Description of sensitivity factor applied |
|---|---|
| Interest rate | The impact of a 1% decrease / increase in market interest rates (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% or 6%). |

The following pre-tax impacts on profit for the period and shareholder's equity at 31 December 2011 from the above sensitivity factors are as follows:

| | Impact on shareholder's equity (£m) | | Impact on loss before tax (£m) | |
|---|---|---|---|---|
| | Interest rates +1% | Interest rates -1% | Interest rates +1% | Interest rates -1% |
| Borrowings | - | - | - | - |

## 25 Capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, loan notes and borrowings consistent with the overall risk profile and the regulatory and market requirements of the business. This note shows where this capital is employed.

**(a) General**

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise external bank debt as follows:

| | 2011 |
|---|---|
| | £m |
| Senior debt (see note 18) | (520) |
| Accrued interest | - |
| Cash and cash equivalents | 65 |
| Net external bank debt | (455) |
| Shareholder loan notes (see note 18) | (437) |
| Preference shares | (80) |
| Accrued capitalised interest | (16) |
| Net internal debt | (533) |
| Total net external and internal debt | (988) |

## 25 Capital structure (continued)

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

**(b) Capital management**

In managing its capital, the Group seeks to:

(i) match the expected cash inflows from its assets with the expected cash outflows from the Group'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.

**(c) Different measures of capital**

The Group measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which companies of the Group operates and those which the directors consider appropriate for the management of the business. The measures which the Group uses are:

**(i) Accounting basis**

The Group is required to report its results on an IFRS basis.

**(ii) Regulatory bases**

Relevant capital and solvency regulations are used to measure and report the financial strength of regulated companies within the Group. These measures are based on the FSA's current regulatory requirements. The regulatory capital tests verify 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.

**(d) Capital structure**

| | 2011 |
|---|---|
| | £m |
| Motoring services | 1,061 |
| **Total capital employed** | 1,061 |
| **Finance by** | |
| Equity shareholders funds | 8 |
| Preference shares | 83 |
| Loan notes | 450 |
| Senior debt | 520 |
| **Total capital employed** | 1,061 |

## 26 Related party transactions

**(a) Key management compensation**

The total compensation (excluding payments for compensation for loss of office) to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors, in respect to the RAC Group is as follows:

| | **2011** |
|---|---|
| | **£000's** |
| Fees and benefits | 1,405 |
| Contributions paid into a pension scheme | 121 |
| | 1,526 |

Fees and benefits include key management' bonuses. Bonuses include: amounts earned in respect of the 2011 performance under the Annual Bonus Plan; but exclude amounts payable in respect of services for the Aviva Group, and amounts payable under Aviva's respective share award schemes.
During the year payments totalling £464 thousand was made to employees for loss of office. This has been shown in exceptional items.

**(b) Key management interests**

A total of six key management personnel hold loan notes and equity stakes in the business as at 31 December 2011.

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

**(c) Ownership structure**

The ownership structure is as follows:

| Number of Shares (million) | Management | Carlyle | Total |
|---|---|---|---|
| 'A' ordinary | 0.7 | 0.5 | 1.2 |
| 'B' ordinary | 0.0 | 6.8 | 6.8 |
| Sub total | 0.7 | 7.3 | 8.0 |
| Preference shares | 0.4 | 79.6 | 80.0 |
| Shareholder loan notes | 2.5 | 434.5 | 437.0 |
| Total | 3.6 | 521.4 | 525.0 |

'A' ordinary shares include shares currently held in reserve for management by Carlyle. The 'A' ordinary shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

**(d) Immediate and ultimate controlling entity**

The immediate and controlling shareholder of the Group is CEP III Investment 16 S.à r.l., who are the majority holder of the preference shares (note 18d).



# Contents



The accounting policies on pages 34 to 38 also form an integral part of these financial statements.

# Company financial statements 2011

## Company statement of financial position

**As at 31 December 2011**

| | Note | 2011 |
|---|---|---|
| | | **£m** |
| **ASSETS** | | |
| **Non-current assets** | | |
| Investments in subsidiaries | 2 | 8 |
| Trade and other receivables | 3 | 83 |
| | | 91 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Trade and other payables | 4 | (2) |
| Borrowings | 5 | (81) |
| | | (83) |
| **Net assets** | | **8** |
| **EQUITY** | | |
| Ordinary share capital | 6 | - |
| Share premium | | 8 |
| **Total equity** | | **8** |

The accounting policies on pages 34 to 38 and the notes on pages 64 to 67 are an integral part of these financial statements.
Approved by the Board on 22 June 2012.

D Cougill
Chief Financial Officer

## Company statement of changes in equity

**For the period ended 31 December 2011**

| | Note | Ordinary share capital | Share premium | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Balance at 10 June 2011** | | - | - | - | - |
| Total comprehensive income for the period | | - | - | - | - |
| Issue of ordinary shares | 6 | - | 8 | - | 8 |
| Total movements in the period | | - | 8 | - | 8 |
| **Balance at 31 December 2011** | | - | 8 | - | 8 |

The accounting policies on pages 34 to 38 and the notes on pages 64 to 67 are an integral part of these financial statements.



Registered number: 07665596

## 1 Directors

Details of the aggregate remuneration (excluding payments for compensation for loss of office) of the directors of the Company for qualifying services in respect to the Company comprise:

| | 2011 |
|---|---|
| | **£000's** |
| Fees and benefits | 270 |
| Contributions paid into a pension scheme | 27 |
| | 297 |
| **Emoluments of the highest paid director:** | |
| Fees and benefits | 70 |
| Contributions paid into a pension scheme | 12 |
| | 82 |

(a) Fees and benefits include directors' bonuses. Bonuses include: amounts earned in respect of the 2011 performance under the Annual Bonus Plan; but exclude amounts payable in respect of services for the Aviva Group, which include amounts payable under its respective share award schemes.

(b) Retirement benefits are accruing to 5 directors under a money purchase scheme.

(c) During the period no directors exercised share options, see (a) above.

(d) During the period no directors were awarded shares under long-term incentive schemes, see (a) above.

(e) A payment of £317 thousand was made to a director for loss of office in the period.

## 2 Investments in subsidiaries

**(a) Introduction**

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

| Company | Type of business | Class of share | Proportion held |
|---|---|---|---|
| Directly held: | | | |
| RAC Finance Limited | Holding company | Ordinary | 100% |
| Indirectly held: | | | |
| RAC Finance Group Limited | Holding company | Ordinary | 100% |
| RAC Finance (Holdings) Limited | Holding company | Ordinary | 100% |
| RAC Limited | Holding company | Ordinary | 100% |
| RAC Insurance Limited | General Insurance business | Ordinary | 100% |
| RAC Financial Services Limited | Supplying ancillary financial services | Ordinary | 100% |
| RAC Motoring Services | Motor breakdown cover | Ordinary | 100% |
| RACMS (Ireland) Limited (Incorporated in Ireland) | Insurance intermediary and roadside assistance | Ordinary | 100% |

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

| **(b) Movements in the Company's investments in subsidiaries:** | 2011 |
|---|---|
| | **£m** |
| At 10 June 2011 | - |
| Additions | 8 |
| Cost at 31 December 2011 | 8 |

## 2 Investments in subsidiaries (continued)

**(c) Additions**

On 10 June 2011 the company acquired the entire share capital of RAC Finance Limited. The purchase cost is made up as follows:

| | 2011 |
|---|---|
| Purchase cost: | **£m** |
| Cash paid | 8 |
| At 31 December | 8 |

## 3 Trade and other receivables

| | 2011 |
|---|---|
| | **£m** |
| Investments in preference shares of a subsidiary classified as a loan receivable (see note 7) | 83 |
| Total | 83 |
| Expected to be recoverable within one year | - |
| Expected to be recoverable in more than one year | 83 |
| | 83 |

All receivables and other financial assets are carried at amortised cost. No impairment to amortised cost is considered necessary as at 31 December 2011.

## 4 Trade and other payables

| | 2011 |
|---|---|
| | **£m** |
| Loans due from subsidiary (see note 7) | 2 |
| | 2 |
| Expected to be payable within one | - |
| Expected to be payable in more than one year | 2 |
| | 2 |

All payables and other financial liabilities are carried at amortised cost, which is the relevant fair value basis.

## 5 Borrowings

**(a) Analysis of borrowings**
Total borrowing is comprised of:

| | 2011 |
|---|---|
| | **£m** |
| 12% Preference shares | 80 |
| Less costs of raising finance | (2) |
| | 78 |
| Accrued dividends on preference shares | 3 |
| Cost amortisation in the period | - |
| | 81 |

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Company's residual assets The preference shares earn a 12% fixed dividend and are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1) plus any accrued and unpaid dividends.

Under the terms of a Senior Debt Agreement entered into with external parties by a subsidiary company, interest and dividends on the preference shares cannot be paid until October 2013.

The fair value of the debt is £83 million.

## 6 Ordinary share capital

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

| | 2011 |
|---|---|
| | **£000's** |
| **Authorised** | |
| 80,120,000 ordinary shares of £0.01 each | 801 |
| **Allotted, called up and fully paid:** | |
| 1,200,000 ordinary 'A' shares of £0.01 each | 12 |
| 6,800,000 ordinary 'B' shares of £0.01 each | 68 |
| | 80 |

During the period the company issued 8,000,000 £0.01 ordinary shares for a consideration of £8 million, settled in cash, resulting in a share premium of £8 million.

The 'A' and 'B' ordinary shares have the same rights except that the 'A' ordinary shares held by employees are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

## 7 Related party transactions

**(a) Key management compensation**
The details of total compensation to those employees classified as key management can be found in the consolidated financial statements in this report.

**(b) Key management interests**

A total of six key management personnel hold loan notes and equity stakes in the business as at 31 December 2011.

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

**(c) Amounts due from / (to) related parties**

| The Company had the following amounts due from related parties | | 2011 |
|---|---|---|
| | | **£m** |
| Other Group companies | - investment in preference shares | 80 |
| | - accrued dividends on preference shares | 3 |
| | - loan balances | (2) |
| | | 81 |

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Subsidiary Company's residual assets.

The preference shares earn a 12% fixed dividend and are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1) plus any accrued and unpaid dividends.

Under the terms of a Senior Debt Agreement entered into with external parties by a Subsidiary Company, dividends on the preference shares are accrued but cannot be settled in cash until October 2013.

**(d) Ownership structure**

The 'A' ordinary shares include shares held by management and shares currently held in reserve for management by Carlyle. The 'B' ordinary shares are held by CEP III Investments 16 S.à r.l.

**(e) Immediate and ultimate controlling entity**

The immediate and controlling shareholder is CEP III Investment 16 S.à r.l. The lowest level at which consolidated IFRS financial statements are prepared is RAC Finance Group (Holdings) Limited. CEP III Investments 16 S.à r.l. are the holders of the preference shares (note 5).



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