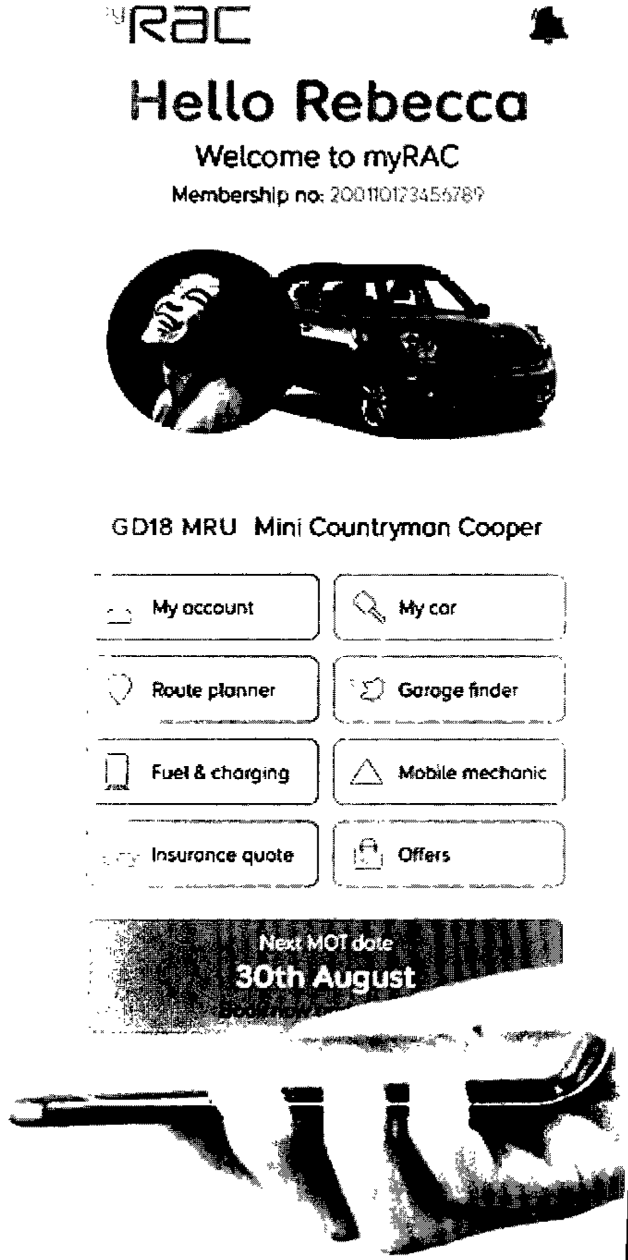

RAC

Annual Report & Financial Statements | 2022

Indy, mobile mechanic
since 2022,
West Midlands

Company information

Directors:

J Baker, T Gallico, J Galore, D Hobday, P Hooper, A Levy, T Mohindra, S I Patterson, R Templeman & G M Wood

Registered office:

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

Auditor:

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

Company number:

Registered in England and Wales: No. 09229824

Other information:

The RAC Bidco Limited Group of companies ("RAC Bidco Limited Group" or "RAC") comprises RAC Bidco Limited ("the Company") and its subsidiaries, as set out on page 154.

For the year ended 31 December 2022, the Company is a member of the RAC Group (Holdings) Limited Group of companies ("Group") whose subsidiaries included RAC Midco Limited, RAC Midco II Limited and the RAC Bidco Limited Group. These Consolidated Financial Statements are presented for the year ended 31 December 2022. Comparatives are presented for the year ended 31 December 2021.

The RAC Bidco Limited Group includes companies that are regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). RAC Insurance Limited is authorised and regulated by both bodies. RAC Motoring Services and RAC Financial Services Limited are authorised and regulated by the FCA in respect of insurance and mediation activities.

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Last year,
we **continued**
to **invest**
in **innovation**;
launching
new, *unique*
products.

And that's just for starters...

Executive summary

Our membership exceeds 13 million for the first time in our history

We attended over 2.4 million breakdowns and over one quarter of these were reported digitally

Silver Lake formally became a major shareholder in March 2022

We launched Mobile Mechanics, a pilot Service, Maintenance and Repair offering, bringing the garage to the customer's home or workplace

Adjusted Group revenue increased by £32 million (+5%) to £664 million

Adjusted EBITDA before exceptional items increased by £6 million (+2%) to £260 million

Adjusted operating cash conversion remains strong at 86% of Adjusted EBITDA

MyRAC, a cornerstone in our mission to offer a convenient, digital member experience, is now used by 1.7 million members

We successfully retained all major accounts, as well as winning several significant contracts:

Darren, patrol since 2003, Wales

Strategic report

For the year ending 31 December 2022

A message from our CEO

Dave Hobday
Chief Executive Officer

“In our 125th anniversary year I'm proud that we've delivered another strong performance, and our 11th year of sustainable and uninterrupted growth, set against a challenging macro backdrop and UK-wide disruption for motorists.

Our continued focus on differentiation, innovation and investment, underpinned by the strength of our brand, service quality, and subscription-based revenue model, yet again demonstrated the relevance of the RAC to our members and partners.

We delivered our lowest ever churn, started our market expansion into servicing, accelerated our digital progress with MyRAC increasingly becoming the heart of all things driving, and for the first time in our history surpassed 13 million members.

We're well set and well invested for 2023 and beyond as we continue our journey towards becoming the UK's number one for driving services.”

Dave Hobday

Dear Stakeholders,

2022 marked our 125th anniversary and I am proud to report another year of sustainable growth, the 11th in succession since our separation from Aviva. The results are especially pleasing having been achieved against the backdrop of a challenging macro-economic environment and in a year of disruption for motorists. The widespread automotive supply chain interruptions, increased vehicle usage through travel strikes, the hottest summer and coldest December for years, and the ageing of the car parc have meant we have rescued more members than ever. Our performance again confirms the strength of our brand, our membership, and our strong subscription-based revenues. Our long-term ongoing focus on differentiation, investment and innovation means we continue to evolve to stay ever relevant to our members and partners.

125	13 million	£260m	2.4m
years	members	Adjusted EBITDA	breakdowns attended

Performance highlights

Adjusted EBITDA grew £6 million (+2%) to £260 million and adjusted revenue £32 million (+5%), to £664 million. These results were primarily driven by three key factors; (i) further membership growth, now exceeding 13 million for the first time in our history; (ii) continued operational efficiency; and (iii) ongoing service enhancements and value for our members and partners.

Our relentless focus on service quality delivered a best-ever Consumer Breakdown churn rate of 14.2% (2021: 14.5%) demonstrating the continuing loyalty of our members to the RAC. This supported a Consumer Breakdown membership growth of 92,000 to 2.7 million.

Business Breakdown membership was up 179,000 to 9.8 million. We successfully retained all major accounts due for renewal including Tesco and Aviva and secured new contracts including SsangYong, Ageas and Stellantis, adding Fiat, Jeep and Alfa Romeo to our existing Groupe PSA relationship.

Operationally, external factors such as rising inflation, supply chain problems, and reduced capacity from contractors presented new challenges. These were all largely mitigated by improving the use of our own patrols and other ongoing efficiencies. Productivity and service levels remained robust and we attended 2.4 million breakdowns (2021: 2.3 million) with 27% (2021: 21%) being reported digitally, giving a superior service experience to members at a lower cost.

In Insurance, the new FCA General Insurance Pricing Practices (GIPP) regulations at the start of 2022 changed consumer behaviour across the sector. We adapted our approach, in line with GIPP, and delivered a strong second half, ending the year with 0.6 million members, and showing sustainable momentum and a return to growth.

CEO review

For the year ending 31 December 2022

Strategy

Our vision is to become the UK's number one for driving services, providing complete peace of mind for all our members' driving needs.

During 2022 we took significant steps towards that vision. We expanded our plans for our core products and services for both Consumer and Business members and launched into the large addressable market of Service, Maintenance and Repair (SMR). We continued to invest in our digital assets, expanding our services for members through our "MyRAC" app which increasingly underpins our whole membership experience.

14.2%
Consumer breakdown churn

Launched Service, Maintenance & Repair division

1.7m
MyRAC users

WINNER
Moneyfacts
Consumer Awards 2022
Car Insurance Provider of the Year

Accelerating our core businesses

Breakdown and Insurance are our core businesses. We continue to evolve our propositions, products and services to meet the growing needs of our members and partners, delivering positive member outcomes, in turn driving sustainable profitable growth.

During the year we simplified and repositioned our Consumer Breakdown offering, further enhancing our web journey. Together these drove a 10% increase in conversion rates and delivered our biggest and best ever Black Friday event. Our existing members benefited from better digital functionality including improvements to our RAC rewards program, now enjoyed by over a quarter of our Consumer Breakdown customers. In Business Breakdown we expanded our Automotive Services offering which has more than doubled in the last 4 years. We won new recall contracts with existing motor manufacturer partners, increased inspection volumes with BCA, and added new branded services supported by our excellent customer service credentials. This included providing technician training and customer support to Porsche GB and broadening our contact centre activity with Renault UK to also support their sales activity.

Our Electric Vehicle (EV) services continue to grow and more motor manufacturers including Renault and Kia are choosing the RAC to support their EVs. We now provide on-the-road servicing for the British Gas EV van fleet, the first contract of its kind, and are expanding this to include Motability and other fleet partners. We extended our Fuel Watch initiative to include Charge Watch, monitoring the average cost of charging an EV to ensure drivers get a fair deal.

In Insurance, we built new pricing models, continued to leverage and expand our unique data sets, and worked ever more closely with our panel partners. Together these actions helped ensure we saw positive member growth, underpinned by strong retention rates, through the second half of the year. We were also delighted to win the prestigious "Car Insurance Provider of the Year" for the second year running at the Moneyfacts Consumer Awards.

Indy,
mobile mechanic since 2022,
West Midlands

Expanding our addressable market into Service, Maintenance and Repair

During 2022 we accelerated our Service, Maintenance and Repair (SMR) market expansion plans.

SMR is a £13 billion market where the RAC already offers choice, convenience, and trust through over 1,100 RAC approved franchised garages, the largest independent network in the UK. We expanded our SMR offering in 2022 with the launch of our brand new Mobile Mechanics proposition, 'bringing the garage to you' on your drive or at your work. Following strong demand and outstanding feedback in our test market during the second half of the year we are now starting national expansion. In addition, we piloted our new MOT and Service Plans, helping our members spread the cost of routine car servicing and MOTs over 2 years.

Accelerating our digital experience

Combining cutting-edge digital and data technology, our MyRAC app provides a seamless member experience, increasingly underpinning our product, service and member interactions *ultimately driving loyalty and lifetime value.*

It is now used by 1.7 million (2021: 1.4 million) Consumer Breakdown members and in 2022 we started the rollout to our Business Partners significantly expanding its potential reach and ensuring we connect even more strongly with our millions of Business Breakdown end members, creating future revenue opportunities and further engagement with the RAC.

During 2022 our ongoing developments made the app faster and more responsive. We launched new features including the ability to increase cover levels, book a service or MOT, provide directions to EV charge points, and making it more efficient for members to log a breakdown. Further innovations are planned throughout 2023 and beyond, ensuring MyRAC increasingly becomes the "go-to" app for all our members' driving needs.

CEO review

For the year ending 31 December 2022

Colleagues – Our OrangeHeroes

Our 4,000 colleagues yet again worked around the clock to make sure that we gave our members the best possible experience. Their heroic efforts ensured we helped keep the nation moving in 2022 and my sincere thanks go to them for their continued passion and commitment.
To recognise their achievements, we relaunched our OrangeHero awards with over 200 colleagues attending the ceremony for the first time since COVID-19.

Summary and outlook

In this, our 125th anniversary year, we faced particularly tough market conditions. Once again, we successfully navigated our way through to deliver another year of growth. We achieved record Group membership and lowest ever Consumer churn, launched our new SMR Division, all the while accelerating our digital journey to place MyRAC increasingly at the heart of our membership experience.

These results, combined with our ongoing investment, clear strategy and track record of operational execution ensure we have strong momentum.

Despite the ongoing macro challenges, we remain confident about continuing to deliver long-term profitable growth and are well set for the future.

Our people

A message from our CFO

Jo Baker
Chief Financial Officer

"We have delivered a robust set of results for 2022 in the face of headwinds such as double-digit inflation, supply chain disruption and extreme weather events. Our revenue and EBITDA growth against that backdrop not only demonstrates, once again, the resilience of our subscription-based model, with more members staying for longer, but also our ability to quickly and successfully adapt to an ever-changing environment."

The Consolidated Financial Statements of RAC Bidco Limited are set out from page 106 onwards. The Group continued its operational and financial progress in 2022:

- Membership now exceeding 13.0 million (2021: 12.9 million) for the first time in RAC's history.
- Adjusted revenue(2) of £664 million increased by £32 million (+5%). Statutory revenue(1) grew by +4%.
- Adjusted EBITDA(2) of £260 million increased by £6 million (+2%).
- Lowest ever churn rate of 14.2% (2021: 14.5%).
- Challenging start to the year for Insurance but ending the year more positively, returning to membership growth.
- Adjusted operating cash conversion(2) remained strong at 86% (2021: 89%).
- Completed the transaction to bring Silver Lake in as a significant investor in March 2022, providing the benefit of their expertise as we accelerate our digital journey and transformation.

Consolidated Income Statement	2022 £m	2021 Restated £m
Statutory revenue[1]	659	632
Adjusted revenue[1 2]	664	632
EBITDA before exceptional items	255	254
Adjusted EBITDA[2]	**260**	**254**
Depreciation	(22)	(19)
Amortisation	(95)	(95)
Impairment	(152)	-
Adjusting items	(5)	-
Exceptional items	(41)	(5)
Operating (loss)/profit	(55)	135
Net finance expenses	(47)	(72)
(Loss)/profit before tax	(102)	63
Tax charge	(4)	(61)
(Loss)/profit after tax	**(106)**	**2**

1. Revenue for the year ending 31 December 2021 has been restated to reflect a change in accounting treatment for insurance commissions. See Accounting Policy B for more information.

2. See note 33 for definitions of alternative performance measures.

CFO review
For the year ending 31 December 2022

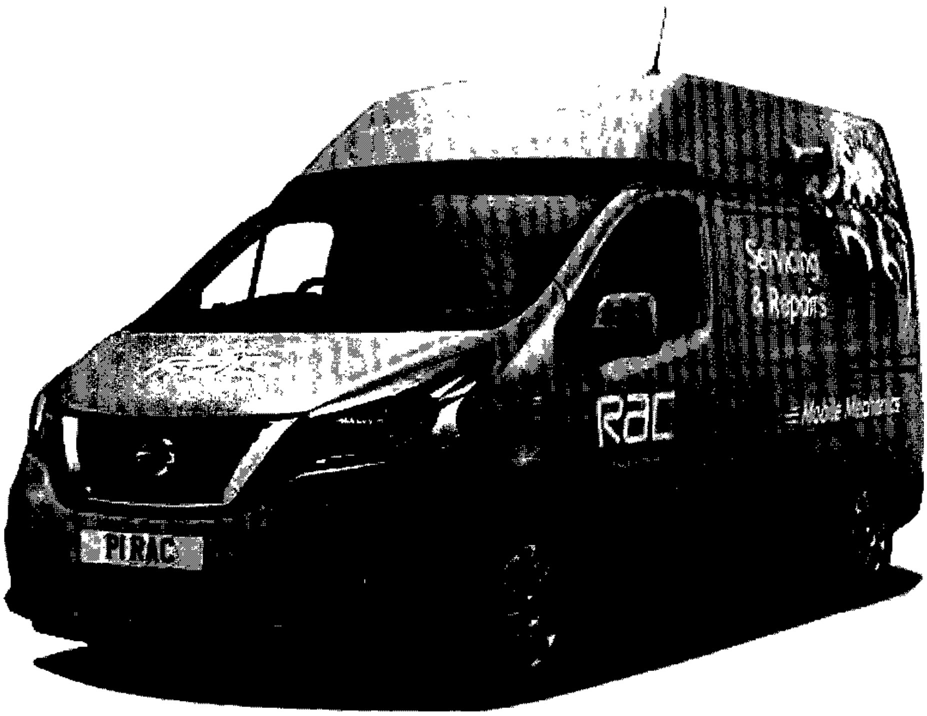
Membership Services breakdown subscription revenues grew by £41 million, driven by a record low churn rate of 14.2%, as well as new member growth. We also saw a strong bounce back on revenues which were impacted by COVID-19 in 2021 such as Pay on Use schemes and European Cover as foreign travel grew.

In insurance, alongside the sector we adapted to the new pricing practices regulations introduced in January 2022. Revenue decreased by £14 million in the year, with a reduction in H1 offset by a return to growth in H2 as the business adjusted, and we benefitted from a stronger renewal rate and ended the year with growing member numbers.

Adjusted EBITDA of £260 million was £6 million higher than 2021. This growth was testament to the continuing relevance of the service we deliver despite the broader macro-economic challenges. Higher demand and inflationary cost increases were partially offset by efficiency improvements.

Depreciation was £22 million (2021: £19 million) with the increase largely due to leasing costs of additional vans and recovery vehicles to support our growing business. Amortisation of intangible assets amounted to £95 million (2021: £95 million), representing amortisation of both acquired intangibles and separately identified intangible assets, predominantly customer lists, arising from the business combination in 2014 in which RAC Bidco Limited acquired the RAC Group of Companies.

Macro-economic conditions and the effect of regulatory changes contributed to a non-cash impairment charge of £152 million against our Insurance segment. As noted above, GIPP impacted both ourselves and the wider insurance market. This was compounded by increasing UK



interest rates having a knock-on effect on discount rates alongside a more prudent view of our future insurance cash flows. The impairment charge is primarily against goodwill arising from historic business combinations and the brand intangible asset.

Exceptional items of £41 million were incurred during 2022 (2021: £5 million). This primarily comprised one-off costs relating to the Silver Lake transaction. Full details are included in note 3.

Net finance expenses of £47 million were incurred in 2022 (2021: £72 million). This reduction was primarily due to share proceeds in the Employee Benefit Trust received from the Silver Lake transaction, partially offset by changes to our debt structure which increased our interest cost, notably the new £345 million Class B2 Notes issued in November 2021.

Loss before tax in 2022 was £102 million (2021: profit of £63 million), predominantly due to the non-cash impairment charge of £152 million referenced above. The tax charge decreased to £4 million (2021: £61 million). The current tax charge remained broadly stable at £21 million, whilst the 2021 deferred tax charge was impacted by a charge of £49 million due to the effect of future planned tax rate changes.

Consolidated statement of financial position	**2022 £m**	**2021 £m**
Goodwill and intangible assets	1,662	1,860
Contract costs	33	32
Property, plant and equipment	32	35
Right of Use assets	62	56
Trade and other receivables	71	401
Trade and other payables (current)	(245)	(226)
Net current (liabilities)/assets	(348)	250
Borrowings (non-current)	(1,358)	(1,660)
Shareholders' equity	(128)	308

As at 31 December 2022, goodwill and intangible assets amounted to £1,662 million (2021: £1,860 million) primarily representing the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The movement of £198 million (2021: £54 million) primarily reflects impairment (as discussed above) and amortisation in the period of customer acquisition intangibles, with additions and amortisation of capitalised software development costs offsetting during the year.

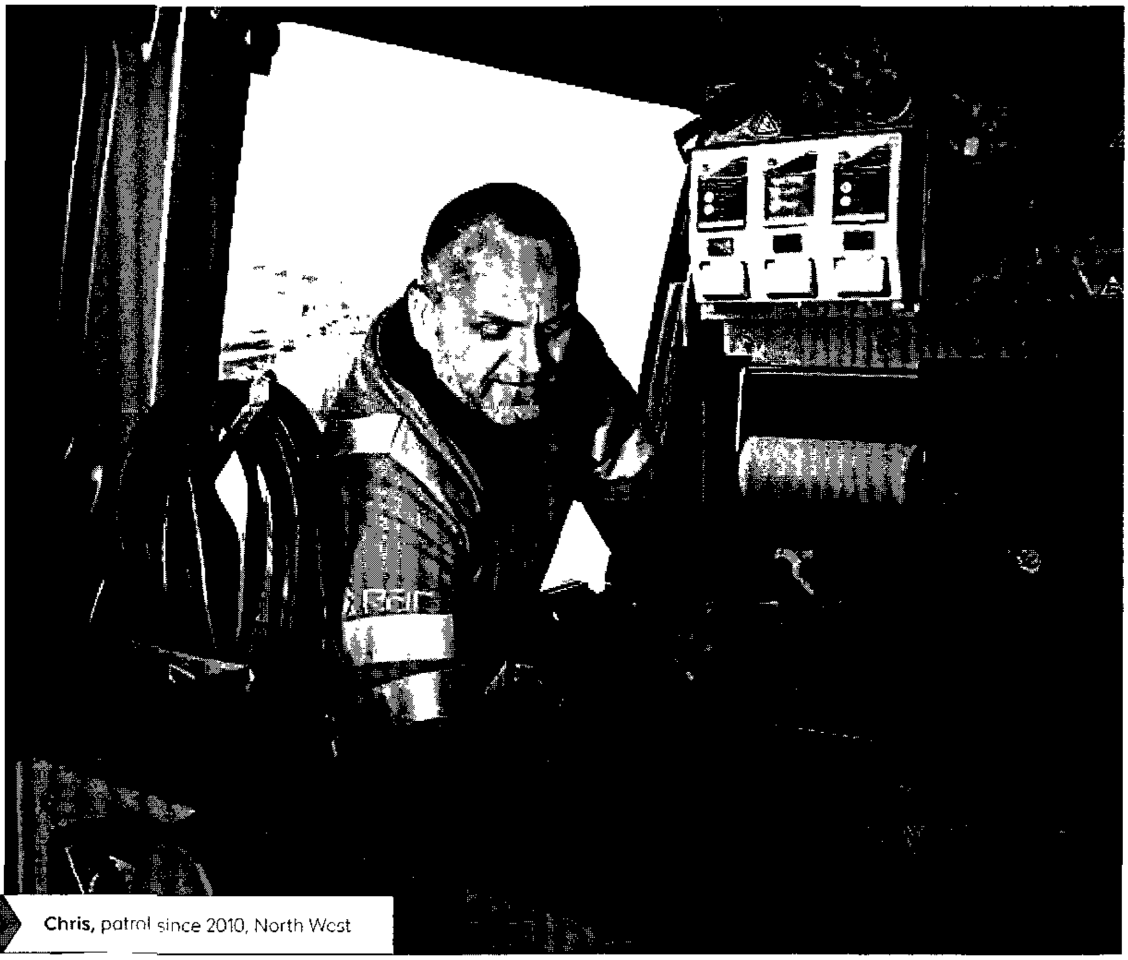
Contract costs of £33 million are similar to last year (2021: £32 million) and relate to commissions and fees paid to third parties, arising because of a direct sale of an insurance policy.

Property, plant and equipment of £32 million as at 31 December 2022 (2021: £35 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group.

Right of Use assets of £62 million (2021: £56 million) relate to IFRS 16 'Leases' and comprise vehicles and properties. The £6 million increase primarily reflects additional lease vehicles in excess of depreciation.

Trade and other receivables of £71 million (2021: £401 million) are primarily comprised of receivables of £43 million (2021: £39 million) and prepayments and accrued income of £28 million (2021: £17 million). In 2021, this figure included £345 million in amounts due from related parties in relation to the class B2 debt contingent on the closing of the Silver Lake transaction. Following completion of the Silver Lake transaction these amounts have now been settled.

Current trade and other payables of £245 million (2021: £226 million) predominantly represent deferred income of £137 million (2021: £129 million) relating to subscriptions revenue received in advance, and £108 million (2021: £97 million) of trade payables, accruals and other payables.



Chris, patrol since 2010, North West

The Group has net current liabilities of £348 million as at 31 December 2022 (2021: net current assets of £250 million). The movement largely represents £345 million of amounts due from related parties in relation to the Class B2 bond issuance, which was received in year and were subsequently paid as a dividend, alongside £300 million in relation to the Class A1 bonds which are due for repayment in less than one year and as such are now recorded as a current liability.

The capital structure of the Group consists of third-party bank borrowings net of capitalised finance costs amounting to £422 million (2021: £420 million) and bonds issued of £1,246 million (2021: £1,250 million). The Group remains strongly cash generative and in September 2022 we successfully secured a £300 million senior term facility which is available to refinance the £300 million of Class A1 Notes due to mature in May 2023.

Facility	**Due**	**Rate/ Commitment Fee**	**31-Dec-22**
Class A1 Notes	May 2023/2046	4.565%	300
Class A2 Notes	May 2026/2046	4.870%	600
Class B2 Notes	November 2027	5.250%	345
2020 Senior Term Facility	January 2025	LIBOR plus CAS plus 2.5%	161
2021 Senior Term Facility (A)	June 2025	SONIA plus 1.8%	170
2021 Senior Term Facility (B)	June 2028	SONIA plus 2.5%	95
Working Capital Facility	January 2025	LIBOR plus CAS plus 2.5%	5
Drawn Debt			**1,676**
Working Capital Facility	January 2025	1.000%	45
Liquidity Facility	April 2023	1.125%	90
Senior Term Facility	May 2025	0.500%	300
Undrawn Debt			**435**
Total Debt			**2,111**

The third-party borrowings are subject to covenants as follows:

- The Senior Term Facilities, Class A1 Notes and Class A2 Notes (together "Class A Debt") are subject to one financial covenant, being the ratio of free cash flow to Class A Debt service charges.
- The Class B2 Notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges.

At 31 December 2022 the Group had comfortable levels of headroom against both financial covenants and has complied with these financial covenants throughout the periods since issue.

Consolidated statement of cash flows

	2022 £m	2021 £m
Cash and cash equivalents	136	113
Adjusted net cash flows from operating activities	223	226
Adjusting items	(49)	-
Net cash flows from operating activities	174	226
Interest paid	(83)	(68)
Net increase in cash and cash equivalents	23	7

The Group generated a net cash inflow from operating activities of £174 million (2021: £226 million). This decrease is primarily due to a payment of £29 million to HMRC on a without prejudice basis in relation to an ongoing dispute, reducing potential future interest obligations, and £20 million cash impact of exceptional items, both shown as adjusting items above. Adjusted operating cash conversion was 86% (2021: 89%). See note 33 of the financial statements for more information.

Interest paid was £83 million (2021: £68 million), higher than prior year, reflecting a full year of interest on the £345 million Class B2 Notes issued in November 2021 and increases in interest rates partially mitigated by our interest rate hedging.

Capital investment totalled £54 million in the year (2021: £49 million). £26 million of spend related to customer acquisition intangibles and contract costs (2021: £24 million), following the growth in members in the year. The remaining £28 million (2021: £25 million) relates to investment and maintenance projects as we continued to invest in our digital offerings and improvements to service. Consistent capital spend ensures that we remain well positioned to accelerate the development of our digital capabilities which will support our vision and future growth plans.

Indy,
mobile mechanic since 2022,
West Midlands

Service, Maintenance and Repair ("SMR")

With the growing consumer trend of 'To You' services, in 2022 we tested the concept in the West Midlands of bringing the garage to our members, expanding the services we offer beyond our traditional breakdowns. We now undertake mobile EV, petrol and diesel car servicing and a range of maintenance and repair tasks on members' drives. This removes the hassle and disruption of taking your car to the garage and is delivered with the RAC peace of mind guarantee.

We have seen good early take up and fantastic customer feedback (4.8 out of 5 rating) further demonstrating the power of the RAC brand and the complementary nature of our mobile workforce and our garage network.

This early success has resulted in the establishment of a new Service, Maintenance and Repair division of the RAC, combining our new offering with our existing mobile teams for Vehicle Recalls and Inspections and our 1,100+ strong RAC garage network. This is an exciting area with significant growth potential in a £13bn SMR market.

Key Performance Indicators ("KPIs")

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

	2022	**2021**
Statutory revenue (£m)[1]	659	632
Adjusted revenue (£m)[1 2]	664	632
Adjusted EBITDA (£m)[2 3]	260	254
Statutory operating (loss)/profit (£m)	(55)	135
Net cash flows generated from operating activities (£m)	174	226
Adjusted operating cash conversion (%)[2]	86	89
Number of breakdowns (million)	2.4	2.3
Roadside repair rate (%)[4]	80.9	81.7
Consumer Breakdown churn rate (%)[5]	14.2	14.5
Total members (million)	13.0	12.9
Membership Services – Consumer (thousand)	2,656	2,563
Membership Services – Business (thousand)	9,763	9,584
Insurance (thousand)	623	704

[1]Revenue for the year ending 31 December 2021 has been restated to reflect a change in accounting treatment for insurance commissions. See Accounting Policy B for more information.

[2]See note 33 for definitions of alternative performance measures.

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

[4]The number of customers fixed at roadside as a proportion of total breakdowns excluding Road Traffic Collisions.

[5]The percentage of members leaving as a proportion of opening filesize plus acquisitions, measured over a rolling 12 month period.

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

Given our resilient trading performance in spite of the challenges created by the wider macro-economic environment, I am confident that the Group continues to be well positioned for further growth in 2023.

Jason, patrol since 2000, South West

Churn

Against a tough macro-economic backdrop, we were delighted that more Members decided to renew their membership with the RAC. In 2022 we broke new records with our customer churn of 14.2%, a 0.3% improvement on 2021.

Whilst we have needed to protect against inflationary pressures, it's great that so many customers have recognised the benefit of the enhanced peace of mind they receive and have voted with their feet to Stay Orange. Even in a cost-of-living crisis across the UK this is a sign of the sustainability of our member base.

Our continual refinement of our breakdown packages means we are always able to offer members the right level of cover at a price they are happy to pay. In addition, over a quarter of our Consumer customer base have now benefited from our RAC Rewards program since it launched, saving more than £11 million RRP.

James, patrol since 2017, East Midlands

Strategic management

For the year ending 31 December 2022

Principal activity:

The RAC Group is a driving services subscription business, providing a differentiated range of driving and mobility related services, principally breakdown assistance, for consumer and business members, and retail motor insurance products underwritten by a panel of leading insurers.

Strategic management

For the year ending 31 December 2022

Business model

Our business model is built around providing complete peace of mind to our members and becoming the UK's number one for driving services. We are set up to deliver long-term sustainable growth from our loyal base of subscription members, underpinned by a quality member experience, enabled by our colleagues and increasingly by our digital platforms and data.

In Membership Services for Consumers, we provide breakdown cover and a broad range of exclusive optional extras to individual members and small business owners on either an annual or monthly subscription basis. We also offer a range of related service, maintenance and repair services both in conjunction with partners and, from 2022, directly via RAC Mobile Mechanics.

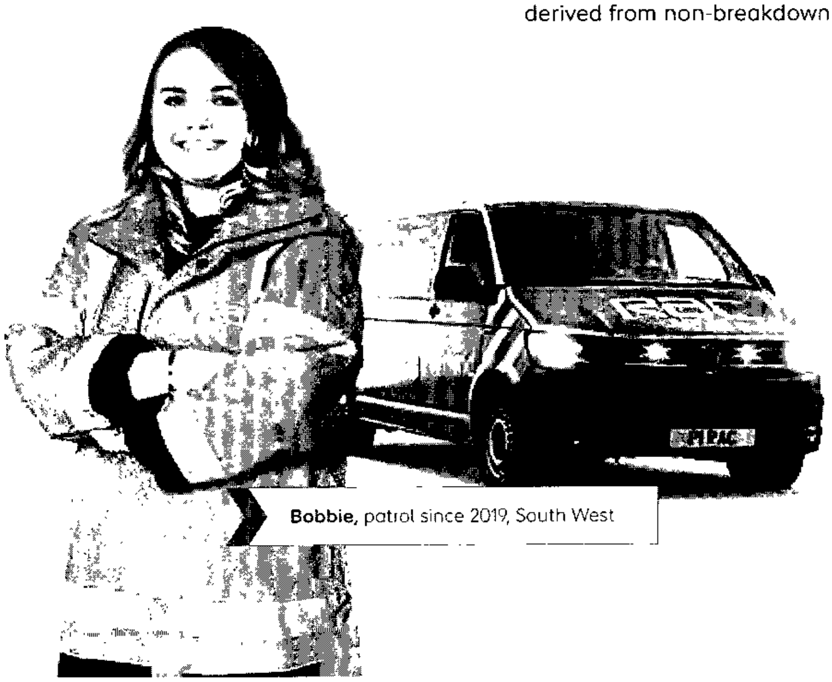
From 2023, the service, maintenance and repair activities which have been part of our Consumer Breakdown business will form a separate division in Membership Services; Service, Maintenance and Repair. This will ensure the leadership and focus required to accelerate our journey to becoming the UK's number one for driving services.

Market analysts have recognised that the RAC's proposition is both differentiated and market-leading. We acquire members through a range of channels including via our website, contact centres, price comparison websites, direct sales agents, and multiple partners and affiliates. We focus on growing the base through new member acquisitions, increasing the number of products held per member and delivering great service and fair pricing to maximise retention.

In Membership Services for Business, we provide assistance for breakdown and accidents, and technical and member support services to individuals through our partners, which are leading motor manufacturers, banks, insurance companies and fleets. These are typically long-term relationships, with contracts renewing every three to five years, but most partners have a far longer history with us. Our service can be provided as either an annual or monthly subscription, or as a pay-on-use service.

We focus on winning new partners and working with existing partners to profitably grow the member base, while driving additional value through cross-sell of related automotive products and services.

Our innovation in automotive services means that almost 20% of our business revenue is now derived from non-breakdown services.



Bobbie, patrol since 2019, South West

We continue to expand the services we offer to corporate partners, such as undertaking "recalls" campaigns on their behalf, inspecting their vehicles and by providing award-winning branded customer contact-centres.

Our breakdown service is delivered 24/7 by an outstanding team of dedicated patrols and front-line colleagues. Through our ongoing investment in training and development, we continue to deliver the strong levels of member service that distinguish us positively from our competitors, supporting better retention rates and sustainable business growth.

Market-leading technical innovations and investments like the RescueMe app and additional recovery vehicles mean our patrol fleet continues to lead the industry and benefits from a unique and comprehensive capability to carry out effective repairs at the roadside, or to recover members' vehicles if required.

Our unique EV offering, incorporating our EV Boost technology and patrol EV experience, is enabling us to win business from the competition, as our EV vision aligns with future thinking OEMs, fleets and leasing companies making the switch to electric.

In Insurance, we offer primarily motor and telematics insurance policies through price comparison websites. As a broker, we work with a panel of leading underwriters and leverage our unique and differentiated data assets and data science capabilities to obtain competitive rates for our members, leading the thinking on how to help insurers price better for risk.

Coupled with the investments we have made in putting Insurer Hosted Pricing into our panel (enabling us to get more competitive quotes in real time), and our own in-house pricing capabilities which were significantly improved during 2022, we are in a robust position to continue to acquire and retain new members.

Strategic management

For the year ending 31 December 2022

Our markets

Our core markets are breakdown and motor insurance. We have taken initial steps into the service, maintenance and repair market in 2022.

In breakdown we have an overall market share of around 38%.

Our breakdown service is already supported by the largest garage network in the UK with over 1,100 RAC approved and accredited garages, providing RAC-backed vehicle repairs nationwide.

The service, maintenance and repair market is large and highly fragmented. RAC members already spend significantly in that market, and we are well placed to offer the convenience, affordability and trust that smaller operators cannot.

The RAC is in a very small minority of businesses that can leverage their existing revenue model, fleet and highly qualified colleagues to also take advantage of the subscription based, "mobile" service, maintenance and repair market opportunity.

In motor insurance we currently hold less than 1% market share but are in a strong position to achieve growth; the motor insurance market has experienced disruption this year following the introduction of the FCA's new rules in January 2022 seeking to equalise prices between new and renewing customers. Now that the market is rebalancing as consumer behaviour adapts to those rules, we have adapted our pricing models and use of data to ensure we remain highly competitive for all our members.

The motor insurance market continues to be dominated by Price Comparison Websites where the RAC is competitive for its chosen segments and consumers show a tendency to choose our trusted brand over cheaper, less trusted providers.

In recent years, the services we offer have proved increasingly relevant.

Current pressure on consumers' discretionary spend is unlikely to abate in the near term, so demand is increasing for no surprises, subscription-based models.

Member reliance on cars has increased, with more people saying that their car is important to them, and the UK car parc is both growing and aging, ensuring demand for our core products and our new service, maintenance and repair products also continues to grow.

£18bn
Core markets

\+

£40bn
UK driving services market

\+

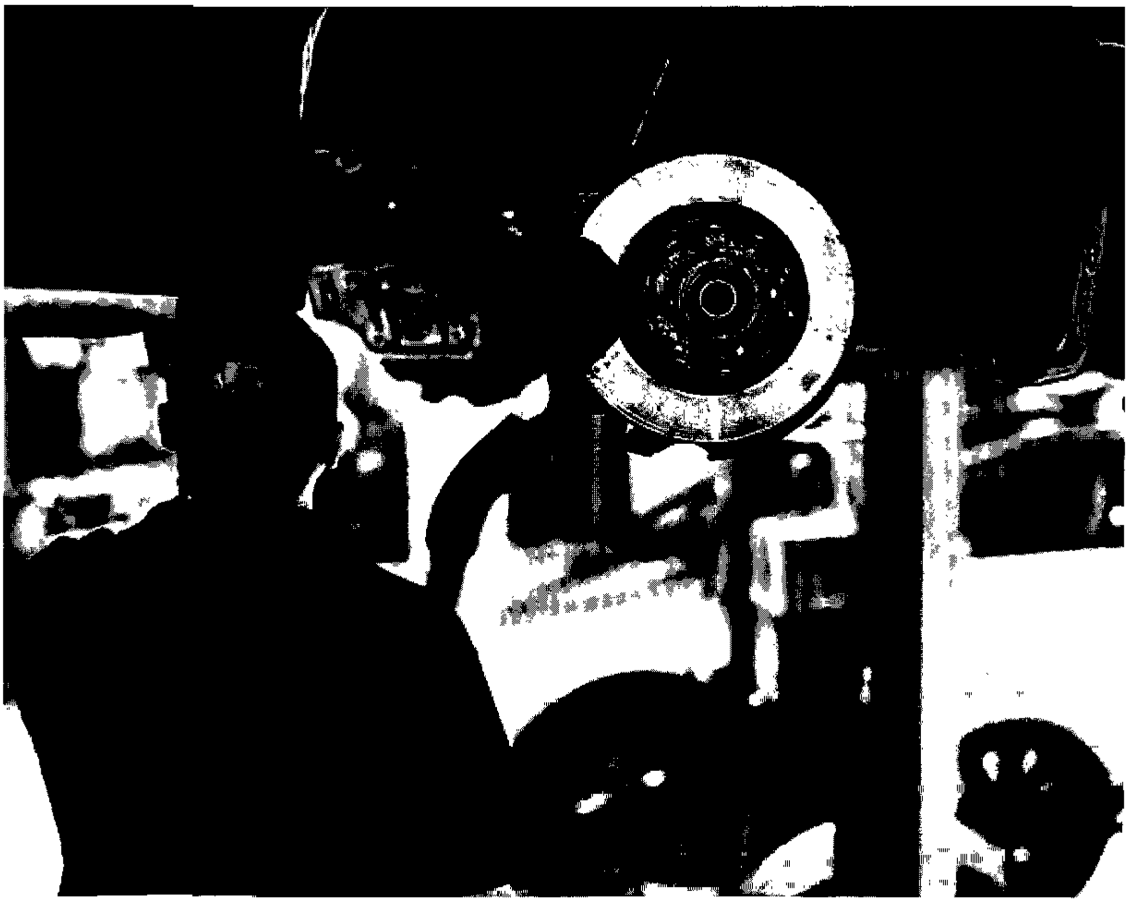
£50bn
Future EV, connected & data opportunities

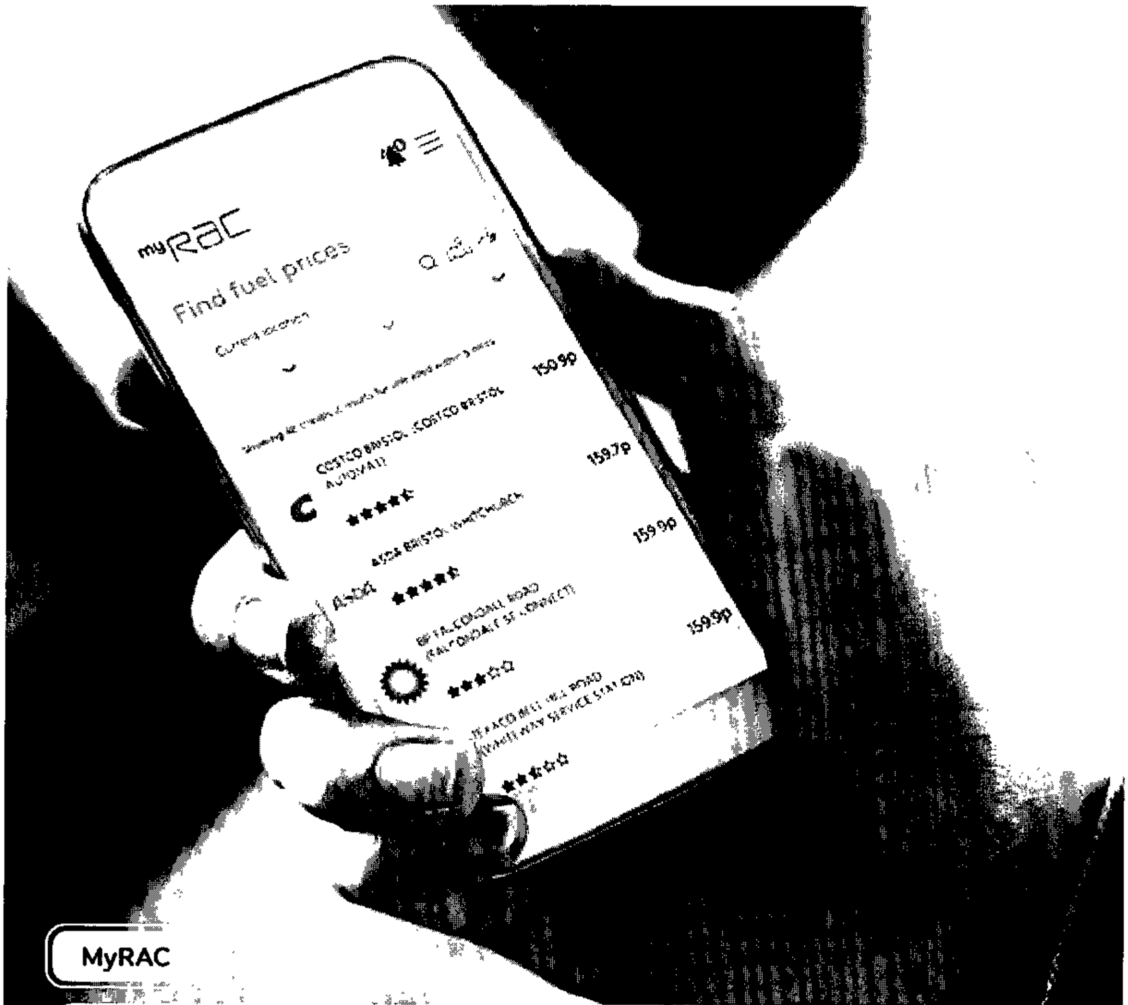
In addition, the shift to online retail and delivery services which grew dramatically during the pandemic has continued, with more light commercial vehicles on the road accelerating growth in demand for van and commercial breakdown.

These are structural consumer behaviour changes that will mean our strengths as a member-focused, data-rich, convenient subscription business will only become more important.

Longer-term, structural growth trends in mobility and advances in automotive technology are accelerating change, creating ever more complex vehicles and putting our technical capabilities even more in demand. We are already seeing changes in the profile of roadside demand and are investing in and adapting our operating model to ensure our members continue to have the best possible roadside experience as the UK car parc transitions to more complex vehicles, including EVs, in the coming decades.

These macro trends present immediate and longer-term growth opportunities. Throughout the RAC's 125-year history we have consistently innovated to help our members and with more tools than ever at our disposal – digital, technology and data – we are perfectly positioned to make our 13 million valued members', and every driver's, life easier.





MyRAC

MyRAC registrations are now at 1.7 million, up 0.4 million in the year as increasingly members are engaging with us digitally via the app. Many of these are Consumer members, and we are also now starting to on-board many of our Corporate partner members.

We've been working on exciting new developments to our app. Specifically, the digital renewals journey will allow members to renew their policy online or in the app, avoiding the need to phone into our contact centre. We also expect to launch further improvements to the digital breakdown journey including enhancements to the logging and tracking of the breakdown process.

Member engagement with the app is also expected to increase as we continue to add more vehicle reminder notifications, as well as plans to add local fuel pricing to the app, the first of many features to help our members with their daily driving needs. These areas of focus underpin our vision of being the UK's number one for driving services.

Our strategy

Our vision is to become the UK's number one for driving services, providing complete peace of mind for our members' driving needs.

As we enter the next phase of our growth strategy that will take us to 2027 and beyond, we will build on the sustainable growth of our core Membership Services and Insurance businesses by expanding and enhancing the range of driving products and services for our members.

The key focus of this will be Service, Maintenance and Repair as a natural and complementary extension to our core breakdown and insurance products. This will allow us to meet more of our members' driving needs and deliver longer-term growth by leveraging the scale of our 13 million members and grow our member lifetime value.

This means more relevant products and services per member, delivering operational efficiencies, high-quality member experiences and increasing member retention – which will result in sustainable compound growth. We will enable this through our key digital platform, MyRAC – where we will promote, sell and fulfil our products and services, as well as engaging with our members through helpful and rewarding features and benefits.

To deliver our strategy and achieve our vision, we have created three key strategic pillars:

- Membership enabled by MyRAC
- Service, Maintenance & Repair
- Accelerating our core products and services

Membership enabled by MyRAC

Enabled by MyRAC and powered by data, RAC membership is at the heart of our business. With it we will make owning a car easy and more affordable for all our members. From reporting a breakdown and taking out insurance to booking a service or MOT – our "go-to" app will be the gateway to all driving needs, at the touch of a button.

We will add additional features to MyRAC to take the hassle out of running car. Everything a member needs will be in one place, and in their pocket.

We will:

- Integrate all our propositions in MyRAC giving members a one-stop-shop for all RAC products.
- Engage with more MyRAC members, more often.

Strategic management
For the year ending 31 December 2022

Service, Maintenance & Repair

As the UK's number one for driving services, we will offer a broader range of services, meeting all our members' driving needs.

This new division will provide a broader range of services with convenience and choice at the heart. We will create a new way to approach car care, from the moment of purchase to the point of sale, whether it is an urgent repair or a scheduled service covered by a comprehensive RAC Service Plan.

We will offer a branded RAC experience with:

- New levels of choice and convenience from RAC Mobile Mechanics offering UK nationwide coverage where "We come to you", and RAC Approved Garages covering 95% of UK postcodes
- Levels of trust you can get from the RAC
- Value for money; never more important than now with the current cost of living challenges

Our offering is not just for consumers members. We are already leading the way with innovative Service, Maintenance and Repair solutions for business fleets with unique propositions like mobile EV servicing to keep our partners on the road.

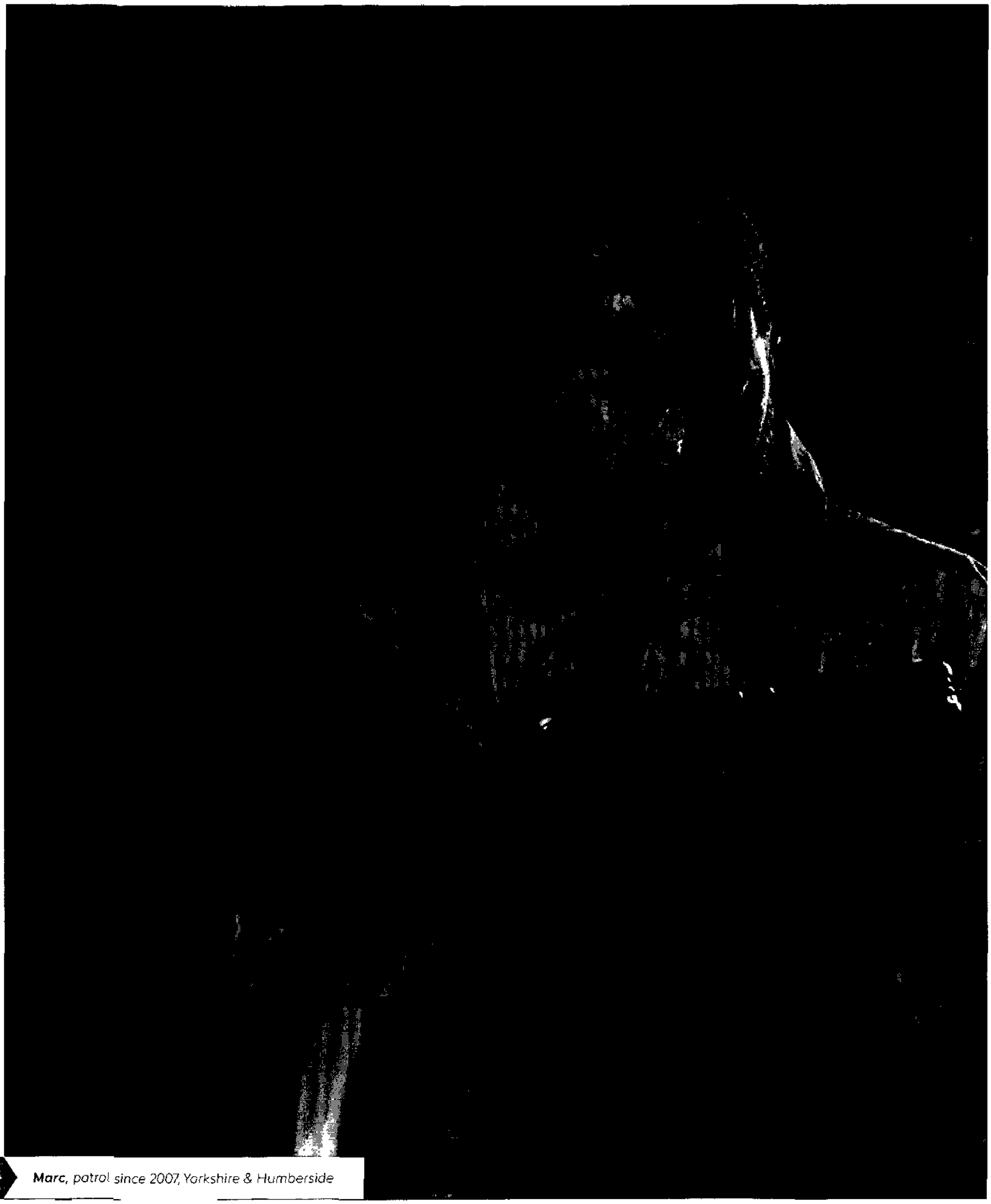
Accelerating our core products and services

Breakdown, recovery and motor insurance are our core propositions. We will continue to evolve and invest in our products and services to meet the growing needs of our members and partners, delivering positive member outcomes and increasingly loyalty which in turn will drive reduce churn and afford sustainable business growth. We will:

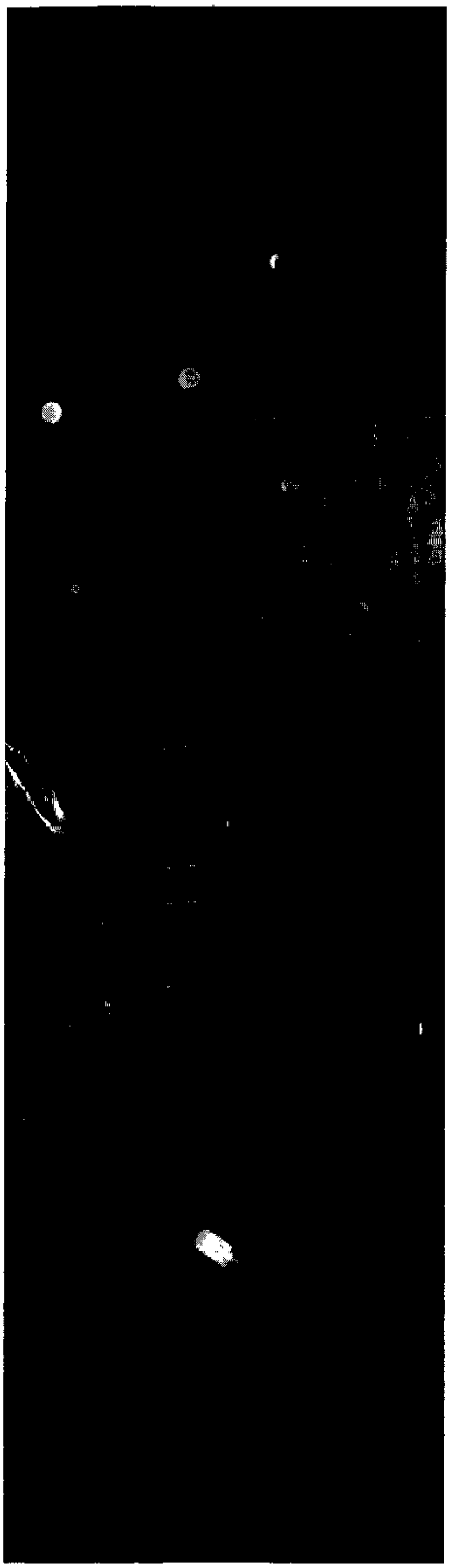
- Expand our proposition to include Service, Maintenance and Repair add-ons, differentiating our offering in the market
- Capture and leverage more breakdown data to offer personalised products to our members
- Digitalise the member roadside experience
- Transform some of our operations to speed up deployment and better respond to emerging breakdown demand trends
- Use our proprietary insurance risk data to offer highly competitive pricing for our members and expanding our product offering increasing the number of RAC insurance members

This, combined with MyRAC's content and convenience will allow us to unlock opportunities to engage with more customers, via new channels.

Chris, patrol since 2010, North West



Marc, *patrol since 2007, Yorkshire & Humberside*



Risk management

For the year ending 31 December 2022

Risk management

For the year ending 31 December 2022

Risk management

The RAC operates an Enterprise Risk Management Framework 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 strategy, policies, risk appetite statements, registers and risk reports, and the governance and oversight structure.

The RAC has an established governance framework with the following key elements:

- A formal Investment Agreement which sets out the Board terms of reference and delegated authorities and certain matters which require the consent of major shareholders.
- Defined terms of reference for the regulated entity boards and the associated executive management and other committees across the Group.
- A clear organisational structure with documented delegated authorities and responsibilities from the regulated entity boards to executive management committees and senior management.
- Allocation of Senior Management Functions, Prescribed Responsibilities, Overall Responsibilities and Key Functions for each of our regulated subsidiaries under the Senior Managers and Certification Regime, documented in the Management Responsibilities Map.
- A risk management framework which sets out risk management and control standards.

RAC operates a 'Three Lines of Defence' model in order to ensure clear accountability for risk management.

First line

The first line is comprised of functions which own and manage risk. Primary responsibility for risk identification and management lies with business areas which form the first line of defence. Business area management are responsible for ensuring risks are appropriately identified, monitored and managed, and for reporting on this activity.

Second line

The second line is comprised of Compliance and Risk functions that provide oversight and advice on compliance and risk management. These functions provide support for, and challenge on, the completeness and accuracy of risk assessment, risk reporting and the adequacy of mitigation plans.

Third line

The Group's internal audit function, reporting to the Board Risk, Audit & Compliance Committee, forms the third line of defence and undertakes a risk-based audit programme to independently review and challenge the policies, processes, and controls in place across the business.

Risk Registers are maintained for each of the RAC's Business Divisions and Group Functions and record material risks within each area, mitigating actions and controls, as well as any additional actions that need to be taken to mitigate each risk. Risk Registers are subject to a formal update cycle and a summary of the key risks within each area is reported to the Executive Risk, Audit & Compliance Committee. The summary of key risks reported to the Executive Risk, Audit & Compliance Committee includes a summary of risk events that have occurred in the period.

A Group Key Risks Register is also in place and is reviewed with the Executive Team on a regular basis and is reported in summary format to the Board Risk, Audit & Compliance Committee.

The RAC's Chief Risk & Legal Officer ("CRO") is responsible for leading the risk debate at senior management level and supporting appropriate decision-making by providing effective challenge to both senior management and the business units, as well as driving enhanced value by continuing to increase risk capability and further embed the RAC's risk culture at all levels across the business.

Gary, patrol since 2017, South West

Risk management

For the year ending 31 December 2022

Principal risks

During the course of 2022, the Board and Executive Risk Committees have continued their oversight of the principal risks.

The principal risks to the Group are shown below, along with details of the actions being taken to address these risks. The key movements to principal risks are to reflect changes in the economic outlook and to reflect the risk of the challenging operating environment affecting quality of service. In addition, we have included new risks in relation to Product Design & Governance to reflect the increasing regulatory requirements and scrutiny in this area; Climate Change, responding to the increasing importance of sustainability and the regulatory requirements and disclosures in this area and Debt Leverage. Whilst we do not perceive the level of debt as a principal risk in its own right, we have included given the challenging macro-economic environment affecting the wider debt capital markets.

Financial risks

Market risk: The RAC is exposed to interest rate risk arising primarily on its borrowings. Not all of our debt is subject to interest rate risk as we benefit from fixed rates on a proportion of our debt. But where we are exposed, this risk is managed by the RAC using interest rate swap agreements to hedge the variability of cash flows associated with changes in interest rates in relation to these borrowings as set out in note 29(i).

The RAC is also exposed to risks from fluctuations in its supply chain. Most notably, fuel prices, which can lead to significantly increased operating costs. This risk is managed through our central procurement team and by ensuring our commercial and legal arrangements give an appropriate amount of certainty about future costs. For fuel, this risk is managed by the RAC using forward purchases of fuel, typically for a period of up to twelve months to hedge the variability of cash flows associated with the purchasing of fuel for use in the RAC's operational fleet of patrols and recovery vehicles.

The RAC has limited exposure to fluctuations in foreign exchange rates and there is an element of natural hedges in relation to exposure on Euros where sales and purchases will offset against one another to some extent. However, the RAC continues to monitor its exposure and will take steps to mitigate its exposure should the value and volume of foreign currency transactions materially increase in the future.

Credit risk: Is the risk of loss in value of financial assets due to counterparties failing to meet all or part of their obligations when they fall due.

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

The RAC also undertakes credit checks on certain customers and suppliers. The RAC's Material Outsourcing and Key Supplier policy sets out ongoing requirements to monitor the RAC's most critical third parties.

Stuart, patrol since 2007, South West

Liquidity risk: Is the risk that the RAC will encounter difficulties in meeting its obligations associated with its financial liabilities when they fall due.

The RAC manages this risk through ensuring that it has sufficient liquid funds generated from its operations to meet its expected obligations as they fall due. This is achieved through detailed short-term cash forecasting and management in addition to maintaining an agreed buffer of surplus cash. In order to further mitigate this risk, the Group maintains a significant but undrawn borrowing facility from its banking syndicate.

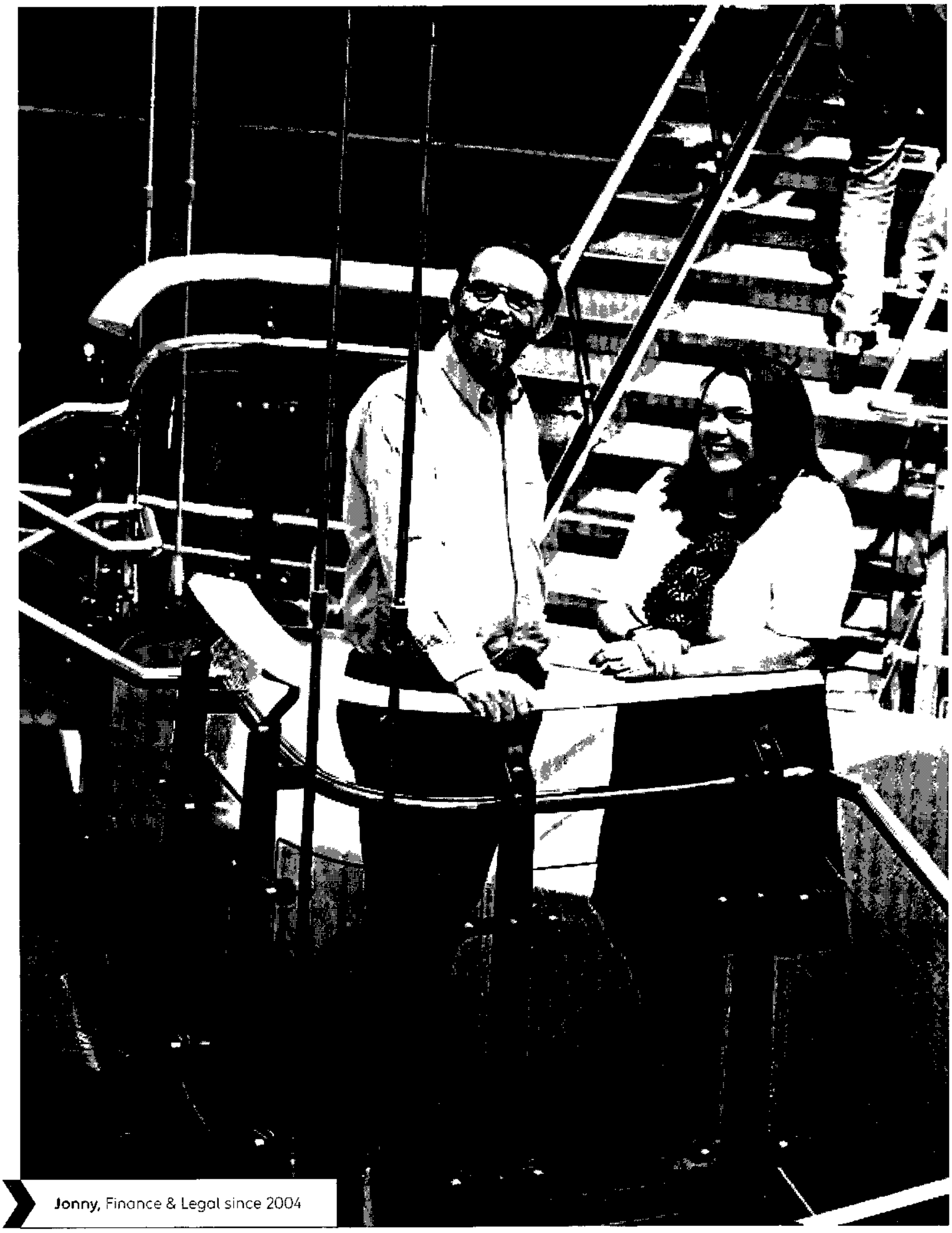
Capital & funding risk: The RAC maintains an efficient capital structure comprising equity shareholders' funds and third-party borrowings, consistent with its overall risk profile and the regulatory and market requirements of the business (see the Consolidated statement of financial position on page 122).

In managing its capital, the RAC seeks to:

- Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due.
- Maintain financial strength to support new business growth and to satisfy the requirements of its members and regulators.
- Retain financial flexibility by maintaining strong liquidity.
- Allocate capital efficiently to support growth and release or redeploy excess capital where appropriate.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA (Financial Conduct Authority) and PRA (Prudential Regulation Authority) 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, as well as by restrictions and covenants under the Class A and Class B debt.

The Group has been in compliance with the solvency requirements and debt covenants throughout the period and no restrictions on dividends have been applied.



Jonny, Finance & Legal since 2004

Operational resilience

The Group defines this risk as the risk that the RAC and its key third parties are not able to withstand the impact of unexpected events arising externally (e.g. pandemic, loss of building), failure of business essential assets, operational failure of RAC / third-party IT or communication systems which could result in the RAC being unable to deliver services to customers and increased risk of reputational damage.

This risk is mitigated through our defined and embedded Business Continuity and Crisis Management frameworks. These processes were well-tested during COVID-19 and allowed the Group to rapidly react to changes in alert levels and ensure that the business continued to operate safely and effectively.

The Group also manages this risk by employing specialist teams to manage the operation and resilience of its IT systems and by having clear change management processes. The Group also has various programmes of work in progress to continuously improve its IT infrastructure to support its strategy and to improve ongoing operational resilience.

In addition, the Group continues to undertake a programme of work to address FCA, PRA and Bank of England requirements on Operational Resilience which has included:

- Identifying the Group's 'Important Business Services' (IBS).
- Asset mapping these IBS to identify the people, processes, places, and technology which support them.
- Identifying and testing 'severe but plausible' scenarios that could impact the IBS to ensure minimal disruption to our members if they were to occur and to identify any areas where resilience could be improved.

The first stage of this work was completed in March 2022 in line with the required regulatory timescales and the Group continues to evolve its approach to the implementation of these requirements ahead of the next regulatory deadline of March 2025.

Brand / reputational risk

The Group defines this as the risk of a fall in market share, enterprise value or customer demand due to reputational damage.

Reputational damage could arise from mistakes or misconduct, or allegations thereof, by its patrols and other employees, contractors or agents, or poor customer service, including any high-profile incidents which attract media interest. A decline in the favourable recognition of the RAC brand could impact its ability to attract or retain members or other customers, which could have a material adverse effect on its business, financial condition, and results of operations.

The Group manages this risk by continuing to focus on ensuring that customers receive excellent service.

Service levels and customer satisfaction are regularly monitored to ensure the Group continues to deliver the high level of service expected. The Group also regularly monitors other key brand metrics to ensure no material harm is caused to its reputation or commercial performance through damage to the RAC brand.

The Group has in place appropriate committees and other forums to ensure that risks to good customer outcomes are identified and mitigated, and that customer complaints are being addressed appropriately. In addition, the Group maintains brand guidelines and approval processes and a specific entity (RAC Brand Enterprises LLP) has responsibility for ensuring the appropriate use of the brand.

Risk management

For the year ending 31 December 2022

Regulatory / conduct risk

The Group defines this as the risk of failure to comply with current regulatory requirements applying to the business, the risk of failing to ensure that risks to good customer outcomes are identified and mitigated, or risk that future changes in regulatory requirements have an adverse impact on the RAC.

Failure to comply with relevant regulations or to implement regulatory change could result in customer detriment, regulatory enforcement and/or significant brand/reputational damage to the RAC. Regulatory change could also have an adverse impact on the RAC, for example, by impacting on the commercial model, trading or the economics of the business.

To mitigate these risks the Group has clear governance procedures in place in order to identify and monitor any emerging risks and to ensure that controls are in place to minimise the risk of any legal/compliance failure or breach. The Group also has specialist committees and working groups in place with responsibility for oversight of specific areas of regulatory or conduct risk, such as Board and Executive Risk, Audit & Compliance Committees, and a Conduct Risk Committee.

The Group also employs regulatory and compliance specialists to ensure that the regulatory and legislative requirements are adhered to. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes well in advance of their implementation and minimise any commercial impact. The RAC provides regular training and briefings to its employees to ensure a customer-centric and compliant culture exists throughout the business.

Gemma, HR since 2018

The Group strives to maintain a positive and open relationship with the FCA, PRA, ICO and other regulators.

The RAC's breakdown assistance business is currently operated under an exemption from requiring insurance business authorisation. Any change in law, regulation or in interpretation of law or regulation could result in this business needing to be carried out by a regulated insurer which could significantly increase the costs of the business.

The RAC implemented a wide range of regulatory driven changes required as a result of the FCA's final report on its market study into the pricing of home and motor insurance which introduced a package of changes to enhance competition, ensure consumers receive fair value, and increase trust in these markets. A full suite of product reviews were conducted under the new product governance rules for the first time in 2022 which demonstrated that RAC products are offering fair value to customers.

The work undertaken on product governance forms a solid basis upon which to continue to evolve the RAC's governance and culture and to ensure the RAC is well placed to implement the new Consumer Duty rules by July 2023 and other forthcoming regulatory requirements.

Information security & data protection risk

The Group defines this as the risk of failure to manage the evolving data risks presented to the RAC by external and internal threats including cyber-attacks and non-compliance with data protection laws.

Failure to manage these risks could result in large scale or long-term data loss, cyber related operational disruption, fines, or censure from the ICO and other regulators and associated reputational and financial costs.

The RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group has specialist teams in place to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations including the General Data Protection Regulation ("GDPR").

The Group continues to enhance its processes and controls in this area. Regular training and briefings are provided to employees to ensure that information security and data protection obligations are understood and embedded across the organisation.

Health and safety risk

The Group defines this as the risk of serious injury or death of employees, members or third parties from road traffic collisions. The RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by its business activities and health and safety considerations are of the utmost importance to the Board, the Executive Team and across the Group. The Group's roadside operations necessarily require attendance by patrols or third-party contractors to inspect and repair members' vehicles at the roadside which will inherently regularly involve high-risk situations.

The Group has a health and safety management system which is mandatory in all areas of the business, and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. The Group also has a specialist Health & Safety function to promote the importance of Health & Safety across the business and to monitor compliance with Group policies and safe working practices and audit Health & Safety performance. The Health and Safety function works closely with the business to provide training and to implement specific campaigns and key initiatives. In addition, the Group's Health & Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety.

Risk management
For the year ending 31 December 2022

Strategy & business model

The Group defines this risk as the risk of direct or indirect adverse effects on the long term sustainability of the company resulting from strategies not being optimally chosen, implemented or adapted to changing long-term trends in the market, including those relating to changes in vehicle technology.

The RAC has a clear vision be the UK's number one for driving services.

The Group plans to expand its overall market through further development of its Service Maintenance & Repair (SMR) products and services, to meet the broader driving needs of members. These products will be delivered through the RAC Approved Garage Network and via the RAC's growing fleet of Mobile Mechanics.

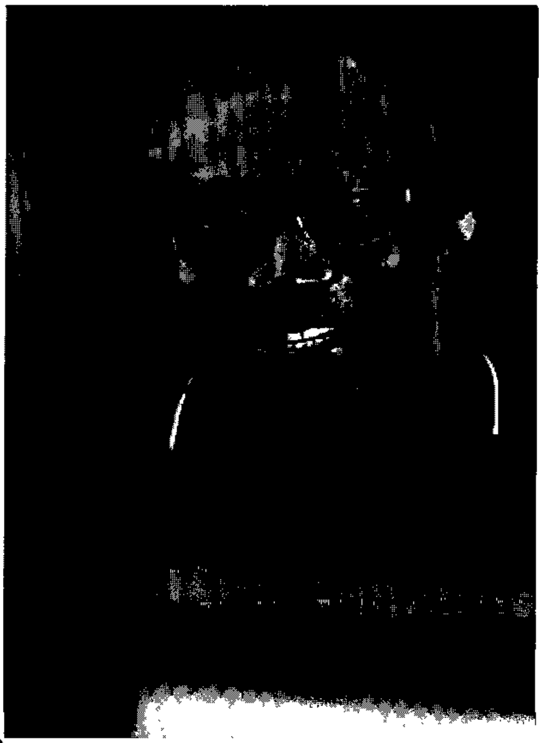
In addition, the Group plans to further accelerate the growth of the core business in order to continue to deliver consistent and sustainable EBITDA growth. Growth will also be supported by the continuing development of its digital capabilities, including the MyRAC app which members can use to access a range of services at the touch of a button.

These plans will also embrace the opportunities presented by changes in the car industry, including the growth in electric, hybrid, connected and ultimately autonomous vehicles.

Market share & margin

The Group defines this risk as the failure to deliver a competitively priced and compelling proposition, or to acquire and retain new customers in a competitive market, which could result in a decline in breakdown or insurance market share and margin.

The Group continues to invest in its products and data, including widening the product set and channels through which they are distributed, with a focus on clear product differentiation and leveraging our data to benefit members. The Group has continued to see overall membership growth in the last twelve months. Membership in the insurance business declined slightly in the first half of the year, but the actions taken in that period achieved a return to growth in the second half.



Chris, Consumer Roadside since 2016

Economic outlook

The Group defines this risk as the risk of recession or inflation impacting on the propensity of consumers and/or corporate customers to purchase breakdown assistance products and other RAC products and services, and the cost of providing those services, leading to a material drop in profits and cash balances.

Despite the wider economic context in 2022, the Group has continued to achieve profitable growth and the Group has also proved to be extremely resilient during both previous economic downturns and the initial economic downturn arising from COVID-19.

The Group mitigates risks arising from the macro-economic conditions by ensuring that it monitors a range of key economic indicators of customer behaviour to ensure that the RAC can respond and adapt quickly to emerging trends and changing requirements of customers.

The Group maintains active dialogue and good relationships with its colleagues, unions and supplier network and works closely with all stakeholders to manage its cost base and pricing strategy appropriately in the context of inflation. Colleague reward is reviewed annually and increases are applied to ensure that it is appropriate both in the context of inflation and the wider market. The Group ensures that appropriate KPIs are in place and are regularly monitored, undertaking stress tests and planning scenarios, as well as ensuring that it has a strong cash position. Ongoing reviews of the Group strategy also ensure that it remains appropriate in view of prevailing economic conditions.

Quality of service

The Group defines this risk as the risk that customers receive poor service from their dealings with the RAC across any of the RAC's customer facing channels.

The effect of this could result in adverse customer outcomes, reduced retention rates of our consumer members and loss of corporate partners.

In order to mitigate this risk, the Group builds internal demand forecasts to ensure appropriate levels of resource are in place to deliver excellent service for members. The Group continues to evolve the systems and processes it uses to deploy patrols to customers to further improve the customer experience.

In addition, various programmes of work are in progress to improve operational processes to improve its overall efficiency and effectiveness and to deliver the target customer experience, including the digitalisation of the process for customers to notify the RAC of a breakdown.

In common with the rest of the breakdown services industry, during 2022 the Group continued to experience high demand for its services as well as post-COVID changes to both driving behaviours and availability of contractors alongside a shift in the mix of vehicle faults being presented. This has resulted in a number of initiatives to evolve the forecasting models and business processes to respond to these changes.

People risk

The Group defines this risk as the risk of failure to deliver our strategic plans due to an inability to attract new skilled talent, retain existing colleagues, put in place appropriate succession planning, and successfully engage colleagues across the Group. This could result in a loss of opportunities, operational disruption for our customers, and inability to fully execute the strategy for the business.

In order to mitigate this risk, the Group has expanded its internal recruitment function and has managed to reduce the hiring gap during 2022. The Group works hard to retain existing colleagues, with an active reward and engagement strategy. The RAC utilises succession planning focused on business-critical roles and undertakes regular reward benchmarking across individual business areas.

Product design & governance

The Group defines this risk as the failure to ensure that products meet a genuine customer need and offer fair value and also to ensure that robust product governance processes are in place for products. This new risk was added to the RAC's principal risks in 2022 as a result of increasing regulatory focus in this area.

This risk is mitigated by ensuring that appropriate product review and sign off processes are in place as well as a comprehensive structure of governance forums with responsibility for ensuring that products deliver fair outcomes. This includes divisional and executive level Product & Pricing Forums. The Group also makes use of a wide range of data to support its ongoing fair value assessments including competitor landscape, customer feedback, value measures data and the output of complaints root cause analysis.

Climate change

The Group defines this risk as the potential adverse impact of 'Transitional' and 'Physical' climate change risks on the RAC's strategy, financial targets, business model and/or, operations/sites. This new risk was added to the RAC's principal risks in 2022 to ensure that the business has sustainability as a core part of its strategy.

The Group mitigates this risk through the regular assessment of the material risks to the business presented by climate change. The Group continues to develop its ESG Strategy which is overseen by the Group ESG Committee and intends to put in place a decarbonisation plan with associated strategy, targets and timelines during 2023. The Group also continues to implement and embed regulatory requirements in relation to climate change risk management, namely the Taskforce for Climate Related Financial Disclosures ("TCFD") requirements and the PRA 'Financial risks from climate change' requirements.

This risk is also defined as the risk of the RAC damaging the environment in which it operates. As a motoring organisation we are aware of our environmental impact, with roadside operations being our highest contributor to carbon emissions. We have attained ISO14001 Environmental Management System accreditation across the whole of our operation and use a risk management process to identify and address environmental issues resulting from our business.

Our environmental management system focuses on the following areas:

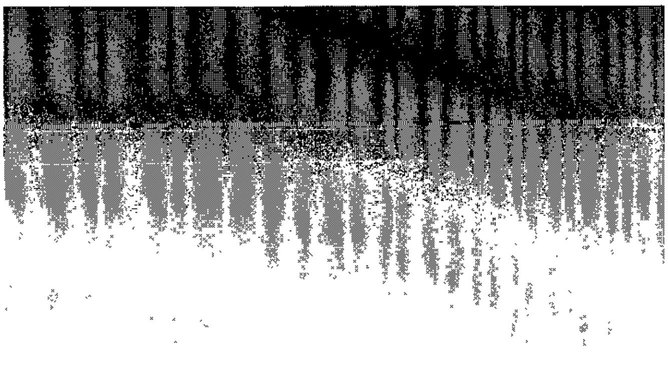
- Identifying opportunities to reduce fuel consumption and cut greenhouse gas emissions from our fleet and in our offices.
- Minimising the amount of waste we create, recycle where we can and avoid waste going to landfill.
- Reducing our demand for water and the amount of water that is lost or wasted on our premises.

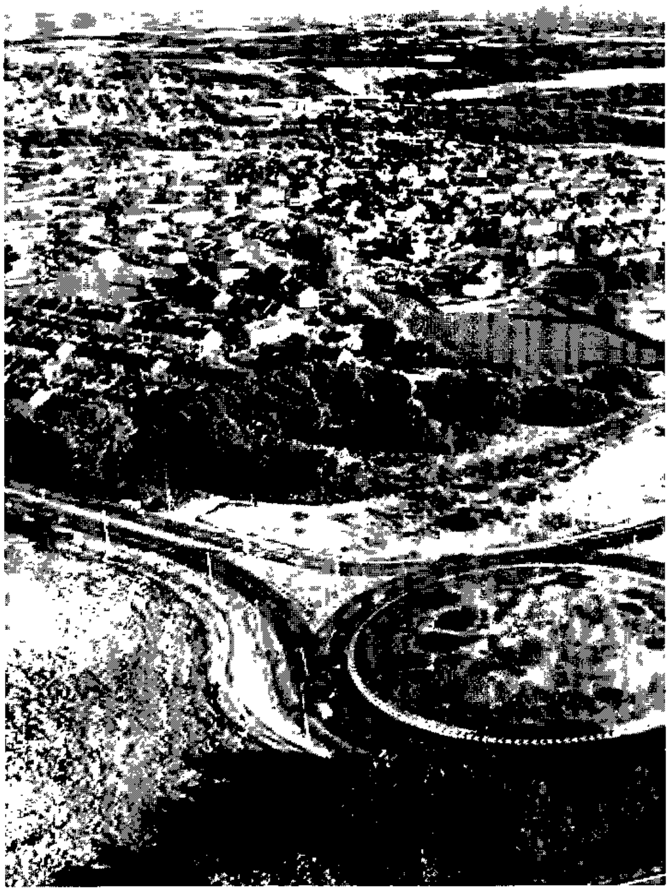
Chris, Operations since 1989

Debt leverage

The RAC defines this as the risk associated with debt leverage, including inability to repay or refinance debt at maturity and failure to service debt, leading to the business being unable to continue as a going concern. This new risk was added to the RAC's principal risks in 2022 in response to changes in the wider debt markets.

The RAC is well-placed to manage this risk as it undertakes regular reviews of financing options, with contingency plans in place where appropriate. Stress-testing is also completed and the Group has access to working capital and liquidity facilities which are deemed to provide access to sufficient cash to cover commitments as they fall due.





Task Force on Climate-related Financial Disclosures

Introduction

Global temperatures are currently on a trajectory to increase by 4°C above pre-industrial levels by 2100. The RAC have included this global threat of climate change as a principal risk to our business operations and have therefore made a commitment to be net zero by 2050 at the latest. Work has commenced to further define what net zero means for the RAC, set clear climate-related targets and milestones for the business, and to identify opportunities to achieve net zero in advance of 2050. This includes working with specialist consultants to develop science-based targets. These plans will be completed in 2023, and will align with the carbon reduction targets set out in the Paris Agreement which aims to limit global temperature increase to well below 2°C, preferably to 1.5°C compared to pre-industrial levels in line with the Paris Agreement.

We welcome the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and are committed to driving continuous improvements through our risk management process to enhance our assessment of the potential implications of climate change on our business and its operations.

Having elected to voluntarily early adopt many of the recommendations in 2022, this is our first year of reporting climate-related disclosures. Climate related financial disclosures will become mandatory for the Group from FY 2023 and we will be further developing our reporting to be fully consistent with TCFD recommended disclosures in the next reporting period. While there is more work to do, we have made substantial progress this year in developing our detailed understanding of the potential impact of climate-related risks and opportunities. Climate-related issues are proactively monitored and managed through full integration into the Group's existing risk management process. Scenario analysis capabilities have also been developed to help us better understand the potential impact of climate on the Group's operations, financial performance and strategy.

We have assessed the impact of climate risks and opportunities on our income statement and statement of financial position and have concluded that it is hard to isolate any material impact on the financial statements for the year ending 31 December 2022. The impact of risks and opportunities on future financial statements, in the medium- and long-term, are considered potentially more material if action is not taken to mitigate them, and are detailed in the following sections.

The sections below set out the detail on the ways risks and opportunities are assessed and managed, in accordance with the TCFD recommendations.

Table 1.0 TCFD recommendations Index

Section	Recommendations	Section
1. Governance	a) Describe the board's oversight of climate-related risks and opportunities.	**1.1**
	b) Describe management's role in assessing and managing climate-related risks and opportunities	**1.2**
2. Strategy	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	**2.1**
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	**2.2**
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	**2.3**
3. Risk Management	a) Describe the organisation's processes for identifying and assessing climate-related risks	**3.1**
	b) Describe the organisation's processes for managing climate-related risks	**3.2**
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	**3.3**
4. Metrics & Targets	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	**4.1**
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	**4.2**
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	**4.3**

Risk management

For the year ending 31 December 2022

1. Governance

1.1. Board's oversight of climate-related risks and opportunities

The RAC has a strong established governance framework, allowing the Boards, management committees and senior management to integrate climate-related risks and opportunities into our strategy, decision making and business processes.

Table 1.1 TCFD related governance structure

Board level governance	RAC Group Board	Establishes purpose, sets strategic goals, monitors and oversees progress against climate targets and ambitions for the group
Board level governance	The Regulated Entities Board	Ensures that the climate targets and ambitions are appropriate in the context of the regulated entities
Board level governance	Board Risk, Audit & Compliance Committee	Oversight of the overall climate change risk and opportunity assessment and of TCFD compliance
Board level governance	Board Environmental, Social and Governance ('ESG') Committee	Reviewing and approving the detailed assessment of material risks and opportunities from climate change and of the Group's TCFD compliance
Management level governance	Group Executive	Responsible for the implementation of the Group's climate strategy
Management level governance	Executive Risk, Audit & Compliance Committee	Oversight of overall climate change risk assessment
Management level governance	Group CFO	Accountable to the RAC Group Board for the implementation of the Group's climate change strategy. Senior Manager responsible for climate-related financial risk under the Senior Manager's regime
Management level governance	Chief Risk & Legal Officer	Reviewing and challenging the climate change risk and opportunity assessment undertaken by the Executive Team and the Board
Management level governance	Management Working Groups (led by Head of ESG)	

RAC Group Board

The RAC Group Board has ultimate responsibility for ensuring that climate-related risks and opportunities are identified and managed effectively. Specifically, the Board ensures that the ESG Committee has a clear focus on potential climate-related risks and opportunities, their associated management, control, and mitigation, and that disclosure requirements have been satisfied. The RAC Group Board will be kept informed of climate related issues through reporting from the ESG Committee and the Board Risk, Audit & Compliance Committee.

The Regulated Entities Board

The role of the Regulated Entities Board is to provide appropriate governance and oversight of climate related issues in the subsidiaries of the Group which are subject to FCA and/or PRA jurisdiction, namely RAC Motoring Services, RAC Financial Services Limited and RAC Insurance Limited. The Regulated Entities Board is chaired by an independent non-executive director, and its other members are four of the Group's executive directors being the Chief Executive Officer, Chief Financial Officer, the Chief Marketing and People Officer and CEO Business Roadside, the Group's Non-Executive Chairman and two additional independent Non-Executive Directors.

Board Risk, Audit & Compliance Committee

The Board Risk, Audit & Compliance Committee oversees all aspects of financial, regulatory, and operational risk, including the long-term risk to the Group from climate change. The Board Risk, Audit & Compliance Committee meets a minimum of 3 times a year.

Environmental, Social & Governance (ESG) Committee

The Group Board has established an ESG Committee which is responsible for oversight of the Group's ESG strategy, including the Group's response to climate-related risks and opportunities and overseeing progress towards climate-related goals and targets. The ESG Committee is chaired by the Group CFO with attendance from the CEO, at least one non-executive director from CVC, GIC and Silver Lake, the independent chair of the Regulated Entities Board and members of the RAC's senior management team, as required. The ESG Committee demonstrates the Board's commitment to promoting the long-term success of the Company through having clear responsibilities allocated to ensure ESG is fully embedded throughout the Group and that progress is communicated regularly to all stakeholders. The ESG Committee meets a minimum of 3 times a year and will review management's assessment of the risks and opportunities from climate change annually. The outcome of reviews may include the reprioritisation of risks or opportunities, challenge to their potential financial impact or actions to assess current risk mitigation plans and strategies to maximise opportunities.

Further details on the composition and responsibilities of the Group Board, Board Risk, Audit & Compliance Committee and the ESG Committee are provided in the Governance Report on page 72.

The introduction of climate-related considerations into the Group's decision making continues to develop and evolve. This year, the impact of climate-related risks and opportunities has been further integrated into the Group's risk management process, strategy setting and long-term business planning. The process will be further refined and expanded in 2023 to assess the impact of climate change on future major capital investments and projects.

1.2. Management's role in assessing and managing climate-related risks and opportunities

The Board and its Committees work closely with senior managers to assess and manage climate-related issues, providing oversight and direction to the Management Working Groups via the Executive, Group CFO and Chief Risk & Legal Officer.

Group Executive

The Group Executive input into the overall assessment of the key risks and opportunities through a robust review of the TCFD Working Group's climate-related risk and opportunity register.

The Executive includes representatives from all the Group's operational and functional business units who will use this forum to raise and collectively assess the impact of any emerging risk or opportunity specific to their division. These risks will also be captured on the associated Executive's divisional risk register.

Executive Risk, Audit & Compliance Committee

The Executive Risk, Audit & Compliance Committee has responsibility for oversight of the overall assessment of climate-related risks and opportunities. Each Executive member has the opportunity to review and input into the overall description and rating of the key climate change risks and opportunities, and to challenge any proposed actions being taken to address these risks or capitalise on the opportunities.

Group CFO

The Group CFO has responsibility for overseeing, managing, and setting the Group's ESG strategy and agenda, which includes the challenge and review that the financial risks and opportunities from climate-related change are identified and managed effectively.

Management Working Groups

The TCFD Working Group is multi-disciplinary, including Group Risk & Compliance who manage the integration of climate risk into the overall risk management framework and Group Finance who support the business to understand the financial impacts of net zero and ensure compliance with disclosure requirements.

We have also appointed a Head of ESG who will be responsible for co-ordinating the day to day delivery of ESG initiatives across the group, including the work to develop a full decarbonisation roadmap. This will include targets and KPIs to allow the Group to monitor the progress of plans and assist in the identification of risks and opportunities.

Chief Risk & Legal Officer

The Chief Risk & Legal Officer reviews the assessment of climate-related risks and opportunities completed by the TCFD Working Group and will provide input into and challenge in relation to this assessment, prior to assessment by the Group CFO and Executive.

2. Strategy

The Intergovernmental Panel on Climate Change (IPCC) has concluded that the world must reach net zero emissions in the early 2050s to limit global warming to 1.5°C above pre-industrial levels and avoid the worst consequences of climate change. In support of this global target, last year the RAC made a commitment to also achieve net zero by 2050 at the latest. Integral to delivering on this commitment is the understanding of all the actual and potential risks and opportunities that may impact the group as we transition towards a low-carbon economy.

The principal risks and opportunities, and their potential impact on our business, strategy and financial planning are provided in tables 2.2 to 2.3. The potential financial impact is shown on an unmitigated basis, before any Group action to manage the risks and opportunities.

The risks and opportunities have been assessed across three plausible climate scenarios and over the short-term, medium-term, and long-term. Details of the three scenarios are outlined in table 2.1 and reflect Early Action towards a low carbon economy (EA), Late Action (LA), and No Additional Action above existing government commitments already announced (NAA). Scenario periods have been based on the useful life of the group's assets. Short-term represents <2yrs from the reporting period to 2024, medium-term represents the period from 2025 to 2030, and long-term represents the period 2031 to 2050.

2.1 Scenarios

To assess our resilience to climate change, we selected three independent climate scenarios relevant to our sector and to national UK government climate targets. In future TCFD reporting, we will quantify the impact of the unmitigated risks and opportunities, and detail how the Group's resilience and strategies will adapt to climate change.

The selected scenarios allow us to evaluate the implications of various plausible pathways relating to global warming of between 1.5°C to 4.1°C. Having developed our initial scenario analysis, we then assessed the potential risks and opportunities of each climate scenario to the Group over the short, medium, and long-term which corresponds to 2024, 2030 and 2050.

Each year the business prepares its strategy and associated 5-year financial plan, with the useful economic life of key assets typically between 5 and 8 years. Short-term risks and opportunities impact the early years of the current 5-year plan, with medium-term risks beginning to emerge in the outer years. The useful life of most assets extend towards the end of the medium-term scenario in 2030. Long-term risks and opportunities are considerations in the strategy but extend beyond the standard 5-year plan. The financial impact of these risks and opportunities are assessed through in-house built scenario models which build out from the 5-year plan exit rates.

The climate scenarios were aligned to the three Climate Biennial Exploratory Scenario (CBES) scenarios that are based upon a subset of the Network for Greening the Financial System (NGFS) climate scenarios.

The three climate scenarios are assessed against a hypothetical baseline scenario that assumes no increase in physical or transition risk through the scenario period. Table 2.1 shows key physical and transition variables in the scenarios selected.

Risk management
For the year ending 31 December 2022

Table 2.1 CBES scenarios

CBES scenario	Early action (EA)
Nature of transition	Early and orderly Carbon taxes and other transition policies intensify relatively gradually over the scenario horizon.
Global CO2 emmisions	Reduced to net-zero by 2050
Global warming^ - Year 0 - by 2030 - by 2050 - by 2100	 1.1°C 1.4°C 1.8°C 1.5°C
Policy change date	2021
Modelled risk type	Transition risks
Transition risks	Medium
Physical risks	Limited
Impact on output	Temporarily lower growth
Key model inputs climate & physical changes - UK weather summary	 Further changes limited
- UK sea level rise by 2050 - UK average precipitation increase by 2050	0.16m 0.30%
Policy changes & emissions - Vehicle advancement towards EV	 Government acts promptly to encourage a smooth transition to electric vehicles. The proportion of new vehicles accounted for by internal combustion engine vehicles gradually falls and policies are introduced to remove used internal combustion engine vehicles from the road.
UK economic impact UK average annual output growth - Year 6 - 10 (to 2030) - Year 11 - 15 (to 2035) - Year 26 - 30 (to 2050)	 1.40% 1.50% 1.60%
Fossil fuels & GHG emissions - Phase out of fossil fuels - 2050 energy needs - UK - 2050 energy needs - global	 Fossil fuels are almost entirely replaced by renewables in the UK primary energy mix by 2050. 90% renewables 70% renewables
Fossil fuels & GHG emissions - Carbon pricing per tonne of CO2 equivalent (exc. Inflation) - Carbon sequestration	 US$900 Moderate Level Assumes only a moderate level can be achieved by private and public investment.

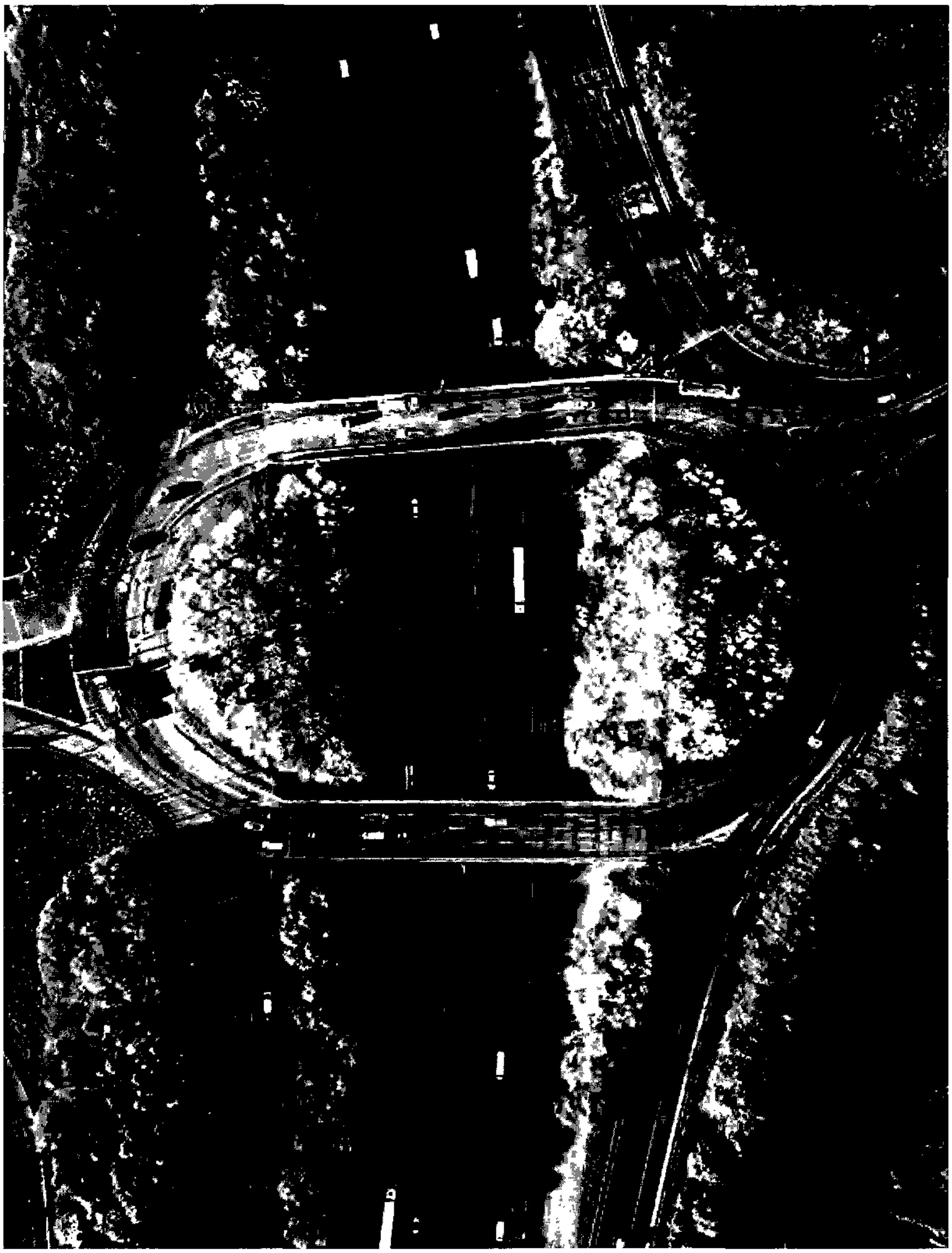
The unmitigated scenario analysis outcomes are summarised by RAG status in tables 2.2 to 2.3. Based on the Group's strategic plans and capabilities, we believe we are well-positioned to mitigate the financial risks and take advantage of the opportunities related to climate change.

	Late action (LA)	No additional action (NAA)
	Late and disorderly The implementation of policies to drive the transition is delayed until 2031 and is then more sudden and disorderly. The more compressed nature of the reduction in emissions results in material short-term macroeconomic disruption.	Only policies that were in place before 2021 Primarily explores physical risks from climate change. No new climate policies are introduced beyond those already implemented. The absence of transition policies leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase.
	Reduced to net-zero by 2050	Net-zero not acheived
	1.1°C 1.4°C 1.8°C 1.8°C	1.1°C 2.5°C 3.3°C 4.1°C
	2031	n/a
	Transition risks	Physical risks
	High	Limited
	Limited	High
	Sudden contraction (recession)	Permanently lower growth and higher uncertainty
	Further changes limited 0.16m 0.30%	Increase average temperatures Increase precipitation in the winter months Reduce precipitation in the summer months Increased exposure to subsidence Increased exposure to heatwaves 0.39m 11.00%
	There are substantial government policies to manage the transition to electric vehicles beginning in 2026 rather than 2021.	Paths for vehicle prices, sales and vehicles on the road mirror LA scenario to 2030. Thereafter transition stops – announced policies not subsequently introduced.
	1.50% 0.10% 1.60%	1.40% 1.40% 1.20%
	Fossil fuels are almost entirely replaced by renewables in the UK primary energy mix by 2050. 90% renewables 70% renewables	Not applicable 40% renewables 25% renewables
	US$1,000+ Low Level Due to the absence of timely and sizeable investment in sequestration technologies.	US$30 Low Level Due to the absence of timely and sizeable investment in sequestration technologies.

^relative to pre-industrial levels

Risk management

For the year ending 31 December 2022



2.2 Climate-related risks and opportunities identified over the short, medium, and long-term

During the year we enhanced and expanded our existing climate risk assessment, in consultation with relevant stakeholders across the business, to identify climate-related risks and opportunities over the short, medium, and long-term. Risks for the Group have been categorised in accordance with TCFD recommendations of transition risks and physical risks. Climate related opportunities are also considered.

Transition risks

Transition risks arise from the efforts by governments, institutions, and businesses to accelerate the global transition to a low-carbon economy which may result in policy and regulatory intervention, new market incentives or shifts in demand and behaviour that could lead to financial impacts on the Group, our customers, and our suppliers. In general, transition risks are likely to materialise more rapidly than physical risks, which are likely to be gradual and materialise in the longer-term. Examples of transition risks that may impact the business in the short, medium, and long-term are provided in table 2.2.

Physical risks

Physical risks represent risks to the physical environment due to unabated greenhouse gas emissions, global warming and changing climate patterns. These risks are likely to lead to increased extreme weather events such as more frequent and intensive storms, extreme heat and cold, floods, droughts, and fires, as well as chronic gradual impacts such as higher than average temperatures and rises in sea levels which may lead to economic loss for the Group, our customers, and our suppliers. Examples of physical risks that may impact the business in the short, medium, and long-term are provided in table 2.2.

Transition opportunities

The transition to a low-carbon economy can also lead to opportunities to support our suppliers, partners, and customers in their shift to new technologies and business models. The size and severity of these transition risks and opportunities will be affected by the rate of transition the UK and the world's economies undergo over the scenario review period to 2050. Examples of transition opportunities that may impact the business in the short, medium, and long-term are provided in table 2.3.

Climate-related risks and opportunities have been assessed at a national level, reflecting our primarily UK based operations. Where appropriate, the principal risks and opportunities include specific business sector impacts.

2.3. Climate-related risks and opportunities and impact on business, strategy and financial planning

Using the TCFD categorisations all key risks and opportunities are RAG assessed to reflect probability and financial impact based on the specific financial statement category affected. Group materiality is then applied to determine which of these key risks represent principal risks and opportunities. Materiality is based on 3% of Group EBITDA.

Table 2.2 represents potential risks on an unmitigated basis. However, with the current governance structure, management are confident that the business is alert to the key risks and opportunities related to climate change and can implement appropriate mitigating actions to reduce the residual risk in the short, medium, and long-term.

Risk management

For the year ending 31 December 2022

Table 2.2 Principal climate-related transition and physical risks

TCFD category		Risk description	Financial category impacted
Technology	Market not ready for ban on new petrol and diesel vehicle sales by 2030.	Impact on members UK electric vehicle model availability, prohibitive cost, or lack of infrastructure may constrain sales of new EVs. This may result in a stalling of UK new car sales growth and an increase in average membership vehicle age and propensity to break down.	Costs
		Impact on the RAC fleet: UK electric commercial vehicle model availability and/or capability may not be adequate to support the transition to EVs. Constraints may either delay the full electrification of RAC's fleet leading to exposure to higher carbon taxes and levies as well as additional maintenance costs on older vehicles, or require some compromise on vehicle specification which could impact operational efficiency.	Costs
	Electric vehicles replace petrol and diesel vehicles.	Impact on breakdown mix: Transition to electric vehicles may result in significant changes in breakdown fault mix distribution and/or claims frequency. This changing profile will require investment in training and equipment.	Costs, Assets & Capital Expenditure
Market	Reduced demand for breakdown, insurance and SMR products and services.	Reduced private vehicle ownership: A shift away from, or reduction in, private vehicle ownership which may reduce the number of breakdown members and/or car insurance policy holders.	Revenue
	Cost of transition to low carbon business model.	Higher input costs: Increased operating and capital expenditure as overall input costs reflect the inflationary impact of a lower carbon economy (including higher fuel, energy, payroll, water, waste treatment). Existing partners may be unwilling or unable to meet our targets and we may therefore need to find alternative suppliers, potentially incurring transition costs and higher run costs.	Costs
Reputation	Increased stakeholder concern or negative stakeholder feedback.	Demonstrable green credentials: There may be a loss of competitive advantage and market share if customers and suppliers do not perceive sufficient progress is being made towards certified net zero targets. Capital availability and funding during the transition to a low carbon economy will favour low emissions sectors and companies. Without demonstrating green credentials, access to competitive investing and borrowing rates may be restricted.	Revenue & Costs
Physical	Acute and chronic climate change.	Chronic climate change Long-term changes in precipitation patterns and mean temperatures may have a permanent impact on the demand profile for breakdowns. Acute climate change Climate change is also expected to increase the number of short-term extreme weather events, including excessive precipitation, flooding, heatwaves, and storms. Both the chronic and acute physical risks could adversely impact the volume and fault mix of breakdowns leading to increased uncertainty and higher operational costs per job.	Costs

Opportunity rating ● Low Opportunity ● Medium Opportunity ● High Opportunity

Transition scenarios

EA Early Action (1.4°C by 2030, 1.8°C by 2050, 1.5°C by 2100)
LA Late Action (1.4°C by 2030, 1.8°C by 2050, 1.8°C by 2100)
NAA No Additional Action (2.5°C by 2030, 3.3°C by 2050, 4.1°C by 2100)

Unmitigated financial impact	Scenario	Unmitigated impact by term: Short term 2024	Medium term 2030	Long term 2050	Strategies to mitigate risk
Increased claims frequency/ costs as members are unable to replace their ICE vehicles and average vehicle age increases.	EA	●	●	●	The risk to future changes in breakdown demand and claims frequency will be mitigated through our existing usage based approach to pricing. Most of our individual member policies renew annually and business contracts are for between 1 and 3 years. The business uses these relatively short renewal cycles to adjust premiums in response to any emerging changes in claims rates and costs
	LA	●	●	●	
	NAA	●	●	●	
Reduced patrol efficiency/ increased fleet costs as full electrification of the fleet is delayed.	EA	●	●	●	Patrol vehicles are typically leased over a five year term, allowing the fleet to be regularly refreshed and benefit from the latest technology. In addition, the business is actively working in collaboration with OEMs to help develop and pilot new commercial EVs. Non patrol vehicles (company cars, support vans etc) are already being transitioned to EV wherever possible. Proactive long-term procurement planning ensures that the business secures access to new technology on competitive commercial terms.
	LA	●	●	●	
	NAA	●	●	●	
The relative impact of increased or decreased specific fault impact is currently uncertain. Where EVs cannot be repaired at roadside, costs may be higher In addition to higher costs, there may also be increased capital investment and training required.	EA	●	●	●	The RAC has a highly experienced and capable workforce and we invest in state of the art equipment and training to enable our mechanics to repair and recover vehicles effectively. As more data becomes available, we will continue to monitor EV breakdown performance and refine our plans to adapt our capabilities in step with evolving demands. We also have the ability to flex pricing in response to changes in costs.
	LA	●	●	●	
	NAA	●	●	●	
Reduced breakdown, motor insurance and adjacency revenue.	EA	●	●	●	Market surveys still reflect a strong preference for private vehicle ownership, even during periods of lockdown when mileage dipped for several months. Today, the RAC offers a broad and diversified range of products and services, including EV servicing and leasing products, which cater for a wide range of customer needs not just breakdowns. We will continue to innovate and develop new propositions as member needs change
	LA	●	●	●	
	NAA	●	●	●	
Increased supplier costs.	EA	●	●	●	As part of our roadmap to net zero, we are investing in energy efficient assets, which will help mitigate the potential risk of future energy costs In regards to suppliers, the business has stringent selection criteria in place, and partners who are unable to support the RAC's climate-related targets may be deselected and replaced with organisations that can demonstrate de-carbonisation plans aligned with the RAC.
	LA	●	●	●	
	NAA	●	●	●	
Reduction in existing and/or new business revenue. Increases in capital and funding costs if access to competitive rates is limited.	EA	●	●	●	The business has an overarching target to reduce its impact on the environment by being net zero by 2050 at the latest, with work being undertaken during 2023 for a specific de-carbonisation plan to identify opportunities to achieve net zero in advance of 2050. We are currently developing specific targets and metrics to ensure successful delivery against this target.
	LA	●	●	●	
	NAA	●	●	●	
Increased cost base due to supplier cost increases, higher internal service and maintenance costs and lower or redistributed demand based revenue.	EA	●	●	●	Current demand forecasting and resource planning processes utilise a series of short- and long-term forecasting techniques, including weather related inputs and changes in fault mix. Any gradual chronic change in climate will be factored into long term trend analysis to identify emerging trends in volume and distribution to ensure efficient deployment of resource. Any increased costs associated with long-term change or increased frequency of weather events will impact claim frequencies and costs, and as a result be reflected in future premiums and prices
	LA	●	●	●	
	NAA	●	●	●	

Risk rating ● Low risk ● Medium risk ● High risk

Risk management

For the year ending 31 December 2022

Table 2.3 Principal climate-related opportunities

TCFD category	Risk description	Opportunity description
Products & services	Development of low emission goods and services.	EV products & services: The transition to a low carbon economy will present many opportunities for the RAC to use its innovation and trusted brand to bring new EV products and services to its existing membership base and the broader motoring services market, including: EV collaboration with motor manufacturers: Development of market leading propositions to serve the growing EV user base and increased demand for lower emissions products and services. The motor industry is seen as a high emissions sector – reducing company emissions, and supporting the industry to reduce overall emissions will improve reputational value and increase demand. Partnerships to accelerate EV transition: Supporting consumers in their decision making and transition to EV, including advisory services, financing, and post transition support services (insurance, breakdown, SMR).
Resource efficiency	Use of more efficient modes of transport.	Electrification of patrol fleet: By 2030, all new vehicles will need to be electric. There is an opportunity to gain a competitive advantage by early adopting new patrol fleet technology and taking advantage of lower fuel costs This will support the RAC's green credentials and improve the business' reputation and give a commercial advantage, particularly over competitors with smaller direct patrol fleets and greater reliance on contractors.
		Reduced environmental impact: Increasing the efficiency of RAC operations to reduce overall travel distances of recoveries, reducing environmental impact and also improving customer experience.

Transition scenarios

EA Early Action (1.4°C by 2030, 1.8°C by 2050, 1.5°C by 2100)
LA Late Action (1.4°C by 2030, 1.8°C by 2050, 1.8°C by 2100)
NAA No Additional Action (2.5°C by 2030, 3.3°C by 2050, 4.1°C by 2100)

Financial category impacted	Potential financial impact	Scenario	Unmitigated impact by term: Short term 2024	Medium term 2030	Long term 2050
Revenue & capital expenditure	Increased breakdown demand and revenue and investment cost.	EA	●	●	●
		LA	●	●	●
		NAA	●	●	●
Revenue, costs & capital expenditure	Reduced patrol operating costs and increased revenue from higher demand for early lower carbon products. The impact of additional investment in capital expenditure is expected to be low as the operational vehicles are already leased on a 5yr term, enabling the fleet to be continuously refreshed with the latest technology.	EA	●	●	●
		LA	●	●	●
		NAA	●	●	●
Costs	Reduced breakdown operating costs from shorter tow distances and improved overall efficiency rates.	EA	●	●	●
		LA	●	●	●
		NAA	●	●	●

Risk rating ● Low opportunity ● Medium opportunity ● High opportunity

Risk management

For the year ending 31 December 2022

3. Risk management

The Group's risk management framework sets out how we identify, measure, monitor, manage and report on the risks to which our business is, or could be, exposed to. During the year, climate-related transition and physical risks were managed through this framework, enabling the identification, assessment, and management of risks in a consistent manner.

3.1 Organisation's processes for identifying and assessing climate-related risks

The RAC's Executive team identify material climate change risks and opportunities by performing an annual 'top down' assessment of the climate-related impacts to the business and recording them on an overall Group Climate Change Risk Register. Climate-related risk and opportunity heat maps are also produced to reflect the relative probability of the risk or opportunity materialising and the associated financial impact relative to Group materiality. The combined weighting then determines the prioritisation of principal risks and opportunities and associated actions. These risks are reported to the Board ESG Committee annually. The significance of climate-related risks relative to the Group's other non-climate risks are assessed as part of the Board's review of the Group's overall principal risks.

Each member of the Executive team leads a specific business division or functional department. As part of this role, each member has the responsibility to assess whether any material climate change risks are present within their division, and these will be recorded on their individual business division risk register. Any risks identified will be reviewed in line with the existing risk review cycle for each Business Division as explained in the Risk Management Section on pages 36 – 37.

The Group regularly considers existing and emerging regulatory requirements related to climate change. External horizon scanning and monitoring of emerging scientific climate scenarios, TCFD, FCA and PRA regulatory requirements is completed by the cross disciplinary TCFD Working Group. Updates are reviewed regularly by the Executive Team and ESG Committee and, where necessary, will inform any changes to our climate risk management.

Climate change risk has been designated as a material risk to the strategy, operations or financial performance of the Group. As such, the risk is captured on the Group Key Risk Register which will then be reported into the Exec Risk, Audit & Compliance Committee and Board Risk, Audit & Compliance Committee. In addition, any material risks from climate change which could specifically impact on RAC Insurance Limited will be included in the annual Own Risk & Solvency Assessment ('ORSA'). The Group will continue to evolve its approach to managing the risks from climate change in 2023.

3.2. Describe the organisation's processes for managing climate-related risks

Climate change risks will be assessed and managed using the established approach for the management of all risks across the Group, further details on which can be found in the Risk Management section on pages 36 – 37. This approach includes the use of a standard Impact & probability assessment and established risk control processes (our process to select and measure appropriate mitigating actions and controls to modify the risk, including those required to bring the risk back within risk appetite).

Prioritisation of climate-related risks

The initial identification of climate-related risks started with a workshop based approach to a long list of potential risks that may impact the businesses' sectors and geographies. Risks were considered both to Group operations as well as customers, suppliers, and partners. Using the TCFD framework, each potential risk was then categorised as either a transition or physical risk and qualitatively assessed in the short, medium, and long-term.

Financial impact

Each potential risk was then individually reviewed to determine the specific revenue or cost category of the financial statements most likely to be affected, should the risk crystallise. Management then applied judgement to consider the potential percentage increase or decrease to the respective financial categories, above a base case. Individual percentage judgements were then applied separately to transition risks, acute physical risks, chronic physical risks, and transition opportunities. Judgements also varied by time horizon and scenario to reflect the varying risk profiles over time and under different transition conditions.

Applying the percentage uplifts or downgrades to the specific income statement and statement of financial position categories quantified the potential financial impact of each risk under each scenario and time horizon. Financial impact was then benchmarked against a selected materiality of 3% of EBITDA with an impact above materiality categorised as high and a reducing balance approach applied to the remaining impact categories of medium and low.

Probability assessment

The probability of each potential risk crystallising was also individually assessed under each time horizon and transition scenario and categorised as high, medium or low. This assessment was initially performed by the TCFD Working Group prior to subsequent review.

RAG status (Red, Amber, Green assessment)

The product of the financial impact and probability assessment is a combined 'RAG' score which was then used to position each risk on a heat map for review and refinement of relative prioritisation by the TCFD Working Group, and subsequently the Executive Team and the ESG Committee.

3.3. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

As described above, climate change risks will be assessed and managed using an approach consistent with all other risk management across the Group.

4. Metrics & targets

The Group's overarching climate-related target is to achieve net zero by 2050 at the latest. In the medium-term this will be delivered through incremental improvements in network operational efficiency and vehicle fuel efficiency and electrification of our lighter vehicle fleets and company car fleet. In the longer-term, the more significant reduction in carbon emissions, and the decarbonisation of our heavier fleet, will be supported by new technologies such as hydrogen energy, battery and hybrid technology maturing and commercial viability improvements.

Risk management
For the year ending 31 December 2022

4.1. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

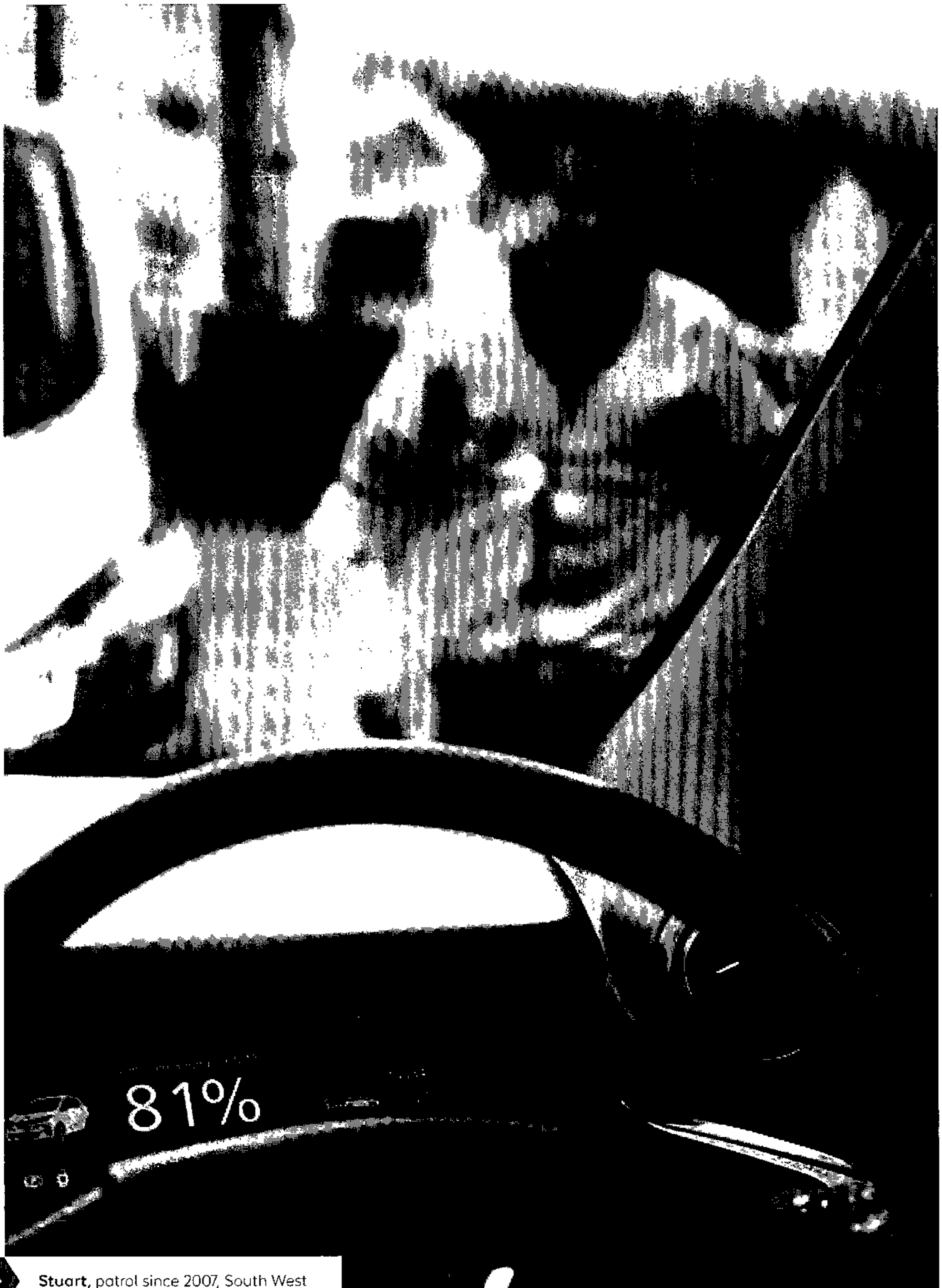
We have started the process of establishing several metrics with appropriate management oversight and governance mechanisms to enable us to monitor progress towards our overarching net-zero target. We are working internally and with third-party organisations to continue developing this suite of metrics. This process will be completed in 2023 with metrics reported in our next annual report.

4.2. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

The Group has assessed greenhouse gas emissions using the *'GHG Reporting Protocol – A Corporate Accounting and Reporting Standard'* and in accordance with the Defra's *'Environmental Reporting guidelines: including Streamlined Energy and Carbon Reporting requirements'*. The Group's carbon footprint, including Scope 1, Scope 2, and Scope 3 greenhouse gas emissions (excluding supply chain), is available in the SECR report on pages 100 – 101.

4.3. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

In addition to establishing several climate-related metrics, we have also begun the process of identifying individual targets for each metric to manage our climate-related risks and opportunities. Our ultimate and interim targets for the transition of our company car fleet to hybrid or electric by 2030 is currently reported in our SECR Report on page 103. In line with the development of our metrics, we are working with third-party organisations to develop appropriate and challenging targets. This process will also be completed in 2023, with targets reported in our next annual report.



Stuart, patrol since 2007, South West

Section 172 (1) statement

For the year ending 31 December 2022

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, RAC Bidco Limited (the "Company") is required to include a statement in its Strategic Report describing how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 when performing their duties for the 2022 financial year. This section, together with those pages incorporated by reference, acts as the Company's section 172(1) statement.

The primary responsibility of the Board is to promote the long-term success of the Company, creating and delivering sustainable shareholder value as well as contributing to society. In ensuring the long-term success of the business the Board has to have regard to a number of matters, including the views of the shareholders and stakeholders, as described in the Governance Report on pages 70 to 85 to ensure it fully understands the potential impacts of its decisions on its stakeholders, the environment, and the communities in which it operates.

The long-term success of the business is at the heart of the Company's five-year strategy and the Directors play an active role in the development of the Group's strategy. Delivery of the strategy enables the RAC to benefit from changing automotive and mobility markets, providing new products and services that meet members' changing needs and allowing the Company to build closer relationships with members and suppliers, all of which will drive sustainable long-term growth at the same time as providing opportunities for colleagues. The RAC Group operates a risk management framework, ensuring that the key risks to the delivery and implementation of the strategy are identified, monitored, and managed and the directors discharge their responsibility in this respect through the Group's Risk, Audit and Compliance Committee.

Further details on the Group's strategy and risk management framework are set out on pages 34 to 65 of the Strategic Report section of this report.

J Baker
Director
2 March 2023

The table below sets out how the directors of the Company have regard to the matters set out in s.172 (1) (a) to (f) of the Companies Act 2006 when performing their duties:

Section 172 (1)	Decisions/Considerations
(a) The likely consequence of any decision in the long term	The Directors play an active role in the development of the Group's strategy and take account of certain external factors and the impact to our stakeholders including the wider societal impact, when approving the strategy. The Directors regularly reviewed the strategy throughout 2022 to ensure it continued to support the Group's long-term success and the vision to be the UK's number one for driving services, providing complete of mind for our members' driving needs. The Directors approved the 2023 budget which has good customer outcomes and fair value for members at its core. The Directors will continue to monitor progress against strategic KPIs through a programme of scheduled Board strategy sessions throughout 2023. In March 2022, the Directors approved the investment in the RAC by Silver Lake Partners, which will help to accelerate the delivery of our digital strategy to provide a tangible benefit for members, through membership enabled by MyRAC, whilst supporting the longer-term strategy and the 2027 vision. In September 2022, the Board also approved the acquisition of a driving test theory app to further expand the driving services offered to our members and to support our member acquisition ambitions. Further details of our strategy can be found on pages: 10 – 11. Strategic management report: pages 24 – 33. Risk management report: pages 36 – 65.
(b) The interests of the company's colleagues	Directors recognise that the delivery of the RAC's purpose, strategy and long-term sustainable growth will only be achieved with engaged colleagues and ensure that management keep colleagues fully informed of the Company's plans, vision, purpose and culture through various engagement forums, blogs, briefings, and round table events. In 2022, the RAC made an explicit commitment to support the mental wellbeing of our colleagues with increased mental health awareness training and a wide range of other initiatives. For example, additional mental health first aiders were trained across the Group; and we relaunched our Employee Assistance Programme on World Mental Heath Day. Our colleagues' interests were also considered as part of the Silver Lake investment, with colleagues sharing in the success of the business by benefitting from a recognition award to celebrate completion of the investment, demonstrating further commitment to colleague engagement and reward. The Executive Team also regularly engage with unions on business performance and any matters which materially affect colleagues. Further details of how the Directors of the Company have regard to the interests of the colleagues can be found on the following pages: Corporate Governance Arrangements: pages 81 – 85 Corporate Social Responsibility Report: pages 86 – 95

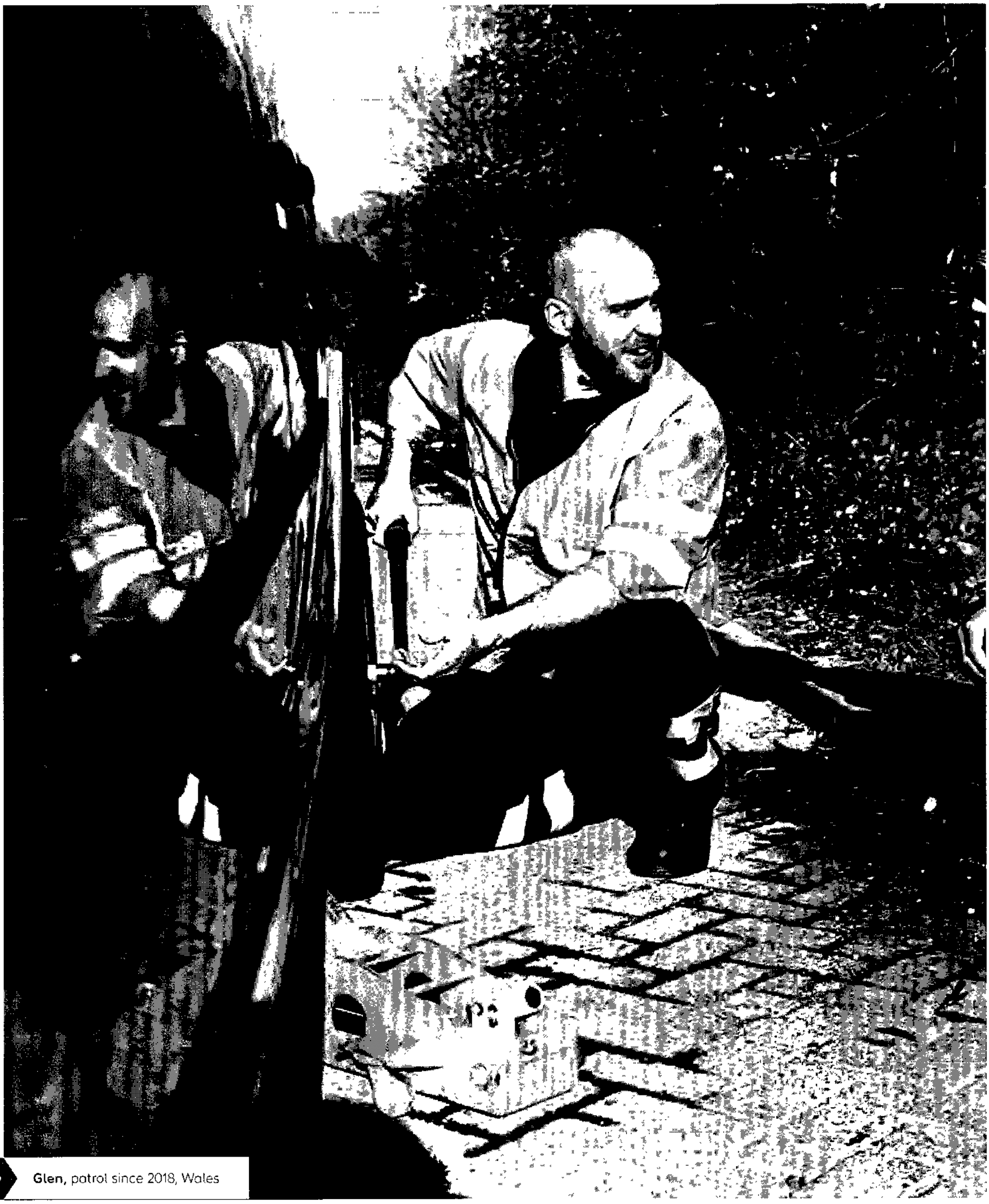
Section 172 (1) statement

For the year ending 31 December 2022

Section 172 (1)	Decisions/considerations
(c) The need to foster the company's business relationships with suppliers, customers and others.	The Directors recognise the importance of the Group developing strong relationships with all of its stakeholders and regular updates on interactions with members and our key suppliers are provided at Board meetings to enable the Board to make informed decisions on ensuring the long-term sustainability of the business. Members continue to be at the core of our 2023 strategy with a focus on customer outcomes and ensuring fair value to members. Further details of how the Directors have had regard to fostering the Company's business relationships with suppliers, customers, regulators and others can be found on the following pages: Strategic Management Report: pages 25 - 33 Risk Management Report: pages 35 - 65 Corporate Governance Arrangements: pages 81 - 85 Corporate Social Responsibility Report: pages 86 - 95
(d) The impact on the company's operations on the community and environment	The Directors understand that ensuring the Company's operations have a positive impact on the community and the environment is a strategic imperative. During the financial year, the Board's Environmental, Social and Governance (ESG) Committee continued to build on our sustainability foundations to underpin the 2027 vision and our longer-term ambition of being net-zero by 2050. The ESG committee also approved the early adoption of the TCFD financial reporting disclosures as a demonstration of its commitment in this area. Further details of how the Directors of the Company have regard to the impact of the Company's operations on the community and environment can be found on the following pages: Corporate Social Responsibility Report: pages 86 - 95 Directors Report: pages 96 - 105 TCFD Report pages 48 - 65
(e) The desirability of the company maintaining a reputation for high standards of business conduct	The Group considers that maintaining its reputation for the highest standard of business ethics and conduct is a key priority. The Group ensures that an appropriate framework, including relevant policies and codes of conduct, is in place to support this and the Directors are made aware of and involved in the management of all issues that might have a material impact on the Group's reputation for high standards. Maintaining and increasing the high trust that the RAC brand commands is a key underpinning pillar of our 2027 vision and 2023 strategy so consequently all strategic initiatives will be considered with this in mind. Further details of how the Directors maintain a reputation for high standards of business can be found on the following pages: Risk Management Report: pages 35 - 65 Corporate Governance Report: pages 81 - 85 Directors Report: pages 96 - 105

(f) The need to act fairly as between the Company's owners

Maintaining our investors' trust through positive and proactive regular engagement has ensured their continued commitment, demonstrated by the fact that following the Silver Lake investment our two existing principal shareholders remain committed to positioning RAC for future long-term success. Under the new corporate governance arrangements following the investment by Silver Lake in March 2022, all of the RAC's three principal shareholders have representation on the Company's board and that of the Group's ultimate parent, RAC Group (Holdings) Limited and are actively involved in Board decisions. The Group's minority investors interests are aligned with those of the principal investors and regular updates and information are communicated to keep them appraised on business performance.



Glen, patrol since 2018, Wales

Governance report

For the year ending 31 December 2022

The RAC is committed to complying with the highest standards of good corporate governance practice. The Group recognises that good governance, and a customer focussed culture, are key elements underpinning the responsible, sustainable, long-term growth of the business. The Directors consider that the Annual Report and Financial Statements comply with all aspects of the Walker Guidelines for Disclosure and Transparency in Private Equity.

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, the Company has chosen to apply the Wates Corporate Governance Principles (the "Principles") for Large Private Companies for reporting in relation to the 2022 financial year. The Company's Corporate Governance arrangements are set out below, and how it applies the Principles are set on pages 81 – 85.

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, transaction limits and treasury procedures).
- Comprehensive Group policies, practices, procedures.
- Registers of interests and guidance for directors on their duties and for Senior Managers and Certification Functions (in the context of PRA and FCA authorisation).

Governance report

For the year ending 31 December 2022

Ownership structure

As at 31 December 2022 the Group's equity is owned by: investment vehicles managed by CVC Capital Partners ("CVC Funds"); a nominated investment vehicle of GIC Special Investments Pte Ltd ("GIC"); an investment vehicle managed by Silver Lake Partners; investment vehicles controlled by Universities Superannuation Scheme Limited (acting as corporate trustee of Universities Superannuation Scheme); an investment vehicle controlled by Public Sector Pension Investment Board (PSP Investments); an investment vehicle managed by HarbourVest Partners, LLC; RAC Management; and RAC's Employee Benefit Trust.

The Board

As at 31 December 2022 the Board comprises the Group's Chairman, two executive directors being the Group's Chief Executive and Chief Financial Officers, and seven Non-Executive directors ('NEDs') comprising two CVC appointed NEDs, one GIC appointed NEDs, two Silver Lake appointed NEDs and two Independent NEDs, one of whom was appointed in September 2022. Two of the Board members are women, the Company Secretary is also female. All of the Directors are also members of the ultimate parent's Board, RAC Group (Holdings) Limited.

The Board has an appropriate balance of executive and non-executive directors and their skills, knowledge, and experience is commensurate with the nature, complexity and breadth of the business. The Group believes in the value of diversity, and diversity issues are regularly discussed by the Group's ESG Committee. More information on the Group ESG strategy can be found on pages 87 - 95. The Group also places an emphasis on ensuring that board membership reflects diversity in its skill set, approach, experience, and educational and professional background. These aims are supported by the Board Diversity Policy and the Board is committed to annually discussing appropriate objectives/ targets for achieving its diversity aims. The board appointed a female independent NED in 2022 and also has a female CFO. Directors' biographies can be found on the Corporate website and on pages 74 - 77 of the annual report.

The RAC Group (Holdings) Limited Board provides practical leadership to the Group, setting the tone for a culture across the business committed to achieving the right outcomes for customers and thereby delivering long-term value for the RAC, its members and stakeholders.

As is usual in large Groups, day-to-day management of the Group is delegated to the Chief Executive Officer, and the Executive Committee. During 2022 the Executive Committee had nine members, one of whom is female, and comprises of the Chief Executive Officer, who is also the Chair, the Chief Financial Officer, Chief Operations Officer, the CEO Consumer Roadside, Chief Customer and Marketing Officer, CEO Business Roadside, Chief Product & Technology Officer and CEO Insurance. For 2023, a new CEO of Service, Maintenance and Repair has been added to the Executive Committee.

Division of responsibilities

There is a clear division of responsibility between the non-executive Chairman, the Chief Executive Officer and Chief Financial Officer, and the Non-Executive Directors.

The roles of the Board, the Chairman, the Chief Executive Officer, and the Directors are laid out in the Board's Terms of Reference.

The Chairman is responsible for:

- The leadership of the Board, ensuring its effectiveness and setting its agenda and ensuring that the Directors receive appropriate documents in a timely manner.
- Facilitation of the induction, training and effective contribution of non-executive directors and ensuring constructive relations between them and the executive directors.
- Leading the development of the firm's culture by the Board as a whole.
- Overseeing the development and implementation of the firm's remuneration policies and practices.

The Chief Executive Officer, who is the senior executive officer of the RAC Group, is responsible for:

- Overseeing the day-to-day management of the Group, through the Executive Committee and the senior leadership team.
- Ensuring the successful execution of the strategic objectives as agreed by the Board and the development, implementation, and operationalising the business model.
- Overseeing the RAC's culture.
- Ensuring compliance by the RAC Group with legal, regulatory, corporate governance, social, ethical and environmental principles.
- Effective communication with all stakeholders including shareholders, colleagues, customers and members.

The Chief Financial Officer is responsible for:

- Preparing and ensuring the integrity of the Group's financial statements and its regulatory reporting.
- Managing the allocation and maintenance of the Group's capital and liquidity.
- Performing RAC Insurance Limited's Own Risk and Solvency Assessment.
- Managing the Group's policies and procedures for countering the risk that the firm might be used to further financial crime.
- Overseeing, managing, and setting the Group's Environmental, Social and Governance ('ESG') strategy and agenda.

The Non-Executive Directors are responsible for:

- Using their wide and varied experience to offer expert advice, scrutiny, and objectivity.
- Monitoring and offering objective challenge to executive management decisions where appropriate.
- Bringing specific expertise to the Board, for example, the team includes Non-Executive Directors with extensive financial services and capital markets experience from serving in senior positions of several major financial institutions.

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

Board of Directors

RT

Rob Templeman

Chairman

Rob is Chairman of the Board of Directors. He joined the RAC in September 2011. His previous roles include Chairman of Gala Coral, Chief Executive Officer of Debenhams, Chief Executive Officer and Chairman of Halfords, Chief Executive Officer of Homebase and Harveys Furnishing Group and Chairman of the British Retail Consortium. Rob also has several charitable interests.

TM

Tesula Mohindra

Independent Non-Executive Director

Tesula Mohindra joined the RAC in September 2022 as an Independent Non-Executive Director (iNED) and will be taking on chairmanship of the Risk, Audit and Compliance Committee in 2023. Tesula qualified as a chartered accountant with PricewaterhouseCoopers and held managing director roles at JP Morgan and UBS specialising in corporate finance for financial institutions and pension fund risk management. She was also a founding member of the management team at Paternoster, the specialist bulk annuity insurer. Tesula's current iNED portfolio includes Close Brothers Group plc and NHBC (National House-Building Council). She is also a trustee of Variety the Children's Charity.

DH

Dave Hobday

Chief Executive Officer

Dave joined the RAC in February 2017 from the payments company Worldpay UK where he was Managing Director for five years. He has previously worked at BT, Telewest, HBOS and Procter & Gamble in areas covering operations, customer service, marketing, sales and technology.

JB

Jo Baker

Chief Financial Officer

Jo joined the RAC in May 2018. She has an extensive background in financial services companies, starting her career as an investment banker in the sector before moving on to work at Barclays, Worldpay and Wonga in areas covering finance, strategy, sales, customer analytics and risk management.

Non-Executive Directors – GIC Group

MW

Mark Wood

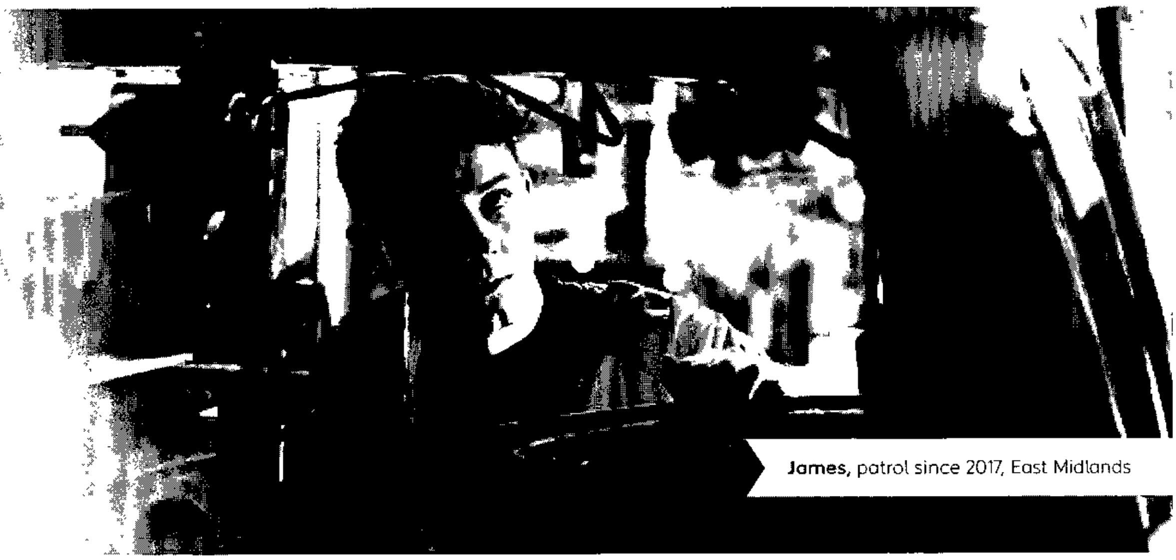
Chair of Risk, Audit and Compliance Committee

Mark is Chairman of the Board Risk, Audit & Compliance Committee. He will hand the chairmanship to Tesula in 2023, remaining on the Board and the Committee as a Non-Executive Director. He joined the RAC in September 2011. His prior roles include Managing Director for Financial Services at the AA, Chief Executive Officer of AXA UK, Chief Executive Officer of Prudential UK and Europe and Chief Executive Officer of Paternoster Pension Investment Company. Mark also previously served as Chairman of the Trustees of the National Society for the Prevention of Cruelty to Children.

AL

Alexandre Levy

Alex was a Non-Executive Director from August 2020 to March 2022. He was re-appointed to the board in July 2022. He is Vice President in GIC's Direct Investments Group. Prior to joining GIC in 2010, he worked at J.P.Morgan.



James, patrol since 2017, East Midlands

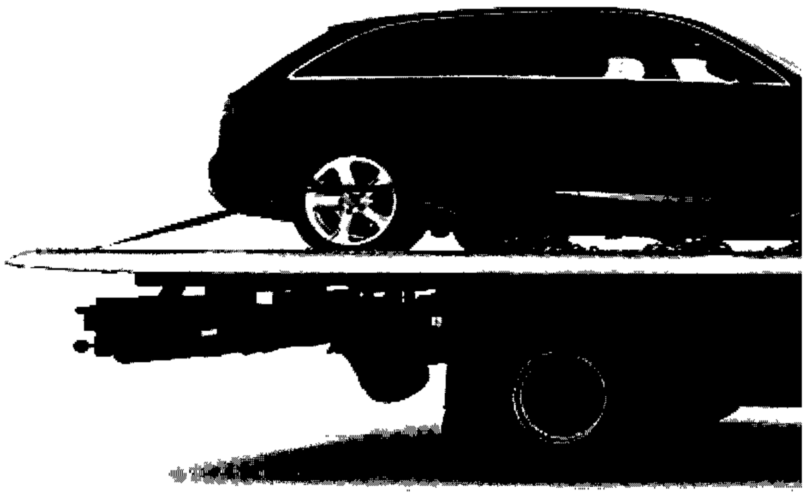
Non-Executive Directors – Silver Lake

SP Simon Patterson

Simon Patterson joined Silver Lake in 2005 and is a Managing Director and co-head of the firm's activities in Europe, the Middle East, and Africa. He is currently a board member of Dell Technologies, IVC Evidensia, New Zealand Rugby Commercial, and ZPG, and previously served on the boards of Skype, Cegid, Intelsat, FlixBus, MultiPlan, and Gerson Lehrman Group. Prior to joining Silver Lake, he was a member of the founding management team of the logistics software company GF-X (acquired by Descartes) and worked in various management roles at the Financial Times. He is a Trustee and Vice Chairman of The Royal Foundation of the Prince and Princess of Wales, and previously served as a Trustee of the Natural History Museum in London and Non-Executive Director of Tesco PLC.

JG Jonathan Galore

Jonathan Galore joined Silver Lake in 2015 and is an Operating Partner. Prior to Silver Lake, he held a number of senior executive roles in technology businesses, most recently as Chief Technology Officer at Wonga Group, a global online finance company, and co-founded a number of online financial services companies, including Trussle.com, the UK's first online mortgage advisor, and Wealthfront.com, a leading US automated investment service.



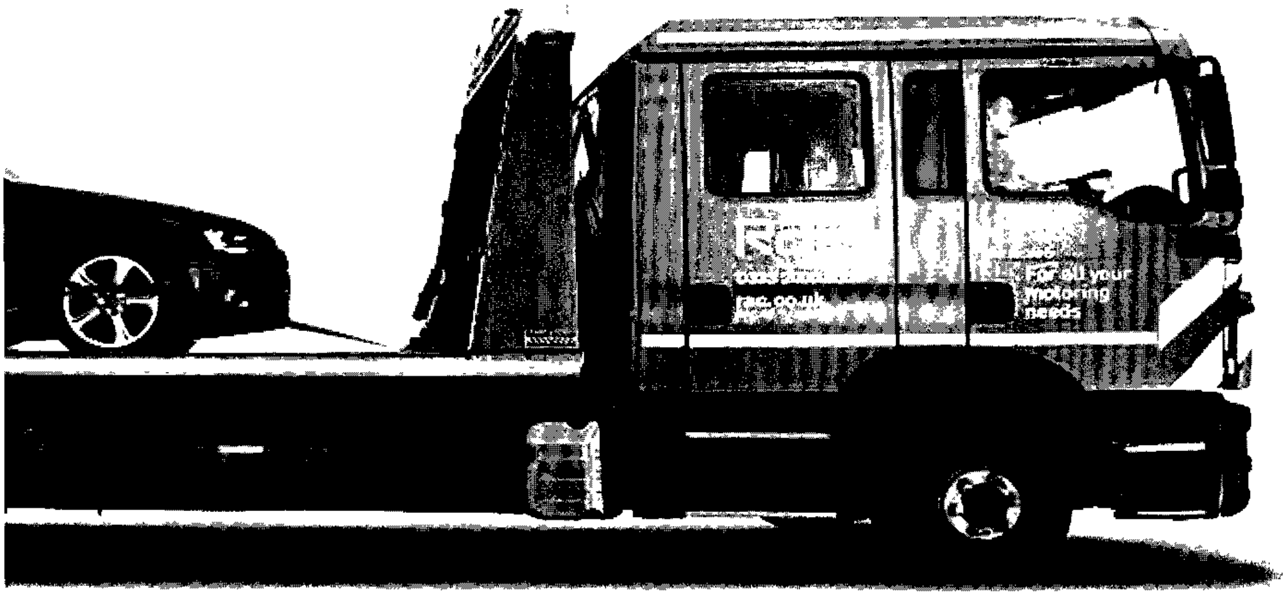
Non-Executive Directors – CVC Group

TG Tim Gallico

Tim has been a Non-Executive Director since April 2016. Tim is a Partner at CVC Capital Partners. He currently sits on the boards of Asplundh Tree Expert LLC, Pension Insurance Corporation Group and RiverStone International. Tim joined CVC in 2005 and was previously a consultant at Bain & Company. He also serves as a Trustee of the United World Schools.

PH Pev Hooper

Pev has been a Non-Executive Director since April 2016. Pev is a Managing Partner at CVC Capital Partners, and currently sits on the boards of Domestic & General, Six Nations Rugby/ Premiership Rugby, NewDay and Away Resorts. He joined CVC in 2003 after working in mergers and acquisitions at Citigroup and Schroders.



Governance report
For the year ending 31 December 2022

Board committees

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

Indy, mobile mechanic since 2022, West Midlands

Board Risk, Audit & Compliance committee

During 2022, the Committee was chaired by Mark Wood and its other members are the Group's Non-Executive Chairman and two additional independent Non-Executive Directors. It is attended by the Chief Executive Officer, Chief Financial Officer, the Chief Risk & Legal Officer, Non-Executive Directors, the external auditors, and members of the RAC senior management team as required. In 2023, the Committee will be chaired by the new independent Non-Executive Director Tesula Mohindra.

The Committee assists the Group's Boards in discharging their 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.

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 auditor's reports thereon.
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately.
- Ensuring that the RAC has a culture of delivering good customer outcomes and identifying any risks to those outcomes is embedded consistently across the business.
- Reviewing internal controls and approving 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 judgement has to be applied.
- Assessing the independence and objectivity of the external auditors.

Remuneration committee

This Committee is chaired by the Group's Non-Executive Chairman, and is attended by the Chief Executive Officer, at least one Non-Executive Director from each of Silver Lake, CVC and GIC, the independent chair of the Group Risk, Audit and Compliance Committee and members of the senior management team as required. It is responsible for the following key areas:

- Determining the participation of directors and employees in any equity holding or other long-term incentive schemes operated by the Group.
- Agreeing the framework for the remuneration of the executive directors and other senior executives, and determining their total individual remuneration packages including pension arrangements (the Chief Executive Officer is not present when his remuneration package is determined).
- Determining specific incentives for the executive directors and senior management in order to encourage enhanced performance and to ensure fair reward for individual contributions to the success of the Group.
- Ensuring contractual terms are adhered to on termination and that any payments made are fair to both the individual concerned and the Group, and that failure is not rewarded.
- Evaluating the performance of the executive directors against challenging objectives, including non-financial objectives.
- Ensuring that the remuneration practices across the Group operate in line with PRA and FCA requirements and specifically that they do not drive inappropriate behaviours.

Board Environmental, Social and Governance ('ESG') Committee

In 2021 the ESG Committee was established to provide oversight of the Group's Environmental, Social and Governance ('ESG') strategy. The ESG Committee is chaired by the Chief Financial Officer and is attended by the Chief Executive Officer, at least one Non-Executive from CVC, GIC, and Silver Lake, the independent chair of the Regulated Entities Board and members of the senior management team as required. It is responsible for the following key areas:

- Approval, monitoring, and reviewing the effectiveness of the Group's ESG strategy and the governance in place to ensure the successful delivery of the activities across ESG matters.
- Overseeing the implementation and ongoing effectiveness of Group policies, principles, projects, and standards in so far as they relate to ESG, and ensuring they are compliant with any legislative, regulatory, or legal requirements.
- Setting KPIs and associated targets relating to ESG matters and monitoring the Group's progress against those KPIs and targets relating to each component of the ESG strategy.
- Monitoring, reviewing, and overseeing the Group's decarbonisation plans.
- Ensuring that best practice and thinking from across the market is considered as part of the Group's ESG strategy.
- Making recommendations to the Board in relation to any funding of ESG related activity, and on behalf of the Board, overseeing the deployment and control of any such funds.
- Working in conjunction with the Board Risk, Audit and Compliance Committee to oversee the identification and mitigation of risks relating to ESG, as well as the identification of opportunities related to ESG matters.

The Regulated Entities Board

The role of the Regulated Entities Board is to provide appropriate governance and oversight of Group subsidiaries which are subject to FCA regulation and/or PRA jurisdiction, namely RAC Motoring Services, RAC Financial Services Limited and RAC Insurance Limited.

The Regulated Entities Board is chaired by an independent non-executive director, and its other members are four of the Group's executive directors being the Chief Executive Officer, Chief Financial Officer, the Chief Marketing and People Officer and CEO Business Roadside, the Group's Non-Executive Chairman and two additional independent Non-Executive Directors.

Key areas for which the Regulated Entities Board is responsible include:

- Monitoring the performance of the Regulated Entities against the strategic objectives of the Group and its subsidiary companies.
- Ensuring the establishment and operation of effective controls and a positive culture to ensure customers are treated in accordance with both the Group's policies and regulatory requirements.
- Reviewing detailed information on key matters such as conduct risk, complaints and quality assurance on an ongoing basis and monitoring trends.
- Overseeing the regulatory landscape in respect of conduct matters and reviewing the actions taken in relation to any regulatory developments which may have a material impact on the Group, including oversight of implementation of regulatory change such as the Consumer Duty.
- Overseeing investigations into any material regulatory breaches and agreeing actions to be taken in response.
- Specifically, in respect of RAC Insurance Limited, ensuring compliance with all PRA requirements including Solvency II requirements and the Own Risk and Solvency Assessment process.

The Regulated Entities Board meets a minimum of six times per year.

Other committees and working groups

A number of other committees and working groups operate across the Group which meet regularly in order to oversee various aspects of the business and to ensure appropriate safeguards are in place that detailed management information is produced and monitored.

Corporate governance arrangements

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, the Company has chosen to apply the Wates Corporate Governance Principles (the "Principles") for Large Private Companies for reporting in relation to the 2022 financial year. The Principles, and an explanation of how each Principle has been addressed by the Company, are set out on the next page.

Governance report

For the year ending 31 December 2022

Principle	Explanation
1. Purpose and Leadership	The Group has a clear purpose, to provide complete peace of mind to our members for all their driving needs, with a focus on differentiation and innovation to set it apart from the competition. This is aligned to the strategy to deliver long-term sustainable growth, which is at the forefront of decision making, underpinned by a quality customer experience enabled by people, digital platforms, and data. The Board understands that the delivery of the strategy is only possible through the RAC's people and their success individually and collectively, which was reflected in continued strong engagement scores in the 2022 colleague engagement survey. More detail on the results of this survey are included in our SCSR report. The Group's core 'Hero Values' of Handle it together, Exceptional Service, Raise the Bar and Own it, ensure we keep the best interests of our colleagues and members at the heart of everything we do. Together with the passion, commitment and integrity of colleagues, the values are well embedded in the RAC culture. The Hero Values are also incorporated into colleagues' rewards and recognition as they form the part of the performance review and management regime. The Group and the Executive Committee are committed to ensuring that the RAC operates in a sustainable and ethical way. This commitment is supported by the RAC corporate policies which include the RAC Code of Conduct and the RAC Regulatory Code of Conduct policies and more detail on this is set out in our SCSR report. CEO Review: pages 8 – 13 Sustainability, Corporate and Social Responsibility Report: pages 86 - 95
2. Board Composition	The Board, has an appropriate balance of executive and non-executive directors and of skills, knowledge, and experience appropriate to meet the strategic needs and challenges of the Company, and that of the wider Group, to enable effective decision making. The Directors also undertake regular refresher training. Evaluation of the effectiveness of Group Boards and other Committees takes place on a regular basis. Governance report: pages 70 - 85 Directors Report: pages 96 - 105

3. Director Responsibilities	There is a clear division of responsibility between the Chairman, the Executive Directors, and the Non-Executive Directors. Clear Terms of Reference for the membership and responsibilities of the Group's various Board Committees supports effective decision making and ensures that the Directors receive regular and timely information on all key aspects of the business including the financial performance, operational matters, colleague engagement, health and safety, data protection, strategy and ESG matters, all supported by key performance indicators (KPIs). The Board's key areas of focus in 2022 are noted in the Section 172 report on pages 66 - 69. The Directors approve the updated strategic plan on an annual basis which supports the longer term 5-year plan and regularly review the progress. Corporate governance report: page 81 – 85 Committees: pages 78 - 81
4. Opportunity and Risk	The Directors are fully engaged in the Group's efforts to enhance its existing products, as well as its expansion into new areas as it seeks to offer what customers want and to drive the long-term sustainable growth of the Company and the wider Group. All material business development opportunities are subject to a detailed and rigorous review and approval process by the relevant Group Boards. A formal risk management framework is in place for the identification, monitoring and management of risks, which is overseen by the Board Risk, Audit and *Compliance Committee.* One of the key areas of both risk and opportunity in 2023 is the implementation of Consumer Duty. The Regulated Entities Board is overseeing this on behalf of the Group and is involved on all key decisions. We expect this to drive positive cultural change which provides an opportunity for the RAC to use this change to distinguish itself from competitors as we increase focus on achieving good customer outcomes for our members. CEO review: pages 8 - 13 Strategic management report: pages 24 - 33 Risk management report: pages 34 - 47
5. Remuneration	Remuneration is ultimately overseen by the Group's Board Remuneration Committee, which is responsible for agreeing the individual remuneration packages (including pension rights, compensation payments and other benefits) for each of the CEO, the Chairman, each executive director, and other senior executives of the Group. The Remuneration Committee is also responsible for incentive and bonus arrangements and awards, including setting the relevant targets for performance related schemes. The Committee ensures that the remuneration policy is aligned with the Company's sustainable long-term growth by ensuring that the remuneration practices across the Group operate in line with PRA and FCA requirements and, specifically that they do not drive inappropriate behaviours, ensuring a focus on regulatory adherence supporting the delivery of positive customer outcomes. The Remuneration Committee approved changes to the group remuneration policy during 2022 to introduce additional control-focused measures into the incentive schemes across the Group and to strengthen the balanced scorecard used within the annual bonus scheme. Of our 4000 colleagues, 72% are male and 28% female. The Group continues to publish its gender and pay reporting externally. Remuneration Committee: page 79

6. Stakeholder Relationships and Engagement

The Group is clear that good governance and effective engagement and communication with its stakeholders is critically important to ensure the long-term sustainability of the business. The Directors have due regards to stakeholders when making decisions but recognise that in some instances the interests and impacts between stakeholder groups may not always be aligned. The Board and Executive Committee assess the conflicts to balance them in their decision making.

Colleagues

The RAC continues to work hard to maintain a healthy and safe working environment for all its colleagues with regular H&S matters reported to the Board and ESG Committee. Health & safety matters are of the highest importance to the RAC and to support the continuous improvement programme in this area, the reporting line for health & safety was moved to the Chief Risk & Legal Officer in 2022.

The Company has several initiatives to encourage feedback and communication between colleagues and the Executive team, including an annual collegue engagement survey, regular round table discussions with the CEO, strategy briefings and a relaunched colleague engagement forum, which organises social and fundraising events across the sites as well as gathering feedback on key issues. In March 2022, the Company introduced Workplace, a social and collaboration platform to improve the way the Company communicates with colleagues, with 85% of colleagues activated and using the platform, it offers colleagues support through the opportunity to connect and create networks.

As part of the Silver Lake investment, the Group also approved a one-off award to colleagues in recognition of the hard work across the business to make the RAC an attractive investment.

6. Stakeholder Relationships and Engagement (continued)

Customers

In terms of customer engagement, surveys are conducted to determine the Net Promoter Score (NPS) for various interactions with customers and used as a tool to pinpoint areas for improvement and to continually enhance the customer journey. The NPS scores are regularly discussed and considered by the Directors and other Group governance meetings. The Company's social media channels provide a useful medium in which to allow customers to interact directly with the RAC 24-hours a day, seven days a week. In 2022 the business set out its customer outcomes framework which it will use to ensure that customers receive good outcomes and that the RAC proactively identifies any risks to its ability to deliver those outcomes.

Community

The Group strives to create long-term benefits for the community by creating employment, providing support to drivers through its products and services, forging links with charitable associations and continuing to support its chosen charities in 2022.

Suppliers

Positive supplier engagement is imperative in ensuring the effective procurement and supply of goods and services which is critical to the smooth running of the business.

The RAC Group continues to publish data evidencing its payment performance as part of the duty to report on payment practices and performance.

Regulators

When engaging with regulators the Group is open and transparent and any such engagement is considered and discussed, with directors providing appropriate guidance and support. The Group also ensures that it is proactive in ensuring it is compliant and up to date on all legislative and regulatory requirements.

Shareholders

The Company engages positively and proactively with its shareholder and the Group's principal shareholders and enjoys effective and regular engagement with its shareholders, representatives of whom are appointed to the Board as Non-Executive Directors.

Corporate Governance Report: pages 81 - 85
Sustainability Corporate Social Responsibility Report: pages 86 - 95
Directors Report: pages 96 - 105

Chris, patrol since 2010, North West

Sustainability, Corporate and Social Responsibility report

For the year ending 31 December 2022

In 2022, the RAC celebrated its 125th anniversary. The Company has a great heritage and a proven track record, but as well as acknowledging and celebrating the past, we are very much looking to the future. There are exciting plans to grow our business in the next five years and to do this, it is essential we continue to build member loyalty, protect and enhance our reputation, and commit to being a responsible and sustainable business.

Our ESG framework

ESG considerations are integrated in every area of the RAC to reflect our brand promise of 'complete peace of mind' and our values through a commitment to long-term sustainable growth and development. Our ESG commitments are structured around the following key areas: Our Environment, Our People, Our Customers, Our Communities and Our Corporate Governance.

Sustainability, Corporate and Social Responsibility report
For the year ending 31 December 2022

Environmental – at a glance

Electricity and gas tCO_2e in offices combined consumption decreased by 16.7% despite greater post COVID-19 occupancy in the buildings during the year as a result of ongoing investments to improve energy efficiency.

-16.7%

Adapted the Building Management Strategy to optimise efficiency of plant equipment e.g. improvements in HVAC systems automatically reduced consumption.

Launched Eco Heroes designed to promote good colleague environmental behaviours to encourage a reduction in waste and improved recycling rates.

Continue to transition to EVs for our colleagues and customers and update our company car fleet to electric and hybrid, with over 80% of our company car fleet now being Hybrid or Electric, up from 59% in 2021.

+21%

Social – at a glance

A new and enhanced Employee Assistance Programme was launched in October. A confidential service providing access to qualified trained advisers and counsellors who can provide support on life events that affect colleagues or their family.

60 mental health first aiders supporting colleagues and 40 wellbeing champions. These colleagues are volunteers with a passion for health & wellbeing issues ranging from mental health, nutrition, exercise, and mindfulness.

60 40

Orange Heroes Awards
Back after 3 years to give recognition to colleagues who truly live our HERO values.

ORANGE HEROES
2023 Awards

Health & safety

- 32% reduction in Lost Time Incident rate per 100,000 working hours reported from H1 to H2 2022.

-32%

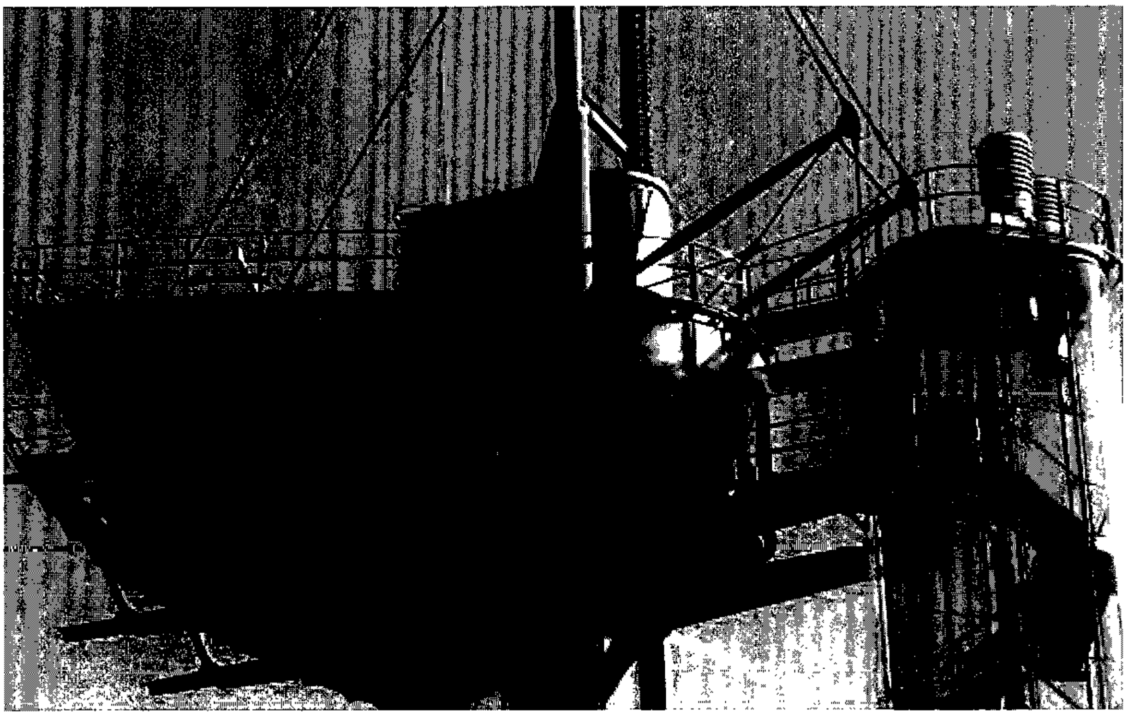
Governance – at a glance

The Board ESG Committee was established in 2021 and during 2022 has overseen a range of ESG initiatives and delivery of the overall ESG strategy providing strong foundations for delivering further change during 2023.

We have aligned our ESG lead internally with our Head of Health, Safety, Environment & Quality and allocated specific resource to ESG matters within that team to ensure ongoing focus and momentum.

Our recruitment practices have been reviewed to ensure that recruitment activities capture a diverse talent pool and that we capture relevant data throughout the process. In addition, we have conducted colleague surveys to capture more granular data on the characteristics of our workforce.

We have continued our programme of work to assess the risks arising from climate change to allow us to meet our regulatory expectations in terms of financial risks and to allow early adoption of TCFD reporting.



Environmental

Our environmental strategy

Our environmental strategy is focussed on environmentally sustainable initiatives that deliver near-term efficiency, value, and health for our business, our people, and the wider community with particular emphasis on:

- Identifying opportunities to reduce our emissions and to cut greenhouse gas emissions from our fleet (incl. company car fleet) and our offices.
- Finalising our 'Decarbonisation Plan' to develop 'net-zero roadmaps' to achieve net zero by 2050 at the latest, including:
  - Carbon footprint and baselining (scope 1 & 2 (direct emissions) & scope 3 (indirect emissions)).
  - Implementing science-based carbon reduction targets to ensure the RAC achieves or exceeds current goal of net-zero by 2050.
  - Quantitative, time bound ESG KPIs aligned to the Sustainability Disclosure Requirements "SDR" and Task Force for Climate-Related Financial Disclosure "TCFD".
  - On-going strategy and delivery against targets and objectives of plan.
- Minimising the amount of waste we create, recycling where we can and avoiding waste going to landfill, reducing our demand for water and the amount of water that is lost or wasted on our premises, maintaining our ISO14001 Environmental Management System accreditation.

Our Streamlined Energy and Carbon Report set out on pages 98 – 104 details our specific achievements in these areas during 2022.

Sustainable procurement

The RAC recognises that improving its procurement performance is an ongoing process and that its suppliers, both large and small, are important partners in the journey to become more sustainable.

The RAC's sustainability policy is designed to encourage a diverse range of suppliers to tender to provide services, materials, or expertise in line with the RAC's Suppliers 'Code of Conduct'. This document sets out our ESG ambitions – for example: we have implemented several successful ESG initiatives working closely with our suppliers including the removal of disposable plastic cups from our sites as well as donating surplus office furniture to a redistribution charity.

Social

The RAC employs around 4,000 colleagues and values their contribution and involvement in the business. Our aim to provide complete peace of mind extends to colleagues as much as customers and we are proud to provide a supportive, safe, and inclusive environment within which our colleagues can flourish.

Our culture reflects our Hero Values which represent who we are, what we believe and how we behave. They help us to make the right decisions, create appropriate policy and process, and ultimately improve the colleague experience

We are extremely proud of the achievements of our colleagues during 2022 and their commitment *to adapting to hybrid working and helping our* business and members deal with the challenges posed by the cost-of-living crisis.

We continue to strive to proactively identify opportunities for our colleagues to develop new skills and abilities and to achieve their full potential.

85%

Workplace activations in 3 months

70%

Colleague survey engagement

Colleague engagement

2022 was a big year for improving the way we communicate and engage with our colleagues. In March, we introduced Workplace by Meta – a social communication and collaboration platform for all our people. Within three months we had 85% of our workforce activated and using the platform. It has provided a channel for all colleagues to share news and information, ask questions, get help quickly and recognise each other.

Our CEO has continued to demonstrate his passion and commitment to direct engagement with colleagues by running "Dave's Big *Conversation" regularly throughout the year.* These sessions are run virtually, and any colleague can join, ask questions, and debate directly with the CEO and other members of the senior leadership team. The level of debate and engagement at these sessions demonstrates that our colleagues feel confident and comfortable in sharing feedback and asking questions.

In our annual engagement survey, we saw an uplift in response rate in 2022 with 70% of colleagues using the opportunity to share their feelings about how it feels to work at the RAC, allowing us to better understand where we are meeting our colleagues' expectations and where we can do better. Engagement scores continued the overall trend of improvement we have seen since 2018, albeit marginally down on the record 2021 results.

Social
(continued)

Health and wellbeing

We are extremely pleased with the progress we have made on our ambition of improving the mental health & wellbeing of our colleagues in 2022 with a wide range of initiatives launched across the business, including:

- 60 mental health first aiders supporting colleagues and 40 wellbeing champions supported by launch of a colleague Wellbeing app to assist colleagues with health & wellbeing issues ranging from mental health, nutrition, exercise, and mindfulness.
- Wellbeing sessions have been run by an external provider across the business, including mental health awareness for line managers, stress and resilience training, cost of living and pension webinars.
- We have undertaken various activities to support our colleagues at the roadside in partnership with 'Tough Enough to Care'. The charity is aimed predominantly at men of all ages who are susceptible to feeling pressure not to ask for help or talk about their feelings – the aim of the charity is to prevent male suicide.
- A new and enhanced Employee Assistance Programme was launched in October 2022 providing a confidential service and access to qualified trained advisers and counsellors who *can provide support on life events that affect* colleagues or their family. The EAP has been well-received with the access to six free counselling sessions (accessible within 72 hours) and the extension of all the benefits of the EAP to our colleagues' households being particularly well received.
- To support colleagues further with the challenges around cost of living, we launched our "Orange Savings" initiative in November 2022. This provides discounts on everyday items, including discounts on supermarkets, insurances, and other items to make colleagues' salaries go that bit further.
- We took the opportunity to relaunch our social forums and renamed them The Hives! Each Hive consists of colleagues who go above and beyond to organise social events to engage and celebrate with our people, while also raising funds for charity.

Charities

Over the course of 2022 we have supported many different charities in a variety of ways:

- Supporting vulnerable road-users is one of the things we do best, so much so that we joined forces with the Midlands Air Ambulance Charity to sponsor the lifesaving service's Bike4Life 2022 Ride Out event and festival in April which was supported by RAC breakdown services.
- We continue to partner with The Prince's Trust to support their 'Get Into' program, sponsored by CVC. This programme aims to give young people aged 16 to 25, who are work-ready but do not have vocational skills, a mixture of practical training and experience that will enable them to get a job.
- The Hive supported various activities across the year including the Platinum Jubilee celebrations and celebrating the RAC's 125th birthday with tree planting as well as cakes and treats on sale to raise funds for our three nominated charities: Alzheimer's UK; Suicide Prevention UK and Kitty's Fund.

Prince's Trust START SOMETHING

Bike 4 Life RIDE OUT AND FESTIVAL

MIDLANDS AIR AMBULANCE CHARITY

Alzheimer's Society United Against Dementia

SP-UK SUICIDE PREVENTION UK

Social
(continued)

Training and Development

We have always believed the long-term development of our people, their confidence, skills, and experience, is a responsibility of the business, and a critical requirement for sustained commercial success. To support this in 2022 we launched our new online learning platform which replaces our existing system bringing together our online learning together in one place.

In addition, our partnership with the West Midlands Combined Authority (WMCA) continues to maximise opportunities using our apprenticeship levy. We are supporting local SMEs by sponsoring STEM based apprenticeships helping to develop local talent and sustainable skills in the West Midlands. We also continue to invest funds supporting 30 young people in motor engineering and digital apprenticeships.

Diversity, Equality & Inclusion

The RAC benefits from a diverse workforce. We aim to provide an environment in which our colleagues can be confident that they will always be treated equally, fairly and respectfully, and to foster a "speak-up" culture where everyone's opinions and contributions are valued.

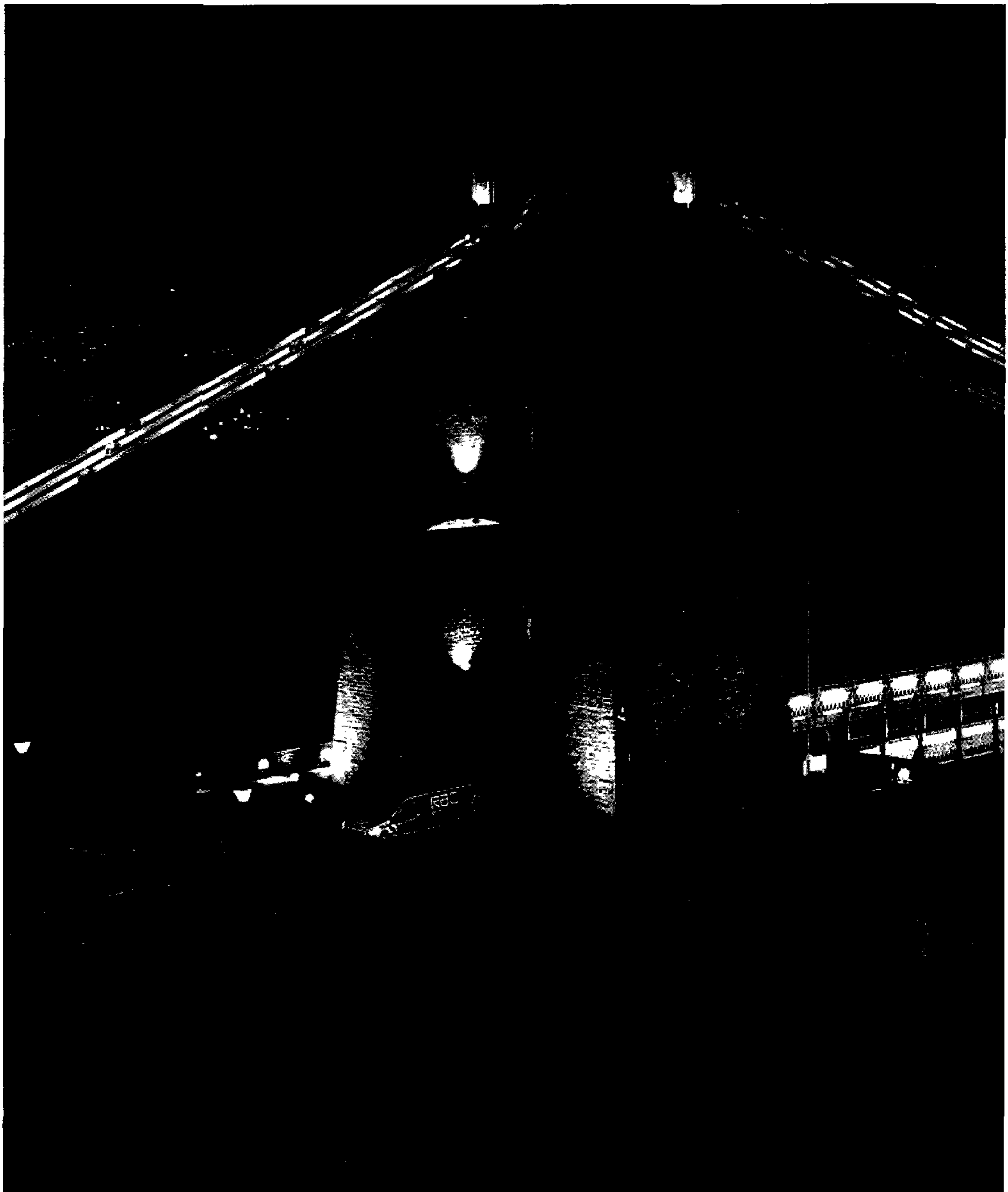
To this end, we recognise that our business, colleagues and members will benefit by a continued focus on ways in which we can encourage further diversity. During 2022, we have taken steps to improve the quality of data that we have in relation to diversity characteristics both for applicants at recruitment stage and colleagues to inform a more targeted DEI strategy.

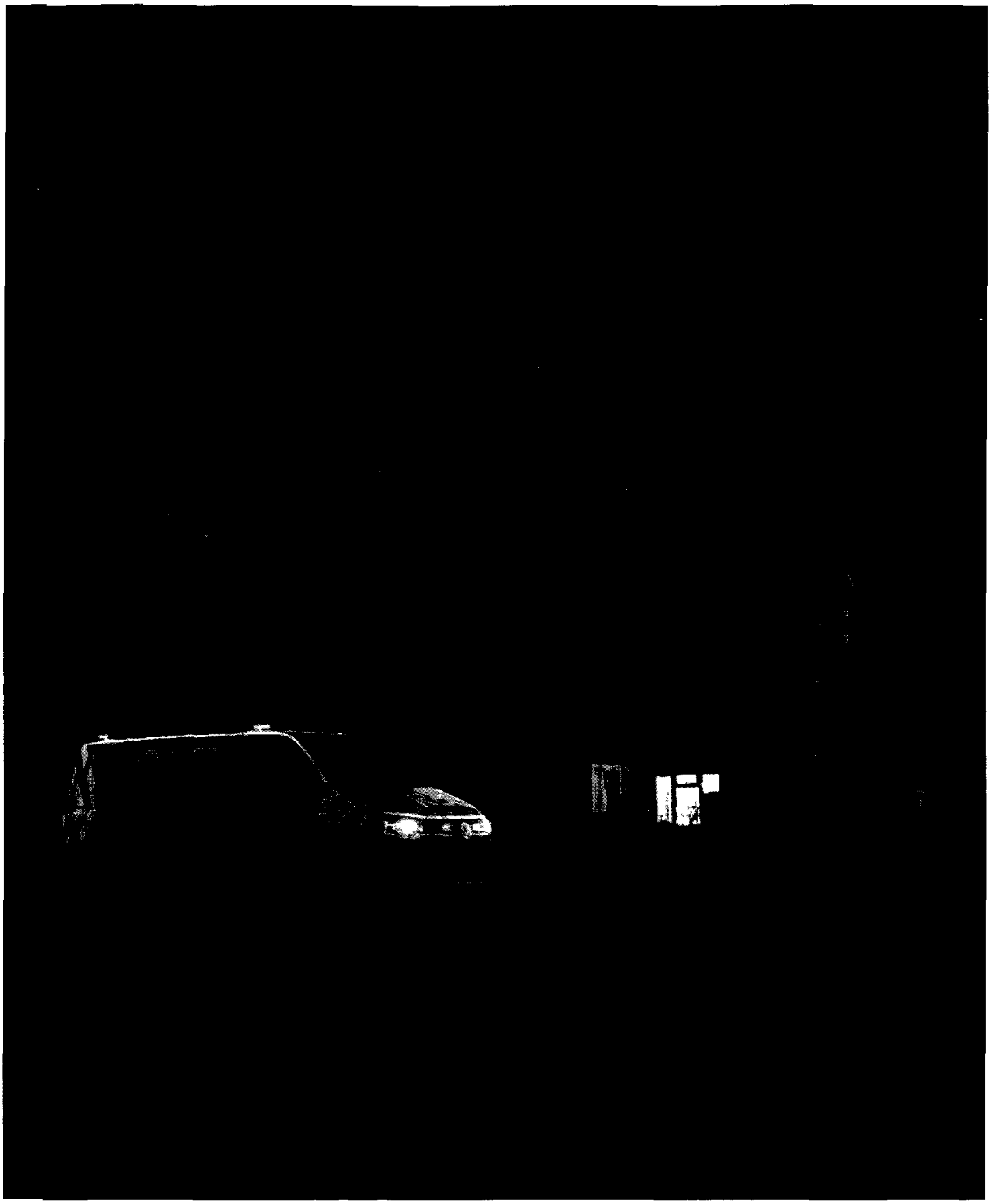
We have also participated in diversity networks for industry peers to exchange ideas and share best practice and our employment policies, procedures and practices to support a culture where decisions are based on individual ability and potential, eliminating as far as possible the risk of unconscious bias.

Governance

The primary responsibility of the Board is to promote the long-term success of the Company, creating and delivering sustainable shareholder value as well as contributing to society. To support this, we have formal governance structures running from the Board to the Executive Team and through the business to manage risk, compliance and strategy closely. For more information on this, please see our Governance Report on pages 70 – 85.

In 2022, under the supervision of our ESG Committee, we have made significant progress with implementation of the Task Force on Climate-related Financial Disclosures (TCFD) requirements which will be mandatory from 2023. This has included a detailed assessment of the climate change risks to the RAC. Having elected to voluntarily early adopt many of the recommendations in 2022, this is our first year of reporting climate-related disclosures (see pages 48 to 64). Climate related financial disclosures will become mandatory for the Group from FY 2023 and we will be further developing our reporting to be fully consistent with TCFD recommended disclosures in the next reporting period. This will include key metrics/indicators for progress against our ESG principles and objectives which will give us a true benchmark as to where we sit across these measures, enabling clear goals and targets to be set in 2023 and beyond.


RAC



Directors' report

For the year ending 31 December 2022

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and independent auditor's For the year ending 31 December 2022. Under the terms of the Companies Act 2006, the Directors' report is required to contain certain statutory, regulatory and other information.

The Directors have incorporated the business review, employee participation & diversity by cross-reference to the Corporate Social Responsibility report, as permitted by the Companies Act 2006.

Directors

The names of the current Directors are set out on page 1. Those who have served in office during the year and until the date of signing of this report have been as follows:

J Baker
M Boughton (resigned 14 March 2022)
T Gallico
J Galore (appointed 14 March 2022)
D Hobday
P Hooper
A Levy (resigned 14 March 2022, re-appointed 1 July 2022)
T Mohindra (appointed 1 September 2022)
H C Ormond (resigned 1 July 2022)
S I Patterson (appointed 14 March 2022)
R Templeman
G M Wood

Directors' report

For the year ending 31 December 2022

Directors' indemnities

The Company has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and novated to the Directors of this Company in December 2014. The provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 236 of the Companies Act 2006. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of the transitional provisions of the Companies Act 2006.

Results and dividends: The results of the Group For the year ending 31 December 2022 are set out on page 121 and discussed in the Strategic Report on pages 6 - 69.

The Group paid interim dividends of £345 million during the year, amounting to 101.73 pence per share (2021: £nil). No final dividend was paid (2021: £nil).

There are no final dividends proposed.

Capital structure: As at 31 December 2022, CVC Funds, GIC and Silver Lake, in aggregate, had control of the Group by virtue of their majority indirect shareholding in the Company.

Political donations: The Group did not make any political donations during the year (2021: £nil).

Financial risk management: Details of the Group's use of financial instruments, together with information on risk objectives and policies and exposure to market, credit, liquidity, and interest rate risks, can be found on pages 38 - 39 of the Strategic Report.

Streamlined energy & carbon reporting

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. RAC Bidco Limited are mandated to disclose their UK energy use and associated greenhouse gas emissions. Specifically, we are required to report, as a minimum, energy use and associated GHG emissions relating to natural gas, electricity, and transport fuel, as well as an intensity ratio and a narrative on energy efficiency action taken over the year.

There is no prescribed reporting methodology under the legislation, although for effective emissions management and transparency it is important that robust and accepted methods are used.

The RAC Bidco Limited waste data is collated by our external waste partner, Reconomy, for our offices and Ecobat for our field waste. Both provide regular reports to the RAC to enable us to monitor and implement improvements where necessary.

Transport fuel data and other energy use data is collated monthly or as frequently as it becomes available and used for ongoing analysis.

The RAC has assessed greenhouse gas emissions using the *'GHG Reporting Protocol - A Corporate Accounting and Reporting Standard'* and in accordance with Defras Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting requirements.

The reporting scope in the tables below is inclusive of the following operations:

- RAC Bidco Limited UK emissions
- Wholly owned UK subsidiaries in the RAC Group

The reporting scope includes the following energy sources (split between mandated figures with a total, and additional voluntary figures):

- Electricity used for RAC Bidco Ltd and subsidiary operations at RAC occupied buildings (scope 2, see row 1 in table A)
- Gas used to heat RAC Bidco Ltd and subsidiary operations at RAC occupied buildings (scope 1, see row 2 in table A)
- Transport fuel and mileage data used for RAC Bidco Ltd and subsidiary operations under RAC operational control (scope 1, see row 3 in table A), which includes purchased diesel for roadside fleet and fuel purchased on fuel cards. Fuel and distance data has been converted in kWh
- Transport fuel and mileage used for RAC Bidco Ltd and subsidiary operations under RAC operational control (scope 3, see row 4 in table A), which includes business mileage in personal vehicles, and business mileage in contractor vehicles. Fuel and distance data has been converted in kWh
- Water used for RAC Bidco Ltd and subsidiary operations at RAC occupied buildings (scope 3, see row 5 in table B)
- Waste generated at RAC Bidco Ltd and subsidiary occupied buildings (scope 3, see row 6 in table B),
- Vehicle waste generated from RAC Bidco Ltd and subsidiary operations (scope 3, see row 7 in table B).

For some data sources, assumptions have been used where energy and carbon use cannot be calculated exactly from primary data - for example where utility invoices are provided quarterly rather than monthly. These are recorded and any changes in source data and methodology in future years will be notified. All carbon emissions factors are taken from 'UK Government GHG Conversion Factors for Company Reporting' issued by Defra and BEIS, for the appropriate years.

The reporting scope covers energy used over the reporting period from 1st January 2022 - 31st December 2022, in line with the financial year. *Energy and carbon use for the 2021 year are also* shown, to allow year-on-year comparisons.

2019 is used as a baseline for our energy reduction targets.

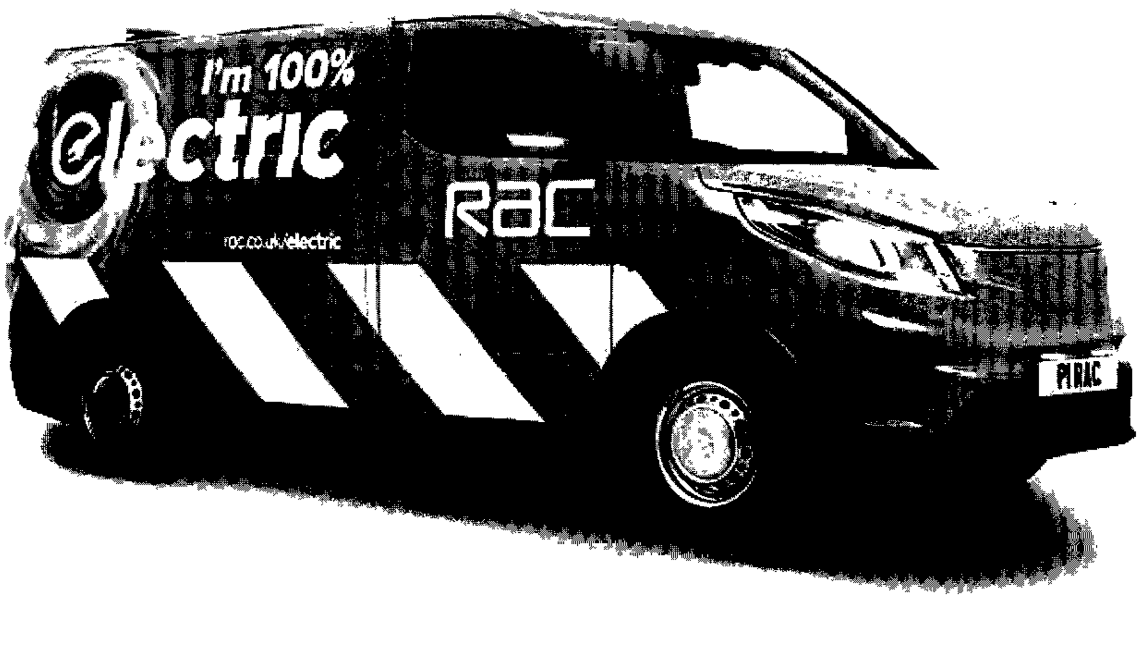
Directors' report
For the year ending 31 December 2022

Mandatory information*

Table A (Scope 1 & 2 emissions)

	RAC Bidco Ltd			
	2021		2022	
	Energy (kWh)	Emissions (tCO_2e)	Energy (kWh)	Emissions (tCO_2e)
Electricity Electricity for subsidiary operations at the RAC occupied buildings	4,395,746	933.35	3,952,475	755.75
Gas Gas for RAC and subsidiary occupied buildings	4,455,056	821.42	3,489,203	705.76
Transport fuel and mileage data Purchased diesel for roadside fleet and fuel purchased on fuel cards. Fuel and distance data has been converted in kWh	50,697,253	12,199.07	52,490,454	12,661.36
Transport fuel Business mileage in personal vehicles, and business mileage in contractor vehicles. Fuel and distance data has been converted in kWh	59,611,479	15,115.09	62,152,058	15,952.01
Total	**119,159,535**	**29,068.93**	**122,084,190**	**30,074.88**
Intensity ratio: kWh and tCO_2e / Total jobs	55.16	0.01346	60.82	0.01498

*The reporting scope includes the following energy sources (split between mandated figures with a total, and additional voluntary figures



Mandatory information* Table B (Scope 3 emissions (excluding supply chain))	RAC Bidco Ltd			
	2021		2022	
	Units (as shown)	Emissions (tCO_2e)	Units (as shown)	Emissions (tCO_2e)
Water				
Water used for RAC Group & subsidiary operations at RAC occupied buildings (scope 3)	13,406 m3	1.99	13,650m3	2.03
Wastewater				
Wastewater used for RAC Group & subsidiary operations at RAC occupied buildings	12,735 m3	3.46	12,968 m3	3.53
Office waste				
Waste used for RAC Group & subsidiary operations at RAC occupied buildings (scope 3)	114t	0.73	143t	6.78
Vehicle waste				
All aspects of roadside vehicle waste for RAC Group & subsidiary operations (Scope 3)	4.2t	0.09	5.2t	0.11
Total		**6.29**		**12.46**

*The reporting scope includes the following energy sources (split between mandated figures with a total, and additional voluntary figures

GHG emissions and energy use data

We have achieved some significant reductions in gas and electricity consumption during 2022. However, these reductions were counterbalanced by an increase in fuel consumption driven by the impacts of post COVID-19 operational demands. Consequently, our overall combined energy consumption from electricity, gas and transport fuel increased by approximately 3% compared with 2021.

Energy consumption

We are compliant with the Government and Environment Agencies Energy Saving Opportunities Scheme (ESOS Phase 2) and Streamlined Energy & Carbon Reporting. During the year, the business has achieved a 16.71% decrease in electricity and gas kW/hr combined consumption in offices even in the face of greater post COVID-19 occupancy in the buildings.

The significant reduction is a result of the on-going energy efficiency improvement projects being undertaken across our sites. The removal of mandated 100% fresh air ventilation being utilised through our BMS systems within the offices through the COVID-19 pandemic has also contributed to the energy reduction figures.

Our energy efficiency improvement programme

- Our Bescot site: we have replaced two chiller units, replaced the air handling unit system, and updated our external car park lighting to maximise energy efficiency and reduce costs.
- Our Bradley Stoke site: we have completed a project to replace and upgrade existing lighting for a more eco-efficient LED option across corridors, meeting rooms, the reception areas, and kitchens.
- Our Stretford site: Upgrade and replacement of the gas burners to maximise energy efficiency as well as a full internal eco efficient LED lighting upgrade.
- All our training sites have all had a full upgrade to LED lighting.
- We have reduced the cooling in the IT/Comms chilled server rooms and removed air conditioning units.

In addition to the above we have been monitoring our monthly consumption closely via the Building Management System (BMS) and utilities invoices to identify opportunities to further enhance our strategy throughout the year. For example, we identified an opportunity to optimise the efficiency of plant equipment by making improvements in our Heating Ventilation and Air Conditioning (HVAC) systems.

During 2022 there has been an increase in the water and wastewater volumes compared with 2021 as occupancy increased back to more normal levels post pandemic.

We have chosen our energy suppliers carefully, with sustainability in mind, currently using Drax/ Npower for our gas and electricity. Drax is the second largest sustainable biomass producer globally, and the UK's largest source of renewable power by output.

We have recently completed a Dynamic Thermal Modelling Assessment (DTMA). The thermal dynamic models are used to model the impact of various alternative systems and interventions; the output of the building models is then applied to other software modules to simulate the performance of various building plant and system arrangements.

These models have identified options for upgrades or modifications to our systems to reduce energy consumption and reduce our carbon footprint. Further analysis of the options will take place early in 2023 to identify the viable initiatives for us to take forward.

Transport

Our overall transport CO2 emissions increased by 4.75% largely due to changes in operational demands resulting in a greater number and distance of towing jobs, increased reliance on contractor recoveries and expanded post-COVID company car usage.

Our roadside fleet is fully compliant with the strictest Euro 6 emissions standard. Our vans are fitted with telematics and CCTV cameras and recording systems, which has helped us to review driving behaviours and identify where we can provide support, and target training and coaching efforts with a view to improving driver behaviour and reducing road risk, accident frequency and fuel consumption.

We continue with our ongoing program of informing and training our colleagues via internal campaigns and Continual Behavioural Training (CBT) programs such as, 'Safe and fuel-efficient driver training' and 'Environmental Management at the roadside' which for example, provide guidance to colleagues on how to deal with roadside generated waste and environmental incidents such as spillages.

In addition, we have a well-established Vehicle Tools and Equipment Group which operates a continuous improvement programme to identify where we may be able to adopt new technologies to enhance our vehicles and equipment.

The RAC continues to use the all-wheels up trailer which we developed in 2018 to support our ambition to reduce consumption by allowing us to either repair or tow c90% of our customers' vehicles where historically we would have had to send a second resource to recover the vehicle.

The lightweight, mobile electric vehicle (EV) charger capability which we introduced in 2019 was the first of its kind and removes the need to carry heavy, bulky batteries that must be recharged after each use or the need to put an out-of-charge vehicle on to a flatbed recovery truck to take it a short distance to a charge point.

RAC EV Boost has been uprated from 3.5kW to 5kW to increase the speed of charge for members who either run out of charge or encounter faulty charge points and adds around 10 miles of range in around 30 minutes or less. Approximately 200 RAC vans, around a fifth of our patrol fleet, are now fitted with EV Boost chargers.

We have won a host of awards for the EV Boost charger, including Best Use of Technology at the Motor Transport Awards 2021 and Best Product Development Innovation in the UK Business and Innovation Awards 2022.

In 2022, we continued to work with our motoring partners to explore, develop, trial, and test the use and viability of electric vehicles as a replacement for our current patrol and recovery vehicles. We will continue to conduct trials throughout 2023 to assess issues related to charging and range and to further understand how we might accommodate the challenges of reduced capability and inability to tow.

Finally, we have continued to update our company car fleet with a focus on supporting the transition to EVs, with 80% of our company cars now either hybrid or full EVs.

Gavin, patrol since 2006, North West

Directors' report
For the year ending 31 December 2022

Waste

The implications of post-COVID recovery have impacted on our waste metrics where, despite a range of initiatives to reduce waste, we have seen an impact from a combination of an increase in office occupancy and several ad-hoc waste clearance activities which had been delayed due to the pandemic.

During 2022, we implemented a campaign with colleagues focussed around reducing waste, 'EcoHeroes' which involved a number of initiatives including:

- Removal of single use plastics across our offices by removing single use cups and plastic cutlery, replaced by china mugs and wooden cutlery.
- Refreshing the recycling stations and communications regarding recycling to make it clearer which items can be recycled.
- Completing a communications campaign to promote various initiatives underpinning EcoHeroes amongst our colleagues.
- Building closer working relationships with our waste broker/providers to provide further comfort that we monitor and manage waste levels consistently.

Going concern:

The Directors have assessed the financial position and the future prospects and funding requirements of the RAC Bidco Limited Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 19 and 24 to the Consolidated Financial Statements. The RAC Bidco Limited Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 29 to the Consolidated Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 18-month period from the Statement of Financial Position date. The Directors considered a range of potential trading and market-related risks, including regulatory change, roadside demand and usage change, plus mitigating actions and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

The RAC Bidco Limited Group's and Company's business activities, together with their strategy for future growth and assessment of the key risks are set out in the Strategic Report on pages 24 to 33 and the Risk Management section on pages 34 to 47. The Directors also considered what mitigating actions the RAC Bidco Limited Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net liabilities of £128 million and net current liabilities of £348 million. The Group's net assets position largely reflects the value of separately identifiable intangible assets, offset by book value of issued bonds of £1,246 million and bank borrowings of £422 million.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Bidco Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2022 Company and Consolidated Financial Statements to be prepared on a going concern basis.

Auditor:

The appointment of the auditor for 2023 will be proposed to the Board at the July 2023 Board meeting.

Disclosure of information to the auditor:

Each person who was a director of the Company on the date that this report was approved confirms that, so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Statement of Directors' responsibilities:

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

In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information including on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Approved by the Board on 2 March 2023


rac

Financial statements

For the year ending 31 December 2022

Report on the audit of the financial statements

1. Opinion

In our opinion:

- The financial statements of RAC Bidco Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended.
- The group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards.
- The parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- The consolidated income statement.
- The consolidated statement of comprehensive income.
- The consolidated and parent company statements of financial position;
- The consolidated and parent company statements of changes in equity.
- The consolidated and parent company statement of cash flow.
- The accounting policies.
- The related notes 1 to 33 of the consolidated financial statements and 1 to 9 of the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard. We have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC'S Ethical standard to the group or the parent company.

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

3. Summary of our audit approach

Key audit matter	The key audit matters that we identified in the current year was the carrying value of goodwill and other indefinite useful life intangible assets. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the group financial statements was £7.8m which was determined on the basis of 3% of earnings before interest, taxation, depreciation, and amortisation (EBITDA) adjusted for exceptional items.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team. The statutory audit for the parent company and its subsidiaries was performed by a single audit engagement team at the same time. Our full scope audit procedures cover 99% of group revenue, profit before tax, EBITDA before exceptional items and net assets.
Significant changes in our approach	There have been no significant changes in our approach.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging group management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows, considering their consistency with other available information, historical performance of the group against previous forecasts and our understanding of the group businesses.
- Assessing management's stress and scenario testing including reverse stress testing and challenging Management's key going concern assumptions, assessing its consistency with other available information and our understanding of the Group.
- Evaluating whether the future forecasts and assumptions were used consistently between the group's going concern evaluation, goodwill impairment assessment and assessment of the recoverability of the intercompany receivables of the group companies. This included assessing the impacts of inflation and climate related risks, and the steps they will take in the event that economic and other factors deteriorate.
- Assessing compliance with financial covenants on the listed debt and the Senior Term Facility.
- Evaluating the appropriateness of disclosures in the financial statements relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Carrying value of goodwill and other indefinite useful life intangible assets

Key audit matter description	The group holds goodwill of £760m (2021: £878m) and indefinite life intangible assets including £837m (2021: £864m) in relation to the value of the RAC brand as at 31 December 2022. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is subject to an annual impairment test. The group's assessment of the carrying value of goodwill and indefinite useful life intangible assets involves directors' estimation concerning the future cash flows of each cash generating unit ('CGU'). The directors apply judgement in determining the associated discount and growth rates that reflect their view of future business prospects. The two CGUs are 'membership services' and 'insurance' as shown in note 5 to the financial statements. The most sensitive judgements in the determination of the carrying value of goodwill and other indefinite life intangible assets are the future cash flow forecasts and the rate applied in discounting the future cash flows. Inappropriate assumptions either due to fraud or error could give rise to a material misstatement. Management recognised an impairment on goodwill and indefinite life intangible assets of £152m (2021: nil) during the year for the insurance CGU as detailed on page 149. Further details of the key judgements involved and sources of estimation are detailed in accounting policies note F and note U, which relate to note 11 to the financial statements for goodwill and intangible assets.
How the scope of our audit responded to the key audit matter	We obtained an understanding of management's process and of the relevant controls identified around the carrying value of goodwill and other indefinite useful life intangible assets. We inspected and challenged management's impairment review accounting paper and assessed whether key judgements made were reasonable. This included gaining an understanding of the budget process that underpins the cashflow forecasts and assessed the five year forecast for reasonableness. We also evaluated whether management's value in use (VIU)calculations were prepared in accordance with the requirements of IAS 36:Impairment of assets. We involved our valuation specialists in assessing the methodology used to determine the discount rate for compliance with IAS 36 and market practice and independently determined a reasonable range for the discount rate and the long-term growth rate.

How the scope of our audit responded to the key audit matter (Continued)	We evaluated the historical accuracy for past five years of forecasts made by management by comparing them to actual results and challenged the reasonableness of the growth assumptions built into the forecasts. We also challenged whether the future forecasts and assumptions were used consistently across the preparation of the financial statements, including the evaluation of the going concern assumption for the RAC trading group. We independently recalculated the impairment recognised on the Insurance CGU to verify accuracy. We also assessed management's reverse stress testing and also performed additional stress testing to identify the circumstances in which further impairment, of either CGUs, would be required and assessed if these circumstances are reasonably plausible. We performed a 'stand back test' and used our internally generated discount rates to determine an independent range compared to rates used by directors for the VIU per CGU. We also assessed whether the disclosures in relation to the impairment of goodwill and indefinite useful life intangible assets were adequate.
Key observations	We concluded that Management's approach fell within our independently determined reasonable ranges for discount and growth rates. We concluded the cash flows used in the model were reasonable, the overall carrying value of goodwill and other indefinite life intangible assets at the year end and the related disclosures in the financial statements are appropriate.We concluded that the Management's methodology to determine VIU is in accordance with IAS 36.

Indy, mobile mechanic since 2022, West Midlands

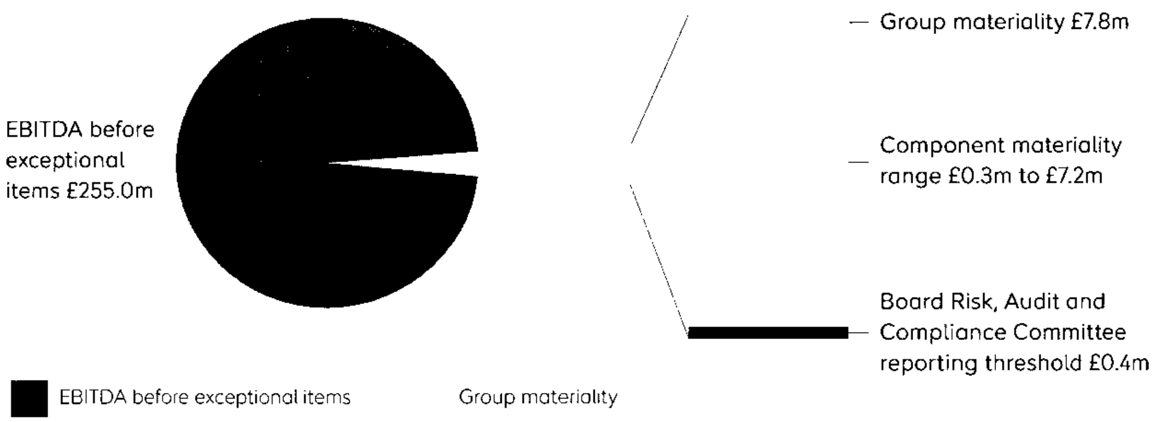
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	**Parent company financial statements**
Materiality	£7.8m (2021: £7.6m)	£5.5m (2021: £5.6m)
Basis for determining materiality	3.0% (2021: 3.0%) of EBITDA before exceptional items.	When determining materiality, as the parent company is part of RAC Bidco Limited group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into that group's results. Our determined materiality equates to 0.5% (2021: 0.5%) of the carrying value of investments held by the parent company.
Rationale for the benchmark applied	We determined materiality based on EBITDA before exceptional items as we considered this the most appropriate measure to assess the performance of the group, as it is a key measure used by stakeholders to assess and report performance of the business.	As the company is a holding company for the group, we determined the carrying value of investments to be the most appropriate benchmark in determining materiality.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	We determined performance materiality with reference to factors such as our understanding of the group, the entity's complexity and purpose within the group, the centralised finance function, the quality of the control environment and the low extent of material misstatements applicable to the group and parent company in previous audits.	

6.3. Error reporting threshold

We agreed with the Board Risk, Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £0.4m (2021: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Risk, Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, our group audit scope focused on all entities within the group and covered all of the material balances in the income statement and statement of financial position of the group.

We have performed a full scope audit on all entities within the group with the exception of Risk Telematics UK Limited, RAC Cars Limited, RACMS Ireland, RAC Employee Benefits Trust, RAC Group Limited, RAC Midco Limited, RAC Midco II Limited and RAC Motoring Services (Holdings) Limited which are exempt from statutory audit requirements and immaterial to the group. We performed analytical procedures at the group level for these entities.

All full scope audits were performed directly by the group audit team and executed at levels of materiality applicable to each individual entity that were lower than group materiality and ranged from £0.3m to £7.2m (2021: £0.6m to £7.3m). These account for over 99% (2021: 99%) of the group's revenue, net assets and EBITDA before exceptional items. At the company level, we have also performed testing over the consolidation process of group entities.

7.2. Our consideration of the control environment

We have not taken reliance over automated IT controls in the current year which is consistent with the prior year. With the involvement of the IT specialist, we have obtained an understanding of the IT control environment and relevant general IT controls in the period. We also obtained an understanding of relevant revenue business process and controls that address the risk of material misstatement in financial reporting. We did not take a controls reliance approach.

7.3. Our consideration of climate-related risks

As part of our audit, we have considered the impact of climate change on the group's operations and its impact on their financial statements. The group continues to implement and embed regulatory requirements in relation to climate change risk management, namely the Taskforce for Climate Related Financial Disclosures ('TCFD') and BEIS requirements including the Prudential Risk Authority (PRA). 'Financial risks from climate change' requirements. The group has voluntarily adopted many of the recommendations as detailed on pages 48-64 of the strategic report.

Our audit work involved challenging the risks identified and considered in the group climate risk assessment. We have read the disclosures in relation to climate change made in the other information within the annual report and ascertained whether the disclosures are materially consistent with the financial statements and our knowledge from our audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

- The nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets.
- Results of our enquiries of management, internal audit and the Board Risk, Audit and Compliance Committee about their own identification and assessment of the risks of irregularities.
- Any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
    - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance.
    - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud.
    - The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- The matters discussed among the audit engagement team and relevant internal specialists, including tax, valuation, pensions, IT, conduct risk and data analytics regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: carrying value of goodwill and other indefinite useful life intangible assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Irish Stock Exchange Plc (Euronext Dublin) Listing Rules, Companies Act 2006, pension and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the Prudential Regulation Authority (PRA) regulations, the Financial Conduct Authority (FCA) regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified carrying value of goodwill and other indefinite useful life intangible assets as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

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

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements.
- Enquiring of management, the Board Risk Audit and Compliance committee and in-house legal counsel concerning actual and potential litigation and claims.
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the PRA and the FCA.
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Board Risk, Audit and Compliance Committee, we were appointed by Board of Directors in 31 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 31 December 2014 to 31 December 2022.

14.2. Consistency of the audit report with the additional report to the Board Risk, Audit and Compliance Committee

Our audit opinion is consistent with the additional report to the Board Risk, Audit and Compliance Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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

Kieren Cooper, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom

02 March 2023

Consolidated financial statements
For the year ending 31 December 2022

James, patrol since 2017, East Midlands

Consolidated Income Statement

	Note	2022 £m	2021 Restated £m
Revenue	1	659	632
Cost of sales		(289)	(280)
Gross profit		**370**	**352**
Administrative expenses		(425)	(217)
Operating (loss)/profit	2	**(55)**	**135**
Adjusted EBITDA		260	254
Depreciation of owned tangible assets	13	(7)	(7)
Depreciation of right of use assets	14	(15)	(12)
Amortisation of customer acquisition intangibles	11	(8)	(8)
Amortisation of contract costs	12	(17)	(17)
Amortisation of non-customer acquisition intangible assets	11	(70)	(70)
Impairment	11	(152)	-
Adjusting items		(5)	-
Exceptional items	3	(41)	(5)
Operating (loss)/profit		**(55)**	**135**
Finance expenses	6	(81)	(72)
Finance income	6	34	-
(Loss)/profit before tax		**(102)**	**63**
Tax charge	10	(4)	(61)
(Loss)/profit for the year		**(106)**	**2**

All activities relate to continuing operations.
The accounting policies and notes on pages 126 to 175 are an integral part of these Financial Statements.

Consolidated Statement of Comprehensive Income

	Note	2022 £m	2021 £m
(Loss)/Profit for the year		(106)	2
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Actuarial gain	28	1	-
Net movement on cash flow hedges		19	9
Aggregate tax effect	10(c)	(5)	(2)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		15	7
Total comprehensive (expense)/income for the year		**(91)**	**9**

The accounting policies and notes on pages 126 to 175 are an integral part of these Financial Statements.

Consolidated financial statements

For the year ending 31 December 2022

Consolidated statement of financial position	Note	2022 £m	2021 £m
ASSETS			
Non-current assets			
Goodwill and intangible assets	11	1,662	1,860
Contract costs	12	33	32
Property, plant and equipment	13	32	35
Right of use assets	14	62	56
Other investments	15	23	3
Deferred tax asset	20	16	10
Derivative financial instruments	23	26	5
		1,854	2,001
Current assets			
Inventories	17	2	3
Trade and other receivables	18	71	401
Cash and cash equivalents	19	136	113
Current tax receivable		1	-
		210	517
LIABILITIES			
Current liabilities			
Borrowings	24(a)	(310)	(10)
Provisions	21	(3)	(1)
Trade and other payables	22	(245)	(226)
Current tax payable	20	-	(30)
		(558)	(267)
Net current (liabilities)/assets		(348)	250
Non-current liabilities			
Borrowings	24(a)	(1,358)	(1,660)
Employee benefit liability	28(c)(iv)	(3)	(4)
Trade and other payables	22	(60)	(60)
Deferred tax liability	20	(213)	(219)
		(1,634)	(1,943)
Net (liabilities)/assets		**(128)**	**308**
Equity			
Ordinary share capital	25	339	339
Hedging instruments reserve		18	4
Retained earnings		(485)	(35)
Total equity		**(128)**	**308**

The accounting policies and notes on pages 126 to 175 are an integral part of these Financial Statements.

Approved by the Board on 2 March 2023.

J Baker
Chief Financial Officer

Consolidated statement of changes in equity

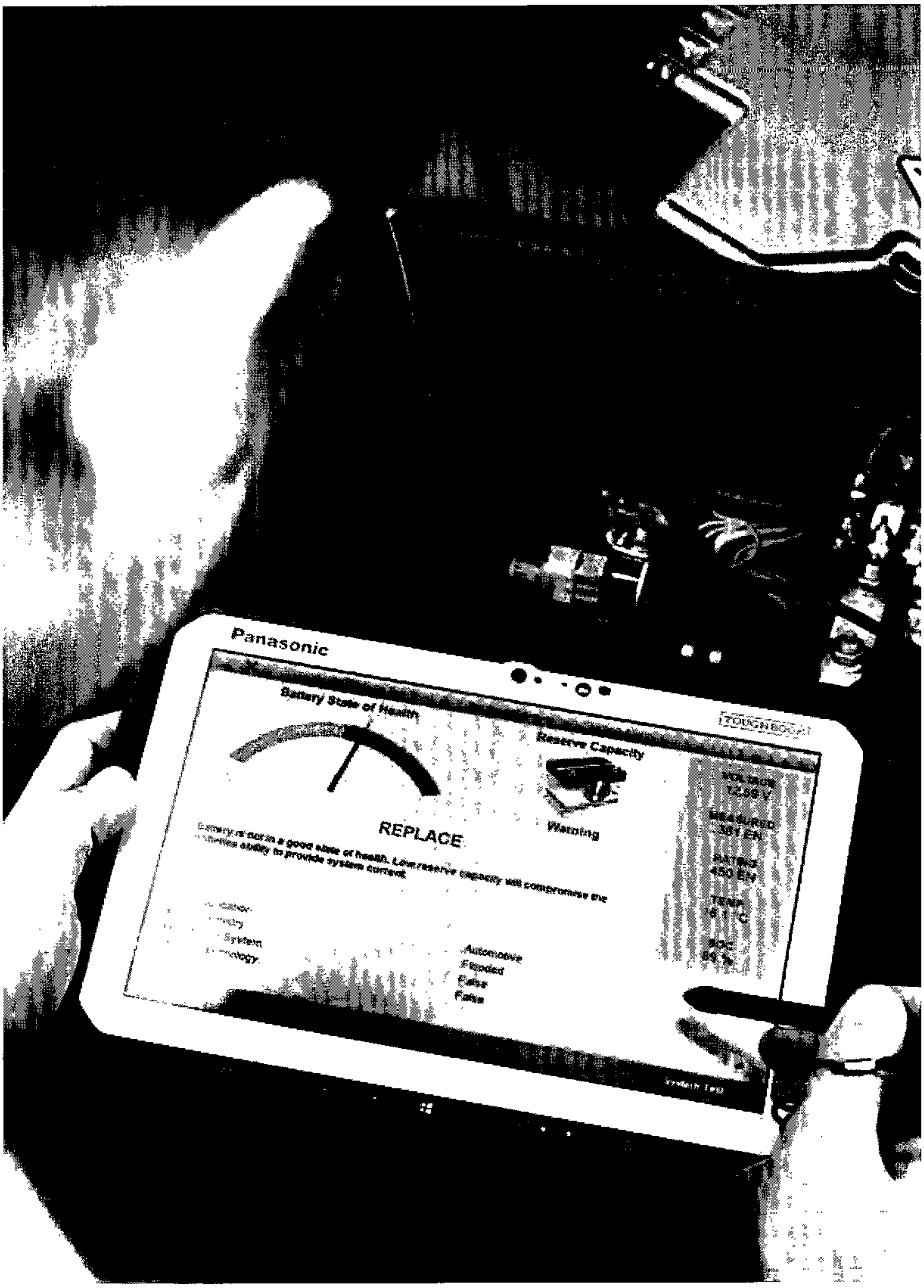
	Note	Ordinary share capital £m	Hedging instruments reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021		339	(3)	(37)	299
Profit for the year		–	–	2	2
Other comprehensive expense		–	7	–	7
Total comprehensive income		–	7	2	9
Dividends paid	4	–	–	–	
Balance at 31 December 2021		**339**	**4**	**(35)**	**308**
Profit for the year		–	–	(106)	(106)
Other comprehensive expense		–	14	1	15
Total comprehensive income/(expense)		–	14	(105)	(91)
Dividends paid	4	–	–	(345)	(345)
Balance at 31 December 2022		**339**	**18**	**(485)**	**(128)**

The accounting policies and notes on pages 126 to 175 are an integral part of these Financial Statements.

Consolidated financial statements
For the year ending 31 December 2022

Consolidated statement of cash flows	Note	2022 £m	2021 £m
Operating activities			
(Loss)/profit before tax		(102)	63
Adjustments to reconcile (loss)/profit before tax to net cash flows			
Depreciation of owned tangible assets	13	7	7
Depreciation of right of use assets	14	15	12
Amortisation	11 & 12	95	95
Impairment	11	152	-
Exceptional costs	3	41	5
Net finance expenses	6	47	72
Working capital adjustments			
Increase in inventories	17	1	1
Increase in trade and other receivables		(16)	(9)
Decrease in trade and other payables		5	(1)
Payment to employment benefit schemes		-	(1)
Operating cash impact of exceptional items		(20)	-
Taxation paid	20	(51)	(18)
Net cash flows from operating activities		**174**	**226**
Investing activities			
Investment income	15	21	-
Purchase of property, plant and equipment	13	(5)	(8)
Purchase of intangible assets	11 & 12	(49)	(41)
Net cash flows used in investing activities		**(33)**	**(49)**
Financing activities			
Repurchase of bonds	24	-	(210)
Repayment of bank debt	24	-	(139)
Proceeds from new bonds	24	345	-
Proceeds from new bank debt	24	-	265
Transaction costs	3	(17)	(4)
Repayment of principal obligations under leases		(18)	(14)
Dividends paid	4	(345)	-
Interest paid		(83)	(68)
Net cash flows used in financing activities		**(118)**	**(170)**
Net increase in cash and cash equivalents		**23**	**7**
Cash and cash equivalents brought forward	19	113	106
Cash and cash equivalents carried forward	19	**136**	**113**

The accounting policies and notes on pages 126 to 175 are an integral part of these Financial Statements.


Panasonic
Battery State of Health
Reserve Capacity
REPLACE
Warning
Automotive
Flooded
False
False

Accounting policies

A. Corporate information

RAC Bidco Limited, a private limited liability company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales, together with its subsidiaries (collectively, the "RAC Bidco Limited Group"), provides services and benefits to Members of the RAC and other motorists primarily in the UK. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

Information on RAC Bidco Limited Group's structure is provided in note 16. Information on related party relationships of the RAC Bidco Limited Group is provided in note 30.

The Consolidated and Parent Company Financial Statements of RAC Bidco Limited for the year ending 31 December 2022 were approved for issue by the Board on 2 March 2023.

B. Basis of preparation and basis of consolidation

Basis of preparation: The Consolidated Financial Statements presented have been prepared for the RAC Bidco Limited Group, which comprises RAC Bidco Limited and its subsidiaries. The Financial Statements of the RAC Bidco Limited Group and the Company have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets. The Financial Statements of the RAC Bidco Limited Group and the Company have been prepared in accordance with United Kingdom ("UK") adopted international accounting standards.

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

The Consolidated and Company Financial Statements are presented in pounds sterling, which is the presentation currency of the RAC Bidco Limited Group and the Company. 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 176. On publishing the Company Financial Statements here together with the RAC Bidco Limited Group Financial Statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Company's loss for the year ending 31 December 2022 was £34 million (2021: loss £1 million).

Restatement

During 2022, the Group assessed that where, as a result of discounting insurance premiums, the intermediary commission the insurance segment was entitled to was negative, i.e. an amount was payable, this consideration payable to a customer should be accounted for as a deduction to revenue in accordance with IFRS 15 Revenue from Contracts with Customers. Historically, certain negative commissions had been accounted for within cost of sales. This change reduces both revenue and cost of sales by £24 million for the year ending 31 December 2022 (2021: £21 million) but has no impact on EBITDA or operating profit.

Application of new and revised International Financial Reporting Standards ("IFRSs"): The following new and amended IFRSs are effective and relevant for these Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Financial Statements.

- Amendments to IAS 16, IFRS 3, IAS 37 and Annual Improvements to IFRS Standards 2018-2020.

At 31 December 2022, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the UK:

- IFRS 17 and Amendments to IFRS 17[1]

- Amendments to IAS 1 and IFRS Practice Statement 2[1]
- Amendment to IAS 12 and 8[1]
- Amendment to IFRS 16[2]

[1]Effective for annual periods commencing on or after 1 January 2023

[2]Effective for annual periods commencing on or after 1 January 2024

IFRS 17 Insurance Contracts comes into force for accounting periods commencing on or after 1 January 2023. The Group has conducted a preliminary review of each of the customer contracts across its operating segments to identify those which will be impacted by the new accounting standard on insurance contracts. Following this preliminary review, the Group expects to utilise the Fixed Fee Service Exemption and Premium Allocation Approach simplification. Work to assess the full impact of the adoption of IFRS 17 Insurance Contracts on the Group's financial statements is being finalised with the Group's external independent actuary, notably the area of claims provisioning for non-breakdown related insurance products, the value of which, under the current standard (IFRS 4: Insurance Contracts), is £4 million at 31 December 2022. In addition, the Group has identified that the new accounting standard will impact on the Group's accounting policies relating to acquisition cash flows, revenue recognition, and insurance contract liabilities including the use of discounting. The changes to accounting policies will be finalised during 2023 and included in the Group's financial statements for the year ending 31 December 2023. The full impact of the adoption of IFRS17 will be validated through the course of 2023.

Going concern: The Directors have assessed the financial position and the future prospects and funding requirements of the RAC Bidco Limited Group and the Company and compared them to the level of available committed borrowing facilities. The Company is integral to the Group's performance and therefore the group-wide assessment is relevant to the Company. Details of cash and borrowing facilities are set out in notes 19 and 24 to the Consolidated Financial Statements. The RAC Bidco Limited Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 29 to the Consolidated Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 18-month period from the Statement of Financial Position date. The Directors considered a range of potential trading and market-related risks, including regulatory change, roadside demand and usage change, plus mitigating actions and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

The RAC Bidco Limited Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 6 to 69. The Directors also considered what mitigating actions the RAC Bidco Limited Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net liabilities of £128 million and net current liabilities of £348 million. The Group's net liability position largely reflects the value of separately identifiable intangible assets, offset by the book value of issued bonds of £1,246 million and bank borrowings of £422 million. The Group's third party borrowings have an average time to maturity of five years. The Group's net current liabilities position is largely due to £300m of Class A1 Bonds which are repayable in 2023 and for which an alternative facility has been arranged.

The Company has net assets of £695 million and net current liabilities of £47 million. The Directors have considered the financial position and future prospects of the Company.

Accounting policies

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Bidco Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2022 Company and Consolidated Financial Statements to be prepared on a going concern basis.

Basis of consolidation: The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2022.

Subsidiaries are those entities in which the RAC Bidco Limited Group, directly or indirectly, has power to exercise control. Control is achieved when the RAC Bidco Limited Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the RAC Bidco Limited Group controls an investee if and only if it has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

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

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The RAC Bidco Limited Group's voting rights and contractual voting rights.

The RAC Bidco Limited Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the RAC Bidco Limited Group obtains control over the subsidiary and ceases when it no longer has control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income from the date the RAC Bidco Limited Group gains control until the date that it ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributed to the equity holders of the parent of the RAC Bidco Limited Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the Financial Statements of the subsidiaries to bring their accounting policies in line with the RAC Bidco Limited Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the RAC Bidco Limited Group are eliminated in full on consolidation.

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 at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. 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.

Investments in subsidiary: A subsidiary is an entity over which the RAC Bidco Limited Group exercises control. Within the Parent company Financial Statements, investments are accounted for at historical cost, less any provision for impairment.

Business combinations: Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the RAC Bidco Limited Group, liabilities incurred by the RAC Bidco Limited Group to the former owners of the acquiree and the equity interest issued by the RAC Bidco Limited Group in exchange for control of the acquiree. Acquisition related costs are recognised in the Income Statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in the Income Statement as a bargain purchase gain.

When the consideration transferred by the RAC Bidco Limited Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the Income Statement.

Accounting policies

C. Revenue recognition

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

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

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

Commission and arrangement fees: Income is received from insurance brokerage services for the arrangement and administration of roadside assistance, motor, home and other insurance policies on behalf of the underwriter. Revenue is recognised at a point in time at the effective commencement date or renewal date of each policy. The transaction price is variable.

Interest income: Interest income is recognised in accordance with IFRS 9 when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income: Dividend income from investments is recognised when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefit will flow to the Group and the amount can be reliably measured).

D. Exceptional items

Items which are considered by management to be material by size and/or nature and non-recurring are presented separately on the face of the Consolidated Income statement. Management believe that the separate reporting of exceptional items helps provide an indication of the RAC Bidco Limited Group's underlying business performance. Events which may give rise to a classification of items as exceptional include costs associated with business acquisitions, significant corporate transactions, refinancing, gains or losses on the disposal of businesses, strategic developments and restructuring of businesses.

E. Contract costs

Contract costs represent incremental costs to obtain contracts which are third party commissions and fees arising as a result of a direct sale of a non-insurance product. These costs are amortised on a straight-line method over the life of the policies, typically 2 to 5 years, which is driven by internal customer retention rate analysis.

Theresa, Consumer Roadside since 2013

Accounting policies

F. 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 RAC Bidco Limited Group's share of the net assets of the acquired subsidiary at the acquisition date. Goodwill is carried at cost, less any impairment subsequently incurred.

Brand: 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.

Customer lists and other intangible assets: Customer lists and other intangible assets consist of IT projects and infrastructure, and contractual relationships such as access to distribution networks and acquired customer lists. The economic lives are determined by relevant factors which include usage of the asset, typical product life cycles, stability of the industry, competitive position and period of control over the assets. These intangibles are amortised over their useful lives, which range from two to ten years using the straight line method.

The amortisation charge for the period is included separately within the Consolidated Income statement in administrative expenses. A provision for impairment is charged where evidence of such an impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Customer acquisition intangibles: The RAC Bidco Limited Group expenses acquisition costs as incurred, with the exception of third party commissions and fees arising as a result of a direct sale of an insurance product, which are capitalised as customer acquisition intangibles.

The customer acquisition intangible is initially recognised at cost and subsequently amortised straight-line over the useful economic life of the policies, typically 4 to 5 years, which is driven by internal customer retention rate analysis

Intangible assets acquired in a business combination: Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment testing: For impairment testing, goodwill has been allocated to the two cash generating units ("CGUs") that exist as these represent the lowest level within the Group which generates independent cash inflows. 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. Details of the testing performed and carrying values of goodwill and intangibles is shown within note 11.

G. Property, plant and equipment

Owner-occupied properties are carried at their revalued amounts, being the fair value at the date of revaluation, which are supported by market evidence, and movements are taken to a separate reserve within equity. A revaluation deficit is recognised in the Consolidated Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Third party valuations are obtained every three years to support management's internal valuations, carried out on an annual basis.

The fair value has been calculated on the investment method of valuation, as to generate value the property would most likely be purchased by an investor who would seek to let the accommodation to a tenant or tenants.

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

Fixtures, fittings and other equipment	2–10 years
Computer equipment	4 years

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

H. Other investments

Other investments are those investments where the Company does not have signficant influence over the entity. These investments are accounted for as financial assets under IFRS 9 "Financial Instruments". At initial recognition the financial asset is measured at its fair value being the transaction price minus any directly attributable transaction costs. Subsequently the financial asset is measured at fair value through profit or loss. The Directors assess the investments annually for impairment by comparing their carrying value to the recoverable amount. An impairment loss is recognised where the carrying value exceeds the recoverable amount.

I. Inventories

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

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.

Accounting policies

K. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is recognised on trade receivables if there is considered to be expected credit losses. The amount of expected credit losses is calculated using the simplified approach as allowable under IFRS 9 and is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income Statement in other *operating expenses.*

L. Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks and treasury bills that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values. *For the purposes of the statement of cash* flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities in the Consolidated Statement of Financial Position.

M. Borrowings

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

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

Borrowings are classified as current liabilities unless the RAC Bidco Limited Group has an unconditional right to defer settlement of the liability for at least 12 months after the Consolidated Statement of Financial Position date.

N. Derivative financial instruments

The RAC Bidco Limited Group holds derivative financial instruments, in the form of interest rate swaps, to hedge its interest rate exposures. Derivatives are recognised initially and subsequently at fair value. Any gains or losses arising from changes in fair value of derivative financial instruments are taken directly to the Income Statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs.

Financial assets at fair value through the Income Statement are carried in the Consolidated Statement of Financial Position at fair value with net changes in fair value presented as other losses (negative net changes in fair value) or other gains (positive net changes in fair value) in the Consolidated Income Statement.

The RAC Bidco Limited Group also has forward contracts for fuel purchases for a period of up to twelve months in order to hedge the variability of cash flows associated with the purchasing of fuel for use in the Group's operational fleet of patrols and recovery vehicles. These contracts are not accounted for as derivatives as they are for the RAC Bidco Limited Group's own use and are therefore outside the scope of IFRS 9 Financial Instruments.

O. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement, and is included in the 'net finance expenses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the Consolidated Income Statement in the periods when the hedged item is recognised in the Consolidated Income Statement, in the same line of the Consolidated Income Statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the RAC Bidco Limited Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Income Statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the Consolidated Income Statement.

Accounting policies

P. Provisions and contingent liabilities

Provisions are recognised when the RAC Bidco Limited Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the RAC Bidco Limited 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.

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.

Q. 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 other comprehensive income or equity. In this instance, the income taxes are also (charged)/credited directly to other comprehensive income or equity respectively.

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

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the initial recognition of goodwill, nor the initial recognitions of assets or liabilities that affect neither the accounting profit nor taxable profit or loss other than in a business combination.

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

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

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

R. Leases

All items classified as Right of Use assets within the Consolidated Statement of Financial Position are carried at the present value of the minimum lease payments less accumulated depreciation and any provision for impairment. Depreciation is calculated using the straight-line method over the life of the lease, typically either 5 or 25 years for vehicles and properties respectively. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

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

The nature of the leases included within the Right of Use assets are vehicles and properties.

Short-term and low-value leases are recognised as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less.

S. Employee benefits

Pension obligations and other post-retirement benefit obligations: The RAC Bidco Limited Group operates two post-employment benefit plans, a funded plan (the assets of which are held in separate trustee-administered funds, funded by payments from employees and the RAC Bidco Limited Group), and an unfunded unapproved pension scheme.

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

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

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

Accounting policies

S. Employee benefits (continued)

Costs charged to the Consolidated 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).

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The RAC Bidco Limited Group recognises the following changes in the net defined benefit obligation under cost of sales, administrative expenses and finance expenses in the Consolidated Income Statement:

- Service costs comprising current service costs, past service costs, gains and losses on curtailment and non-routine settlements.
- Net interest expense or income.

Termination benefits: The RAC Bidco Limited Group provides termination benefits. All termination costs are charged to the Consolidated Income statement when constructive obligation to such costs arises.

T. 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.

ii. The instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

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

U. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Financial Statements in conformity with UK adopted international accounting standards requires the RAC Bidco Limited Group to make estimates and judgements using 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 reporting date. Estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Set out below are items where management have taken a judgement or which management consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

i. Critical judgements in applying the RAC Bidco Limited Group's accounting policies: The Directors do not consider there to be any critical judgements at the Statement of Financial Position date.

ii. Key sources of estimation uncertainty: The key assumptions concerning the future and other key sources of estimation uncertainty at the Consolidated Statement of Financial Position date are discussed below:

Impairment of goodwill and indefinite lived intangible assets: Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at 31 December 2022 and 31 December 2021 was £1,597 million and £1,742 million respectively.

The RAC Bidco Limited Group performs impairment testing annually in Q4 and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU.

The recoverable amount of each unit is determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2027. The growth rate used to extrapolate future cash flows beyond the Group's forecasts for both CGUs is 2.5%, based on the expected average long-term growth rate of the UK economy. The pre-tax discount rate of 11% applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

This assessment was based on management's forecasts and cash flow assumptions. The key assumptions in this assessment are future cash flows growth rate beyond 2027 and pre-tax discount rate. If the future cash flows growth rate were to increase from 2.5% to 3.5%, the effect on the Group for this increase would be to increase headroom within the Membership Services CGU by £296 million and reduce the impairment on the Insurance CGU by £11 million. If the short-term growth rate were to reduce to 5%, this would reduce the headroom within the Membership Services CGU by £819 million and increase the impairment within the Insurance CGU by £12 million.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RAC

1. Revenue

	2022 £m	2021 Restated £m
Sale of products – transferred at a point in time	35	35
Sale of services (see note 5 for categorisation of revenue)	624	597
Total revenue	**659**	**632**

All revenue is generated from the sale of products and services in the UK.

2. Operating items

	2022 £m	2021 £m
Depreciation of owned tangible assets (note 13)	7	7
Depreciation of right of use assets (note 14)	15	12
Amortisation of customer acquisition intangible assets (note 11)	8	8
Amortisation of non-customer acquisition intangible assets (note 11)	70	70
Amortisation of contract costs (note 12)	17	17
Impairment	152	-
Exceptional items	41	5
Government assistance	-	(2)
Employee costs (note 8)	174	166

Government assistance relates to the use of the Coronavirus job retention scheme which was claimed in 2020 and repaid by the Group in 2021.

3. Exceptional items

	2022 £m	2021 £m
Transaction costs	19	3
Colleague awards	18	-
Strategic initiatives	3	-
Restructuring	1	2
	41	**5**

During 2021 Silver Lake entered into a transaction to become a co-shareholder in the Group, which completed in March 2022. As part of this transaction, £19 million (2021: £3 million) of associated costs were incurred.

Various one-off payments were made under colleague schemes, the majority as a result of this transaction in March 2022, incurring £18 million of costs.

Following the introduction of Silver Lake as a co-shareholder, the Group incurred £3 million of costs as part of a broad strategic review of several areas of the business. Related to the strategic reviews and broader cost reduction measures, a further £1 million was incurred to restructure certain activities of the Group.

4. Dividends

The Group paid interim dividends of £345 million during the year, amounting to 101.7 pence per share (2021: £nil). No final dividend was paid (2021: £nil).

5. Operating segments

The Group is primarily UK based and is a consumer services subscription business providing a differentiated range of driving and mobility related services, principally breakdown assistance, for consumer and business customers, and retail motor and telematics insurance products underwritten by a panel of leading insurers. Management has determined the operating segments based on the management accounts reviewed by the Board of Directors, which are used to assess the performance of the business. The Board of Directors has been identified by management to reflect the chief operating decision maker in accordance with the requirements of IFRS 8 Operating Segments. The two operating and reportable segments of the Group are described as:

Membership services: Membership services is the largest operating segment of the business, offering breakdown cover and related products to Individual Members, SME and Corporate Partners. In addition this segment includes the other products and services such as recall and inspections, accident management services, branded customer services, telematics devices, retail online, garage services, service maintenance and repair, legal advisory services and RAC Cars.

Insurance: The insurance segment predominantly acts as an insurance intermediary with minimal underwriting risk. A range of insurance products are offered and the majority of the revenue generated from this operating segment is driven by motor insurance products including those which include use of a telematics device.

Paul, patrol since 2006, South East

Notes to the consolidated financial statements
RAC Bidco Limited

5. Operating segments (continued)

The following is an analysis of the RAC Bidco Limited Group's revenue and results by operating segment. There were no inter segment sales during the periods reported and no individual customer contributed 10% or more to the RAC Bidco Limited Group's revenue.

	2022 £m	2021 Restated £m
Revenue of products		
Membership services - transferred at a point in time	35	35
Revenue of services		
Membership services - insurance related - transferred over time	441	401
Membership services - non-insurance related - transferred at a point in time	124	123
Insurance - transferred at a point in time	59	73
Group revenue	**659**	**632**
Segment EBITDA before head office costs		
Membership services	263	255
Insurance	36	46
Group EBITDA before head office costs	**299**	**301**
Head office costs*	(44)	(47)
Group EBITDA before exceptional items	**255**	**254**
Amortisation of intangible assets	(95)	(95)
Depreciation	(22)	(19)
Impairment	(152)	-
Exceptional items*	(41)	(5)
Operating profit	**(55)**	**135**
Finance expenses	(81)	(72)
Investment income	34	-
(Loss)/profit before tax from continuing operations	**(102)**	**63**

*These costs are not internally analysed into separate operating segments.

Assets and liabilities: For the purpose of monitoring segment performance, working capital analysis is presented to and monitored by the Board at a RAC Bidco Limited Group level, to enable a meaningful review of the economic environment of the business as a whole. As the financial information is reviewed by type, segmental analysis of assets and liabilities by function is not regularly provided to management and has not been presented within the financial information.

6. Finance expenses

	2022 £m	2021 £m
Interest payable - third parties	72	64
Interest payable - lease liabilities	3	3
Amortisation of capitalised finance costs	4	3
Refinancing costs	2	-
Write off of capitalised finance costs	-	2
EBT Investment income	(34)	-
	47	**72**

Interest payable to third parties relates to finance expenses in respect of third party borrowings.

All of the finance expenses except investment income relate to financial liabilities held at amortised cost.

Employee Benefit Trust ("EBT") investment income relates to gains generated from the sale of RAC Group (Holdings) Ltd shares, held by the EBT to Silver Lake.

7. Auditor remuneration

The total remuneration payable by the RAC Bidco Limited Group, excluding VAT, to its auditor, Deloitte LLP, is shown below.

	2022 £000	2021 £000
Non-audit services	15	255
Audit services		
Audit of financial statements	79	69
Audit of subsidiaries	420	370
Total remuneration payable to Deloitte LLP	**499**	**439**

8. Employee information

The Company has no employees. All employees of the RAC Bidco Limited Group are employed by and have their employment contracts with RAC Motoring Services, a wholly owned subsidiary.

	2022 number	2021 number
The monthly average number of persons employed during the year was:		
Membership Services	3,624	3,457
Insurance	22	20
Support	322	354
	3,968	**3,831**

	2022 £m	2021 £m
Total staff costs were:		
Wages and salaries	147	141
Social security costs	18	16
Pension costs	9	9
	174	**166**

	2022 £m	2021 £m
These costs were charged within:		
Cost of sales	120	123
Administrative expenses	54	43
	174	**166**

9. Directors

Executive Directors are remunerated as employees by RAC Motoring Services, a wholly owned subsidiary.

Details of the aggregate remuneration of the Directors of the Company for qualifying services in respect of the RAC Bidco Limited Group comprise:

	2022 £000	2021 £000
Fees and benefits	2,864	1,986
	2,864	**1,986**
Emoluments of the highest paid Director:		
Fees and benefits	1,239	1,025
	1,239	**1,025**

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to 1 Director (2021: 1) under a money purchase scheme. During the year no Directors (2021: none) were awarded shares under long-term incentive schemes.

10. Tax

(a) Tax charged to the Consolidated Income Statement	2022 £m	2021 £m
The total tax charge comprises:		
Current tax:		
For the year	21	22
Adjustment in respect of prior periods	-	-
Total current tax	21	22
Deferred tax:		
Origination and reversal of temporary differences	(14)	(10)
Adjustment in respect of prior periods	(3)	-
Effect of change in tax rate	-	49
Total deferred tax	(17)	39
Total tax charged to the consolidated income statement	**4**	**61**

10. Tax (continued)

(b) Tax reconciliation

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

	2022 £m	2021 £m
(Loss)/profit before tax	(102)	63
Tax calculated at standard UK corporation tax rate of 19.00% (2021: 19.00%)	(19)	12
Disallowable expenses	31	-
Prior year adjustment	(3)	-
Effect of change in tax rate	-	49
Non taxable income	(5)	-
Total tax charged to the consolidated income statement (note 10(a))	**4**	**61**

The headline rate of UK corporation tax is currently 19%. In accordance with the Spring Budget 2021 the main rate of corporation tax will remain at 19% for the accounting periods up to and including the years ending 31 March 2023. For accounting periods ending on or after 1 April 2023 the main rate of corporation tax will increase to 25%.

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Therefore, deferred tax balances from the substantively enacted date of 24 May 2021 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax charged directly to other comprehensive income in the year amounted to £5 million (2021: £2 million) in respect of tax on movements in hedging instrument fair values.

11. Goodwill and intangible assets

	Goodwill £m	Brand £m	Acquired value in-force £m	Customer list £m	Other £m	Non customer acquisition intangibles subtotal £m	Customer acquisition intangibles £m	Total £m
Cost:								
At 1 January 2021	878	864	89	536	66	2,433	54	2,487
Additions	–	–	–	–	17	17	7	24
Disposal	–	–	–	–	–	–	–	–
At 31 December 2021	**878**	**864**	**89**	**536**	**83**	**2,450**	**61**	**2,511**
Additions	–	–	–	–	23	23	8	31
Write Off	–	–	–	–	(9)	(9)	–	(9)
At 31 December 2022	**878**	**864**	**89**	**536**	**97**	**2,464**	**69**	**2,533**
Amortisation:								
At 1 January 2021	–	–	89	423	28	540	33	573
Charge for the year	–	–	–	58	12	70	8	78
Disposal	–	–	–	–	–	–	–	–
At 31 December 2021	**–**	**–**	**89**	**481**	**40**	**610**	**41**	**651**
Charge for the year	–	–	–	55	15	70	8	78
Impairment	118	27	–	–	6	151	–	151
Write Off	–	–	–	–	(9)	(9)	–	(9)
At 31 December 2022	**118**	**27**	**89**	**536**	**52**	**822**	**49**	**871**
Net book value:								
At 31 December 2022	**760**	**837**	**–**	**–**	**45**	**1,642**	**20**	**1,662**
At 31 December 2021	878	864	–	55	43	1,840	20	1,860

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within administrative expenses in the Consolidated Income Statement. As a result of the macro-economic conditions and the effect of regulatory changes an impairment of £151 million has been recognised during the year (2021: £nil). Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated Income Statement.

During 2022, further work has been completed regarding those assets which fall within the scope of Software-as-a-Service costs. This has identified £9 million of previously capitalised other intangible assets (of which £5m relates to 2021 and prior years) that should be written off. These have been adjusted in 2022 through the income statement due to not being deemed material for a prior year adjustment. The relevant costs are immaterial for the year ending 31 December 2022, however if these costs were material they would be separately presented on the face of the Income Statement.

11. Goodwill and intangible assets (continued)

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the two cash generating units ("CGU") further details of which are given in note 5. The carrying value of the goodwill and indefinite-lived intangible assets allocated across the two CGUs is £760 million and £837 million respectively.

	2022		2021	
	Goodwill £m	**Indefinite-lived intangibles £m**	**Goodwill £m**	**Indefinite-lived intangibles £m**
Membership services	760	749	760	749
Insurance	–	88	118	115
	760	**837**	**878**	**864**

The RAC Bidco Limited Group performs impairment testing annually in Q4 and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU. The recoverable amount of each unit is determined based on a value-in-use calculation using cash flow projections from the Group's budget and management's forecast up to 2027. The growth rate used to extrapolate future cash flows beyond the Group's forecasts for all CGUs is 2.5%, based on the expected average long-term growth rate of the UK economy. The pre-tax discount rate of 11% (2021: 10%) applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key assumptions used in management forecasts include:

- Individual members and insurance customers having high customer loyalty and retention rates resulting in a stable and predictable revenue stream.
- Success rates for Corporate Partner contract renewals based on historical experience.
- Cost discipline and operational efficiencies.

The above assumptions are calculated based on recent performance, adjusted for expected future cash flows. The calculation of the value-in-use is most sensitive to the assumptions in the discount rate, the growth rate and the customer retention rate. Retention rates are derived from internal retention rate analysis and are considered by management to be a best estimate.

12. Contract costs

	Costs to obtain contracts £m	Total £m
Cost or valuation:		
At 1 January 2021	106	106
Additions	17	17
Disposals	(6)	(6)
At 31 December 2021	**117**	**117**
Additions	18	18
At 31 December 2022	**135**	**135**
Depreciation:		
At 1 January 2021	74	74
Charge for the year	17	17
Disposals	(6)	(6)
At 31 December 2021	**85**	**85**
Charge for the year	17	17
At 31 December 2022	**102**	**102**
Net book value:		
At 31 December 2022	**33**	**33**
At 31 December 2021	32	32

Costs to obtain contracts relate to third party commissions and fees arising as a result of a direct non-insurance sale accounted for under IFRS 15. These costs are amortised on a straight-line method over the life of the policies, typically 2 to 5 years, which is driven by internal customer retention rate analysis.

13. Property, plant and equipment

	Owner occupied property £m	Fixtures, fittings and other equipment £m	Computer equipment £m	Total £m
Cost or valuation:				
At 1 January 2021	3	51	13	67
Additions	–	8	–	8
At 31 December 2021	**3**	**59**	**13**	**75**
Additions	–	5	–	5
Disposals	–	(20)	–	(20)
At 31 December 2022	**3**	**44**	**13**	**60**
Depreciation:				
At 1 January 2021	–	27	6	33
Charge for the year	–	7	–	7
At 31 December 2021	**–**	**34**	**6**	**40**
Charge for the year	–	7	–	7
Impairment	–	1	–	1
Disposals	–	(20)	–	(20)
At 31 December 2022	**–**	**22**	**6**	**28**
Net book value:				
At 31 December 2022	**3**	**22**	**7**	**32**
At 31 December 2021	3	25	7	35

The carrying value of all property, plant and equipment shown in the table above is consistent with disclosure on a historical cost basis. £1 million of impairment has been recognised in respect of the Insurance CGU, please see note 11 for further details

In line with the Group's accounting policy, management considered whether there were any indicators of a significant change in the value of the owner-occupied property, since the previous valuation by Colliers International, an accredited international valuer, in November 2021. Management did not consider there to be a material change in the fair value of the property at the statement of financial position date.
If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2022 and 31 December 2021 would be £3 million.

14. Right of Use assets

	Property £m	Vehicles £m	Total £m
Cost or valuation:			
At 1 January 2021	**45**	**45**	**90**
Additions	–	7	7
At 31 December 2021	**45**	**52**	**97**
Additions	–	21	21
Disposals	–	(19)	(19)
At 31 December 2022	**45**	**54**	**99**
Depreciation:			
At 1 January 2021	**6**	**23**	**29**
Charge for the year	2	10	12
At 31 December 2021	**8**	**33**	**41**
Charge for the year	2	13	15
Disposals	–	(19)	(19)
At 31 December 2022	**10**	**27**	**37**
Net book value:			
At 31 December 2022	**35**	**27**	**62**
At 31 December 2021	37	19	56

15. Other investments

(a) Movements in the Company's other investments

	2022 £m	2021 £m
Fair value		
At 1 January	**3**	**2**
Acquisitions	20	1
At 31 December	**23**	**3**

The Directors do not consider there to have been any change in fair value between the date of acquisition and the Statement of Financial Position date.

Acquisitions during the year ending 31 December 2022 relate to the increase in value of the shareholding in RAC Group (Holdings) Ltd held by the Employee Benefit Trust following the restructure of shares as part of the Silver Lake acquisition.

16. Group information

(a) Information about subsidiaries

The Consolidated Financial Statements of the RAC Bidco Limited Group includes the following subsidiaries:

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Limited	Holding company	Ordinary	100%
RAC Bond Co PLC	Funding vehicle	Ordinary	100%
Indirectly held:			
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
RAC Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is 5th Floor, 40 Mespil Road, Dublin 4.

The Consolidated Financial Statements of the RAC Bidco Limited Group also include the financial performance and position of the RAC Employee Benefit Trust ("EBT"). In accordance with IFRSs, the RAC Bidco Limited Group is deemed to control the EBT by virtue of RAC Limited, a direct subsidiary of the Company, having power over the EBT.

RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited (Company No. 08370931) and Risk Telematics UK Limited (Company No. 08580115) are exempt from audit by virtue of s479a of the Companies Act 2006 and have been provided with a statutory guarantee by RAC Bidco Limited, their immediate parent company as required by s479c of the Companies Act 2006. As a consequence, RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited and Risk Telematics UK Limited have all taken the advantage of available exemption for audit.

(b) The Parent company

The immediate controlling entity of the RAC Bidco Limited Group is RAC Midco II Limited. The ultimate controlling entity of the RAC Bidco Limited Group is RAC Group (Holdings) Limited.

17. Inventories

	2022 £m	2021 £m
Finished goods	**2**	**3**

All inventories are classified as finished goods. The cost of inventories recognised as an expense and included within cost of sales in the year ended 31 December 2022 amounted to £12 million (2021: £16 million).

18. Trade and other receivables

	2022 £m	2021 £m
Trade receivables	32	26
Prepayments and accrued income	28	17
Other receivables	11	13
Amounts due from related parties	–	345
Total	**71**	**401**
Expected to be recoverable within one year	71	401

Receivables are measured at amortised cost net of any impairment losses which are based on a loss allowance for expected credit losses. No material impairment losses have been recognised in 2022 (2021: £nil).

19. Cash and cash equivalents

	2022 £m	2021 £m
Cash and cash equivalents comprise:		
Unrestricted cash at bank and in hand	132	105
Restricted cash at bank	4	8
Total	**136**	**113**

Restricted cash is the amount of cash one of RAC Bidco Limited's indirect subsidiaries is required to hold to meet regulatory Solvency II requirements.

20. Tax assets and liabilities

	2022 £m	2021 £m
Current tax receivable	1	-
Current tax payable	-	(30)
Deferred tax asset	16	10
Deferred tax liability	(213)	(219)
	(197)	**(239)**

20. Tax assets and liabilities (continued)

Current tax payable includes amounts to be settled by group relief of £nil (2021: £nil) and are payable within one year. During the year an amount of £nil (2021: £nil) in respect of group relief was settled by an intercompany transfer.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019 and clarifies the accounting for uncertainties in income taxes. IFRIC 23 has been considered in regard to all uncertain tax positions for the RAC group of companies.

There are no uncertain tax positions identified that would require measurement under IFRIC 23. A corporation tax payment of £29 million was made by the RAC to HMRC in December 2022, on a without prejudice basis, resulting in a release of the £26 million provision held in 2021.

Deferred tax	Property plant & equipment £m	Intangible assets & contract costs £m	Retirement benefit obligations £m	Revaluation of financial assets £m	Other temporary difference £m	Total £m
At 1 January 2021	2	(179)	1	1	5	(170)
(Charge)/credit to Consolidated Income Statement	-	(40)	-	-	1	(39)
At 31 December 2021	**2**	**(219)**	**1**	**1**	**6**	**(209)**
Credit/(charge) to Consolidated Income Statement	2	12	-	(2)	5	17
Charge to other comprehensive income	-	-	-	(5)	-	(5)
At 31 December 2022	**4**	**(207)**	**1**	**(6)**	**11**	**(197)**

	2022 £m	2021 £m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability brought forward	(209)	(170)
Deferred tax credited/(charged) to the Consolidated Income Statement	17	(39)
Deferred tax charged to other comprehensive income	(5)	-
Net deferred tax liability carried forward	**(197)**	**(209)**

The RAC Bidco Limited Group has unrecognised capital losses of £146 million (2021: £146 million) to carry forward indefinitely against future capital gains. No asset has been recognised as there are no capital gains expected in the foreseeable future. The Group has an unrecognised deferred tax asset of £5 million (2021: £5 million) in respect of interest disallowed under the Corporate Interest Restriction rules.

21. Provisions

	Other £m	Other £m
At 1 January 2022	1	1
Provided during the year	2	2
Utilised during the year	–	–
At 31 December 2022	**3**	**3**

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

22. Trade and other payables

	2022 £m	2021 £m
Trade payables and accruals	45	43
Deferred income	137	129
Other payables	123	114
Total	**295**	**286**
Expected to be payable within one year	245	226
Expected to be payable in more than one year	60	60
Total	**295**	**286**

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

Included within other payables is £69 million (2021: £64 million) in relation to lease liabilities recognised as a result of IFRS 16. The contractual maturity dates of lease liabilities are:

	2022 £m	2021 £m
Within 1 year	9	9
1 to 5 years	18	15
5 to 10 years	42	40
	69	**64**

Lease commitments: As at 31 December 2022 the company had committed to aggregated undiscounted future lease payments of £3 million payable over a period up to 5 years (2021: £3 million payable over a period up to 5 years).

Short-term and low-value leases expensed to the Income Statement in the year amounts to £nil (2021: £nil). Lease commitments for short-term and low-value leases at the balance sheet date amounted to £nil (2021: £nil).

23. Derivative financial instruments

	2022 £m	2021 £m
Cash flow hedge assets	26	5

(a) Hedging

The Group uses financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 29).

The RAC Bidco Limited Group has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IFRS 9: Financial Instruments.

(b) Cash flow hedges

The RAC Bidco Limited Group has used interest rate swap agreements in order to hedge the cash flows associated with its variable rate borrowings. The notional value and fair value of these are as follows:

	2022 £m	2021 £m
Contract/notional value	319	319
Total derivative financial instrument asset	**26**	**5**

The hedges were effective in the year ending 31 December 2022 (2021: effective) and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income (2021: recognised in other comprehensive income).

The hedges are achieved through using interest rate swap contracts to pay fixed and receive SONIA. The interest rate swaps settle on a quarterly basis. As both the Senior Term Facility ("STF") and the interest rate swap contracts against which the STF is hedged contain floating rates linked to SONIA, the Group expects the value of these items to systematically change in opposite directions in response to movements in underlying interest rates. As such, the Group's hedge ratio is expected to remain at 100%.

On 30 July 2021, the Group drew down upon a new 2021 Senior Term Facility for an amount of £265 million and on the same date prepaid £139 million of the existing £300 million Senior Term Facility. In accordance with the terms of the hedge designation memo, some of the hedged transactions have been replaced with those under the 2021 Senior Term Facility with the fixed element of the hedge continuing to be set to 0.624% until 31 March 2024. In addition, the Group has executed a third hedging instrument, for an amount of £120 million, effective from 30 June 2021 with the fixed element of the hedge set to 0.715% until 31 January 2025.

24. Borrowings

(a) Analysis of borrowing	Bonds			Bank Debt			
	Class A1 Notes	Class A2 Notes	Class B2 Notes	Senior Term Facility	Senior Term Facility	Senior Term Facility	Total
Interest rate	4.565%	4.870%	5.250%	SONIA + 2.500%	SONIA + 1.800%	SONIA + 2.500%	
At 31 December 2022							
Fair value (£m)	306	693	428	168	178	107	**1,880**
Amounts due within one year (£m)	302	5	3	–	–	–	**310**
Amounts due in more than one year (£m)	–	597	339	159	169	94	**1,358**
Book value (£m)	302	602	342	159	169	94	**1,668**
Principal Outstanding (£m)*	300	600	345	161	170	95	**1,671**
At 31 December 2021							
Fair value (£m)	319	719	444	172	180	109	**1,943**
Amounts due within one year (£m)	2	5	3	–	–	–	**10**
Amounts due in more than one year (£m)	299	596	345	159	168	93	**1,660**
Book value (£m)	301	601	348	159	168	93	**1,670**
Principal Outstanding (£m)*	300	600	345	161	170	95	**1,671**

*Principal Outstanding is the Book Value of borrowings excluding capitalised finance costs and accrued interest.

(b) Bank debt

The 2020 Senior Term Facility was for an original amount of £300 million at a floating rate of 2.500% plus SONIA (prior to 31 January 2020: 2.750% plus LIBOR), incorporating a SONIA floor and matures on 31 January 2025. The Group prepaid £139 million of the facility on 30 July 2021, leaving a balance of £161 million outstanding.

On 30 June 2021, the Group entered into a new 2021 Senior Term Facility for an amount of £265 million. On 30 July 2021, the Group drew down upon this facility, of which £170 million has a floating rate of 1.800% plus SONIA and matures on 30 June 2025 and £95 million has a floating rate of 2.500% plus SONIA and matures on 30 July 2028.

The Group has also entered into agreements for an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million. The Initial Working Capital Facility is subject to interest of SONIA plus 2.500% from 31 January 2020; this facility matures on 31 January 2025.

The Initial Liquidity Facility is subject to interest of SONIA plus 2.250% and is subject to annual renewal.

On 15 September 2022, the Group, entered into a new £300 million Senior Term Facility agreement (the "2022 STF") in order to have committed funds available to refinance, if required, the outstanding Class A1 Notes in full ahead of their Expected Maturity Date on 6 May 2023. The Facility carries an opening interest rate of SONIA + 1.500%, subject to increases over the life of the 2022 STF pursuant to a margin grid (to a maximum of SONIA + 4.250%). The Group may decide not to utilise the Facility

Interest rate risk arising under the 2020 and 2021 Senior Term Facilities are hedged using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 23 and an analysis of the contractual undiscounted cash flows for these borrowings is shown in note 29(a)(iii).

24. Borrowings (continued)

(c) Bonds

The bonds comprise three tranches: Class A1 Notes and Class A2 Notes (together "Class A Notes"), and Class B2 Notes. £300 million of Class A1 Notes were issued at a coupon of 4.565%, and have an initial period to 6 May 2023, after which interest will be charged at 5.065% per annum. £600 million of Class A2 Notes were issued at a coupon of 4.870%, and have an initial period to 6 May 2026, after which interest will be charged at 5.370% per annum. £275 million of Class B1 Notes were issued at a coupon of 5.000%. On 9 November 2020, £65 million of Class B1 Notes were repurchased for a tender value of 99.50 percent of the principal amount, the remaining £210 million were repurchased at par on 30 July 2021. On 4 November 2021, the Group issued £345 million of Class B2 Notes with a coupon of 5.250%, with an initial period to 4 November 2027 after which interest will be charged at 4.750% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November.

(d) Security, covenants and fees

The Class A Notes, Class B2 Notes and 2020 and 2021 Senior Term Facilities are secured by way of first ranking security in respect of the undertakings and assets of RAC Bidco Limited and its subsidiaries, excluding RAC Insurance Limited and RACMS (Ireland) Limited.

Fees relating to the Class A Notes, Class B2 Notes and 2020 and 2021 Senior Term Facilities have been capitalised and are being amortised over the lives of the borrowings to which they relate, in accordance with IFRS 9 Financial Instruments. Fees relating to the 2022 STF have been charged to the income statement during the period as there is no drawn debt against which these can be capitalised.

The 2020 and 2021 Senior Term Facilities, Class A1 Notes and Class A2 Notes (together "Class A Debt") are subject to one financial covenant, being the ratio of free cash flow to Class A Debt service charges. The Class B2 Notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt. service charges and Class B Debt service charges. The Group has complied with these financial covenants throughout the periods since issue of the Class A Debt and Class B Debt.

25. Ordinary share capital

Details of RAC Bidco Limited's ordinary share capital are as follows:

	2022	2021
Allotted, called-up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2021: 339,131,773 of £1.00 each)	339	339
	339	**339**

26. Hedging instrument reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in Income Statement only when the hedged transactions impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

27. Reconciliation of financial liabilities

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

	2022 £m	2021 £m
As at 1 January	1,665	1,413
Cash changes:		
Financing cash flows	345	(84)
Interest and debt issue costs paid	(83)	(68)
Non-cash changes:		
Other finance expense (note 6)	9	5
Bond proceeds held in escow account	(345)	345
Interest expense (note 6)	72	64
Movement in fair value of hedge liabilities (note 23)	(21)	(10)
At 31 December	**1,642**	**1,665**

Alex Heath, Chief People, Customer & Marketing Officer

28. Employee benefit obligations

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

(a) Introduction

The RAC Bidco Limited 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 all RAC employees which is provided by Aviva Pensions Trustees UK Limited who are authorised and regulated by the FCA.

Unfunded Unapproved Pension Scheme ("UUP Scheme"): A 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 2022 was 7 (2021: 7).

Post-Retirement Medical Benefits Scheme ("PRMB Scheme"): Under the PRMB Scheme the RAC Bidco Limited Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK which is administered by Aviva Health UK Limited who are authorised and regulated by the FCA. The number of pensioners entitled to this benefit at 31 December 2022 was 94 (2021: 94).

Disability Benefit Scheme ("DB Scheme"): Under the DB Scheme, the RAC Bidco Limited Group provides disability benefits on a discretionary basis for certain former employees in the UK. Currently the RAC Bidco Limited Group contributes a flat rate per person to the scheme dependent on their individual circumstances.

(b) Charges to the Consolidated Income Statement

During the year, £9 million (2021: £9 million) was charged to the RAC Bidco Limited's Consolidated Income statement in respect of the employee defined contribution schemes and £78 thousand (2021: £62 thousand) in respect of employee defined benefit schemes.

(c) Employee benefit scheme assumptions and disclosures

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

(i) Assumptions for the liabilities of the schemes. The projected unit credit method: The inherent uncertainties affecting the measurement of the liabilities of the Schemes require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash 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 allowances for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to economic conditions, and changes in these assumptions can materially affect the measurement of the employee liability obligations.

28. Employee benefit obligations (continued)

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

Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2022. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2022.

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

	2022 **%**	**2021** **%**
Inflation rate	3.20	3.50
Pension increases	3.20	3.50
Deferred pension increases	3.20	3.50
Discount rate	5.10	1.80

The inflation rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the inflation rate would increase liabilities and service costs by £257 thousand and £nil respectively (2021: 1% increase in inflation rate would increase liabilities and service costs by £406 thousand and £nil respectively).

28. Employee benefit obligations (continued)

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

Mortality assumptions of the schemes

Mortality assumptions are significant in measuring the RAC Bidco Limited Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2022 for Scheme members are as follows:

	Normal retirement age (NRA)	**Life expectancy (pension duration) at NRA of a male**		**Life expectancy (pension duration) at NRA of a female**	
		Currently aged NRA	**20 years younger than NRA**	**Currently aged NRA**	**20 years younger than NRA**
SAPS S1 tables, including allowances	65.0	88.1	89.8	89.7	91.2
for future improvements		(23.1)	(24.8)	(24.7)	(26.2)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming life expectancy was one year higher would increase the Schemes' liabilities by £296 thousand (2021: £375 thousand).

Guaranteed Minimum Pension Equalisation

There has been no impact as a result of the Guaranteed Minimum Pension (GMP) ruling. The defined benefit pension schemes in the Group are not contracted out of the state pension scheme and therefore GMP equalisation is not applicable.

(ii) Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprised £78 thousand (2021: £62 thousand) in respect of net interest expense recognised in the Consolidated Income Statement and £645 thousand (2021: £150 thousand) recognised in other comprehensive income.

28. Employee benefit obligations (continued)

(iii) Experience gains and losses

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

	2022 £m	2021 £m
Fair value of the Schemes' assets at the end of the year	–	–
Present value of the Schemes' liabilities at the end of the year	(3)	(4)
Net deficit in the Schemes	**(3)**	**(4)**

Estimated employer contributions for the year ended 31 December 2023 are £419 thousand in respect of the defined benefit schemes and £9 million in respect of the defined contribution scheme.

(iv) Schemes' deficit

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

	2022 £m	2021 £m
Total fair value of assets	–	–
Present value of defined benefit obligations	(3)	(4)
Net deficit in the Schemes	**(3)**	**(4)**

Amounts recognised in the Consolidated Statement of Financial Position:

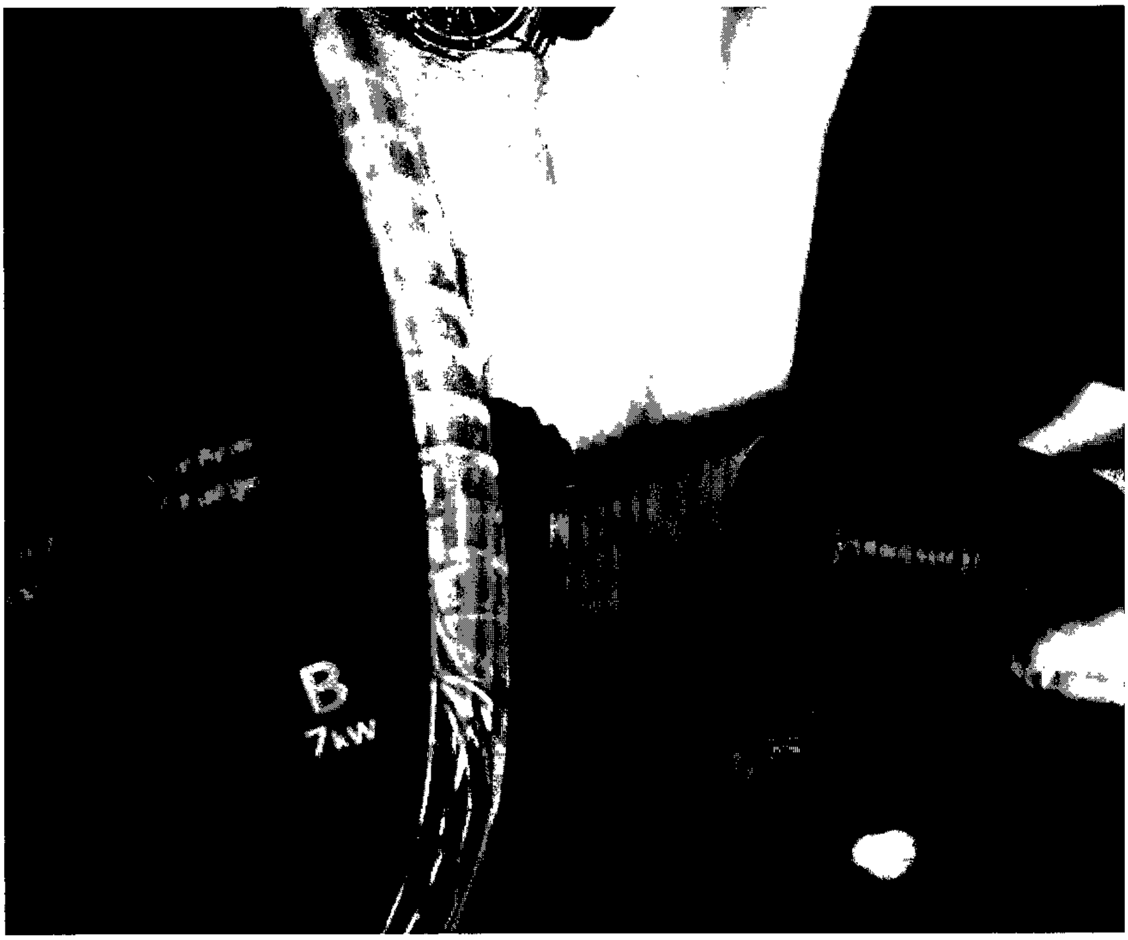
	2022 £m	2021 £m
Deficits included in non-current liabilities	(3)	(4)
Net deficit in the Schemes	**(3)**	**(4)**

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

28. Employee benefit obligations (continued)

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

	2022		2021	
	Scheme liabilities £m	Net deficit £m	Scheme liabilities £m	Net deficit £m
Balance at 1 January	(4)	(4)	(5)	(5)
Benefits paid	–	–	1	1
Remeasurement gains				
Actuarial gain arising from change in assumptions	1	1	–	–
Balance at 31 December	**(3)**	**(3)**	**(4)**	**(4)**



29. Risk management

The Group operates an Enterprise Risk Management Framework 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 appetite statements, risk reports and the governance and oversight structure.

Financial risks are usually grouped by risk type: market, credit, liquidity, strategic, operational, capital and regulatory risk. Risks falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products that the Group delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation. The key risks faced by the RAC Bidco Limited Group are set out in this note.

The RAC Bidco Limited 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 RAC Bidco Limited Group carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to the potential conditions.

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

- A formal Investment Agreement which sets out the Board terms of reference and delegated authorities and which sets out certain limited matters which require the consent of major shareholders.
- Defined terms of reference for the regulated entity Boards and the associated executive management and other committees across the Group.
- A clear organisational structure with documented delegated authorities and responsibilities from the regulated entity Boards to executive management committees and senior management.
- Allocation of Senior Management Functions, Prescribed Responsibilities, Overall Responsibilities and Key Functions for each of our regulated subsidiaries under the Senior Managers and Certification Regime, documented in the Management Responsibilities Map.
- A risk management framework which sets out risk management and control standards.

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

(a) Treasury

The Group Treasury department's main responsibilities are to:

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium-term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the RAC Bidco Limited Group's current borrowing facilities are disclosed in note 24.

29. Risk management (continued)

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates.

The RAC Bidco Limited Group is exposed to interest rate risk arising primarily on external borrowings. The Group's policy aims to manage its interest cost within the constraint of its business plan and its financial covenants. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings. If the borrowings were to be left unhedged and market interest rates were to increase or decrease by 1%, the impact on the profit before tax would be a decrease/increase of £2 million (2021: £2 million). The impact on shareholders' equity would be a decrease/increase of £1 million (2021: £1 million).

The sensitivity analysis compares the rate of interest on the 2020 and 2021 Senior Term Facilities of SONIA +2.500% and increases this by 1%.

Interest rate movements on trade payables, trade receivables and other financial instruments do not present a material exposure to the RAC Bidco Limited Group's Statement of Financial Position.

The RAC Bidco Limited Group has no material foreign currency balances as at the Statement of Financial Position date and therefore is not exposed to movements in foreign currency exchange rates.

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

Stuart, patrol since 2007, South West

29. Risk management (continued)

(a) Treasury (continued)

(ii) Credit risk

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

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

	2022 £m	2021 £m
Trade and other receivables	40	39
Cash and cash equivalents	136	113
	176	**152**

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

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

The RAC Bidco Limited 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.

The RAC Bidco Limited Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the reported periods were held with institutions who are A rated. The RAC Bidco Limited Group's largest cash and cash equivalent counterparty is HSBC Global Liquidity Funds (2021: Deutsche Bank). At 31 December 2022 the balance with that counterparty was £20 million (2021: £19 million).

29. Risk management (continued)

(iii) Liquidity risk

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

The RAC Bidco Limited Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The RAC Bidco Limited Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further (see note 24).

The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements. The RAC Bidco Limited Group also monitors covenants on a regular basis to ensure there are no breaches that would lead to an "Event of Default". There have been no breaches of covenants during the reported periods.

The following table shows the RAC Bidco Limited Group's contractual maturity of borrowings, including estimated interest, analysed by duration:

	2022 £m	2021 £m
Bonds		
Less than 1 month	4	4
1 to 3 months	7	7
3 months to 1 year	323	32
1 to 5 years	1,013	1,347
5 to 10 years	-	-
Total bonds	**1,347**	**1,390**
External bank debt		
Less than 1 month	2	2
1 to 3 months	3	4
3 months to 1 year	15	18
1 to 5 years	368	384
5 to 10 years	97	102
Total external bank debt	**485**	**510**
Total borrowings	**1,832**	**1,900**

(b) Strategic and operational risk

The strategy (including operational risks) for the RAC Bidco Limited Group and the Company is set out within the Strategic Report on pages 6 to 69.

29. Risk management (continued)

(c) Capital risk management

The RAC Bidco Limited Group's capital structure consists of third party borrowings amounting to £1,668 million (2021: £1,670 million), and £339 million (2021: £339 million) of funds from shareholders.

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

The capital structure of the Group is managed on a net debt basis. Management consider net debt to comprise Class A Debt, Class B Debt, 2020 and 2021 Senior Term Facilities, associated accrued interest and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In managing its capital, the Group seeks to:

i. Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due.

ii. Maintain financial strength to support new business growth and satisfy the requirements of its members and regulators.

iii. Retain financial flexibility by maintaining strong liquidity.

iv. Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

(d) Regulatory risk

The RAC Bidco Limited Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA and PRA regulations. The RAC Bidco Limited 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.

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

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

30. Related party transactions

(a) The RAC Bidco Limited Group had the following transactions with related parties in 2022 and 2021:

(i) Amounts due from related parties	2022 £m	2021 £m
Other group companies – current accounts	–	345
	–	**345**

Of amounts due from Group companies, £nil (2021: £345 million) was due from RAC Midco II Limited, RAC Bidco Limited's parent company.

(ii) Amounts due to related parties	2022 £m	2021 £m
Other group companies – current accounts	(1)	–
	(1)	**–**

Of amounts due to Group companies, £1 million (2021: £nil) was due to RAC Midco Limited, RAC Bidco Limited's indirect parent company.

(iii) Transactions with related parties

- In 2022, RAC Bidco Limited paid a dividend of £345 million (2021: £nil) to RAC Midco II Limited, its immediate Parent Company.
- In 2022, RAC Bidco Limited group paid Silver Lake, a shareholder of its ultimate parent company, £2 million (2021: £nil) as reimbursement for transaction costs associated with its acquisition of shareholdings in the Group.
- Audit fees of £499 thousand (2021: £439 thousand) were borne by RAC Motoring Services, a subsidiary of RAC Bidco Limited, on behalf of the RAC Group.

GIC, CVC, Silver Lake and senior management are all related parties of the RAC Bidco Limited Group by virtue of their shareholdings in the RAC Group. Orange Investment S.à.r.l (formerly CEP III Investment 17 S.à.r.l.) is a related party as it is controlled by GIC and CVC.

30. Related party transactions (continued)

(b) Key management compensation

The total compensation to those employees classified as key management, being those senior managers having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors, in respect of the RAC Bidco Limited Group is as follows:

	2022 £000	2021 £000
Fees and benefits	4,273	4,194
Contributions to defined contribution pension scheme	63	89
	4,336	**4,283**

Fees and benefits include key management bonuses. During the year, payments of £nil (2021: £187 thousand) were made to key management for loss of office.

(c) Key management interests

No key management personnel held equity stakes in the RAC Bidco Limited Group at 31 December 2022 or 31 December 2021.

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

(d) Immediate Parent Company

The immediate controlling entity of the Company is RAC Midco II Limited, registered in England and Wales.

(e) Ultimate controlling party

The ultimate controlling entity of the Group is RAC Group (Holdings) Limited. Its Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which Consolidated UK adopted international accounting standards Financial Statements are prepared is RAC Bidco Limited.

31. Fair value of financial assets and liabilities

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset/liability	**Fair value as at 31 December 2022 £m**	**Fair value movement £m**	**Fair value as at 31 December 2021 £m**	**Fair value hierarchy £m**
Owner occupied property (note 13)	3	–	3	Level 2

Valuations are assessed by management and where necessary performed by an external valuer, in accordance with Group accounting policies.

Cash flow hedge asset (note 23)	26	21	5	Level 3

The interest rate swaps have been valued using market data of interest rate curves built using cash rates, swap rates and forward rates.

32. Events after the reporting period

There have been no events since the statement of financial position date which have a material impact on the Company's or RAC Bidco Limited Group's financial position as at 31 December 2022.

33. Alternative performance measures

Certain alternative performance measures ("APMs") have been included within these results. These APMs are used by the Management internally to monitor and manage the underlying business performance of the Group.

Alternative performance measures exclude certain items because, if included, these items could distort the understanding of performance for the year and the comparability between periods. The directors' commentary discusses these alternative performance measures to remove the effects of items of both income and expense that are considered different in nature from the underlying trading and normal quantum and where treatment as an adjusting item provides stakeholders with additional information to assess period-on-period trading.

The table below details the definition of each APM.

APM	**Definition**
EBITDA before exceptional items	EBITDA is statutory operating profit before interest, tax, depreciation, amortisation and exceptional items.
Exceptional items	Exceptional items are those which management consider to be material by size and/or nature. Events which give rise to a classification of items as exceptional include costs associated with corporate transactions and restructuring of businesses.
Adjusted revenue	Adjusted Revenue is statutory Revenue, adjusted for a change in the Group's estimation of deferred service revenue for the sale of certain insured roadside assistance services. This reduced statutory revenue by £5 million for the year ending 31 December 2022 (2021: £nil). This adjustment is not expected to re-occur in subsequent accounting periods.
Adjusted EBITDA	Adjusted EBITDA is EBITDA before exceptional items, adjusted for the change to deferred service revenue estimates noted above.
Adjusted net cash flows from operating activities	Net cash flows from operating activities as shown in the statement of cash flows adjusted for the cash impact of exceptional items included within cash generated from operating activities of £20 million and a one-off payment in 2022 of £29 million to HMRC.
Adjusted operating cash conversion	Adjusted net cash flows from operating activities as a percentage of adjusted EBITDA.

Company financial statements

The accounting policies on pages 126 to 139 also form an integral part of these Financial Statements.

Company Statement of Financial Position as at 31 December 2022

	Note	2022 £m	2021 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	4	1,102	1,102
		1,102	1,102
Current assets			
Other receivables	5	3	1
Current tax receivable		4	-
		7	1
LIABILITIES			
Current liabilities			
Other payables	7	(54)	(29)
		(54)	(29)
Net current liabilities		(47)	(28)
Non-current liabilities			
Other payables	7	(360)	-
		(360)	-
Net assets		**695**	**1,074**
EQUITY			
Ordinary share capital	8	339	339
Retained earnings		356	735
Total equity		**695**	**1,074**

The accounting policies on pages 126 to 139 and the notes on pages 180 to 185 are an integral part of these Financial Statements.

The Company's loss for the year was £34 million (2021: Loss £1 million).

Approved by the Board on 2 March 2023

J Baker
Chief Financial Officer

Company financial statements

For the year ending 31 December 2022

Company Statement of Changes in Equity

	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021	339	736	1,075
Loss for the year	–	(1)	(1)
Other comprehensive income	–	–	–
Total comprehensive expense	–	(1)	(1)
Dividends paid	–	–	–
Balance at 31 December 2021	**339**	**735**	**1,074**
Loss for the year	–	(34)	(34)
Other comprehensive income	–	–	–
Total comprehensive expense	–	(34)	(34)
Dividends paid	–	(345)	(345)
Balance at 31 December 2022	**339**	**356**	**695**

The accounting policies on pages 126 to 139 and the notes on pages 180 to 185 are an integral part of these Financial Statements.

Hayley, Operations since July 2016

Company Statement of Cash Flows

	2022 £m	2021 £m
Operating activities		
Loss before tax	(36)	(2)
Adjustments to reconcile loss before tax to net cash flows		
Transaction costs	23	4
Net finance expenses	15	-
Working capital adjustments:		
Increase in other receivables	(3)	(1)
Increase in other payables	24	3
Net cash flows generated from operating activities	**23**	**4**
Investing activities		
Transaction costs	(23)	(4)
Net cash flows used in investing activities	**(23)**	**(4)**
Financing activities		
Proceeds from group company loan	345	
Dividends paid	(345)	-
Net cash flows used in financing activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents brought forward	-	-
Cash and cash equivalents carried forward	-	-

The accounting policies on pages 126 to 139 and the notes on pages 180 to 185 are an integral part of these Financial Statements.

Notes to the company financial statements
RAC Bidco Limited

1. Auditor's remuneration

Audit fees of £79 thousand are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to auditor's remuneration may be found in note 7 of the Bidco Consolidated Financial Statements.

2. Employee information

The Company has no employees. All employees are employed by and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in note 8 of the Consolidated Financial Statements.

3. Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group. Disclosures relating to Directors' remuneration may be found in note 9 of the Bidco Consolidated Financial Statements.

4. Investments in subsidiaries

(a) Movements in the Company's investments in subsidiaries:	2022 £m	2021 £m
Carrying Value		
At 1 January and 31 December	**1,102**	**1,102**

4. Investments in subsidiaries (continued)

(b) Information about subsidiaries

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

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Limited	Holding company	Ordinary	100%
RAC Bond Co PLC	Funding vehicle	Ordinary	100%
Indirectly held:			
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Motoring Services	Motor breakdown cover	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
RAC Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is 5th Floor, 40 Mespil Road, Dublin 4.

In accordance with UK adopted international accounting standards, the Company is deemed to control the RAC Employee Benefit Trust ("EBT") by virtue of RAC Limited, a direct subsidiary of the Company, having power over the EBT.

RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited (Company No. 08370931) and Risk Telematics UK Limited (Company No. 08580115) are exempt from audit by virtue of s479a of the Companies Act 2006 and have been provided with a statutory guarantee by RAC Bidco Limited, their immediate parent company as required by s479c of the Companies Act 2006. As a consequence, RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited and Risk Telematics UK Limited have all taken the advantage of available exemption for audit.

(c) The Parent company

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

5. Other receivables

	2022 £m	2021 £m
Amounts due from related parties (note 9(a)(i))	3	1
Total	**3**	**1**
Expected to be recoverable within one year	3	1
Expected to be recoverable in more than one year	–	–
Total	**3**	**1**

Receivables are measured at amortised cost net of any impairment losses which are based on a loss allowance for expected credit losses. No material impairment losses have been recognised in 2022 (2021: £nil).

6. Tax assets and liabilities

Deferred tax

The movement in the deferred tax asset was as follows:

	2022 £m	2021 £m
Net deferred tax asset brought forward	–	–
Deferred tax credited to other comprehensive income	–	–
Deferred tax asset carried forward	–	–

The headline rate of UK corporation tax is currently 19%. In accordance with the Spring Budget 2021 the main rate of corporation tax will remain at 19% for the accounting periods up to and including the years ending 31 March 2023. For accounting periods ending on or after 1 April 2023 the main rate of corporation tax will increase to 25%.

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Therefore, deferred tax balances from the substantively enacted date of 24 May 2021 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

7. Other payables

	2022 £m	2021 £m
Other payables	(2)	-
Amounts due to related parties (note 9(a)(ii))	(412)	(29)
Total	**(414)**	**(29)**
Expected to be payable within one year	(54)	(29)
Expected to be payable in more than one year	(360)	-
Total	**(414)**	**(29)**

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

8. Ordinary share capital

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

	2022 £m	2021 £m
Allotted, called-up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2020: 339,131,773 shares of £1.00 each)	339	339
	339	**339**

9. Related party transactions

(a) The Company had the following transactions with related parties in 2022 and 2021:

(i) Amounts due from related parties

	2022 £m	2021 £m
Amounts due from Group companies	3	1
	3	**1**

(ii) Amounts due to related parties

	2022 £m	2021 £m
Amounts due to Group companies	(412)	(29)
	(412)	**(29)**

(iii) Transactions with related parties

During 2022, the company paid a dividend of £345 million to its parent company, RAC Midco II Limited (2021: £nil).

During 2022, the Company recharged £2 million (2021: £3 million) to RAC Limited, a direct subsidiary, in respect of a Management Services Agreement. This agreement allocates the strategic and governance costs of the RAC Bidco Limited Group and recharges them to the trading entities where appropriate.

GIC, CVC, Silver Lake and senior management are all related parties of the RAC Bidco Limited Group by virtue of their shareholdings in the RAC Group. Orange Investment S.à.r.l (formerly CEP III Investment 17 S.à.r.l.) is a related party as it is controlled by GIC and CVC.

(iv) Amounts included in the Income Statement

Transactions included within the Income Statement that have taken place during the reported periods are as follows:

	2022 £m	2021 £m
Management charges	2	3
	2	**3**

9. Related party transactions (continued)

(b) Key management compensation

The Directors and key management of the Company are considered to be the same as for the RAC Bidco Group. Information on key management compensation may be found in note 30 of the Consolidated Annual Report and Financial Statements.

(c) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2022 or 31 December 2021.

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

(d) Immediate and ultimate controlling party

The immediate controlling entity of the Company is RAC Midco II Limited.

The ultimate controlling entity of the Company is RAC Group (Holdings) Limited. Its Consolidated Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

The lowest level at which Consolidated UK adopted accounting standards Financial Statements are prepared is RAC Bidco Limited.

10. Critical accounting judgements and key sources of estimation uncertainty

There are no critical accounting judgements and key sources of estimation uncertainty for RAC Bidco Limited Company.

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