Registered in England and Wales: No. 09229824

RAC BIDCO LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2017

RAC BIDCO LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

Contents Page

RAC BIDCO LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

Interim management report

To the Members of RAC Bidco Limited

Highlights

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
Revenue (£m)	269	248	506
EBITDA* (£m)	89	88	184
Roadside repair rate** (%)	80	81	81
Roadside retention rate (%)	79	80	80
Net Promoter Score ***	95	94	94

* Earnings before Exceptional items, Interest, Other gains and losses, Tax, Amortisation and Depreciation

** UK roadside repair rate excluding Road Traffic Collisions

*** Industry-wide customer satisfaction measure

Introduction

RAC is a leading roadside assistance provider in the UK. With 120 years of operating history, RAC has established itself as one of the most widely recognised brands in the UK and one of the most trusted in automotive services, with a stable core membership base, and has successfully leveraged its brand to provide insurance broking, motoring services and other products and services.

During the six months ended 30 June 2017, RAC responded to 1.1 million breakdowns and at 30 June 2017, it had approximately 8.6 million Members (the equivalent of over one out of every four motorists in the UK). This included 2.2 million Individual Members and 6.4 million Partner Members through its Corporate Partner relationships.

Group performance

Group revenue increased by £21 million to £269 million (2016: £248 million), reflecting strong growth in our Roadside, Insurance broking and Motoring services businesses.

EBITDA before exceptional items increased by £1 million to £89 million (2016: £88 million) in spite of strong competition and implementation costs for the substantial levels of new business won in the second half of the year ended 31 December 2016 and the first half of 2017.

Operating profit was £2 million lower than the prior period reflecting an increase in depreciation and amortisation charges of, in aggregate, £1 million and exceptional restructuring costs of £2 million (2016: £nil).

The Group continued to deliver strong operating cash flow generation. Net cash flow from operations increased by £7 million to £92 million (2016: £85 million) reflecting an improvement in EBITDA conversion to 103% (2016: 97%).

Interim management report (continued)
To the Members of RAC Bidco Limited

Group performance (continued)

The Group's Roadside repair rate and overall level of customer service remained very strong in the period, as reflected by a 1 point increase in Net Promoter Score to 95 (2016: 94). The Roadside retention rate of 79% was slightly lower than the prior period (2016: 80%) but was offset by higher average revenue per Member.

Business performance

Roadside

Roadside revenue increased by £10 million to £215 million (2016: £205 million) as a result of growth in Corporate Partners revenue resulting from new contracts won in 2016, and the commencement, on 1 April 2017 and 3 May 2017, of breakdown cover contracts with Mercedes-Benz Cars (UK) Limited and esure, respectively.

EBITDA before exceptional items and head office costs attributable to Roadside decreased by £4 million to £87 million (2016: £91 million). This decrease was primarily due to costs associated with implementation of new Corporate Partner contracts, partially offset by a slight increase in EBITDA before exceptional items generated by the Individual Members business.

Insurance broking

Insurance broking revenue increased by £5 million to £33 million (2016: £28 million), primarily due to new customer acquisitions, as customers were attracted by the Group's value proposition.

EBITDA before exceptional items and head office costs attributable to Insurance broking increased by £3 million to £17 million (2016: £14 million) reflecting the growth in net written premiums.

Motoring services

Motoring services revenue increased by £7 million to £19 million (2016: £12 million) primarily due to a substantial increase in volumes of accident management services provided. EBITDA before exceptional items and head office costs attributable to Motoring services increased by £2 million to £4 million (2016: £2 million) as a result of these higher volumes.

Telematics and Data services

Telematics and Data services revenue decreased by £1 million to £2 million (2016: £3 million) reflecting a reduction in installation volumes, with some orders deferred into the second half of the year. This was reflected in Telematics and Data services' EBITDA before exceptional items and head office costs, which decreased by £1 million to £nil (2016: £1 million).

Head office costs

The Group does not analyse head office costs into separate operating segments. Head office costs decreased by £1 million to £19 million (2016: £20 million) reflecting continued focus on cost efficiency.

Interim management report (continued)
To the Members of RAC Bidco Limited

Refinancing

The Group completed a Whole Business Securitisation ("WBS") on 6 May 2016, refinancing £1.2 billion of bank facilities with long term investment grade debt, which was oversubscribed at issue. The WBS refinancing comprised £280 million of senior term facilities, £300 million of Class A1 Notes with a seven year term and £600 million of Class A2 Notes with a ten year term. Further details of the WBS are set out in note 9 to the Condensed Consolidated Financial Statements.

Shortly after the period end, on 14 July 2017, the Group issued £275 million of Class B1 Notes with a five year term and subsequently paid a dividend of £269m to its parent company, RAC Midco II LImited. Further details are set out in note 15 to the Condensed Consolidated Financial Statements.

Dividends

No dividends were paid during the six months ended 30 June 2017 (six months ended 30 June 2016: £25 million; year ended 31 December 2016: £65 million). Further details are set out in note 5 to the Condensed Consolidated Financial Statements.

Strategy

The Group's mission is to be the Motorist's Champion, providing relevant services and products to its members. The Board believes that the Group is well positioned to continue to develop its business through the following key strategic objectives:

- Optimise Our Core – use scale of core services to give both operational leverage and deliver sustainable growth;
- Increase Our Member Offering and Relevance – leverage our CRM capability to provide more products and services for our members; and
- Make the Most of Our Data – use our data assets to optimise our own business and generate new opportunities.

Regulatory

The Group includes regulated companies that are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA and PRA regulations. The new 'Solvency II' requirements came into force effective 1 January 2016 to further enhance and standardise the measurement and reporting of the financial strength of regulated businesses across the European Union. The Group's PRA regulated entity, RAC Insurance Limited, has been in compliance with the requirements of Solvency II throughout the period since its introduction.

Board of Directors

On 2 March 2017, C Woodhouse resigned from the Company's Board of Directors and D Hobday was appointed to the Company's Board of Directors. Except for these changes, the Directors who served in office during the six months ended 30 June 2017 and subsequently to the date of this report are as set out in the Group's Annual Report and Financial Statements 2016.

Interim management report (continued)
To the Members of RAC Bidco Limited

Principal risks and uncertainties

The principal risks to the Group are consistent with those set out in the Group's Annual Report and Financial Statements 2016. The Board regularly reviews the risk factors which could impact on the Group achieving its expected results.

Outlook

The Group delivered a robust performance in the first six months of 2017 and has continued to do so going into the second half of the year. We were delighted by demand for the Class B1 Notes issued shortly after the period end, which highlighted investor confidence in the Group's performance and prospects.

Through our continued focus on the Group's business model of delivering excellent customer service to our Members, we remain well positioned to deliver long-term growth and future value for our shareholders.

RAC BIDCO LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

Directors' responsibility statement

We confirm that to the best of our knowledge:

(a) the Condensed Consolidated Financial Statements contained in this document have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting';

(b) the Interim management report includes a fair review of the information required by DTR 4.2.7R, namely an indication of important events that have occurred during the first six months and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(c) the Interim management report includes a fair review of the information required by DTR 4.2.8R, namely disclosure of related-party transactions in the first six months and any changes in the related party transactions described in the last annual report.

By order of the Board

D Hobday
Chief Executive Officer
27 September 2017

Richard Fairman
Chief Financial Officer
27 September 2017

Cautionary statement

This document contains various forward-looking statements that reflect management's current views with respect to future events and anticipated financial and operational performance. Forward-looking statements as a general matter are all statements other than statements as to historical facts or present facts or circumstances.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Group's actual financial condition, results of operations and cash flows, and the development of the industry in which the Group operates, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this document. In addition, even if the Group's financial condition, results of operations and cash flows and the development of the industry in which it operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, no assurance can be provided that they will materialise or prove to be correct. Because these forward-looking statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements.

These forward-looking statements speak only as at the date of this document. The Group expressly undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation.

RAC BIDCO LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed Consolidated Income Statement
For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
		£m (unaudited)	£m (unaudited)	£m (audited)
Revenue	2	269	248	506
Cost of sales		(132)	(110)	(230)
Gross profit		**137**	**138**	**276**
Administrative expenses		(104)	(103)	(208)
Operating profit		**33**	**35**	**68**
EBITDA before exceptional items		**89**	**88**	**184**
Depreciation	7	(3)	(2)	(5)
Amortisation of customer acquisition intangibles	6	(8)	(7)	(14)
Amortisation of non customer acquisition intangible assets	6	(43)	(44)	(88)
Exceptional items		(2)	-	(9)
Operating profit		**33**	**35**	**68**
Finance expenses	3	(30)	(87)	(129)
Profit/(loss) before tax		**3**	**(52)**	**(61)**
Tax (charge) / credit	4	(1)	10	22
Profit / (loss) for the period/ year		**2**	**(42)**	**(39)**

The accompanying notes on pages 11 to 22 are an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
		£m (unaudited)	£m (unaudited)	£m (audited)
Profit/(loss) for the period/ year		2	(42)	(39)
Other comprehensive income/(expense)				
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:				
Gains/(losses) on cash flow hedges in the period	11	2	(11)	7
Aggregate tax effect		-	1	(1)
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		2	(10)	6
Total comprehensive income/(expense) for the period		**4**	**(52)**	**(33)**

The accompanying notes on pages 11 to 22 are an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Financial Position
As at 30 June 2017

	Note	30 June 2017	30 June 2016	31 December 2016
		£m	£m	£m
		(unaudited)	(unaudited)	(audited)
ASSETS				
Non-current assets				
Goodwill and intangible assets	6	2,209	2,268	2,238
Property, plant and equipment	7	17	17	15
Investments in joint ventures and associates		2	-	2
Deferred tax assets		13	35	12
		2,241	2,320	2,267
Current assets				
Inventories		2	2	2
Trade and other receivables		77	61	66
Cash and cash equivalents		80	62	43
		159	125	111
LIABILITIES				
Current liabilities				
Borrowings	9	(7)	(6)	(7)
Provisions	10	(5)	(1)	(6)
Current tax payable		(37)	(18)	(28)
Trade and other payables		(243)	(240)	(227)
		(292)	(265)	(268)
Net current liabilities		(133)	(140)	(157)
Non-current liabilities				
Borrowings	9	(1,164)	(1,162)	(1,163)
Employee benefit liability		(6)	(6)	(6)
Trade and other payables		(3)	(2)	(3)
Derivative financial instruments	11	(13)	(21)	(15)
Deferred tax liability		(212)	(262)	(217)
		(1,398)	(1,453)	(1,404)
Net assets		**710**	**727**	**706**
EQUITY				
Ordinary share capital	12	339	339	339
Hedging instruments reserve		-	(18)	(2)
Retained earnings		371	406	369
Total equity		**710**	**727**	**706**

The accompanying notes on pages 11 to 22 are an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2017

	Ordinary share capital	Hedging instruments reserve	Retained earnings	Total equity
	£m	£m	£m	£m
Balance as at 1 January 2016	874	(8)	(62)	804
Loss for the period	-	-	(42)	(42)
Other comprehensive expense	-	(10)	-	(10)
Total comprehensive expense	-	(10)	(42)	(52)
Dividends paid	-	-	(25)	(25)
Capital reduction	(535)	-	535	-
Balance as at 30 June 2016	**339**	**(18)**	**406**	**727**
Profit for the period	-	-	3	3
Other comprehensive income	-	16	-	16
Total comprehensive income	-	16	3	19
Dividends paid	-	-	(40)	(40)
Balance as at 31 December 2016	**339**	**(2)**	**369**	**706**
Profit for the period	-	-	2	2
Other comprehensive income	-	2	-	2
Total comprehensive income	-	2	2	4
Dividends paid	-	-	-	-
Balance as at 30 June 2017	**339**	**-**	**371**	**710**

The accompanying notes on pages 11 to 22 are an integral part of these Condensed Consolidated Financial Statements.

RAC BIDCO LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
		£m (unaudited)	£m (unaudited)	£m (audited)
Operating activities				
Profit/(loss) before tax		3	(52)	(61)
Adjustments to reconcile profit/(loss) before tax to net cash flows:				
Depreciation of owned tangible assets	7	3	2	5
Amortisation of intangible assets	6	51	51	102
Exceptional costs		-	-	1
(Decrease)/increase in provisions		(1)	-	5
Finance expenses	3	30	87	129
Working capital adjustments:				
Decrease in inventories		-	-	1
(Increase)/decrease in trade and other receivables		(12)	1	(5)
Increase/(decrease) in trade and other payables		18	(4)	(15)
Net cash flows generated from operating activities		92	85	162
Investing activities				
Purchase of property, plant and equipment	7	(4)	(3)	(5)
Additions of intangible assets	6	(22)	(19)	(41)
Net cash flows used in investing activities		(26)	(22)	(46)
Financing activities				
Proceeds from new bank debt	9	-	272	280
Net proceeds from bond issuance	9	-	888	896
Repayment of bank debt	9	-	(1,190)	(1,188)
Dividends paid	5	-	(25)	(65)
Interest paid		(29)	(34)	(84)
Net cash flows used in financing activities		(29)	(89)	(161)
Net increase/(decrease) in cash and cash equivalents		**37**	**(26)**	**(45)**
Cash and cash equivalents brought forward		43	88	88
Cash and cash equivalents carried forward		**80**	**62**	**43**

The accompanying notes on pages 11 to 22 are an integral part of these Condensed Consolidated Financial Statements.

Notes to the Condensed Consolidated Financial Statements

1 Accounting policies

Basis of preparation

The accompanying unaudited condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union. It should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 December 2016, which were prepared in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

The information for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. Financial Statements for the year ended 31 December 2016 were approved by the Board of Directors on 2 March 2017 and have been delivered to the Registrar of Companies. The auditors reported on these accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The significant accounting policies adopted are consistent with those described in the Annual Report and Financial Statements for the year ended 31 December 2016. A number of amended standards and interpretations are effective for the current financial year, but none of them has had any material impact on the interim financial information.

Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and compared them to the level of available committed borrowing facilities. Details of borrowing facilities are set out in note 9 to the Interim Report and 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 scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

Having undertaken this assessment, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the interim unaudited condensed consolidated financial information to be prepared on a going concern basis.

Notes to the Condensed Consolidated Financial Statements (continued)

2 Operating segments

The Group is primarily UK based and offers an increasing range of breakdown and other motoring services directly to Individual Members and other motorists, as well as indirectly through a range of Corporate Partner relationships. Management has determined the operating segments based on the monthly management accounts reviewed by the Board of Directors, which is 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 four operating and reportable segments of the Group are described below.

Roadside

Roadside assistance is the largest operating segment of the business, offering breakdown cover and related products to Individual Members and Corporate Partners.

Insurance broking

The Insurance broking division 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.

Motoring services

The Motoring services division includes a range of established products such as legal and motor claims services and new business areas such as retail online, garage services, SME business club and RAC Cars.

Telematics and Data services

The Telematics and Data services division focuses on the sale of telematics devices to Individual Members, Corporate Partners and SME businesses as well as the monetisation of data assets held by the Group.

Notes to the Condensed Consolidated Financial Statements (continued)

2 Operating segments (continued)

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

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
	£m (unaudited)	£m (unaudited)	£m (audited)
Revenue of products			
Roadside	11	13	23
Revenue of services			
Roadside	204	192	394
Insurance broking	33	28	57
Motoring services	19	12	27
Telematics and Data services	2	3	5
Group Revenue	**269**	**248**	**506**
Segment EBITDA before exceptional items and head office costs			
Roadside	87	91	187
Insurance broking	17	14	30
Motoring services	4	2	5
Telematics and Data services	-	1	1
Group EBITDA before exceptional items and head office costs	**108**	**108**	**223**
Head office costs*	(19)	(20)	(39)
Group EBITDA before exceptional items	**89**	**88**	**184**
Amortisation of intangible assets	(51)	(51)	(102)
Depreciation	(3)	(2)	(5)
Exceptional items*	(2)	-	(9)
Operating profit	**33**	**35**	**68**
Finance expenses	(30)	(87)	(129)
Profit/(loss) before tax	**3**	**(52)**	**(61)**

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

Notes to the Condensed Consolidated Financial Statements (continued)

2 Operating segments (continued)

Assets and liabilities

For the purpose of monitoring segment performance, working capital analysis is presented to and monitored by the Board on a Group level, to enable a meaningful review of the economic environment of the business as a whole. As the Group's 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.

3 Finance expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
	£m (unaudited)	£m (unaudited)	£m (audited)
Interest payable - third parties	29	38	67
Amortisation of capitalised finance costs	1	3	4
Write off of capitalised finance costs	-	46	46
Recycle of hedged items previously classified through other comprehensive income	-	-	12
Total finance expenses	**30**	**87**	**129**

4 Tax

The major components of the tax charge/(credit) in the Condensed Consolidated Income Statement

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
	£m (unaudited)	£m (unaudited)	£m (audited)
Current tax	8	(3)	7
Deferred tax	(7)	(7)	(29)
Total tax charge/(credit)	**1**	**(10)**	**(22)**

Current tax for the six month period is charged at 19.25%, (six months ended 30 June 2016: 20.0%; year ended 31 December 2016: 20.0%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

Notes to the Condensed Consolidated Financial Statements (continued)

5 Dividends

The Company paid ordinary dividends of £nil during the six month period ended 30 June 2017 (six months ended 30 June 2016: £25 million amounting to 7.37 pence per share; year ended 31 December 2016: £65 million amounting to 19.02 pence per share).

6 Goodwill and intangible assets

	Goodwill	Brand	Acquired value-in-force	Customer List	Other	Sub-total	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 January 2016	906	872	89	536	48	2,451	41	2,492
Additions	-	-	-	-	9	9	10	19
At 30 June 2016	**906**	**872**	**89**	**536**	**57**	**2,460**	**51**	**2,511**
Additions	-	-	-	-	12	12	10	22
At 31 December 2016	**906**	**872**	**89**	**536**	**69**	**2,472**	**61**	**2,533**
Additions	-	-	-	-	9	9	13	22
At 30 June 2017	**906**	**872**	**89**	**536**	**78**	**2,481**	**74**	**2,555**
Amortisation								
At 1 January 2016	-	-	89	78	15	182	10	192
Charge for the period	-	-	-	38	6	44	7	51
At 30 June 2016	**-**	**-**	**89**	**116**	**21**	**226**	**17**	**243**
Charge for the period	-	-	-	37	7	44	7	51
Impairment	-	-	-	-	1	1	-	1
At 31 December 2016	**-**	**-**	**89**	**153**	**29**	**271**	**24**	**295**
Charge for the period	-	-	-	37	6	43	8	51
At 30 June 2017	**-**	**-**	**89**	**190**	**35**	**314**	**32**	**346**
Net book value								
At 30 June 2017	**906**	**872**	**-**	**346**	**43**	**2,167**	**42**	**2,209**
At 31 December 2016	906	872	-	383	40	2,201	37	2,238
At 30 June 2016	906	872	-	420	36	2,234	34	2,268

Notes to the Condensed Consolidated Financial Statements (continued)

6 Goodwill and intangible assets (continued)

Goodwill and brand are held at cost. All other intangible assets are stated at cost less accumulated amortisation. In the year ended 31 December 2016 an impairment of £1 million was recognised in respect of the impairment of intangibles relating to Risk Telematics UK Limited. No impairment losses have been recognised in the period ended 30 June 2017. Other intangible assets comprise the value of customer relationships and IT development.

7 Property, plant and equipment

	Owner-occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost or valuation:				
At 1 January 2016	3	7	9	19
Additions	-	1	3	4
At 30 June 2016	**3**	**8**	**12**	**23**
Additions	-	1	-	1
Disposal	-	-	(1)	(1)
Transfer	-	7	(7)	-
At 31 December 2016	**3**	**16**	**4**	**23**
Additions	-	3	2	5
At 30 June 2017	**3**	**19**	**6**	**28**
Depreciation:				
At 1 January 2016	-	2	2	4
Charge for the period	-	1	1	2
At 30 June 2016	**-**	**3**	**3**	**6**
Charge for the period	-	2	1	3
Disposal	-	-	(1)	(1)
At 31 December 2016	**-**	**5**	**3**	**8**
Charge for the period	-	2	1	3
At 30 June 2017	**-**	**7**	**4**	**11**
Net book value:				
At 30 June 2017	**3**	**12**	**2**	**17**
At 31 December 2016	3	11	1	15
At 30 June 2016	3	5	9	17

Notes to the Condensed Consolidated Financial Statements (continued)

8 Group information

(a) Information about subsidiaries

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

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)	Inactive since 1 January 2017	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%
Net 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, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

RAC Bond Co PLC was incorporated on 24 March 2016 as RAC Bond Co Limited. On 14 April 2016, RAC Bond Co Limited was re-registered as a plc, changing its name to RAC Bond Co PLC.

Until 6 May 2016, the RAC Bidco Limited Group also included RAC Finance Limited, RAC Finance Group Limited and RAC Finance (Holdings) Limited, all of which are registered in England and Wales. As part of a refinancing in the period (see note 9), these companies became dormant and were sold to RAC Midco Limited, an indirect Parent Company of the Group.

The Condensed 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.

(b) 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.

Notes to the Condensed Consolidated Financial Statements (continued)

9 Borrowings

(a) Analysis of borrowings

	Bonds		Bank Debt	
	Class A1 Notes	Class A2 Notes	Senior Term	**Total**
Interest rate	4.565%	4.870%	LIBOR + 2.750%	
	£m	£m	£m	£m
At 30 June 2017				
Fair value	302	605	280	**1,187**
Amounts falling due within one year	2	5	-	**7**
Amounts falling due in more than one year	297	593	274	**1,164**
Book value	299	598	274	**1,171**
At 31 December 2016				
Fair value	302	605	280	**1,187**
Amounts falling due within one year	2	5	-	**7**
Amounts falling due in more than one year	297	593	273	**1,163**
Book value	299	598	273	**1,170**
At 30 June 2016				
Fair value	302	604	280	**1,186**
Amounts falling due within one year	2	4	-	**6**
Amounts falling due in more than one year	296	593	273	**1,162**
Book value	298	597	273	**1,168**

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing through a Whole Business Securitisation ("WBS") under which it:

- repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan;
- drew-down a new £280m Initial Senior Term Facility provided by a syndicate of banks; and
- issued £900m of bonds on the Irish Stock Exchange.

(b) Bank debt

The Initial Senior Term Facility is for an amount of £280 million at a floating rate of 2.750% plus LIBOR, incorporates a LIBOR floor and matures on 6 May 2021.

The RAC Bidco Limited Group also entered into agreements for an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million, neither of which has been drawn. The Initial Working Capital Facility is subject to interest of LIBOR plus 2.750% and also matures on 6 May 2021. The Initial Liquidity Facility is subject to interest of LIBOR plus 2.250% and is subject to annual renewal.

Notes to the Condensed Consolidated Financial Statements (continued)

9 Borrowings (continued)

(c) Bonds

The bonds comprise two tranches: Class A1 Notes and Class A2 Notes. £300 million of Class A1 Notes were issued at a coupon of 4.565%, and have an initial period to 6 May 2023, after which interest will be charged at 5.065% per annum. £600 million of Class A2 Notes were issued at a coupon of 4.870%, and have an initial period to 6 May 2026, after which interest will be charged at 5.370% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November.

On 14 July 2017 the Group issued £275m Class B bonds, see note 15 for further details.

10 Provisions

	Customer refunds	Other	Total
	£m	£m	£m
At 1 January 2016	-	1	1
Provided during the period	-	-	-
At 30 June 2016	**-**	**1**	**1**
Provided during the period	5	-	5
At 31 December 2016	**5**	**1**	**6**
Utilised during the period	(1)	-	(1)
At 30 June 2017	**4**	**1**	**5**

Customer refunds

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

We have provided for our best estimate of the cost of providing possible refunds and associated costs. This provision is by its nature an estimate and includes significant management judgement about the number of customers who may be impacted. The actual costs will be dependent on the individual circumstances of each relevant customer. We anticipate this provision being utilised over the course of the next 6 to 12 months.

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). There has been no material expenditure nor additional provision in the period.

Notes to the Condensed Consolidated Financial Statements (continued)

11 Derivative financial instruments

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 values of these are as follows:

	30 June 2017	30 June 2016	31 December 2016
	£m	£m	£m
Contract/notional value	280	280	280
Total derivative financial instrument liability	(13)	(21)	(15)

The hedges were effective in the reported periods and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income.

The hedges are achieved through using interest rate swap contracts to pay fixed and receive three month LIBOR. The interest rate swaps settle on a quarterly basis.

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing (see note 9). On inception of the Initial Senior Term Facility, a new hedge was undertaken. The fixed element of the hedge has been set to 2.025% per annum until 6 May 2021. The floating rate is calculated on a notional principal amount.

Prior to the refinancing, four hedges were undertaken (each with a separate counterparty). The fixed element of the swaps was set to 1.5692%, 1.5747%, 1.5830% and 1.5889% respectively for the period from 31 March 2015 to 31 December 2017. The floating rate was calculated on a notional principal amount. The notional principal amount for each hedge was variable over its life as follows; £131million between 31 March 2015 and 30 December 2015; and £200 million between 31 December 2015 and 31 December 2017. As a result of the refinancing, the four existing hedges were novated to a single counterparty and restructured into the single hedge.

Notes to the Condensed Consolidated Financial Statements (continued)

12 Ordinary share capital

As at 30 June 2017, ordinary share capital was £339 million (30 June 2016 and 31 December 2016: £339 million).

13 Fair value of financial assets and liabilities

Set out below are details about how the RAC Bidco Limited 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); and
- 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).

	Fair Value Hierarchy	30 June 2017	30 June 2016	31 December 2016
		£m	£m	£m
Cash flow hedge liability (note 11)	Level 2	(13)	(21)	(15)

The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.

Notes to the Condensed Consolidated Financial Statements (continued)

14 Related party transactions

- In May 2016, RAC Bidco Limited paid dividends of £25 million to RAC Midco II Limited, its immediate Parent Company as part of the WBS, followed by further dividends of £20 million each in November and December 2016. No dividends were paid in the 6 month period ended 30 June 2017.
- On 6 May 2016, RAC Limited sold its direct subsidiary, RAC Finance Limited, and its indirect subsidiaries, RAC Finance Group Limited and RAC Finance (Holdings) Limited, to RAC Midco Limited, an indirect Parent Company for consideration of £1.
- During the six month period ended 30 June 2017, the RAC Bidco Limited Group paid £nil (six month period ended 30 June 2016: £250 thousand; year ended 31 December 2016: £250 thousand) in respect of a monitoring fee to The Carlyle Group and GIC. Until 12 April 2016, The Carlyle Group owned 41% of the RAC Group, which was subsequently sold to CVC.
- In June 2016, Nebula Systems Limited paid £500 thousand to the RAC Bidco Limited Group (six month period ended 30 June 2017: £nil; year ended 31 December 2016: £500 thousand) in respect of a brand license fee. In addition, Nebula Systems Limited paid £25 thousand during the six month period ended 30 June 2017 to the RAC Bidco Limited Group for support costs (six month period ended 30 June 2016: £25 thousand; year ended 31 December 2016: £50 thousand). Nebula Systems Limited is a related party as it is owned by RAC Midco Limited, an indirect Parent Company of the RAC Bidco Limited Group.

15 Events since the statement of financial position date

On 14th July 2017, RAC Bond Co plc issued £275 million of bonds under a Class B facility, and on lent these funds, net of issuance costs, to RAC Limited as borrower. The Class B bonds were issued at a coupon of 5.000% and have an initial period to 6 November 2022, after which interest will be charged at 4.500%. On 14th July 2017, RAC Bidco Limited paid a dividend of £269 million (7.92 pence per share) to its parent company, RAC Midco II Limited.