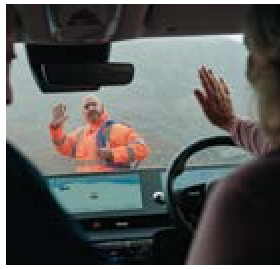
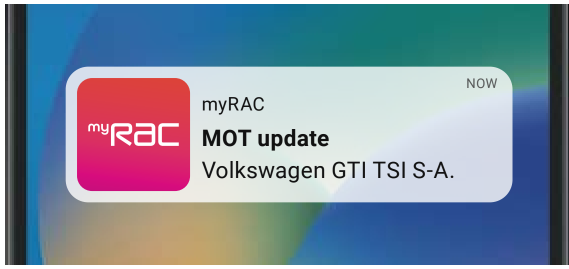
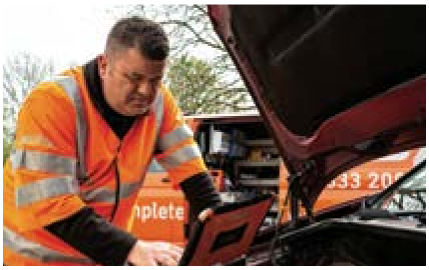
Annual Report & Financial Statements 2023

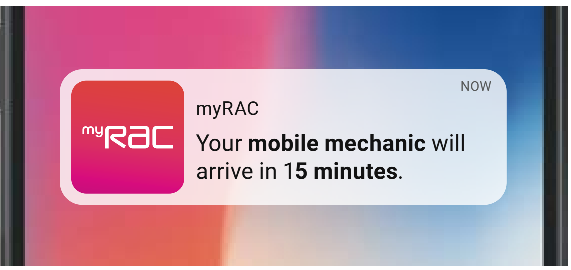



“Over 60 years of membership and I intend to stay as long as I am driving.

Derek, 28 Dec 2023





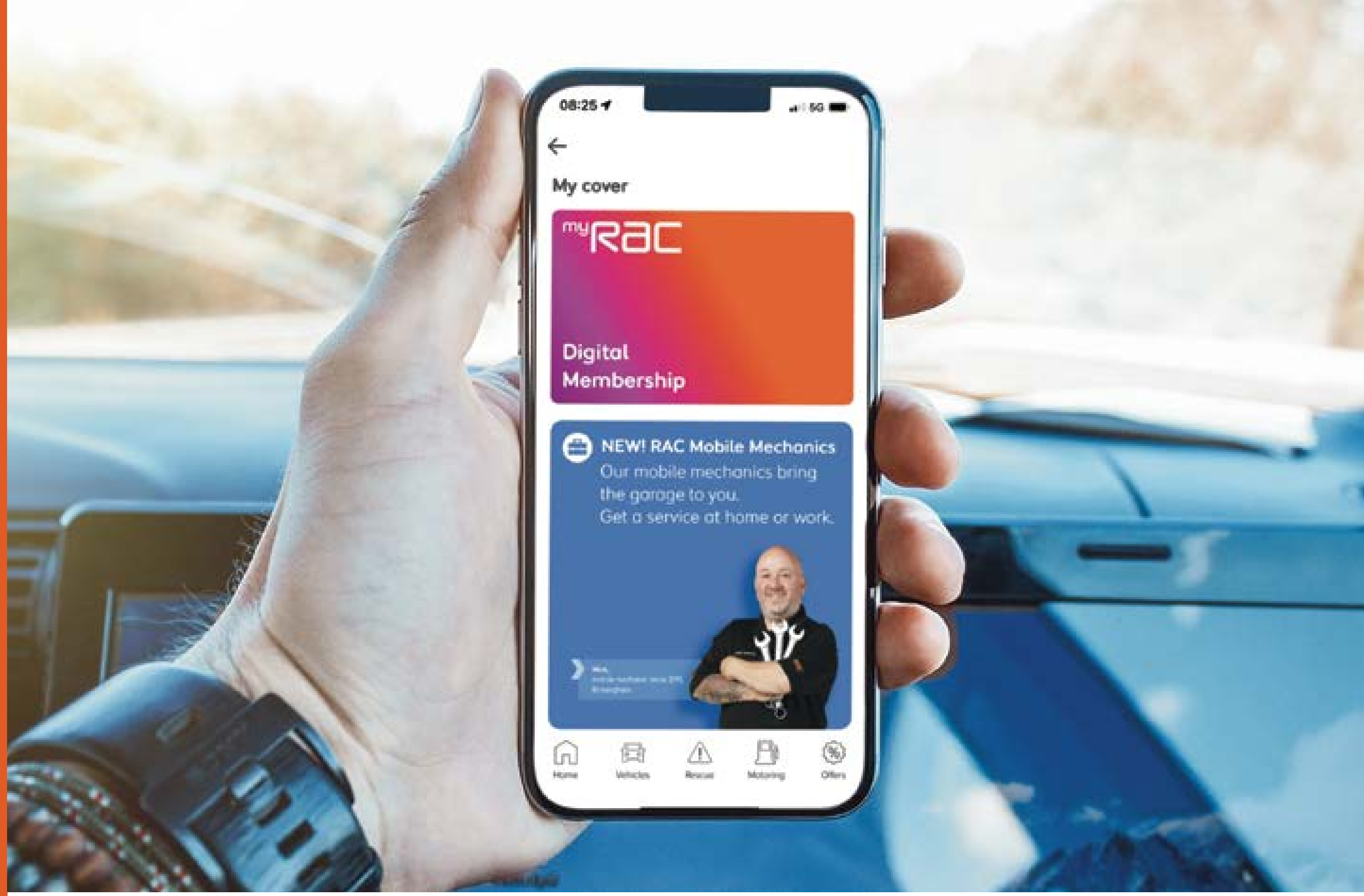



“RAC patrols have always been fabulous – I can’t praise them enough.

Dawn, 25 Dec 2023

“So reassuring to know that **help is there** for the whole family when you need it. My daughter’s tyre blew out on the motorway early in the morning. The **RAC** changed the wheel and got her on her way. The **Family Breakdown Policy is excellent and great value for money**.”

Keith, 28 November 2023



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 WS5 4AW
United Kingdom

Auditor:

Deloitte LLP, Statutory Auditor,
The Hanover Building,
Corporation Street,
Manchester M4 4AH
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 173.

For the year ending 31 December 2023, 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 ending 31 December 2023. Comparatives are presented for the year ending 31 December 2022.

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.

Indy,
mobile mechanic since 2022,
West Midlands

Contents

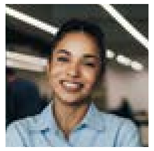
Executive Summary

Membership
13.6m
(2022: 13.0m)

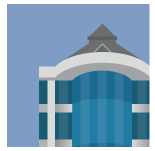
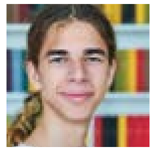



Cash conversion strong at
92%
(2022: 86%).


Revenue of £720m(+8%)
an increase of £56 million (2022: £664 million)



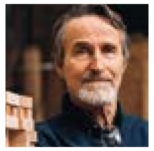



Insurance membership of 0.7m(+17%)
(2022: 0.6m)

EBITDA of £272m(+5%)
an increase of £12m (2022 Adjusted EBITDA: £260m)



SMR
established nationally



Lowest ever churn rate
14.1%
(2022: 14.2%)


Reduced our debt by £70m



Accounts

Motor manufacturers

Financial

Fleet

Affinity

We successfully retained all major accounts.

"**Great service!** The RAC patrol was **very polite and helpful** and got my car running again **quickly**, explained the problem and gave me tips to hopefully prevent further failure. I give them **10 out of 10!** The RAC have always been **superb** and after over 60 years of membership I intend to stay as long as I am driving."

Derek, 28 October 2023

Strategic report

For the year ending 31 December 2023

A message from our CEO

"I am pleased to report another positive set of results, and our 12th year of uninterrupted EBITDA growth delivered against a tough macro-economic backdrop, further evidencing the strength of our brand and business model.

We end 2023 with more members, more products and services, our lowest ever churn rate and 100% corporate partner retention.

Our three complementary offerings: Breakdown, Insurance, and Service, Maintenance and Repair are well invested and provide a strong member proposition and further opportunities for growth. Our vision remains unchanged and our strategic focus unwavering – as we continue our journey to firmly establish ourselves as the UK's number one for driving services.

My thanks go to our 4,000 colleagues – our "Orange Heroes" for their ongoing commitment, and for the outstanding service they provide our members."

Dave Hobday, Chief Executive Officer

Dear Stakeholders,

In 2023, we delivered another year of EBITDA growth, our 12th since becoming a standalone business and set against the backdrop of ongoing macro-economic challenges and cost inflation impacting motorists, consumers and businesses. The fact we continue to grow in these conditions is testament to the strength of our brand, the loyalty of our members and our unwavering focus on the execution of our strategy and the work of our 4,000 Orange Heroes.

Our membership proposition provides complete peace of mind across an increasingly broad range of products and services. We continue to innovate and differentiate in our traditional core businesses of Breakdown and Insurance and have made material progress in the third leg of the RAC, Service, Maintenance and Repair (SMR) achieving national scale in our mobile mechanics operation only a year after launch. Our services are increasingly being delivered digitally, resulting in a seamless experience for our members and partners.

13.6m members

14.1% churn rate

£272m EBITDA

2.6m breakdowns attended

Continued growth of membership, revenues and EBITDA

Revenue grew 8% to £720 million (2022: £664 million) supported by our growing membership of 13.6 million and carefully managed price increases.

Consumer Breakdown gained 73,000 members with churn down again to our best-ever 14.1% (2022: 14.2%). Set against cost-of-living pressures and rising prices this again demonstrates not only the relevance of RAC membership but also the strength of our plans to keep our members. We launched new digital renewal functionality and expanded our outbound retention teams to support this record performance.

Business Breakdown membership grew by 416,000 to 10.2 million with our Stellantis contract going live in early 2023 and other smaller partnerships joining during the year. We successfully retained all major partners due for renewal including Aviva, Barclays, BGL, British Car Auctions, Hastings, Motability and NFU Mutual.

Our Insurance division returned to growth adding 80,000 policies to end the year with 703,000 members.

EBITDA grew 5% to £272 million (2022: £260 million) continuing our track record of uninterrupted growth. EBITDA margin remained strong at 38% (2022: 39%) delivered against the backdrop of record breakdown volumes and cost inflation. Following on from the H1 investments in people and products, H2 EBITDA growth accelerated to 8%.

Further progress across our three strategic pillars

Our vision is unchanged, to firmly establish ourselves as the UK's number one for driving services, providing complete peace of mind for all our members' driving needs. The three pillars of our strategy deliver against this vision; (1) Drive our core businesses of Breakdown and Insurance; (2) Expand our total addressable market ('TAM') by growing our new Service, Maintenance and Repair ('SMR') offering; and (3) Underpin our member experience with our digital platform, myRAC.

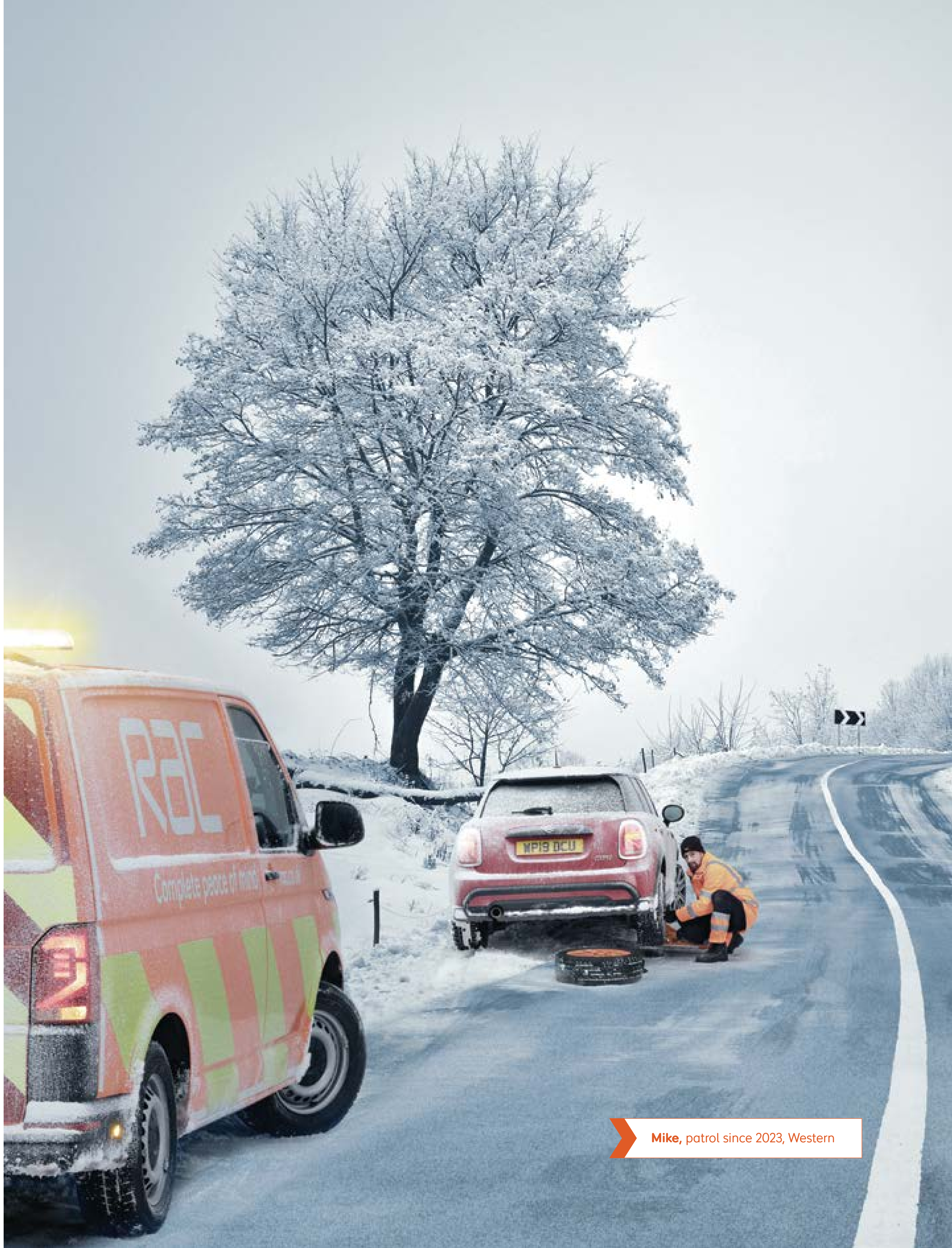
Strong acceleration of our core businesses, with growth in both Breakdown and Insurance

Breakdown volumes increased to 2.6 million (2022: 2.4 million) driven by our growing membership and the ongoing ageing of the UK car parc. The average car is over 9 years old and, whilst new car sales are starting to recover, this underlines the growing need for our services. We mitigated the cost impact of the record breakdown volumes by increasing patrol hours on the road and reducing the number of re-attends by improving deployment processes. Further operational improvements included new machine learning tools to better forecast breakdowns and deploy our patrols, increased remote fix and digital capability, and new solutions to manage the end-to-end service for long tows. We also invested in improved battery testers and multi-fit wheels to get members back on the road quicker.

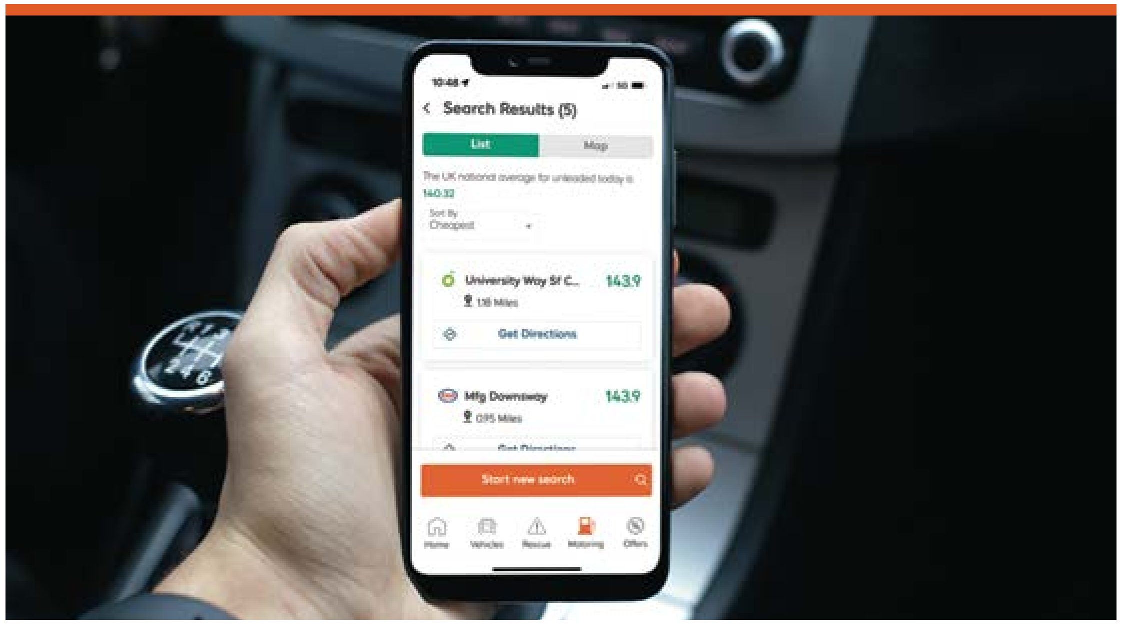
In Consumer Breakdown we further refined our already successful formula, offering even better value to members, increasingly via myRAC. In addition to our breakdown service, we enhanced our value proposition, with members now benefitting from a broad package of savings on motoring spend, from RAC Mobile Mechanic discounts to more loyalty rewards for more members than ever before. We also launched a number of new services in the year including Family Breakdown Cover.

In Business Breakdown we focused on deepening and broadening our Corporate Partner relationships, renewing all key contracts. We became the provider of legal expenses insurance to over 1 million Saga members alongside our existing breakdown relationship. We expanded our servicing and maintenance work to a number of our Fleet partners and started providing increasing support with their transition to electric vehicles.

Insurance grew strongly in 2023 with membership up to 0.7 million (2022: 0.6 million). The market experienced a degree of turbulence but, as a broker, we are largely protected from the impact of claims inflation. We worked closely with our insurance panel to secure bespoke rates for RAC members, further developed our pricing capability to balance renewals with new business and launched our new RAC Plus product, rated 5-star by Defaqto. Our Plus offering now accounts for nearly 50% of all sales, delivering value to members and helping drive revenue per member.



Mike, patrol since 2023, Western



Service, Maintenance and Repair nationally established as the third leg of the RAC

Following its pilot in 2022, mobile SMR expanded across the UK with the foundations firmly established for future growth. We completed 23,000 jobs in 2023 (2022: 2,000) from a near standing start and expect this to grow rapidly by expanding the workforce and adding new distribution channels. This mobile offering is complemented by our 1,100+ strong RAC garage network and the launch of our new RAC Warranty product giving motorists protection against unexpected repair bills.

Accelerating our digital experience improving both member experiences and efficiency

Our membership proposition is underpinned by investment in digital to deliver ongoing efficiencies, and improved, more cohesive, member experiences. In a year of record breakdown volumes, we really saw the benefit ending 2023 with our "Rescue Me" feature used by members to log almost half of all breakdowns digitally (2022: 35%) saving cost and supporting service.

Our myRAC digital subscription platform was relaunched in July, with new features including Fuel Finder, and is now used by 2.1 million members (2022: 1.7 million). myRAC was expanded to more of our Business Breakdown members including Motability and Barclays in 2023 giving them access to more of our services including digital MOT and maintenance reminders and breakdown reports. Members can now upgrade their cover and renew their breakdown membership via the app. In November we launched the ability to purchase through the app as we increasingly provide more personalised products and services throughout the driving lifecycle.

> The RAC Mobile Mechanic team should be **applauded**. While on holiday at a campsite, our motorhome had severe problems with its brakes. We called the **RAC** and a **mobile mechanic** came out to us the next day to fit new brake discs and pads – we didn't need to leave the campsite and **were able to continue with our holiday!**"

Sally, 21 May 2023

Our colleagues – our Orange Heroes

Our sustained results are only possible because of our 4,000 colleagues who deliver the best possible outcomes for our members each and every time. As ever, my thanks go to all our Orange Heroes for their passion and commitment 24 hours a day, 365 days per year. They truly encapsulate the values of the RAC and our obsession with providing complete peace of mind for all our members.

Positive outlook for 2024 and beyond

Our strategy, execution and recurring membership model provide predictable results and long-term confidence. In tough market conditions, our ability to grow strongly stands out yet again. This resilience, combined with ongoing investment, improving market conditions and the new opportunities in SMR and digital give me real confidence and excitement about the further potential that lies ahead.

Chris, operations since 1989

Financial review

We have delivered robust growth in 2023 in the face of headwinds such as inflation and significantly higher breakdown volumes.

Our revenue and EBITDA growth against that backdrop not only demonstrates, once again, the resilience of our subscription-based model. But also our ability to evolve to deliver an ever-broader range of essential services to our loyal and growing membership base. As the external pressures begin to abate, we are well set for continuing growth."

Jo Baker, Chief Financial Officer

The Consolidated Financial Statements of RAC Bidco Limited are set out from page 120 onwards. The Group continued its operational and financial progress in 2023:

- 12th consecutive year of EBITDA growth, up £12 million or 5%[1] to £272 million, with H2 growth accelerating to 8%[1]
- EBITDA growth across both segments, with Membership Services up 5% and Insurance up 22%
- Membership increased by 0.6 million and now exceeds 13.6 million
- Revenue of £720 million increased by £56 million or 8%[1]
- Lowest-ever churn rate of 14.1% (2022: 14.2%)
- Service, Maintenance and Repair nationally established, undertaking 23,000 jobs
- 2.1 million members using myRAC for sales, upgrades, renewals and logging breakdowns
- Adjusted operating cash conversion[1] remained strong at 92% (2022: 86%)
- Drawn debt reduced by £70 million

Consolidated Income Statement

	2023 £m	2022 £m
Statutory revenue	720	659
Adjusted revenue[1]	720	664
EBITDA before exceptional items	272	255
Adjusted EBITDA[1]	**272**	**260**
Depreciation	(29)	(22)
Amortisation	(39)	(95)
Impairment	–	(152)
Adjusting items	–	(5)
Exceptional items	(7)	(41)
Operating profit/(loss)	197	(55)
Net finance expenses	(86)	(47)
Profit/(loss) before tax	111	(102)
Tax charge	(25)	(4)
Profit/(loss) after tax	**86**	**(106)**

[1]See note 34 for definitions of alternative performance measures. For the year ending 31 December 2023 there is no difference between adjusted and statutory revenue and EBITDA, therefore all references to prior year comparatives in this report are against adjusted numbers.

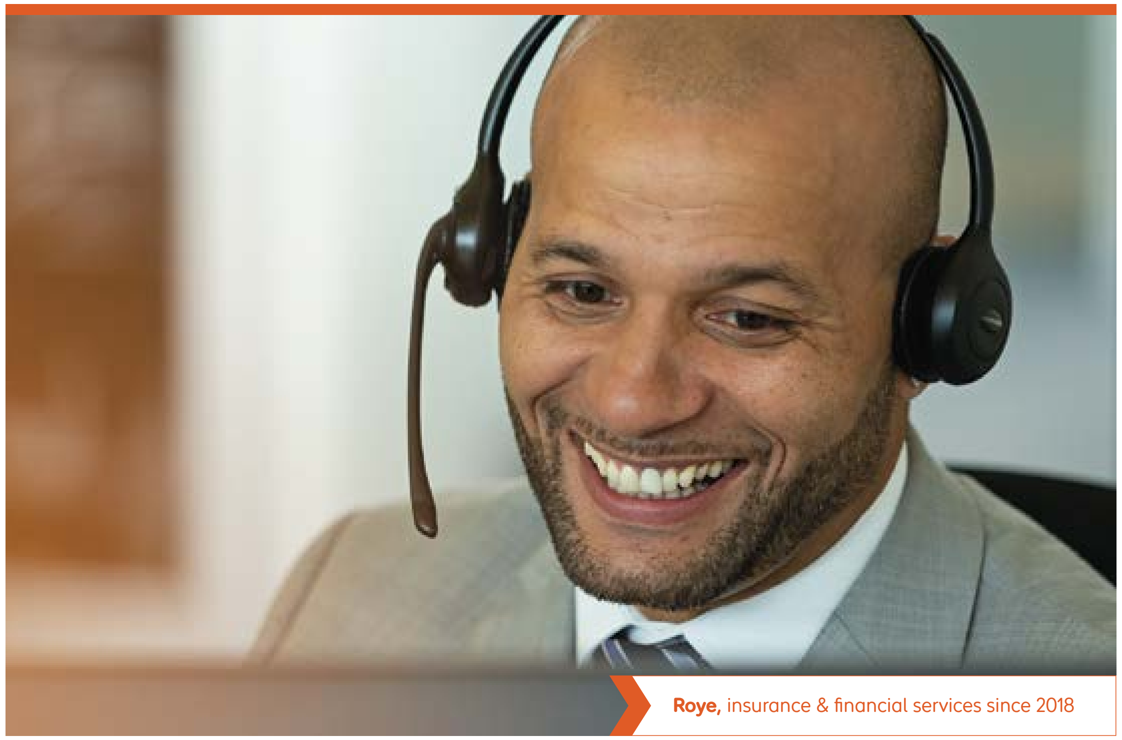
As detailed in the accounting policies on page 145 the introduction of IFRS 17 'Insurance Contracts' with effect from 1 January 2023 has impacted the presentation of selected items in the Consolidated Income Statement and Consolidated Statement of Financial Position.

Revenue of £720 million (2022: £664 million) increased by £56 million or 8%. Membership Services revenue grew by £49 million to £654 million (2022: £605 million), driven by pricing increases, record low churn rate of 14.1%, as well as another year of new member growth across both Consumer and Business Breakdown and the expansion of our new Service Maintenance and Repair business. Our Insurance division had a very positive year and revenue increased by £7 million to £66 million (2022: £59 million), with the strong renewal rates and member growth we saw in the second half of 2022 continuing into 2023.

EBITDA of £272 million (2022: £260 million) was £12 million higher. 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 offset by carefully managed price increases and efficiency improvements, as well as the expansion of new products and services like mobile mechanics and EV servicing.

Depreciation was £29 million (2022: £22 million) with the increase largely due to lease costs of additional vans and recovery vehicles to support our growing business, alongside inflationary rate rises. Amortisation of intangible assets amounted to £39 million (2022: £95 million), representing amortisation of both acquired intangibles and separately identified intangible assets, predominantly customer lists. The large decrease compared to the prior year is due to customer lists arising as part of the business combination in 2014, in which RAC Bidco Limited acquired the RAC Group of Companies, being fully amortised in 2022.

Exceptional items of £7 million (2022: £41 million) were incurred during 2023 and primarily related to one-off payments to colleagues. The 2022 exceptional items included costs in relation to the Silver Lake transaction.



Roye, insurance & financial services since 2018

Net finance expenses of £86 million (2022: £47 million) were incurred in 2023. 2022's results were lower as they included £34 million of one-off income due to share proceeds in the Employment Benefit Trust received in relation to the Silver Lake transaction. Interest payable increased by £6 million following the refinancing activities referred to below, alongside the unhedged portion of our borrowings as interest rates rose during 2023. The residual movement relates to lower refinancing costs offsetting an increase in the unwind of our discounted lease liabilities under IFRS16 'Leases'.

Profit before tax in 2023 was £111 million (2022: loss of £102 million) with 2022 impacted by a one-off impairment charge of £152 million against our Insurance cash generating unit. The tax charge increased to £25 million (2022: £4 million). The current tax charge increased to £24 million (2022: £21 million) largely due to the increase in the UK tax rate to 25% from 1 April 2023. The deferred tax charge was £1 million (2022: credit of £17 million) with 2022 including an adjustment to reflect the announced change in the UK tax rate.

Consolidated statement of financial position

	2023 £m	2022 £m
Goodwill and intangible assets	1,658	1,642
Contract costs	47	34
Property, plant and equipment	30	32
Right of Use assets	68	62
Trade and other receivables	60	38
Trade and other payables (current)	(130)	(120)
Insurance contract liabilities	(69)	(73)
Net current liabilities	(33)	(329)
Borrowings	(1,601)	(1,668)
Net liabilities	(50)	(128)

At 31 December 2023, goodwill and intangible assets amounted to £1,658 million (2022: £1,642 million) primarily representing the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The increase of £16 million reflects £28 million of intangible capital expenditure offset by £12 million of amortisation.

Contract costs of £47 million (2022: £34 million) relate to commissions and fees paid to third parties, arising following the direct sale of an insurance policy, where RAC is the broker and revenue is accounted for under IFRS 15 'Revenue from contracts with customers'. The increase is primarily a function of growth in sales as well as an increase in the cost per policy.

Property, plant and equipment of £30 million at 31 December 2023 (2022: £32 million) relates to owner-occupied property, fixtures and fittings and computer hardware. In 2023 we sold our owner-occupied property in Stretford which accounts for the majority of the decrease.

Right of Use assets of £68 million (2022: £62 million) relate to IFRS 16 'Leases' and comprise vehicles and properties. The £7 million increase primarily reflects additional lease vehicles and our new leased offices in Salford.

Trade and other receivables was £60 million (2022: £38 million). Within this, trade receivables of £14 million (2022: £10 million) reflects amounts owed for non-insurance related revenue (which is not accounted for under IFRS17 'Insurance Contracts') and has increased due to revenue growth and the timing of payments receivable from certain Members and Corporate Partners. Prepayments and accrued income of £26 million (2022: £17 million) increased driven by prepayments on certain contracts and the timing of various Head Office costs. The remainder of trade and other receivables comprises amounts due from related parties and other receivables.

Current trade and other payables of £130 million (2022: £120 million) predominantly represents deferred income of £18 million (2022: £16 million) relating to subscription revenue received upfront and accounted for under IFRS 15 'Revenue from contracts with customers', and £112 million (2022: £104 million) of trade payables, accruals and other payables with the increase driven by timing of supplier payments and an increase in the lease liability under IFRS 16 'Leases'. Deferred income relating to subscription revenue accounted for under IFRS 17 is included within the insurance contract liabilities.

Insurance contract liabilities of £69 million (2022: £73 million) includes an insurance acquisition cash flows asset, liability for remaining coverage and liability for incurred claims. This net liability arises following the introduction of IFRS 17 'Insurance Contracts'. The movement in the year is due to a combination of a £3m reduction in the liability for remaining coverage as a higher proportion of revenue has been received in cash, and an increase in the insurance acquisition cash flows asset, which includes a £3 million increase due to the introduction of IFRS17 'Insurance Contracts', offsetting an increase in the liability for incurred claims.

The Group has net current liabilities of £33 million (2022: £329 million), with the movement due to the redemption of our £300 million Class A1 Notes in 2023 which were disclosed as a current liability in the 2022 financial statements.

The capital structure of the Group consists of third-party bank borrowings net of capitalised finance costs amounting to £404 million (2022: £422 million) and bonds issued of £1,197 million (2022: £1,246 million). The Group remains strongly cash generative and (as above) in May 2023 we redeemed £300 million of Class A1 Notes, £100 million funded through our own cash and £200 million through a short-term Senior Facility. This Facility was repaid in October 2023 when we issued £250 million of Class A3 Notes, which was well received by the market. The surplus £50 million from the Class A3 Notes issuance is ringfenced and is expected to be utilised to repay other Class A Debt in 2024.

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

- The Senior Term Facilities, Class A2 Notes and Class A3 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 2023 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

	2023 £m	2022 £m
Cash and cash equivalents	116	136
Adjusted net cash flows from operating activities	249	223
Adjusting items	(11)	(49)
Net cash flows from operating activities	238	174
Interest paid	(83)	(83)
Net (decrease)/increase in cash and cash equivalents	(20)	23

The Group generated a net cash inflow from operating activities of £238 million (2022: £174 million) and an adjusted net cash inflow from operating activities of £249 million (2022: £223 million). For the year ending 31 December 2023 adjusted net cash from operating activities excludes the cash impact of exceptional items. Adjusted operating cash conversion was 92% (2022: 86%).

Interest paid was £83 million (2022: £83 million) in line with prior year. The higher interest rate environment was offset by our lower level of fixed rate debt and our interest rate hedging, plus the timing of interest payments on our new debt.

Capital investment totalled £82 million (2022: £54 million). £43 million of spend across our membership services and insurance divisions related to insurance acquisition cash flows and contract costs (2022: £26 million), following both the growth in new business volumes in the year and higher cost per policy. £11 million of spend relates to Property, Plant and Equipment (2022: £5 million), which includes investment in equipment to support the expansion of our new SMR division as well as improvements to our breakdown services, and the move to our new Manchester offices. The remaining £28 million (2022: £23 million) relates to investment and maintenance projects, as we continued to invest in our digital offerings, improvements to service and technology upgrades. The higher level of spend reflects our commitment to developing our digital capabilities, with an increase in activity in this area supporting our vision and future growth plans.

Glen, patrol since 2018, Northern

Key Performance Indicators ("KPIs")

The financial and non-financial KPIs set out in the table below are fundamental to the 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.

	2023	2022
Statutory revenue (£m)	720	659
Adjusted revenue (£m)[1]	720	664
Adjusted EBITDA (£m)[1]	272	260
EBITDA (£m)[1]	272	255
Statutory operating profit/(loss)(£m)	197	(55)
Adjusted net cash flows generated from operating activities (£m)[1]	249	223
Adjusted operating cash conversion (%)[1]	92	86
Number of breakdowns (million)	2.6	2.4
Roadside repair rate (%)[2]	79.9	80.9
Consumer Breakdown churn rate (%)[3]	14.1	14.2
Total members (million)	13.6	13.0
Membership Services – Consumer (thousand)	2,729	2,656
Membership Services – Business (thousand)	10,179	9,763
Insurance (thousand)	703	623

[1]See note 34 for definitions of alternative performance measures.
[2]The number of customers fixed at roadside as a proportion of total breakdowns excluding Road Traffic Collisions.
[3]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.

Outstanding service. When my car broke down on the M25 after 6pm on a hot summer's day, we feared we would miss out on the family trip we had planned for the following day. The RAC's breakdown service was outstanding – everything was **arranged via myRAC**, including our hire car, and I was amazed at how **easy and quick** it was."

Kevin, 16 June 2023

Strategy

For the year ending 31 December 2023

Our vision is unchanged: to become the

UK's number one for driving services,

providing complete peace of mind for our members' driving needs. Our strategy is designed to deliver this.

This sees the **RAC providing more driving products and services to more members** throughout their driving lifecycle across its three complementary offerings, delivering operational efficiencies and high-quality member experiences. This in turn improves retention and results in sustainable compound growth both in member numbers and lifetime value and profitability.

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

Accelerating our core businesses

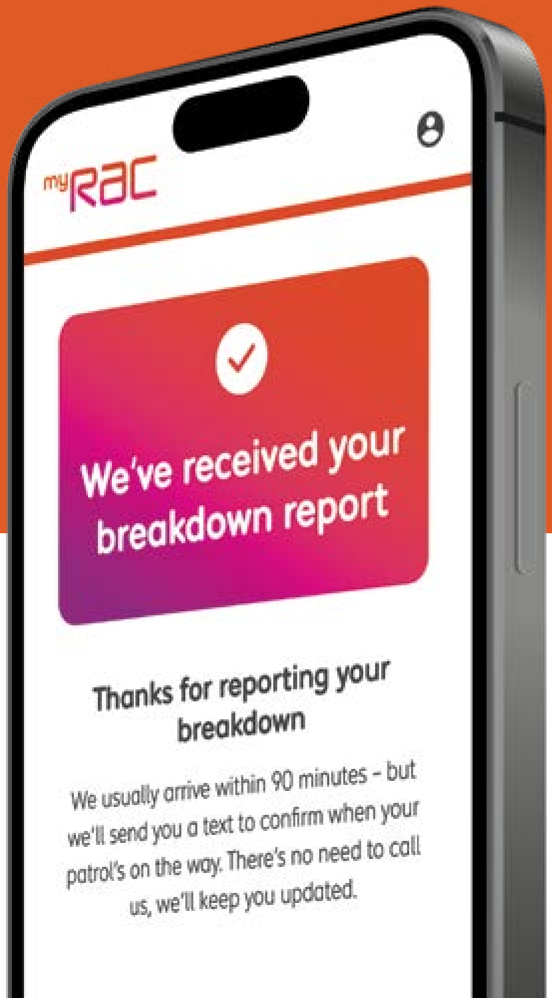
We will continue to grow our core businesses, evolve our products and services to remain increasingly relevant to members, cross-sell to corporate partners to deepen and broaden relationships, better capture and leverage data to personalise our offerings, and invest to digitalise and transform our operational efficiency.

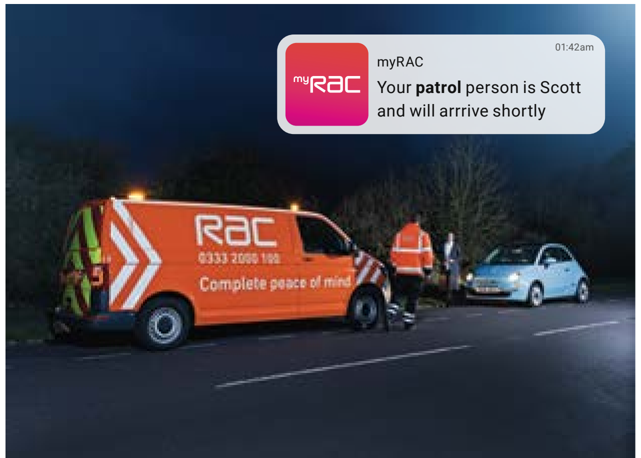
Expanding our addressable market into Service, Maintenance and Repair

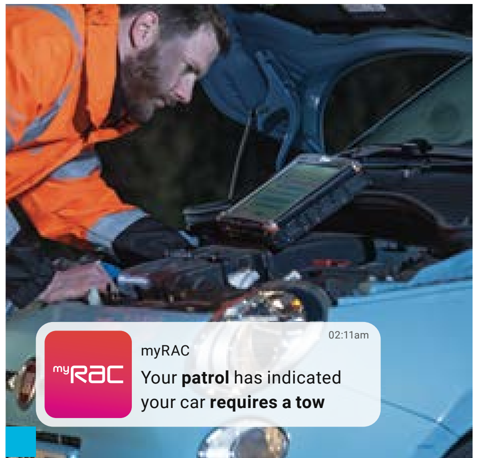
We will grow and develop our Service, Maintenance and Repair business to offer a broader range of high quality, profitable services for all stages of the driving lifecycle, with choice and convenience at the heart from our trusted RAC brand.

Membership enabled by myRAC

RAC membership is at the heart of our business and we will continue to invest in and evolve myRAC to become the central hub to engage, serve and sell to our members - all contributing to an improved member experience. The efficiencies and growth opportunities offered by myRAC underpin our value-led strategy with reduced costs to serve, incremental revenue from cross-selling a broader range of products and services to members and supporting ongoing Consumer churn reductions.







OUR BUSINESS AT A GLANCE

Our core businesses are Breakdown and Insurance and we've made real progress in SMR meaning we now have three complementary member offerings

BREAKDOWN

Our business model is built around providing complete peace of mind to our members and firmly establishing ourselves as the UK's number one for driving services. With over 125 years of operating history, we are well established to achieve long-term, sustainable growth from our loyal and growing base of subscription members. Our growth is underpinned by a quality member experience, enabled by our colleagues and, increasingly, cohesively delivered through our data and digital platforms, including myRAC.

approximately 1,600 nationwide patrols

2.7m Consumer members

10.2m Business members

Supporting manufacturers

Including connected car services, undertaking "recall" campaigns and providing award-winning branded customer contact centres. We are focused on maximising value with our existing Corporate Partner relationships cross-selling these wider automotive services.

EV market leader

Electric vehicles are the future of motoring. Our award-winning EV Boost technology is leading the transition together with the development of EV servicing and, ongoing training and development for our patrols. We're dedicated to delivering EV services to individual members and corporate partners alike.

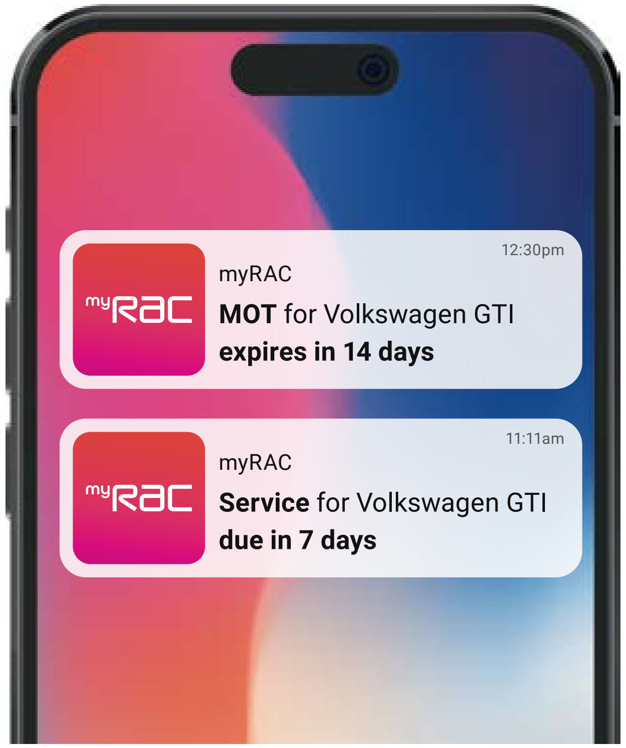
SERVICE, MAINTENANCE AND REPAIR

Our Service, Maintenance and Repair offering is for UK consumers, fleets and corporate partners. RAC Mobile Mechanics get the work done wherever the client is: at home, work or even on holiday. All backed up by a 1,100-strong garage network and products that help avoid large repair bills.

1,100+ garage network

myRAC support day-to-day

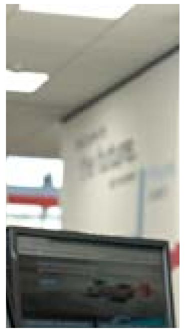
Our breakdown service is delivered 24/7 by an outstanding team of dedicated patrols and frontline colleagues. At the centre of our technical innovations and investments is the myRAC app, which enables digital reporting of breakdowns via the "Rescue Me" feature.



2.1m myRAC users

INSURANCE BROKER

In our Insurance division, we act as a broker offering predominantly motor insurance policies through price comparison websites. We work with a leading panel of underwriters and leverage our unique and differentiated data assets and data science capabilities to lead the thinking on risk-based pricing, and obtain the best possible rates for our members.



Risk management

For the year ending 31 December 2023

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.

The RAC operates a "Three Lines of Defence" model 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, managed, and reported on.

Second line

The second line is comprised of Compliance and Risk functions that provide oversight and advice on compliance and risk management. These functions support 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 Committee, forms the third line of defence. It undertakes a risk-based audit programme to independently review and challenge the policies, processes and controls in place across the business.

Risk management | For the year ending 31 December 2023

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 Committee. The summary of key risks reported to the Executive Risk & Audit 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 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 divisions, as well as driving enhanced value by increasing risk capability and embedding the RAC's risk management culture at all levels across the business.

Principal risks

In 2023, the Board and Executive Risk Committees 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.

Strategy and business model

The Group defines this risk as the risk of direct or indirect adverse effects on the long term sustainability of the Group 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 to be the UK's number one for driving services. The strategy that supports this vision is reviewed on a regular basis and defines the key growth drivers for the business.

The Group plans to continue 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.

The profile of this risk has not materially changed during the year.

Economic outlook

The Group defines this risk as the risk of further negative macro-economic factors impacting on the propensity of consumers and corporate partners to purchase breakdown and/or other RAC products and services and the risk of members not renewing their products and services and the membership base potentially shrinking due to the economic situation, as well as the risk of inflation impacting on our overall cost base. These risks could lead to a material drop in profits and cash balances.

Despite the wider economic context in 2023, 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 member behaviour to ensure that the RAC can respond and adapt quickly to emerging trends and changing requirements of members.

Ongoing reviews of the Group strategy also ensure that it remains appropriate in view of prevailing economic conditions.

The Group works closely with all partners and suppliers 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 and we maintain good relationships with the union.

The profile of this risk increased significantly at the beginning of 2023 with a rapidly deteriorating macro environment, but has subsequently decreased mainly as a result of actions taken to reduce inflationary impacts by future-proofing key supplier arrangements and key partner contracts to reduce overall exposure.

Darren, patrol since 2003, Wales

RAC patrols are **my heroes**. I had a run of bad luck with my clutch and have had to call the RAC several times. **It's so easy** to log a breakdown **via Rescue Me on the myRAC app** – you get a text straight away and the patrol always calls when on their way. I've rarely waited more than an hour and have always been kept up to date by text. **RAC patrols are fabulous**."

Dawn, 25 December 2023

Debt leverage

The Group defines this risk as the risk associated with debt leverage, including inability to repay or refinance debt at maturity and failure to service debt. This could lead to the business being unable to continue as a going concern.

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 of scenarios is also completed to model the position and identify any issues. 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.

The profile of this risk has been elevated at various points during the year as difficult bond market conditions prevailed, but despite rising interest rates and market conditions, the Group has successfully undertaken a number of refinancing activities which have reduced the level of borrowing and extended the average maturity of its debt.

Market share and margin

The Group defines this risk as the risk of failure to deliver a competitively priced and compelling proposition, or to acquire and retain new members and corporate partners 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 and continues to monitor member behaviour, demands and needs to ensure that we fulfil as many of our members' driving needs as possible and our overall offering to ensure that our products offer fair value.

The profile of this risk has not materially changed during the year.

Delivery of digital strategy

The Group defines this risk as the risk of failure to deliver the strategic objectives of our digital change projects, which could lead to under performance of the business over the long term.

Clear plans and KPIs are set at the outset of key strategic digital projects and progress with the delivery of such projects is regularly reviewed.

This risk was added to the RAC's principal risks in 2023 due to the increased investment in the Group's digital strategy.

People risk

The Group defines this risk as the risk that the RAC fails to attract or retain business critical skill sets including roles critical for the delivery of our strategy.

This could result in a loss of opportunities, operational disruption for our members, and inability to fully execute the strategy for the business.

The Group works with its internal recruitment function as well as external agencies to run recruitment campaigns with continually revised adverts to increase applications to meet required workforce plan numbers.

Regular reviews of workforce plans are completed to ensure that demand can be met and that targeted support is given to address recruitment hotspots or where there will be pinch points throughout the year. The Group works hard to maintain a compelling colleague proposition with an active reward and engagement strategy and a clear training and competency scheme in each division to maximise opportunities for development.

The profile of this risk has not materially changed during the year.

Information security and data protection / governance 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, non-compliance with data protection laws and failure to ensure that appropriate governance is in place over data.

These risks could result in reputational and brand damage, non-compliance with data protection laws, regulatory fines, class action lawsuits, contractual breaches and significant operational disruption.

The RAC is committed to ensuring that its information assets are secure and protected from potential threats.

The RAC has a specialist Information Security Team in place. The ISO27001 Information Security Standard certification has been attained and the Group is subject to regular audits.

The RAC undertakes regular penetration testing, vulnerability scanning and phishing simulations and regular training and briefings are provided to employees to ensure that information security and data protection obligations are understood and embedded across the organisation. The Group has undertaken various stress-testing exercises across the year and introduced a number of new practical controls, enhancing the ability to both defend against cyber threats and ensure response processes and procedures are well-tested. The Group continues to enhance its processes and controls in this area.

The Group also has a Data Protection Officer and Data Protection team in place to advise the business and Executive on compliance with data protection laws and to communicate key data protection messages to the business to ensure that the right culture is in place. Established data protection processes are also in place which include: data breach reporting, investigations and remedial action; handling individual rights requests; data protection impact assessments and engagement with key business areas, including marketing and insight.

The profile of this risk has remained broadly stable during the year.

Quality of service

The Group defines this risk as the risk that members receive poor service from their dealings with the RAC across any of the RAC's products, services and distribution channels. The effect of this risk could result in adverse outcomes for members, reduced retention rates of our consumer members and loss of corporate partners, as well as potential complaints, censure or reputational damage.

We carefully manage our resourcing levels to ensure we deliver good service to members at their point of need. In addition, various programmes of work are in progress to improve operational processes, to improve overall efficiency and effectiveness and to further improve the experience delivered to our members.

The profile of this risk has increased during the year as a result of macro factors affecting the entire industry such as changes in demand for breakdown services as the UK vehicle car parc ages and evolves in profile and challenges affecting the supply chain resulting in reduced garage and contractor capacity.

Operational resilience

The Group defines this risk as the risk that failure of important business services will cause harm to members, result in poor outcomes for members and/or damage commercial relationships.

This could also result in regulatory action against the RAC, negative impact on the RAC brand and on the likelihood of acquiring and retaining individual members and corporate partners.

The Group's work continues on responding to the FCA (Financial Conduct Authority), PRA (Prudential Regulation Authority) and Bank of England requirements on Operational Resilience which is progressing well and on track to deliver the required milestones ahead of the next regulatory deadline of March 2025.

The Group manages this risk by employing specialist teams to manage the operation and resilience of its IT systems and by having clear business continuity plans and change management processes. Material outsourcers and key suppliers are subject to enhanced oversight. Various programmes of work are in progress to continuously improve the Group's IT infrastructure to support its strategy and to improve ongoing operational resilience. The Group also has a crisis management process in place, which has been tried and tested during COVID-19, to respond promptly and effectively to challenges to the continuity of services.

The profile of this risk has reduced during the year as a result of ongoing focus and stress-testing of our important business services and recovery plans.

Health and safety

The Group defines this risk as the risk of death or serious injury to colleagues and/or third parties affected by our operations, and non-compliance with applicable health and safety legislation across all of the RAC's operations.

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. Health and safety considerations are of the utmost importance to the Board, the Executive Team and the Group as a whole. The Group's roadside operations necessitate attendance by patrols or third-party contractors to inspect and repair members' vehicles at the roadside which will inherently regularly involve high-risk situations. Consequently, there is a clear emphasis on regular communication from executive level to drive standards and messaging regarding the importance of health and safety from the top down.

The Group has a specialist Health and Safety management system in place which is mandatory in all areas of the business and gives visibility to management of key data points and embeds understanding of the health and safety aspects across all of the Group's activities.

Training programmes are in place, utilising both face to face training for patrols and computer-based training for other colleagues. In 2023 the Group also attained the ISO45001 Occupational Health & Safety Standard and received a distinction in the British Safety Council's H&S awards, demonstrating its commitment to health and safety across the business and recognising the benefits of ongoing efforts to minimise risk to colleagues and third parties .

The profile of this risk has reduced during the year as a result of targeted campaigns and face to face training which have resulted in a material reduction in serious incidents and audit failures.

Climate change

The Group defines this risk as the risk of adverse impact of climate change both in terms of the transition path to net zero and the physical impact of extreme weather events on the RAC's strategy, financial targets, and/or operations or sites as well as the risk of failure to properly implement and operate in line with regulatory requirements, namely the Climate Related Financial Disclosures (CFD) requirements as well as the PRA 'Financial risks from climate change' requirements.

Potential impacts include additional short-term costs to respond to extreme weather events, long term costs to achieve compliance or secure funding, and/or long term reputational damage or impacts to the business model leading to loss of market share.

The Group continues to invest in forecasting tools to more accurately predict and plan for weather events. Longer-term risks are being addressed by a decarbonisation plan with associated strategy, targets and timelines which has been agreed during 2023.

The Group also continues to implement and embed regulatory requirements in relation to climate change risk management.

The profile of this risk has remained broadly stable during the year.

Conduct risk/regulatory and legal compliance and change

The Group defines this risk as the risk of failure to meet legal and regulatory expectations, as well as the risk that regulatory change could have an adverse impact on the RAC, for example by impacting on the commercial model, trading or economics of the business. This could result in detriment to our members, regulatory enforcement and/or significant brand or reputational damage to the RAC.

To mitigate these risks, the RAC has a robust training and competency scheme in operation across all areas of the business and provides regular training and briefings to its employees to ensure a customer-centric and compliant culture exists throughout the business. In addition, the Group has clear processes and 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 or compliance failure or breach.

The Group has a number of first line compliance specialists embedded within the divisions as well as a team of second line 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 Group also has specialist committees and working groups in place with responsibility for oversight of specific areas of regulatory or conduct risk, and a comprehensive compliance monitoring programme in place. The Group undertook an extensive programme of work to implement the Consumer Duty requirements which came into force in July 2023. This has included the implementation of a revised governance structure of Customer Committees focused on the monitoring of the outcomes being delivered to members as well as a Conduct & Culture Committee which oversees the RAC's culture, the outputs of which are reviewed by the executive team on a monthly basis to ensure that we are proactively identifying trends in, and early warning indicators of risks to, member outcomes. The Group also undertakes an ongoing cycle of product reviews and fair value assessments to ensure that its products deliver good outcomes for members.

The profile of this risk has remained broadly stable during the year.

Glen, patrol since 2018, Northern

Other risks

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 30 (a)(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 the price of fuel used in the RAC's 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: 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 members, corporate partners and suppliers. The RAC's Material Outsourcing and Key Supplier policy sets out ongoing requirements to monitor the RAC's most critical third parties.

Liquidity risk: 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 undrawn borrowing facility from its banking syndicate.

Capital and 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 140).

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 and PRA 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.

James, patrol since 2017, East Midlands

Climate-related financial disclosures

For the year ending 31 December 2023

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 in 2023 we have worked with specialist consultants to finalise our climate related targets and milestones for the business, and to identify opportunities to achieve net zero in advance of 2050. This included the development of a decarbonisation plan that will lead to a reduction of 50% in emissions per job by 2035 and is a significant step towards our ambition to achieve net zero by then. We will continue to explore ways to accelerate progress as the options and technology available continue to improve.

Having elected to voluntarily early adopt many of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in 2022, this is our second year of reporting of climate-related disclosures. The sections below set out the detail on the ways risks and opportunities are assessed and managed, in accordance with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. These disclosures also address the requirements set out under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

We continue to develop our understanding of the potential impact of climate-related risks and opportunities on our business and operations. Climate-related issues are proactively monitored and managed through integration into the Group's existing risk management process. Scenario analysis capabilities have been developed further in the year 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 not possible to identify any material impact on the financial statements for the year ending 31 December 2023. 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.

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	2.2
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	2.3
	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

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 Climate risk governance structure

Board level governance

RAC Group (Holdings) Board
Establishes purpose, sets strategic goals, monitors and oversees progress against climate targets and ambitions for the Group.

The Regulated Entities Board
Ensures that the climate targets and ambitions are appropriate in the context of the regulated entities and that we meet our regulators' expectations.

Board Risk & Audit Committee	Board Environmental, Social and Governance (ESG) Committee
Oversight of the overall climate change risk and opportunity assessment and of climate-related disclosure compliance.	Reviewing and approving the detailed assessment of material risks and opportunities from climate change and the ESG strategy, targets and associated metrics and monitoring progress against these.

Management level governance

Group Executive	Executive Risk & Audit Committee	Group CFO	Chief Risk & Legal Officer
Responsible for the implementation of the Group's climate strategy.	Oversight of overall climate change risk assessment.	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.	Reviewing and challenging the climate change risk and opportunity assessment undertaken by the Executive Team and the Board.

Management Working Groups

RAC Group (Holdings) Board

The RAC Group (Holdings) 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 (Holdings) Board will be kept informed of climate related issues through reporting from the ESG Committee and the Board Risk & Audit Committee.

The composition and competencies of the Board are set out in the Governance Report on pages 77–80. The Board meets regularly to discuss material matters which impact the Company.

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 and to ensure that the Group meets the regulators' expectations in relation to climate change. Further detail of the composition and responsibilities of the Regulated Entities Board, and the frequency of meetings is set out in the Governance Report on page 85.

Board Risk & Audit Committee

The Board Risk & Audit 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 Committee meets a minimum of three times a year. Further detail of the composition and responsibilities of the Board Risk & Audit Committee is set out in the Governance Report on page 82.

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 as well as establishing and overseeing progress towards climate-related goals and targets. Further details of the composition and responsibilities of the ESG Committee, and the frequency of meetings, where climate is regularly considered, is set out in the Governance Report on page 84.

Management and the Executive update the ESG Committee with climate-related matters a standard agenda item (e.g., risks, opportunities, decarbonisation plans). 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.

The introduction of climate-related considerations into the Group's decision making continues to develop and evolve. This year has seen further integration into the Group's strategy setting and long-term business planning with third party advisers providing guidance and advice to the ESG Committee for the development of net zero targets and associated decarbonisation plans.

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 strategy and targets for ESG and the assessment of the key risks and opportunities through a robust review of the Management 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 Committee

The Executive Risk & Audit 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.

Management report to the Executive Risk & Audit Committee details of the key risks within their business area a minimum of four times per year. A detailed assessment of the climate change risks to the Group is reported to the committee at least annually, with additional reporting if there is a material change to existing or emerging risks and opportunities.

Group CFO

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

Management Working Group

The Management Working Group is multi-disciplinary, including Governance 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. The process by which climate-related issues are managed is described in section 3.2 below.

Our Head of ESG is responsible for co-ordinating the day to day delivery of ESG initiatives across the group, including the work undertaken this year to develop a full decarbonisation roadmap. This includes 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 Management Working Group and will provide input into and challenge in relation to this assessment, prior to assessment by the Group CFO and Executive.

> "Had an RAC Mobile Mechanic come out to replace my Mini Cooper brake discs, pads and brake caliper. My locking wheel nut was stuck, they managed to take it off and complete the job, with a special kit & no fuss. Went **over and above** the call of duty, expert knowledge. **Highly recommend**."

Noel, 23 July 2023

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, in line with the UK government's broader objectives. 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).

2.1 Scenarios for risk assessment

We believe the Group has a resilient business model which supports its long-term sustainable performance. Each climate-related risk and opportunity, regardless of the applicable time horizon, is factored into the Group's strategic planning on an ongoing basis. Scenario analysis and decarbonisation plan costings are important considerations in informing the longer-term strategic outlook.

To assess our resilience to climate change, we selected three independent climate scenarios relevant to our sector and to national UK government climate targets. 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. Our internal scenario analysis was initially performed in 2022, and then updated in 2023.

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.

Short-term represents 1 year to the end of 2024: this is aligned to existing budgeting processes which are reviewed and evaluated on an annual basis. Medium-term represents 2025-2030: this is broadly aligned to average key asset lifecycles. Long-term represents 2031-2050: this is aligned to the period beyond the current key asset lifecycle and extends to the Paris Agreement target of 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 extends 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.

These scenarios were selected as the most relevant to our sector and widely used in our comparator group. The scenarios are also fully aligned with our overarching target to be net zero by 2050.

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.

Table 2.1 CBES scenarios

CBES scenario	Early Action (EA)	Late Action (LA)	No Additional Action (NAA)
Nature of transition	Early and orderly Carbon taxes and other transition policies intensify relatively gradually over the scenario horizon.	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.
Global CO2 emmisions	Reduced to net-zero by 2050	Reduced to net-zero by 2050	Net-zero not acheived
Global warming^ – Year 0 – by 2030 – by 2050 – by 2100	 1.1°C 1.4°C 1.8°C 1.5°C	 1.1°C 1.4°C 1.8°C 1.8°C	 1.1°C 2.5°C 3.3°C 4.1°C
Policy change date	2021	2031	n/a
Modelled risk type	Transition risks	Transition risks	Physical risks
Transition risks	Medium	High	Limited
Physical risks	Limited	Limited	High
Impact on output	Temporarily lower growth	Sudden contraction (recession)	Permanently lower growth and higher uncertainty
Key model inputs climate & physical changes – UK weather summary	 Further changes limited	 Further changes limited	 Increase average temperatures Increase precipitation in the winter months Reduce precipitation in the summer months Increased exposure to subsidence Increased exposure to heatwaves
– UK sea level rise by 2050 – UK average precipitation increase by 2050	0.16m 0.30%	0.16m 0.30%	0.39m 11.00%
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.	 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.
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%	 1.50% 0.10% 1.60%	 1.40% 1.40% 1.20%
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 are almost entirely replaced by renewables in the UK primary energy mix by 2050. 90% renewables 70% renewables	 Not applicable 40% renewables 25% 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.	 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.

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.

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

During the year we refined our existing climate risk assessment, in consultation with relevant stakeholders across the business, to re-assess 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. This 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 of these transition 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. Principal risks and opportunities have not been aggregated by sector on the basis that most risks impact all sectors in a similar way, although each individual risk or opportunity describes any specific sector impacts, where appropriate.

2.3. Impact of climate-related risks and opportunities on business, strategy and financial planning

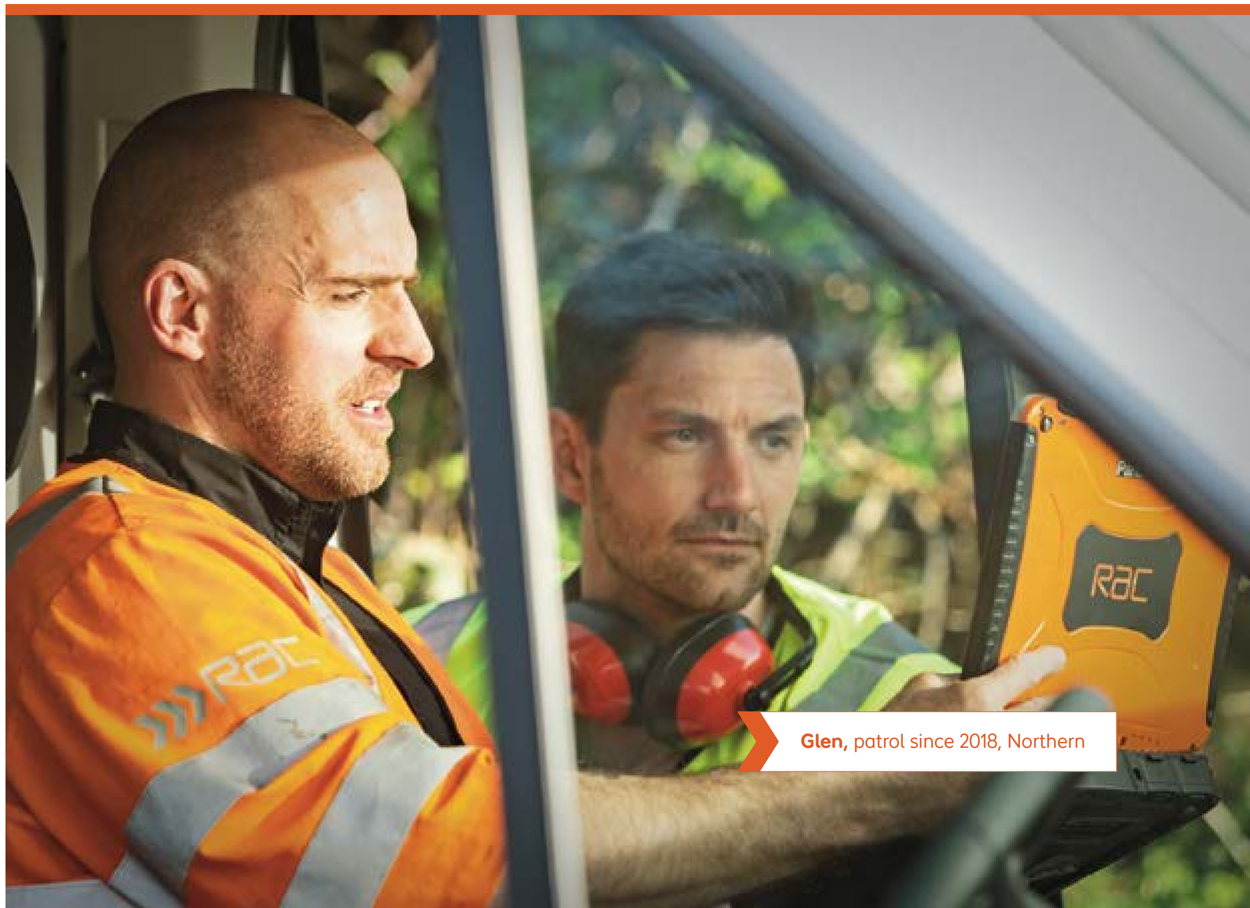
Overall, the Group is most exposed to the transitional risks of climate change, such as increases in carbon levies, rather than physical risks, brought about by extreme weather events or changing weather patterns. We are committed to ensuring our business operations are structured to enable us to contribute to a low-carbon economy by transitioning to electric vans, renewable energy sources, improving operational productivity, and maximising our energy efficiency.

In response to these transition risks, the Group has published its decarbonisation plan as part of the annual report and accounts to drive and support reductions in GHG emissions in line with our commitment to be net zero by 2050 at the latest.

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.

Table 2.3 provides details of the key opportunities that have been identified.



Glen, patrol since 2018, Northern

Climate related financial disclosures | For the year ending 31 December 2023

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)

Table 2.2 Principal climate-related transition and physical risks

TCFD category		Risk description	Financial category impacted	Unmitigated financial impact	Scenario	Unmitigated impact by term: Short term 2024	Medium term 2030	Long term 2050	Strategies to mitigate risk
Technology	Market not ready for ban on new petrol and diesel vehicle sales by 2035.	**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, constraints on parts supply for repairs and an increase in average membership vehicle age and propensity to break down.	Costs	Increased claims frequency/ costs as members are unable to replace their ICE vehicles and average vehicle age increases.	EA	Low	Medium	Medium	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	Low	High	Medium	
					NAA	Low	Low	Low	
		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 the 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. This risk is reducing as new models become available.	Costs	Reduced patrol efficiency/ increased fleet costs as full electrification of the fleet is delayed.	EA	Low	Medium	Low	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	Low	Medium	Medium	
					NAA	Low	Low	Low	
	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	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	Low	Medium	Medium	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	Low	Low	Medium	
					NAA	Low	Low	Low	
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	Reduced breakdown, motor insurance and adjacency revenue.	EA	Low	Medium	Medium	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, 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	Low	Low	High	
					NAA	Low	Low	Low	
	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	Increased supplier costs.	EA	Low	Medium	Medium	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 decarbonisation plans aligned with the RAC.
					LA	Low	Low	Medium	
					NAA	Low	Low	Low	
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. Medium term risk in the early action scenarios and long term risk in the late action scenaro has reduced in the year from high to medium, reflecting the delay in mandatory electric new vehicle sales from 2030 to 2035.	Revenue & Costs	Reduction in existing and/or new business revenue. Increases in capital and funding costs if access to competitive rates is limited.	EA	Low	Medium	Medium	The business has an overarching target to reduce its impact on the environment by being net zero by 2050 at the latest. Work has been being undertaken during 2023 to develop a specific decarbonisation plan to identify opportunities to achieve net zero in advance of 2050. Specific targets and metrics have also been identified to ensure successful delivery against this target.
					LA	Low	Low	Medium	
					NAA	Low	Low	Low	
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	Increased cost base due to changes in breakdown volumes and profile.	EA	Low	Low	Low	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	Low	Low	Low	
					NAA	Low	Medium	Medium	

Risk rating Low risk Medium risk High risk

Table 2.3 Principal climate-related opportunities

TCFD category	Opportunity	Opportunity description	Financial category impacted	Unmitigated financial impact	Scenario	Unmitigated impact by term: Short term 2024	Medium term 2030	Long term 2050
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 collaboration with motor manufacturers. 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).	Revenue & capital expenditure	Increased breakdown demand and revenue and investment cost.	EA	Low	Medium	High
					LA	Low	Medium	Medium
					NAA	Low	Low	Low
Resource efficiency	Use of more efficient modes of transport.	Electrification of patrol fleet: By 2035, 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.	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	Low	Medium	Medium
					LA	Low	Medium	Medium
					NAA	Low	Medium	Medium
		Reduced environmental impact: Increasing the efficiency of RAC operations to reduce overall travel distances of recoveries, reducing environmental impact and also improving customer experience.	Costs	Reduced breakdown operating costs from shorter tow distances and improved overall efficiency rates.	EA	Low	Medium	Medium
					LA	Low	Medium	Medium
					NAA	Low	Medium	Medium

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)

3. Risk management

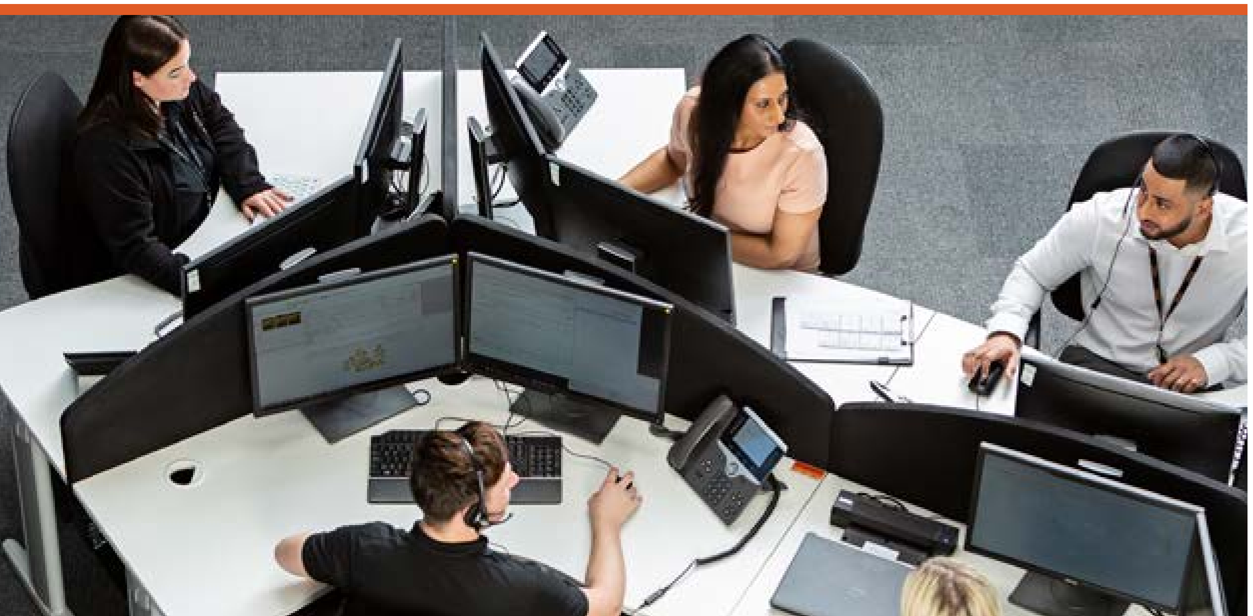
The Group's risk management framework sets out how we identify, measure, monitor, manage and report on the risks to which our business is, or could be, exposed to. During the year, climate-related transition and physical risks were managed through this framework, enabling the identification, assessment,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

3.1. 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.

The Group regularly considers existing and emerging regulatory requirements related to climate change. External horizon scanning and monitoring of emerging scientific climate scenarios, TCFD, Companies Act, FCA and PRA regulatory requirements is completed by the cross disciplinary Management 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 Executive Risk & Audit Committee and Board Risk & Audit 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 2024.



3.2. Processes for managing climate-related risks

The Board has overall responsibility for risk management and the implementation of risk management policy, including the determination of risk appetite. Our process for managing climate-related risks involves deciding whether to avoid, transfer, mitigate or accept a given risk within this risk appetite. The process requires that all our principal climate-related risks are assessed using specific probability and financial impact criteria and are monitored throughout the year to identify any changes in profiles and associated risks and mitigating controls.

The most critical climate-related risks and opportunities are selected for climate scenario analysis. Key mitigating strategies in response to climate-related risks, for example the decarbonisation plan targets, are approved by the ESG Committee. These are prioritised based on factors such as net zero commitments, materiality, regulatory requirements and commercial risk or opportunity. Climate risk information is updated at least annually, including changes to risk levels based on a range of factors, including emerging legislation or regulation. This information is provided to the Board through incorporation into the Group's risk register.

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 Management Working Group prior to subsequent review.

3.3. Integration into the Group's overall risk management framework

The process for identifying, assessing and managing climate-related risks uses the established approach as for all the risks faced by the Group, further details on which can be found in the Risk Management section on pages 32 to 34.

This approach is designed to enable the Group to be aware of risks which have been identified and any emerging risks which may impact the business, as well as taking advantage of opportunities, within the risk appetite of the Board. The ESG Committee monitors the actions taken across the Group to manage the risks and ensures that adequate assurance is obtained over them. In addition, the ESG Committee ensures that risks have been appropriately assessed in relation to risk rating.

We continue to focus on strengthening our management of climate-related risks, making these considerations a component of our strategic planning process.

4. Metrics and targets

The Group's overarching climate-related target is to achieve net zero by 2050 at the latest, in line with the UK's broader commitment. In the medium-term this will be delivered through incremental improvements in network operational efficiency, 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, are expected to be supported by maturing battery and hybrid technologies and commercial viability improvements.

4.1. Metrics used to assess climate-related risks and opportunities

To monitor progress of the Group's response to climate-related risks and opportunities, management monitor several indicative performance metrics. As disclosed above, scenario analysis demonstrates that the most significant climate-related risks to the business are the transition risks associated with decarbonisation. The Group monitors its exposure to carbon levies through its direct and indirect greenhouse gas emissions and its energy usage. These are considered key indicators of the activity that may be subject to future increases in regulatory costs.

In order to deliver our target of achieving net zero by 2050, our key metric is the absolute level of Scope 1 and Scope 2 CO2 emissions. To achieve this target, we have established a decarbonisation plan with a series of supporting sub targets. The current targets are based on currently available technology and infrastructure but do not yet fully meet SBTI thresholds. Further details of the plan can be found within the environmental section of the SCSR report on pages 98 to 100.

4.2. Greenhouse gas emissions

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 112 to 117.

Jason, patrol since 2000, South West

4.3. Decarbonisation targets

The Group's overarching climate-related target is to achieve net zero by 2050 at the latest. We already have line of sight to achieving an intensity target of a 50% reduction in scope 1 and 2 emissions per job by 2035, which would represent a 30% absolute reduction in total scope 1 and 2 emissions and have established that as our interim target.

We see potential to go further and to achieve net zero across scope 1 and 2 emissions by 2035 providing that the range of EV options available and the infrastructure to support those continue to develop in a direction that will meet our business needs and we will review the target annually.

As part of our ongoing activity, we will work with our partners and suppliers to reduce emissions across our supply chain, with the aim to develop a more detailed scope 3 reduction plan and associated targets by 2026.

The metrics in place are linked to the risks and opportunities identified and modelled as part of the scenario analysis. Each individual metric has a specific target which, in aggregate, support our overall decarbonisation plan to deliver net zero by 2050 at the latest, in line with the UK's broader commitment. These metrics and interim targets are monitored by the ESG Committee and inform decision making to execute our strategic priorities.

Climate-related risk or opportunity	Metric	KPI	Absolute or Intensity	Unit of measure	Baseline year	Interim target	Interim target year
Risks & opportunities							
Reduced environmental impact Higher input costs (GHG levies) Demonstrable green credentials	Net-zero carbon by 2050 Scope 1 & Scope 2 CO2 emissions	Scope 1 & 2 emissions reduction	Absolute Intensity	tCO_2e $kgCO_2e$ per job	2021 2021	(30%) (50%)	2035 2035
Electrification of van fleet	Transition mechanics vans to electric/alternative fuel	% of mechanics vans electric/alternative fuel	Intensity	%	2021	50%	2035
Impact on the RAC Fleet	Transition company car fleet to electric	% of company car fleet electric	Intensity	%	2021	100%	2035

Existing operational and commercial metrics and targets are used to manage all other principal climate-related risks and opportunities. These additional metrics are not disclosed, due to their commercial sensitivity. As our assessment and understanding of climate risk evolves, the Group will update its metrics and targets in line with its response.

Non-financial and sustainability information statement

For the year ending 31 December 2023

Information regarding non-financial matters is contained throughout the strategic report. The following table summarises where stakeholders can find information in our strategic report that relate to non-financial matters as required by sections 414CA and 414CB of the Companies Act 2006.

Our approach	Relevant policies, documents and reports	Where to find them	
Environmental matters			
The RAC recognises the impacts that its activities, products and services may cause on the environment and is committed to compliance with relevant legislation and regulations and to being net zero carbon by 2050 at the latest. In 2023, we continued our decarbonisation journey setting a target to support the reduction of scope 1 and 2 emissions with a line of sight to net zero carbon. RAC was a voluntary adopter of many of the TCFD recommendations in 2022, and has used the disclosure exercise to set a framework for our approach in identifying, assessing and managing our climate related risks.	› Environmental Policy statement › Climate related Financial Disclosures › Sustainability, Corporate & Social Responsibility Report	Our strategy	28–31
		Streamlined energy & carbon reporting	112–117
		Sustainability, Corporate & Social Responsibility Report	94–109
		Climate-related financial disclosures	44–65
		Section 172 statement	68–73
Employees			
At the RAC we recognise the benefit of a diverse workforce. We are committed to equality, diversity and inclusion which increases our ability to better understand and meet our wide ranging member needs and to attract and retain a high calibre of talent. The RAC is an equal opportunities employer and is committed to developing a culture that is: › representative of its diverse communities; › accessible and open; › collaborative and inclusive.	› Code of Conduct › Regulatory Code of Conduct › Health & Safety policy statement › Equality Diversity & Inclusion Policy	Sustainability, Corporate & Social Responsibility Report	94–109

Our approach	Relevant policies, documents and reports	Where to find them	
Human rights			
At the RAC, we recognise that our responsibilities extend beyond our own commercial interests. The RAC Group is committed to helping combat slavery and human trafficking and we are committed to taking reasonable steps to ensure that modern slavery and human trafficking do not feature in our business or supply chain.	› Modern Slavery Statement	raccorporate.co.uk	
Communities and social matters			
The RAC and our colleagues are committed to supporting local charities within our local communities. Each year the RAC offices partner with a local charity and with support of the Hive, our colleague engagement champions, we support various charitable causes across the UK.	› Sustainability, Corporate & Social Responsibility	Sustainability, Corporate & Social Responsibility Report – Social	94–109
Anti-bribery and corruption			
The RAC is committed to acting with integrity and fairness in all our business dealings and stakeholder relationships. This includes assessing risks and implementing systems of effective controls to counter fraud, bribery and corruption.	› Financial Crime Policy › Gifts & hospitality Policy › Whistleblowing Policy › Anti-Bribery and Corruption Policy › Conflicts of Interest Policy	Governance report – principles and explanations	90–93
Principal risks			
The RAC is committed to managing an effective and efficient risk management process to proactively identify new and emerging risks and manage risks which may have a significant impact on the operations and the RAC Group as a whole.	› Risk Management and Internal Control Policy › Compliance and Regulatory Risk Policy › Conduct Risk Policy	Risk management	32–34
		Principal risks and uncertainties	34–41
		Climate-related Financial Disclosure	44–65
Strategy			
The RAC strategy is supported by three strategic pillars which deliver strong acceleration of our core business with growth in both Breakdown and Insurance, and Service, Maintenance and Repair, whilst accelerating the digital experience for members.		Our strategy	28–31
Non-Financial KPIs			
The RAC's Non-Financial KPIs are fundamental to the business and focus on drivers of value that will enable management to achieve the business plans, strategic aims and objectives		Financial Review	26
		Climate-related financial disclosures	64–65

Section 172 (1) statement

For the year ending 31 December 2023

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 2023 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 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 Group's five-year strategy and the Directors play an active role in the development and approval of the strategy and take account of external factors and the impact to the Group's stakeholders including the wider societal impact, when approving the strategy. The strategy is underpinned by the three strategic pillars to deliver long term sustainable growth for our shareholders, increase member value and deliver a high quality of service for our members taking account of the members changing needs, fostering key partnerships with our suppliers and delivering opportunities for colleagues across our diverse workforce.

The Group operates a risk management framework, ensuring that the key risks to the delivery and implementation of the Group's strategy are identified, monitored, and managed and the directors discharge their responsibility in this respect through the Board Risk and Audit Committee. Further details on the Group's strategy and risk management framework are set out on pages 28-34.

The Board promotes and supports a high standard of conduct across the Group supported by the Group's codes of conduct, which are built around placing members at the heart of everything we do and set out the high standards of ethical behaviour that we expect all colleagues to apply. The Group also has a whistleblowing policy in place which offers an anonymous service for colleagues, members, third party suppliers and contractors, as well as the general public, to report concerns about illegal or unethical practices.

The Board is also mindful of the impact of its strategic decisions on customer outcomes and seeks to proactively identify and mitigate any key risks to its ability to deliver good outcomes.

During 2023, the Board approved a number of refinancing transactions including the redemption of the Group's sub-class A-1 notes and the participation in the issue of class A-3 notes. The Board's view in making these decisions was that the refinancing would benefit the Group's key stakeholders and the business in the longer term with continued financial sustainability and manging the risk of the Group's debt profile. In making its decision the board considered the needs of its key stakeholders including its shareholders, debt holders, colleagues and members and the benefits the refinancing activities provide for them particularly in respect of the Group's financial resilience in the longer term.

Reward and recognition play a key role at the RAC and decisions on reward are aligned to our culture, our purpose and our values. The Directors recognise the important contribution of our Colleagues in delivering our business plans and that rewarding our Colleagues fairly means that RAC can attract and retain talent to help deliver and create a sustainable business for the future, ensuring longer term strategic aims are met. In 2023, the Board approved a one-off cost of living payment for all our Colleagues outside the first two tiers of management. This was in recognition of the direct impact on our Colleagues of the increasing cost of living through rising inflation and increasing energy costs.

In January 2023, the Board approved a new Group Colleague share incentive scheme. The scheme provides a unique opportunity for our Colleagues to be rewarded for their contribution in collectively growing the value of the RAC and sharing in that future success. The Board was supportive of the CEO's recommendation to introduce the new incentive scheme, particularly as it supports RAC's culture and Hero values of Handle it Together, Exceptional Service, Raise the Bar and Own It.

The Board takes account of the impact strategic decisions may have on the Group's stakeholders and while their interests may not always be aligned, conflicts of interest are considered fairly in the decision-making process. Such issues are dealt with in good faith, with the success of the company front of mind. The table below provides examples of how the board and the wider business have engaged with our stakeholders during the year and considered their interests when making decisions.

J Baker
Director
27 February 2024

Overview of stakeholders and how we engage

The table below outlines the interests of the Group's stakeholders and how the business and Board has engaged with them throughout 2023.

Colleagues

Their interests	How the business engages	How the board engages
› Health & safety › Talent development, training & retention › Diversity & inclusion › Pay, terms & Conditions › Job satisfaction	› Health, safety, and wellbeing initiatives › Training and development › Learning Management System › RAC Orange Hero awards › Employee recognition through RAC Success › Townhall meetings › RAC Workplace › Regular divisional and management conferences › Quarterly session with unions and CEO › Colleague Engagement Survey	› Group communications from the CEO › Regular onsite strategy updates delivered by Executive team at each location › Weekly CEO 'Big Convo' calls for all colleagues › Board meeting on site at RAC locations with colleague engagement activities › Chairman on site visits and engagement with colleagues

Shareholders

Their interests	How the business engages	How the board engages
› Performance of the business › Return on investment › Five-year strategy	› Executive management meetings, workshops, and engagement sessions › Regular shareholder update meetings	› Investor directors form part of Group and subsidiary boards and engage regularly with the Executives › Annual Report & Financial Statements › Monthly Management Accounts › Formal strategy and budget sign off and monthly deep dives

Members (B2C and B2B2C customers)

Their interests	How the business engages	How the board engages
› Fair value and pricing of products › Reliability of service › Quality of service › Complaints resolution › Member engagement › Confidentiality of data	› Engage directly with members via the phone through our contact centres, myRAC and rac.co.uk and via email and letters › Orange Patrols, SMR, inspections, and recalls › Monitor customers views through satisfaction surveys, social media, focus groups and Trustpilot	› Annual Report & Financial Statements › Formal strategy and budget sign off and monthly deep dives › Press releases and media engagement › Reporting on NPS, churn and the directors receive regular updates from appropriate boards on Consumer Duty metrics, including service and complaints › Data protection and cyber security › Breach reporting

B2B corporate partners

Their interests	How the business engages	How the board engages
› Reliability of service › Relationship management › Improved efficiency	› Key partner quarterly business review meetings in addition to workshops, meetings, and engagement sessions › Dedicated partner services (OEMs) › Business Roadside CEO monthly engagement with key strategic partner senior contacts › CEO/CFO and appropriate Executive Committee members in continual dialogue with partners	› Oversight and approval of key contracts › Engagement with partner executive management

Supply chain

Their interests	How the business engages	How the board engages
› Fair trading › Payment practices › Terms & conditions › Human rights and modern slavery	› Regular calls with material outsourcing suppliers › Regular account review meetings › Review of KPIs and performance › Due Diligence onboarding process and risk-based reviews	› Board oversight and approval of key contracts › Modern slavery statement › Annual Report and Financial Statements

Debt holders

Their interests	How the business engages	How the board engages
› Return on investment › Current and future performance of the business › ESG strategy › Group strategy › Risk management	› Investor calls for the annual results › Corporate website › Stock exchange announcements › Investor relations mailbox › Compliance documents › Regular and frequent engagement with Relationship Banks	› Annual Report & Financial Statements › Interim Report and Financial Statements › Bondholder calls (ad-hoc) › Stock exchange announcements

Regulatory bodies

Their interests	How the business engages	How the board engages
› Consumer Duty › Compliance › Data privacy › Risk management › Health & Safety › Operational and Financial Resilience	› Regulatory returns › Implementation of key regulatory changes › Engagement in risk framework including divisional risk registers, group key risks, overseen by Executive Risk & Audit Committee (covering data, risk, regulatory capital, operational and financial resilience and health & safety) › Consumer duty framework including Executive Compliance Committees, Divisional Customer Committees and Conduct & Culture Committee › Regular dialogue and correspondence with FCA and PRA	› Oversight of key regulatory projects by Regulated Entities Board › Oversight of compliance matters at each meeting of the Regulated Entities Board and overview of activities of the Consumer Duty Framework › Oversight of risk management framework by Board Risk and Audit Committee › Ultimate parent parent board receives updates from its Regulated Entities Board on regulatory matters › Review of key submissions/ correspondence with FCA/PRA › Specific review of PRA requirements for RACIL

Community and the local environment

Their interests	How the business engages	How the board engages
› Compliance with applicable legislation › Community programmes › Environmental impact and decarbonisation › Advocate for road safety	› Charitable partnerships through HIVE › Industry forums e.g. SURVIVE › Specialist consultancy advice H&S and Environment › Certification and accreditation e.g. Ecovadis and ISO	› Annual Report & Financial Statements › Corporate website › Tax strategy › Gender pay gap reporting › Modern slavery statement › ESG Strategy

“**Patrol arrived quickly** within 40 minutes and much sooner than anticipated, despite major issues on a nearby motorway during rush hour. I was back on the road within an hour. I’ve been with the RAC for many years and **my membership is something I’d never let lapse**.”

Dianne, 10 September 2023

Glen, patrol since 2018, Northern

Governance report

For the year ending 31 December 2023

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.

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; and
- 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).

Ownership structure

RAC Bidco Limited is a wholly owned subsidiary of RAC Midco II Limited, whose ultimate parent is RAC Group (Holdings) Limited. As at 31 December 2023 the Group's equity is ultimately 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.

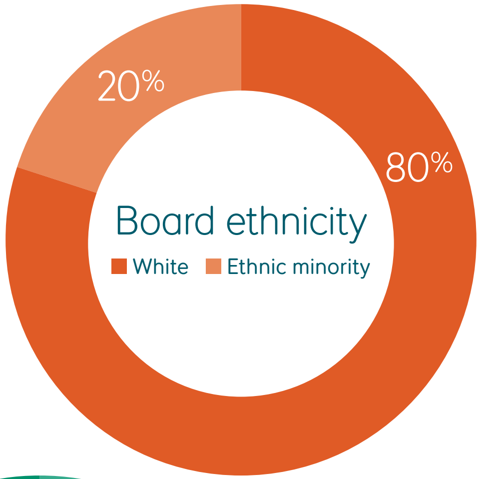
Stuart, patrol since 2007, South West

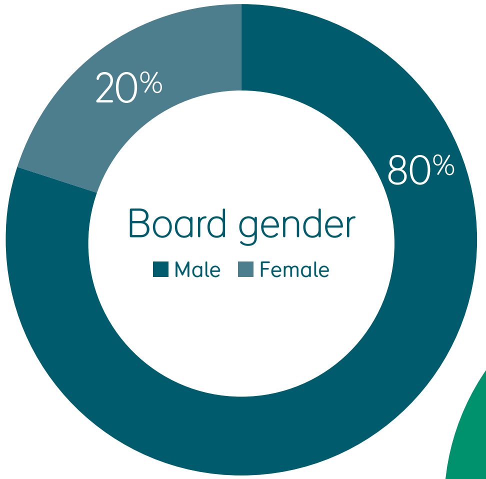
The Board

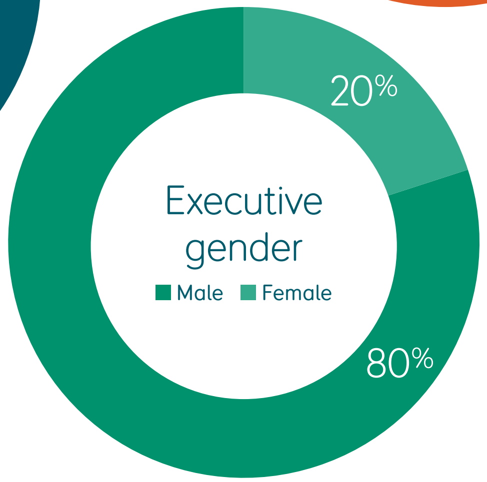
As at 31 December 2023 the RAC Bidco Limited Board comprises the Chairman, two executive directors being the Group's Chief Executive Officer and Chief Financial Officer, and seven Non-Executive directors ('NEDs') comprising two CVC appointed NEDs, one GIC appointed NED, two Silver Lake appointed NEDs and two Independent NEDs. Biographies can be found on pages 78 to 80 of this report.

The Group's main board provides leadership to the Group, setting the tone for a culture across the business committed to achieving the right outcomes for customers and delivering long-term value for the RAC, its members, colleagues, and stakeholders. The RAC Bidco Board meets regularly to discuss material matters which impact the Company. Through the ongoing review of suitably detailed management information the Board ensures that risks are appropriately monitored and managed through the Group's Board Risk and Audit Committee and ESG Committee.

As is usual in large Groups, day to day management is delegated to the Chief Executive Officer, and the Executive Committee. The Executive Committee comprises of 10 members, being the Chief Executive Officer, who is also the Chair, the Chief Financial Officer, Chief Operations Officer, the CEO Consumer Division, Chief Customer and Marketing Officer, CEO Business Roadside, Chief Product & Technology Officer and CEO Insurance. The CEO of Service, Maintenance and Repair and the Chief Risk and Legal Officer were appointed to the Executive Committee during the year.







Board of Directors

RT

Rob Templeman

Chairman

Rob is Chairman of the RAC Group (Holdings) Board of Directors. His previous roles include Chairman of Gala Coral and of the British Retail Consortium. Rob was also a NED of Ladbrokes Coral plc and was the CEO or Chairman of a number of consumer facing companies before joining the RAC in 2011. Rob also acts as an advisor/consultant to some investment funds and some of their portfolio companies.

DH

Dave Hobday

Chief Executive Officer

Dave joined 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

TM

Tesula Mohindra

Independent Non-executive Director and Chair of the Board Risk and Audit Committee

Tesula Mohindra joined the RAC in September 2022 as an Independent Non-executive Director (iNED). 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.

MW

Mark Wood

Non-executive Director

Mark 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 and is currently chairing the Multiple Sclerosis Society's £100m STOPMS Research Appeal. Mark was Chair of the Risk and Audit Committee until March 2023.

Non-Executive Director – GIC Group

AL

Alexandre Levy

Alex re-joined the RAC as a non-executive in July 2022. He is Senior Vice President in GIC's Direct Investments Group. He also sits on the board of Galderma and has previously served on the board of Unither Pharmaceuticals SAS. Prior to joining GIC in 2010, he worked at JP Morgan.

Non-Executive Directors – Silver Lake

SP Simon Patterson

Simon Patterson joined the Board in March 2022. He 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 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 Duke and Duchess of Cambridge, and previously served as a trustee for the Natural History Museum and a non-executive Director for Tesco plc. Simon holds an MA from King's College, Cambridge University and an MBA from the Stanford Graduate School of Business, where he was an Arjay Miller Scholar and received the Alexander Robichek Award for Finance.

JG Jonathan Galore

Jonathan Galore joined the Board in March 2022. He joined Silver Lake in 2015 and is an Operating Partner. Prior to Silver Lake, he held a number of senior executive roles, most recently as Chief Technology Officer at Wonga Group, a global online finance company. Jonathan also founded Trussle.com, the UK's first online mortgage advisor, and was co-founder and Vice President of Product for Wealthfront.com, an automated investment service. Jonathan has also held advisory and board roles with a number of early stage financial technology sector businesses. He holds a BA in computer science from the Academic College of Tel Aviv Yaffo and an MBA from the Stanford Graduate School of Business.

Non-Executive Directors – CVC

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, RiverStone International and Dale Holdings. Tim joined CVC in 2005 and was previously a consultant at Bain & Company. He also serves as a Trustee of 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.

Indy,
mobile mechanic since 2022,
West Midlands

Board committees

The Group operates three standing committees, the Board Risk and Audit Committee, the ESG Committee and the Remuneration Committee, all of which have defined Terms of Reference which set out clearly the responsibilities, membership, and workings of the Board committees.

Board Risk and Audit Committee

This Committee is chaired by Tesula Mohindra, an independent non-executive Director and its other members are two non-executive Directors one of whom is independent. It is attended by the Chief Executive Officer, Chief Financial Officer, the Chief Risk & Legal Officer, non-executive Directors, the external auditors, the Company Secretary, the Head of Internal Audit and members of the RAC senior management team as required. The Committee meets a minimum of three times per year.

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.

During the year, the Committee's responsibilities were reviewed and responsibilities for detailed oversight of compliance matters now fall within the remit of the Regulated Entities Board which will receive detailed management information flowing from the new Consumer Duty Framework which was implemented during the year. The Committee retains high level oversight of various compliance risks, which will be reviewed and monitored consistently with other key enterprise risks.

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 that a process for 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; and
- Oversight of the external audit tender process. In line with good practice, the Board Risk and Audit Committee undertook a competitive tender process in 2023, and approved the re-appointment of Deloitte as the Group's auditor.

Remuneration Committee

This Committee is chaired by the Chairman of the Board, and is attended by the Chief Executive Officer, at least one non-executive Director from CVC, GIC, and Silver Lake, and the independent chair of the Board Risk and Audit 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; and
- 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.

Charlie, patrol since 2012, South East

The Regulated Entities Board

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

The Regulated Entities Boards are chaired by an independent non-executive director, and members are: the Group non-executive Chairman, two non-executive directors and two executive directors being the Chief Executive Officer and Chief Financial Officer. The Chief Marketing and Customer Officer is also a member of the RAC Financial Services Limited Board and the Group Finance Director is a member of the RAC Motoring Services Board.

Key areas for which the Regulated Entities Boards are responsible include:

- Reviewing and approving the Group strategy considering the regulatory obligations and objectives of each of the Regulated Entities and, once approved, monitoring the performance of each 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 receive good outcomes and are treated fairly and 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 and customer outcomes;
- 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; and
- 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 Boards meet at least six times per year with a pre-set programme of deep dives and reviews which aligns to their regulatory responsibilities and the Group's strategy.

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 strategy. Throughout 2023 the Committee has continued to develop the Group's decarbonisation and Equality, Diversity & Inclusion strategies and consider governance and other social matters. 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. The Committee meets a minimum of three times per year. 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 ensure they are compliant with any legislative, regulatory, or legal requirements;
- Setting KPIs and associated targets relating to ESG matters and monitor 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, and
- Working in conjunction with the Board Risk and Audit Committee to oversee the identification and mitigation of risks relating to ESG, as well as the identification of opportunities related to ESG matters.

Other committees and working groups

In 2023 and as part of our Consumer Duty implementation we reviewed and refined our governance framework to support delivery of our Consumer Duty Framework. Divisional Customer Committees have been established to review how our key products are performing and to monitor the outcomes that our customers receive and a new Conduct and Culture Committee has been established to oversee the RAC's cultural metrics.

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 and that detailed management information is produced and monitored.

“**Regular updates** on my mobile regarding ETA and he arrived at exactly the time stated. Another **excellent service** and I will certainly **renew my membership** when the time comes.”

Lyn, 17 October 2023

Darren, patrol since 2003, Wales

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 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; and
- Overseeing the development of, 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 and implementation of the business model;
- Overseeing the RAC's culture;
- Ensuring compliance by the Group with legal, regulatory, corporate governance, social, ethical and environmental principles; and
- 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; and
- 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; and
- Bringing specific expertise to the Group, for example, extensive financial services 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.

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. The principles, and an explanation of how each principle has been addressed by the Company, are set out on the next page.

Principles and explanations

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 Group's strategy and our three key strategic pillars of Accelerate our Core Businesses, Expanding our addressable market into Service, Maintenance and Repair and Membership enabled by myRAC underpinned by a quality customer experience enabled by people, digital platforms, and data. Each of the strategic pillars is a key priority of the Group and progress is regularly reviewed though Board deep dives and engagement with Executive Management. Each of these priorities has Key Performance Indicators and defined targets which help business divisions to deliver the strategy and 5-year plan objectives.

The Board understands that the delivery of the strategy is only possible through the RAC's people and their success individually and collectively. 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 colleague's reward and recognition as they form the central pillar of the performance review and management regime. Any colleague can nominate other colleagues at any time for Orange Hero recognition for representing the Hero Values. The CEO sends weekly emails of recognition to those nominated and business divisions choose a monthly Orange Hero. In 2023 the RAC held its annual awards ceremony to recognise and reward the best examples of the Hero Values demonstrated throughout the year via Orange Hero Awards which encourage colleagues to engage with and deliver our core values. The Group's ESG Committee also approved our ED&I strategy which will develop and support our colleagues in the longer term.

CEO Review: Pages 12–19
SCSR Report: Pages 94–109

2. Board composition

The Board is led by the non-executive Chairman, who provides direction and leadership. The Board has an appropriate balance of executive and non-executive Directors with the skills, knowledge, and experience to meet the strategic needs and challenges of the RAC and to enable effective decision making and is consummate with the size and complexity of the Company. The Directors bring experience across a number of sectors for example financial services, insurance, finance and audit, retail, investment, technology, and other regulated sectors.

A biography for each Director can be found on pages 78 to 80 and on the Group's website, rac.co.uk.

Directors Report: pages 110–119
Sustainability Corporate & Social,
Responsibility Report 94–109

3. Director responsibilities

The RAC Bidco Board meets as and when there are material matters which impact the Company. The Directors are also members of the RAC Group (Holdings) Board and they receive regular and timely information of the performance of the Group including key operational matters and initiatives, financial matters and customer service, all supported by key performance indicators (KPIs).

During the year, the board approved the 2022 Annual Report & Financial Statements. The Board also considered and approved the refinancing and the issuance of A1 and A3 class bonds respectively, reviewed the tender of the external audit arrangements though the Board Risk and Audit Committee and reviewed its governance arrangements as part of its annual review.

With the implementation of Consumer Duty in July 2023, substantial changes to the Group's governance framework were implemented to enhance customer outcomes monitoring and oversight of cultural metrics to ensure that the conduct of the Group meets its regulatory obligations and that the culture supports both the customer outcomes and the standard of conduct expected across the Group. Details of the new Executive sub-committees can be found on page 86.

Section 172 statement: Pages 68–73.

"Within ten to fifteen minutes the Patrol was there like a superhero.

Steven – Member

4. Opportunity and risk

The Group is fully engaged in seeking opportunities to enhance the RAC's existing products, as well as its expansion into new product areas as it seeks to offer members value and support their driving needs. Services in addition to driving also support sustainable growth of the Group's strategy and 5-year plan. This year, the Group has supported strategic opportunities through the development and scale up of the Group's Service, Maintenance and Repair offering, expansion of the RAC's Insurance product range with the launch of RAC Plus cover and digitisation through myRAC enabling members to interact with their cover in one place.

The Group's Principal risks and mitigations are outlined in the strategic report. A formal risk management framework is in place for the identification, monitoring and management of risks, which is overseen by the Board Risk and Audit Committee. The Chief Executive Officer is accountable to the board for the management of risks on a day to day basis with individual Executive members accountable for divisional management of their risks. The Executive Committee collectively considers risk through its Executive Risk and Audit Committee which meets four times per year. The Group's key risks, in addition to divisional risks, are considered and reviewed at each meeting. During the year this Committee conducted two stand back reviews of the Group's key risks to ensure that they continue to remain appropriate in the context of the Group's strategy, macro-economic factors, market conditions, delivery of service and other factors that may materially impact the Group. The Group continues to monitor cost of living and inflationary pressures which impact both our members and Group operations, in addition to a focus on cyber security, service delivery and positive customer outcomes and refinancing activities. The Group's principal risks can be found in the strategic report.

The Regulated Entities Board is responsible for the oversight of regulatory risk on behalf of the Group, including the new Consumer Duty requirements which were implemented in 2023 which involves extensive cultural change to ensure that the RAC proactively identifies any risks to good customer outcomes. As part of the Consumer Duty implementation, the Group established a new regulatory governance framework and constituted new Executive sub-committees for the oversight of the Group's responsibilities in ensuring the RAC delivers good customer outcomes and adherence to our Consumer Duty Framework. The Regulated Entities Board have ultimate responsibility for Consumer Duty and the management information and activities from each committee are reported at each Regulated Entities Board meeting. Details of the new committees, their responsibilities and the reporting lines can be found on page 86.

CEO review: pages 12–19
Strategy: Pages 28–31
Principal Risks: Pages 34–41

5. Remuneration

Remuneration is ultimately overseen by the Board Remuneration Committee, which is responsible for agreeing the individual remuneration packages (including pension rights, compensation payments and other benefits) for each of the Chief Executive Officer, 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. During 2023, the RAC's remuneration practices were reviewed and enhanced across the Group to better evidence how our incentive schemes actively support the delivery of good customer outcomes.

In January and March 2023 the Committee approved colleague pay rises and approved an additional one-off cost of living payment in recognition of the cost of living crisis and increased inflationary pressures, interest rates, and energy prices and in recognition of the value and strategic importance of all our colleagues. The Group also approved a new colleague share scheme for all our frontline and back office colleagues, giving them a stake in the business and aligning their interests to those of shareholders in delivering the 5-year plan and a financially sustainable business for the future.

The Group continues to publish its gender and pay reporting externally. Details of the report can be found on the Group's corporate website raccorporate.co.uk.

Remuneration Committee: Page 83

6. Stakeholder relationships and engagement

Effective and regular engagement with key stakeholders has remained a key priority for the Group in 2023. The Group is clear that good governance and effective communication with its stakeholders is critically important to ensure the long-term sustainability of the business.

The Directors have due regard to stakeholders when making decisions and in particular our colleagues and our members, 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 and ensures effective engagement and due regard to stakeholders' views when taking decisions.

In the year, the Board and the ESG Committee reviewed key stakeholders and how the Board and the business engages, though a variety of mediums and forums, delivering positive outcomes for our members, colleagues, shareholders and our other stakeholder Groups. Stakeholder engagement is discussed in more detail as part of the section 172 statement on pages 68 to 73.

Sustainability, Corporate and Social Responsibility Report: Pages 94–109
Directors Report: Pages 110–119
Section 172 Statement: Pages 68–73



Stuart, patrol since 2007, South West

Sustainability, Corporate and Social Responsibility report

For the year ending 31 December 2023

Excellent Service!

Car was fully serviced at a **very competitive price**, by an attentive and pleasant mechanic. This is the first time I have used a '**Home Service**' for my cars.

I shall definitely use the RAC Mobile Mechanics again."

Harry, 31 August 2023

Summary

In 2023, the RAC evolved and adapted to ensure our business continues to be responsible and sustainable. We further developed our ESG commitments and added the next phase of granularity to our plans. ESG considerations are fully embedded within our strategic plans with a focus on delivering near-term impact as well as longer-term sustainable growth.

10% reduction in gas & electric usage	ISO45001 Health & Safety Management certification achieved	30% reduction in water usage
British Safety Council (International Safety Award) Distinction	4,062kg of carbon savings through ethical clearance charity Waste to Wonder	69 apprentices in training through the RAC Academy
330 colleagues supported through new Employee Assistance Programme (EAP)	980 applications for Orange Hero Awards	16% reduction in lost time incidents per 100k working hours

Environmental

We have achieved some key milestones in our environmental strategy during 2023, having finalised our 'Decarbonisation Plan' which outlines actions to significantly reduce our greenhouse gas (GHG) emissions across Scopes 1 and 2, through incremental improvements in network operational efficiency, vehicle fuel efficiency and electrification of our vehicle fleets, thereby reducing the carbon footprint of our key operations. Our growth strategy in SMR and automotive services will be key to delivering greater efficiencies to our business customers and individual members alike, by reducing trips to garages for servicing and repairs and delivering efficiencies in the method of delivery of ancillary services.

Decarbonisation plan

Our decarbonisation roadmap has been built on a comprehensive understanding of our Green House Gas (GHG) inventory and baseline, the development of carbon reduction trajectories, and the identification and modelling of key actions. The roadmap incorporates initiatives such as the introduction of zero-emission vehicles, and various energy efficiency measures.

The Group's overarching climate-related target is to achieve net zero by 2050 at the latest, in line with the UK's broader commitment. We already have line of sight to a 50% reduction in scope 1 and 2 emissions per job by 2035, which would represent a 30% reduction in total scope 1 and 2 emissions and have established that as our interim target.

We see potential to go further and to achieve net zero across scope 1 and 2 emissions by 2035 providing that the range of EV options available and the infrastructure to support those continue to develop in a direction that will meet our business needs and we will review the target annually.

As part of our ongoing activity, we will work with our partners and suppliers to reduce emissions across our supply chain, with the aim to develop a more detailed scope 3 reduction plan and associated targets by 2026.

Carbon management efficiency

Fleet

We have two EV van trials underway in our roadside operations until the end of Q1 2024 to understand the challenges, limitations, and operational impact of running an EV fleet. We are planning to expand our trials with additional van models in H2 2024; these vans have an improved battery capacity and should therefore address in part the issues regarding capacity to tow that existing EV vans have displayed.

Our company car fleet options were changed during the year so that colleagues are only able to choose either full EV or Hybrid car choices at the point of lease renewal, omitting diesel or unleaded from the range and we now have 94% (2022: 80%) of company cars in the fleet either EV or hybrid.

Technology

Our operational model has been adapted to incorporate greater route optimisation when deploying resources at roadside, using mapping and route planners more effectively. By optimising the routes, the RAC is able to reduce average travel time between jobs, reducing fuel usage as a result. Additionally, the RAC is utilising improved technology to more accurately locate our members, further enhancing the route efficiency and contributing to the overall decarbonisation efforts.

Colleagues

We are continually taking steps to train and coach our colleagues to improve their driving behaviour. The RAC has provided employees with internal campaigns and Continual Behavioural Training (CBT) programmes such as, 'Safe and fuel-efficient driver training' and 'Environmental Management at the roadside' to drive behavioural change that leads to lower emissions across our fleets.

Premises

During 2023 we successfully completed the move of our Manchester operation from our former Stretford office to our new office at the Vic in Salford Quays. This move has given us a significant opportunity to reduce our office emissions as the building is certified as net zero carbon.

We have also achieved energy savings of 160,000 kwh from capital expenditure projects undertaken during 2023 and efficiencies from Building Management System (BMS) monitoring. In total, we have achieved a 10% reduction in our office CO^2 emissions in 2023.

A thermal dynamic modelling report and feasibility study was completed to ascertain the current energy usage of our Bescot and Bradley Stoke sites. The report demonstrates the status against Carbon Risk Real Estate Monitoring (CRREM) and recommendations to further reduce our energy consumption which we have incorporated into our decarbonisation plan.

Waste management

During 2023 we achieved a 5% reduction on our scheduled office waste volumes, driven by our Net Zero working group which meets regularly throughout the year and monitors our waste management targets and objectives.

We also work closely with our facilities management waste broker who provide us with monthly waste management information dashboards. Monthly meetings provide an opportunity to discuss the data and look at potential projects and opportunities for improvements.

We are proud to continue our partnership with the Waste to Wonder trust who manage the redistribution of IT and quality office equipment, supporting children in over 30 countries including the UK. Our ethical clearance for 2023 has resulted in 4,062 kilos of carbon savings through the reuse scheme with £3,865 donated in furniture from our Bradley Stoke office. 100% of this furniture will be reused by charities based in the Gambia and Senegal.

Sustainable procurement

Aligned to our decarbonisation plan, our focus around sustainable procurement has been across the supply chain and how we can further expand our engagement with suppliers to better understand our scope 3 emissions from supply chain.

As part of our scope 3 focus, during 2023 we have updated our supplier tender requirements to include specific questions in respect of carbon management and Net Zero. This allows us to better understand how any of our potential suppliers are working towards carbon management / Net Zero goals and engage potential suppliers in how we could potentially work collaboratively to improve outcomes in this area.

Accreditations and achievements

We continue to work within an internationally recognised accredited environmental management system, ISO14001: 2015. This provides a framework where we continually improve our environmental performance through proactive measures to minimise our environmental footprint, comply with relevant legal requirements and achieve our environmental targets and objectives.

We were also pleased to maintain our silver-rated medal with Eco Vadis, which is reserved for the top 25% of performers, and achieved a 6% improvement in our score over 2022 results. (2022: approximately 80%).

Social

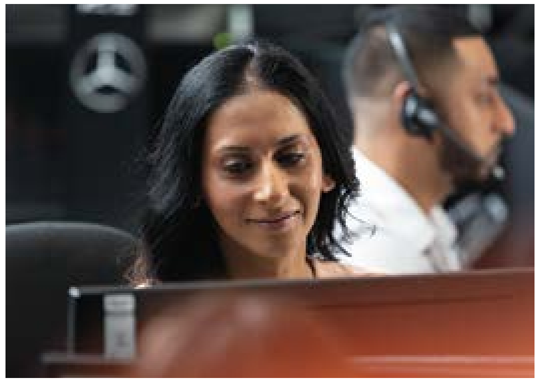
Our colleagues are the heart and soul of our business and their hard work and dedication is the reason we are able to deliver complete peace of mind to our members. Our Hero Values, which underpin everything we do, extend to defining how we treat our colleagues and how we develop and continually improve our colleague proposition.

In 2023 we took a number of strides forward in our social agenda, having introduced a new colleague share scheme, in recognition of the value and strategic importance of our colleagues' contribution to the success of the business. Through this scheme our colleagues can share in the rewards that their hard work and commitment helps to deliver through growing the business in a sustainable way.

We have also agreed our first formal Equality, Diversity & Inclusion strategy, which sets out a clear objectives to continue to enhance diversity across the Group and foster an inclusive culture.

During the year we launched the RAC Academy to nurture our own mechanic talent and encourage those who may follow non-traditional career paths. Alongside this we have also created "job families" to support our colleagues in transitioning from mobile mechanics to patrols and vice versa, which is particularly valuable to those at the beginning and end of their careers, and those who require more predictable working arrangements.

We are also extremely proud to have appointed our first Director of Vulnerable Customer Experience, a senior manager dedicated to ensuring we do everything we can to enhance the experience of customers in difficulty. To support her, we have also appointed a network of Vulnerable Customer champions across the Group who are helping to enhance our understanding and responses to vulnerability by fully utilising the experiences and ideas of our frontline colleagues in respect of how we can better assist those who are vulnerable.



Colleague engagement

The ever-changing UK environment, motoring industry, and consumer behaviours, coupled with personal pressures of the cost of living crisis impacting many individuals has increased the importance of keeping colleagues informed, motivated, and supported. We have ensured there are lots of ways for colleagues to regularly engage and interact with leadership to provide support and guidance where needed – from face-to-face meetings, briefings, huddles and conferences to virtual town halls, Q&A sessions, and online collaboration.

Workplace by Meta – a social communication and collaboration platform – continues to play a central role in informing, updating, and engaging our colleagues. We have maintained an 80% take-up rate with positive indicators on engagement and interaction. It has been a key tool to help colleagues express themselves and for us to listen and respond during particularly testing times.

Our CEO continues to lead the way with advocating an open and honest environment, where questions can be asked, challenges can be made, and responses are regularly provided. We hold weekly Q&A sessions with the CEO and Executive members, where any colleagues can join to share their experiences, questions, or feedback.

Our annual Orange Hero recognition awards, which is open to all colleagues to nominate their peers, has had a record-breaking number of entries this year! This shows recognition and pride is alive and well across the business. In 2023 we appointed colleagues to be the judges of the awards, which exemplifies how we are ensuring communication, engagement and recognition is led by colleagues for colleagues, rather than a 'top-down' approach.

980
Orange Heroes award entries

Equality, Diversity and Inclusion

During 2023, we progressed our Equality, Diversity & Inclusion strategy and will continue to expand our objectives and targets during 2024 and beyond.

We introduced a new Menopause Policy supported by training sessions for managers and awareness sessions open to, and attended by, a broad mix of colleagues.

Our 2023 Board evaluation identified diversity as a key area of focus and we agreed to continue to review board recruitment processes to ensure they continue to reflect best practice for inclusive recruitment. We have increased gender diversity at senior management level during the course of 2023, moving from 27% of SLT and Exec being female, to 30% at the start of 2024.

All recruitment advertising now includes an EDI statement and guidance across the recruitment process, with a view to widening the talent pool and aiding managers in inclusive hiring

A new RAC Culture & Conduct Committee launched to drive the ongoing development of a positive culture at work with a new MI dashboard, including basic ED&I metrics, that is already providing useful insights.

Health and wellbeing

We are extremely proud of the work we have done to support our colleagues from a wellbeing perspective. We have continued to enhance the wide range of support available to them covering their mental, physical and financial wellbeing which has been particularly important in 2023 against the backdrop of the challenging financial landscape we are all experiencing.

Our initiatives and activity have included the following:

- Appointment of our first Wellbeing Manager which demonstrates our support and commitment to colleagues wellbeing.
- Launch of our new menopause policy, followed up with awareness sessions for both managers and colleagues.
- Supporting over 330 colleagues with counselling and access to expert advice via our Employee Assistance Programme (EAP) which is an on-demand 24-hour service providing colleagues with confidential access to qualified trained advisers and counsellors who can provide support on life events that affect them or their family. The EAP website has also provided helpful information and signposting to additional support on all aspects of wellbeing.
- Our 50 mental health first aiders have continued to provide support across the Group, and we continue to tap into the knowledge and expertise of our colleagues via our 40 wellbeing champions.
- Increasing colleagues' awareness of mental health has been an ongoing theme. We have run various training sessions and webinars utilising the expertise of our external partners. The topics covered have included managing stress, understanding mental health and menopause. Financial wellbeing has also been supported by webinars such as cost of living, making the most of your money and pensions.
- Our partnership with the charity 'Tough Enough to Care' continues to grow and they have helped train 60 roadside leaders in raising awareness and in how to have the right conversations to support our roadside colleagues. 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.

Health and safety

The nature of our business and the inherent dangers of the work undertaken at roadside by our patrols and the situations that our members find themselves in, means that health and safety will always be in the forefront of our minds. In 2023 we are delighted to have achieved major successes on this front to create an even safer environment for all colleagues and to help to keep our members safe. This was recognised by achieving our first certification to ISO45001 Health & Safety Management and a distinction award at the British Safety Council International Safety Awards in May.

The safety of our colleagues and members has taken a material step forward with the announcement that breakdown assistance drivers across the industry are to be allowed to use red flashing lights alongside the customary amber ones to alert motorists to their presence. The RAC has been lobbying for this change for many years and shortly after we raised the issue with the Secretary of State again in summer 2023, the Department for Transport announced that it would amend the regulations to permit roadside rescue and recovery operators to use rear facing red flashing lamps. The regulatory amendment will come into force in 2025 but interim measures will apply meaning that visibility of roadside workers will be dramatically improved, helping to save lives of the public and breakdown professionals alike.

Continuing the theme of safety at roadside and harnessing the valuable knowledge of our colleagues, on the suggestion of two of our patrols, we released a short video, narrated by them, aimed at highlighting to our members the dangers of high-speed roads and highlighting safe practices for them to use whilst awaiting attendance. This went live in October 2023 and is included on communications to members when they break down to have maximum impact.

We also undertook two additional internal campaigns during the year in response to the trend analysis from audit results. "Own the Cone" which was aimed at ensuring customers stay in a safe location whilst we repair their vehicle and "Don't FOURget" which was a refresher to remind patrols to complete strap checks before towing vehicles. Both of these campaigns were a great success, with significant reductions in non-compliance issues during the second half of the year.

Finally, the Health, Safety, Environment & Quality (HSEQ) team launched a new face-to-face refresher training programme with patrols during 2023. Attended by over 700 patrols so far, the feedback has been overwhelmingly positive with 59% stating that they will either completely or significantly change how they work safely at roadside having attended the course.

As a result of our various interventions, we have achieved a 15% reduction in RIDDOR reportable injuries in 2023 in comparison to 2022 (per 100,000 working hours) and a 16% reduction in lost time incidents (per 100,000 working hours).

Sustainability, Corporate and Social Responsibility report

For the year ending 31 December 2023

Training and development

We have always believed that 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. In 2023 we have conducted a bottom-up review of our training and competency scheme across the Group, resulting in revised and improved Training & Competence schemes specific to each division being implemented to support development of our colleagues' skills and talents for the future.

In addition, we continue to maximise use of our apprenticeship levy through the development of the RAC Academy for roadside colleagues. The Academy works in partnership with North London Garages in Enfield and S&B Automotive Academy in Bristol, on a 2-year programme to develop our next generation of roadside patrols, ensuring our apprentices have the knowledge, skills and behaviours to meet the demands of the job and to provide the complete peace of mind we aim to deliver to our members. In 2023 we have 69 apprentices with an ambitious plan to double the number in 2024.

We have also continued our partnership with the West Midlands Combined Authority (WMCA), supporting local SMEs by sponsoring science, technology, engineering and mathematics (STEM) based apprenticeships to develop local talent and sustainable skills in the West Midlands. In 2023 we have invested £275k of our Apprenticeship levy, supporting 30 young people in motor engineering and digital apprenticeships.

Along with our sponsors CVC, we continue to support the Prince's Trust's 'Get Into' programme at our head office in Walsall. Now, in its 8th year, this is a 3-week work experience programme offering up to 10 young people an opportunity to gain essential experience in interview skills, CV writing, team development, communication skills and self-awareness, whilst also getting an insight into the role of a Customer Service Agent in our breakdown centre. In 2023, four young people took up an offer of employment with us and have started what we hope will be a successful career.

We also continue to work with Walsall College to support local talent. This support has included us attending their open days and hosting a day in the life with our colleagues, including a tour of our building and workshops and a demonstration of our patrol van and how we innovate to keep up with changes in technology, cars and driving habits.

69
patrol apprentices

Prince's Trust
'Get Into' programme

£275k
invested from our Apprenticeship levy

Charities

The HIVE is comprised of like-minded individuals from around the organisation who voluntarily come together to boost morale and drive positive impact. The HIVE operates across all three of our sites and has two main goals in mind: employee engagement and fundraising. Not only do we listen to what our colleagues are saying, thinking and feeling but we also have a positive impact on their day to day lives while also doing good in our local communities. The events, activities and competitions help our colleagues enjoy themselves too.

Throughout 2023, the HIVE and colleagues have taken part in a variety of fundraising activities such as: bake sales, the three peaks mountain climbing challenge, competitions, raffles, holiday events and more.

We've just selected our new charities for 2024 and are looking forward to making a difference in many more communities.

Charites selected for each site:

Site	2023	2024
Bescot	Alzheimer's Society – Together we are help & hope for everyone living with dementia	Brain Tumour Research – Together we will find a cure
Bradley Stoke	SP-UK Suicide Prevention UK	Great Western Air Ambulance Charity
The Vic	Kitty's Fund	The Christie Charitable Fund

Our governance

The principal responsibilities of the Board are to promote the long-term success of the Company, deliver sustainable shareholder value, and contribute 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.

In 2023 as part of our Consumer Duty implementation we reviewed and refined our governance framework to support delivery of our Consumer Duty Framework. Divisional Customer Committees have been established to review how our key products are performing and to monitor the outcomes that our customers receive. A new Conduct and Culture Committee has been established to oversee the RAC cultural metrics.

An evaluation of the Group's main Board effectiveness was performed in 2023 and highlighted areas of interest for further development in the areas of diversity, succession planning, and ESG. The Group's ED&I and ESG strategies were approved during the year and will support further development in these areas of interest. The Board's diversity policy was also reviewed during the year.

Having elected to voluntarily adopt many of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2022, this is now our second year of reporting climate-related disclosures (see pages 44–65). In 2023, under the supervision of our ESG Committee, we have reviewed the detailed assessment produced in 2022 and built further on our reporting to ensure that we are fully compliant.

For more information on this, please see our Governance Report on pages 74–93.

Directors' report

For the year ending 31 December 2023

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 2023. 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.

The Company has applied the Wates Principles for Large Private Companies in the financial year. The Directors have reported how they have applied the Principles within the Governance section of the Strategic Report.

Directors

The names of the current Directors are set out on page 3. Those who have served in office during the year – and until the date of signing of this report – are as follows:

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

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 2023 are set out on page 139 and discussed in the Strategic Report on pages 20–27.

No interim or final dividends were paid (2022: £345 million).

There are no final dividends proposed.

Capital structure: As at 31 December 2023, CVC Funds, GIC and Silver Lake, in aggregate, had control of the Group by virtue of their majority shareholding in the Company.

Political donations: The Group did not make any political donations during the year (2022: £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 page 42 of the Strategic Report.

Streamlined energy and carbon reporting

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. RAC Group (Holdings) 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 Defra's Environmental Reporting Guidelines including Streamlined Energy and Carbon Reporting requirements.

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

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

- Electricity used for RAC Group (Holdings) Ltd and subsidiary operations at RAC occupied buildings (scope 2, see row 1 in table below)
- Gas used to heat RAC Group (Holdings) Ltd and subsidiary operations at RAC occupied buildings (scope 1, see row 2 in table below)
- Transport fuel and mileage data used for RAC Group (Holdings) Ltd and subsidiary operations under the RAC operational control (scope 1, see row 3 in table below), 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 Group (Holdings) Ltd and subsidiary operations under the RAC operational control (scope 3, see row 4 in table below), which includes business mileage in personal vehicles. Fuel and distance data has been converted in kWh
- Transport fuel and mileage used for RAC Group (Holdings) Ltd and subsidiary operations under RAC operational control (scope 3, see row 5 in table below), which includes business mileage in contractor vehicles. Fuel and distance data has been converted in kWh
- Water used for RAC Group (Holdings) Ltd and subsidiary operations at RAC occupied buildings (scope 3, see row 6 in table below)
- Waste generated at RAC Group (Holdings) Ltd and subsidiary occupied buildings (scope 3, see row 7 in table below),
- Vehicle waste generated from RAC Group (Holdings) Ltd and subsidiary operations (scope 3, see row 8 in table below),

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 2023 – 31st December 2023, in line with the financial year. Energy and carbon use for the 2022 year are also shown below, in order to allow year on year comparisons.

GHG emissions and energy use data for period 1 January 2023 to 31 December 2023

	RAC Group (Holdings) Ltd			
	2022		2023	
Mandatory information (scope 1 and 2 emissions)	Energy (kWh)	Emissions (tCO_2e)	Energy (kWh)	Emissions (tCO_2e)
Electricity[1]	3,952,476	755.75	3,565,298	738.28
Gas[2]	3,489,203	705.76	3,132,874	626.57
Transport fuel[3*] Purchased diesel for roadside fleet and fuel purchased on fuel cards	52,490,454	12,661.36	63,440,572	15,167.11
Transport fuel[4] Business mileage in personal vehicles	671,217	165.6	660,257	160.08
Total	**60,603,350**	**14,288**	**70,799,001**	**16,692.04**
Intensity ratio: kWh and tCO_2e / Total jobs	29.97	0.00706	29.96	0.00707

**Data is currently compiled using data supplied by fuel card supplier. Data source to be reviewed in 2024 to enable improved and more immediate tracking.*

	2022		2023	
Voluntary information	Units (as shown)	Emissions (tCO_2e)	Units (as shown)	Emissions (tCO_2e)
Transport fuel[5] **Business mileage in contractor vehicles**	61,931,023 kWh	15,897.21	79,991,476 kWh	20,338.07
Water[6]	13,650 m3	2.03	9,507m3	1.68
Wastewater[7]	12,968 m3	3.53	9,032 m3	1.81
Office waste[8]	113t	6.78	203t	4.32
Vehicle waste[9]	5.2t	0.11	5.3t	0.11
Total	–	**15,909.67**	–	**20,345.99**

GHG emissions and energy use data

We have achieved a 10% reduction in combined gas and electricity consumption during 2023. This is largely down to the efficiency projects that were completed in 2022 which included chiller replacements at Bescot and LED lighting improvements across the estate.

Combined water and waste water consumption reduced by over 30% in 2023.

However, these reductions were counterbalanced by an increase in fuel consumption due to an increase in the number of breakdowns and expansion of our Service, Maintenance and Repair (SMR) team.

Energy consumption

We are compliant with the Government and Environment Agencies Energy Saving Opportunities Scheme (ESOS Phase 2) and Streamlined Energy & Carbon Reporting.

Our energy efficiency improvement programme

A successful move from our Stretford site to our new site in Salford Quays has given us a significant opportunity to reduce our office emissions. The building is certified as net zero carbon due to the landlord's investment in a number of carbon reduction initiatives.

In addition to the above we have continued to closely monitor our monthly consumption across all our sites via the Building Management System (BMS) and utilities invoices to identify opportunities to further enhance our strategy throughout the year.

Drax / Npower continue to be our supplier for gas and electricity. Drax is the second largest sustainable biomass producer globally, and the UK's largest source of renewable power by output. We procured approximately 50% of our energy through renewable energy in 2023.

During 2023, we completed a further Dynamic Thermal Modelling Assessment (DTMA) across Bescot and Bradley Stoke. 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 further reduce energy consumption and reduce our carbon footprint. Viable initiatives have been scoped for 2024 and beyond, which will bring further reductions in emissions.

Transport

Our transport CO_2 emissions increased by approximately 20%, but this is in the context of an 18% increase in the number of breakdowns and the scale up of our Service, Maintenance and Repair (SMR) division.

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. This has helped us review driving behaviours and identify where we can provide support and training with a view to improving driver behaviour and reducing road risk, accident frequency and fuel consumption.

We continue with our program of informing and training our colleagues via internal campaigns and programmes such as, 'Safe and fuel-efficient driver training' and 'Environmental Management at the Roadside' which provide guidance 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.

The RAC continues to use the all-wheels up trailer which we rolled out in 2018 to reduce consumption by allowing us to either repair or tow 90% 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. It removes the need to carry heavy and bulky batteries that must be recharged after each use. It also removes the need to put an out-of-charge vehicle onto a flatbed recovery truck to take it to a charge point.

The 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. Over 300 RAC vans, around a fifth of our patrol fleet, are now fitted with EV Boost chargers.

In 2023, we continued to conduct trials to assess the viability of electric vehicles within our van fleet. While there are issues related to charging, range and towing capability, the trials carried out in 2023 are demonstrating positive possibilities and we will expand these in 2024 with a view to accelerating our transition to less carbon intensive options in the medium term if they are successful.

We have continued to update our company car fleet with a focus on supporting the transition to EVs, with over 94% of our company cars now either hybrid or full EVs. A business decision has now been made to only supply plug-in hybrid or full EVs as company car options in the future.

Waste

Overall waste has doubled year on year 2022 v 2023, largely due to some significant clearance projects which included the office move from Stretford to Salford Quays. Our scheduled waste reduced from 113 tonnes in 2022 to 112 tonnes in 2023.

However, waste emissions reduced by 36% as we managed to recycle more and send less to waste to energy facilities.

Our ongoing 'EcoHeroes' initiative has seen improvements in the way in which we manage our waste and recycling in our offices. This ongoing initiative will be refreshed in 2024 with new initiatives designed to further improve recycling rates across our office estate.

Going concern:

The Directors have assessed the financial position, the future prospects and funding requirements of 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 25 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 30 to the Consolidated Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial borrowings 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 macro-economic trends, regulatory change, roadside demand, 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 28 to 31 and the Risk Management section on pages 32–43. The Directors also considered what mitigating actions RAC Bidco Limited Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net liabilities of £50 million and net current liabilities of £33 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 £1,197 million and bank borrowings of £404 million. The Group's third party borrowings have an average time to maturity of three years. The Company has net assets of £1,030 million and net current liabilities of £72 million. The Directors have considered the financial position and future prospects of the Company.

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 2023 Company and Consolidated Financial Statements to be prepared on a going concern basis

Auditor:

Following a competitive audit tender process in 2023, the Board approved the re-appointment of Deloitte LLP as external auditor for 2023 and beyond.

Deloitte LLP has expressed its willingness to continue in office as auditor of the Group and Company and their reappointment will be proposed at the April 2024 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:

The 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 year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom adopted international accounting standards. 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 27 February 2024

Jo Baker, Chief Financial Officer

Mike, patrol since 2023, Western

Financial statements

For the year ending 31 December 2023

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 2023 and of the group's profit 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; and
- 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; and
- The related notes 1 to 34 of the consolidated financial statements and 1 to 10 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 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 were: › The carrying value of goodwill and other indefinite useful life intangible assets; › Initial adoption of IFRS 17; and › Revenue recognition Within this report, key audit matters are identified as follows: (!) Newly identified Similar level of risk
Materiality	The materiality that we used for the group financial statements was £8.1m which was determined on the basis of 3% of earnings before interest, taxation, depreciation, and amortisation ('EBITDA') before 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.
Significant changes in our approach	We have identified two new key audit matters in the current year: Initial adoption of IFRS 17 and revenue recognition. We have concluded that the impact initial adoption of IFRS 17 forms a key audit matter as this is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. Furthermore, this resulted in an increased extent of audit effort, including the involvement of our internal actuarial specialists. Additionally, the directors have changed the approach to accounting for acquisition revenue from a straight-line basis to usage based in the year. Given the revised methodology accelerates the recognition of income and its sensitivity to changes in the usage profile, we have identified this area as key audit matter.

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 the directors' 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 the directors' stress and scenario testing including reverse stress testing.
- 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; and
- 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 (2022: £760m) and indefinite life intangible assets including £837m (2022: £837m) in relation to the value of the RAC brand as at 31 December 2023. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is subject to an annual impairment test. In the current year impairment of £Nil has been recognised (FY22: £152m). The group's assessment of the carrying value of goodwill and indefinite 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, the value in use ('VIU'), and the rate applied in discounting the future cash flows. Inappropriate use of these assumptions either due to fraud or error could give rise to a material misstatement. Further details of the key judgements involved, and sources of estimation are detailed in accounting policies note F and note V, which relate to note 11 to the financial statements for goodwill and intangible assets.

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

How the scope of our audit responded to the key audit matter	We obtained an understanding of the directors' process and of the relevant controls identified around the carrying value of goodwill and other indefinite useful life intangible assets. We inspected and challenged the directors' 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. We also evaluated whether the directors' VIU calculations were prepared in accordance with the requirements of IAS 36. 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. Given the inherent susceptibility to misstatements in estimates, we considered indicators of management bias in our assessment including benchmarking our valuation of the business to that of comparable peer groups of similar size and risk profile. We evaluated the historical accuracy of the directors' five-year forecasts by comparing them to actual results and evaluated the reasonableness of the growth assumptions built into the forecasts. We also assessed 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 also 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 intagible assets were appropriate.
Key observations	We concluded that the directors' approach to determining the discount rate was conservative as it fell above our independently determined reasonable range. We acknowledge that whilst it fell outside of the range, it results in less headroom than a rate within our range. The long term growth rate used to determine the terminal cash flows in the VIU calculation was in our independently determined reasonable range. Overall, we concluded that 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.

5.2. Initial adoption of IFRS 17

Key audit matter description	With effect from 1 January 2023, the Group transitioned to IFRS 17: Insurance Contracts ("IFRS 17") which amended the accounting for contracts that are within its scope. This new accounting standard replaced the existing standard for insurance contracts, IFRS 4: Insurance Contracts. The new standard establishes the principles for the classification, measurement, presentation and disclosure of insurance contracts which are significantly different to those previously adopted by the Group. The Group's financial statements for the year ended 31 December 2023 are the Group's first set of financial statements to include the adoption of the new standard, including the retrospective application to the preceding period. The application of IFRS 17 to the Group's insurance contracts requires significant judgement in classification, developing the valuation methodology, defining the related accounting policies and implementing those policies appropriately within the relevant calculation models. The judgements, policy choices and elections made have the potential to significantly impact the financial results of the Group and its key performance indicators. The Insurance portfolio and the majority of the Breakdown portfolio meet the automatic eligibility criteria for the Premium Allocation Approach ("PAA"). We have concluded that the impact initial adoption of IFRS 17 forms a key audit matter as this is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. Furthermore, the new standard has introduced a number of significant changes, including new requirements regarding the recognition and measurement of insurance contracts and related account balances and classes of transactions. This resulted in an increased extent of audit effort, including the involvement of our internal actuarial specialists. Note B sets out the revisions to the Group's accounting following the transition to IFRS 17, including the relevant recognition and measurement requirements of the standard, and the accounting policies applied on its adoption.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls governing management's retrospective application of IFRS 17 to the preceding period and adoption in the current period. We evaluated the appropriateness of key technical accounting decisions, judgements, assumptions and elections made in determining the impacts to assess compliance with the requirements of the standard. With involvement of our actuarial specialist, we challenged the Group's implementation of the defined methodology and IFRS 17 calculation models, including those related to the PAA eligibility assessment and the risk adjustment within the Liability for Incurred Claims. We evaluated the incremental data and other information required for the IFRS 17 calculations, including the data inputs to the assessment of the PAA eligibility assessment and the risk adjustment within the Liability for Incurred Claims. We evaluated the disclosures including those related to the transition impact and reconciled the disclosures to underlying accounting records and supporting data.
Key observations	Based on the procedures described above, we consider the Group's financial statements for the year ended 31 December 2023 to be compliant with the requirements of IFRS 17 in all material aspects.

5.3. Revenue recognition

Key audit matter description	The directors changed their approach to accounting for acquisition revenue from a straight-line basis to usage based in the year. This change was applied prospectively in line with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. For the year to 31 December 2023, the Group recorded revenue of £720m (FY22: £664m) of which a portion is made up of individual member acquisition revenue recognised under IFRS 15. We identified a key audit matter in respect of the accuracy of the recognition profile in terms of prior observed experience. Given the revised methodology accelerates the recognition of income and its sensitivity to changes in the usage profile, we have identified this area as susceptible to fraud. Further details of the key judgements involved, and sources of estimation are detailed in accounting policies note C and note V, which relate to note 1 and note 5 to the financial statements for revenue recognition.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the directors' process and of the relevant controls identified around the recognition of revenue. We assessed whether the recognition change complied with the requirements of IFRS 15. With the involvement of our analytics specialists, we reperformed the policy usage curve based on historical usage data, and using the curve created an independent expectation of revenue and deferred income. We tested the underlying usage data used in determining the recognition of revenue. We performed a recalculation of all revenue and deferred revenue for individual members with the involvement of our analytics specialists and we evaluated the underlying data used within the analytics.
Key observations	We concluded that the directors' approach was compliant with IFRS 15 in all material aspects and that the recognition of acquisition revenue in line with a monthly usage is appropriate.

Stuart, patrol since 2007, South West

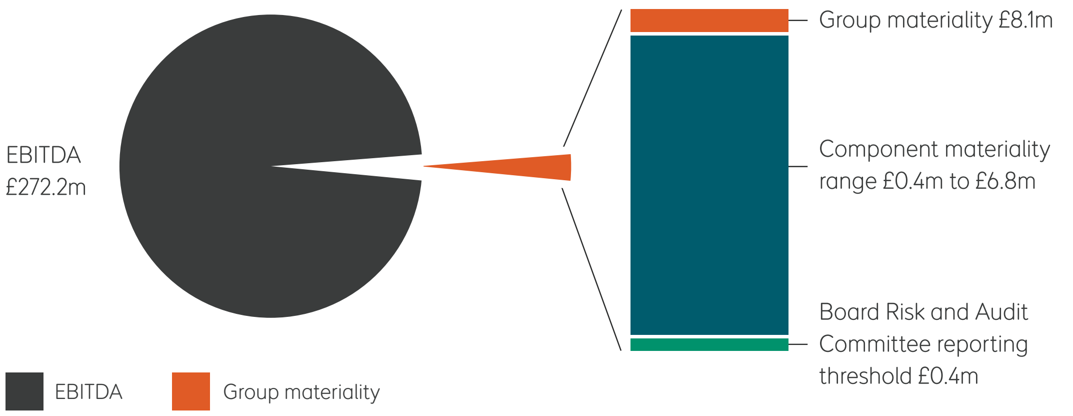
6. Our application of materiality

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	£8.1m (2022: £7.8m)	£5.3m (2022: £5.5m)
Basis for determining materiality	3.0% (2022: 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% (2022: 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% (2022: 70%) of group materiality	70% (2022: 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 and Audit Committee that we would report to the Committee all audit differences in excess of £0.4m (2022: £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 and Audit 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 £0.4m to £6.8m (2022: £0.3m to £7.2m). These account for over 99% (2022: 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

With the involvement of our IT specialist, we have obtained an understanding of the general IT controls in the period. Consistent with our approach in the prior year, due to issues identified by our IT specialists in respect of user access review and privilege user access we planned our audit approach to be a fully substantive approach and we were not able to place reliance on IT controls.

Control observations identified in the current period have been communicated to the Board Risk and Audit Committee.

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 Climate Financial Disclosures (CFD) requirements as well as the PRA 'Financial risks from climate change' requirements. These are detailed on pages 48-62 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 We did not identify any material inconsistencies as a result of these procedures.

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 the director's, internal audit and the Board Risk and Audit 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, IT, actuarial, valuation, financial instrument, 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 and revenue recognition. 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 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 Regulatory Authority (PRA) regulations, and 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 and revenue recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to the key audit matters.

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 the director's, the Board Risk and Audit 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; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the 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 this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Board Risk and Audit 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 ten years, covering the years ending 31 December 2014 to 31 December 2023.

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

David Heaton, (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

27 February 2024

Glen, patrol since 2018, Northern

Consolidated Income Statement

	Note	2023 £m	2022 Restated £m
Revenue – non-insurance related		328	279
Revenue – insurance related		392	380
Revenue	1	**720**	**659**
Expenses – non-insurance related		(296)	(514)
Insurance services expenses		(227)	(200)
Operating profit/(loss)	2	**197**	**(55)**
EBITDA before exceptional items		272	260
Amortisation	2	(39)	(95)
Depreciation	2	(29)	(22)
Impairment		–	(152)
Adjusting items		–	(5)
Exceptional items	3	(7)	(41)
Operating profit/(loss)		**197**	**(55)**
Finance expenses	6	(86)	(81)
Finance income	6	–	34
Profit/(loss) before tax		**111**	**(102)**
Tax charge	10	(25)	(4)
Profit/(loss) for the year		**86**	**(106)**

All activities relate to continuing operations.
The accounting policies and notes on pages 144 to 195 are an integral part of these Financial Statements.

Consolidated Statement of Comprehensive Income

	Note	2023 £m	2022 £m
Profit/(loss) for the year		86	(106)
Other comprehensive (expense)/income			
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:			
Actuarial gain	29	–	1
Net movement on cash flow hedges		(11)	19
Aggregate tax effect	10(c)	3	(5)
Net other comprehensive (expense)/ income to be reclassified to profit or loss in subsequent periods		(8)	15
Total comprehensive income/(expense) for the year		**78**	**(91)**

The accounting policies and notes on pages 144 to 195 are an integral part of these Financial Statements.

Consolidated Financial Statements | For the year ending 31 December 2023

Consolidated statement of financial position

	Note	2023 £m	2022 Restated £m	2021 Restated £m
ASSETS				
Non-current assets				
Goodwill and intangible assets	11	1,658	1,642	1,840
Contract costs	12	47	34	33
Property, plant and equipment	13	30	32	35
Right of use assets	14	68	62	56
Other investments	15	24	23	3
Deferred tax asset	20	12	16	10
Derivative financial instruments	24	15	26	5
		1,854	1,835	1,982
Current assets				
Inventories	17	3	2	3
Trade and other receivables	18	60	38	381
Current tax receivable	20	–	1	113
Cash and cash equivalents	19	116	136	1
		179	177	498
LIABILITIES				
Current liabilities				
Borrowings	25(a)	(12)	(310)	(10)
Provisions	21	(1)	(3)	(1)
Trade and other payables	22	(130)	(120)	(113)
Insurance contract liabilities	23	(69)	(73)	(75)
Current tax payable		–	–	(30)
		(212)	(506)	(229)
Net current (liabilities)/assets		(33)	(329)	269
Non-current liabilities				
Borrowings	25(a)	(1,589)	(1,358)	(1,660)
Employee benefit liability	29(c)(iv)	(3)	(3)	(4)
Trade and other payables	22	(72)	(60)	(60)
Deferred tax liability	20	(207)	(213)	(219)
		(1,871)	(1,634)	(1,943)
Net (liabilities)/assets		**(50)**	**(128)**	**308**
Equity				
Ordinary share capital	26	339	339	339
Hedging instruments reserve		10	18	4
Retained earnings		(399)	(485)	(35)
Total equity		**(50)**	**(128)**	**308**

The accounting policies and notes on pages 144 to 195 are an integral part of these Financial Statements.

Approved by the Board on 27 February 2024.

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 2022		339	4	(35)	308
Loss for the year		–	–	(106)	(106)
Other comprehensive income		–	14	1	15
Total comprehensive income/(expense)		–	14	(105)	(91)
Dividends paid	4	–	–	(345)	(345)
Balance at 31 December 2022		**339**	**18**	**(485)**	**(128)**
Profit for the year		–	–	86	86
Other comprehensive expense		–	(8)	–	(8)
Total comprehensive (expense)/income		–	(8)	86	78
Balance at 31 December 2023		**339**	**10**	**(399)**	**(50)**

The accounting policies and notes on pages 144 to 195 are an integral part of these Financial Statements.

Consolidated statement of cash flows

	Note	2023 £m	2022 £m
Operating activities			
Profit/(loss) before tax		111	(102)
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation	2	29	22
Amortisation	2	39	95
Impairment		–	152
Exceptional costs	3	7	41
Net finance expenses	6	86	47
Working capital adjustments			
(Increase)/Decrease in inventories	17	(1)	1
Increase in trade and other receivables		(22)	(16)
Increase in trade and other payables		24	5
Payment to employee benefit scheme		(1)	–
Operating cash impact of exceptional items		(11)	(20)
Taxation paid	20	(23)	(51)
Net cash flows from operating activities		**238**	**174**
Investing activities			
Investment Income	15	(1)	21
Purchase of property, plant and equipment	13	(11)	(5)
Sale of property, plant and equipment	13	4	–
Purchase of intangible assets	11 & 12	(71)	(49)
Net cash flows used in investing activities		**(79)**	**(33)**
Financing activities			
Repurchase of bonds	25	(300)	–
Repayment of bank debt	25	(20)	–
Proceeds from new bonds	25	250	345
Transaction costs	3	–	(17)
Repayment of obligations under leases		(26)	(18)
Dividends paid	4	–	(345)
Interest paid		(83)	(83)
Net cash flows used in financing activities		**(179)**	**(118)**
Net (decrease)/increase in cash and cash equivalents		**(20)**	**23**
Cash and cash equivalents brought forward	19	136	113
Cash and cash equivalents carried forward	19	**116**	**136**

The accounting policies and notes on pages 144 to 195 are an integral part of these Financial Statements.

Marc, Yorkshire & Humberside

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 RAC and other motorists primarily in the UK. The registered office is located at:

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

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 31.

The Consolidated and Parent Company Financial Statements of RAC Bidco Limited for the year ended 31 December 2023 were approved for issue by the Board on 27th February 2024.

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 presentational and functional currency of the RAC Bidco Limited Group and the Company due to all operations and financing being primarily denominated in pounds sterling. 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 196. 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 profit for the year ended 31 December 2023 was £335 million (2022: loss £34 million).

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 7, IFRS 7, IFRS 9, and IFRS 16

At 31 December 2023, 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, which are not expected to materially impact on the Financial Statements::

- Amendment to IAS 1 and IFRS practice statement 2[1]
- Amendment to IAS 8, IAS 12 and IAS 21[1]

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

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts came into force for accounting periods commencing on or after 1 January 2023 with the Group choosing to apply the standard retrospectively resulting in a transition date of 1 January 2022. The Group's application of IFRS 17, including usage of the Premium Allocation Approach ("PAA") results in accounting treatment which is not materially changed from that under the previous accounting standard and therefore no restatement of in year profit after tax or brought forward retained earnings is required.

Presentation

The main presentational changes for the Group following the implementation of IFRS 17 are:

- Revenue – insurance related and insurance services expenses (those under the scope of IFRS 17) are separately disclosed on the face of the income statement, previously these were not separately disclosed.
- Portfolios of insurance contracts are presented on a net basis on the face of the statement of financial position within insurance contract liabilities. Net insurance assets or liabilities include deferred insurance acquisition cashflows, trade receivables, liability for remaining coverage and liability for incurred claims. As such balances including deferred income and trade receivables from insurance contracts are no longer separately presented.
- Presentation of the cash flow statement is unaffected

For presentation in the statement of financial position, the Group aggregates insurance contracts issued and presents separately portfolios of insurance contracts that are assets and those which are liabilities. The portfolios are those established at initial recognition in accordance with IFRS 17 requirements.

Insurance Contracts Classification

The Group issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. The Group issues non-life insurance contracts to individuals and businesses including breakdown assistance insurance and legal expenses insurance. These products agree to compensate the policyholder if specified uncertain future events adversely affects the policyholder.

Identification of contracts in scope of IFRS 17

The adoption of IFRS 17 did not change the classification of the Group's insurance contracts. The Group was previously permitted under IFRS 4 to continue accounting under its previous accounting policies. However IFRS 17, establishes specific principles for the recognition and measurement of insurance contracts issued by the Group.

B. Basis of preparation and basis of consolidation (continued)

The Group has reviewed all of the customer contracts it holds to identify those which were impacted by IFRS 17. This review identified insurance contracts underwritten by the Group which are within the scope of IFRS 17, encompassing breakdown contracts (excluding those where the fixed fee exemption applies) and legal expenses insurance policies. The Group considers that these two areas are portfolios under the standard. All other contracts written and sold by the Group, including insurance broking and pay on use breakdown contracts are considered outside of the scope of IFRS 17 and therefore alongside those breakdown contracts for which the fixed fee exemption applies will be accounted for under IFRS 15. The fixed fee exemption has been applied to those breakdown subscription contracts where the Group does not reflect the risk associated with the individual customer within the contract price, which is primarily on acquisition.

Insurance Contracts Accounting Treatment

Level of Aggregation

IFRS 17 requires a Group to determine the level of aggregation for applying its requirements. The level of aggregation is determined firstly by dividing the business into portfolios, which are groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous and the remainder. The Group assumes that no contracts in the portfolio are onerous or at significant risk of becoming onerous at initial recognition unless facts and circumstances indicate otherwise. The Group uses the internal profitability models, which uses information including that relating to pricing and similar contracts, to assess and identify whether a group of contracts is at risk of becoming onerous.

Recognition

The Group recognises groups of insurance contracts it issues from the earliest of the following:

- Beginning of the coverage period;
- Date when first payment is made by policyholder or when first payment is due (although this would be deferred to the statement of financial position until the coverage period begins);
- For a group of onerous contracts; if facts and circumstances indicate that the group is onerous

The Group adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

Contract boundary

The Group includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services. For the Group, a substantive obligation to provide insurance contract services ends when the coverage period of the contract ends.

Measurement

All of the contracts identified as being within the scope of IFRS 17 have been assessed as being eligible for the PAA. For the majority of contracts this is because the coverage period is for one year or less. For those contracts with a longer coverage period, these are considered eligible as the Group expects that the measurement of liability for remaining coverage is not materially different from measuring the contract under the General Measurement Model ("GMM").

The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17. The measurement principles of the PAA differ from the "earned premium approach" used by the Group under IFRS 4 in the following key areas:

Under the PAA, at initial recognition the liability for remaining coverage ("LRC") is measured as the premium received less insurance acquisition costs incurred which the Group has elected to amortise over the life of the related contracts. Subsequently, the LRC is unwound to the income statement as revenue – insurance related in a manner not dissimilar to deferred income under the previous accounting standard. Revenue – insurance related is recognised over a passage of time profile. As permitted under IFRS 17, the Group has elected not to adjust the liability for remaining coverage for the time value of money and the effect of financial risk due to the short coverage period.

The definition of insurance acquisition costs has changed under IFRS 17, permitting both costs from successful and unsuccessful activity, however this has not currently resulted in a material change in the deferral of costs and therefore no remeasurement of the comparative has taken place. In addition, these deferred costs (which were previously capitalised as customer acquisition intangibles) will no longer be presented separately within non-current assets, instead being presented net within insurance contract liabilities or within contract costs (for those revenue streams accounted for under IFRS 15) but continue to be amortised over the 5 year amortisation period.

The Group recognises a liability for incurred claims ("LIC") calculated as the best estimate of expected fulfilment cash flows related to incurred claims, including a risk adjustment to allow for the uncertainty in timing and value of incurred claims. The liability for incurred claims is most significant for the legal expenses insurance portfolio where the duration from claim event to settlement can exceed one year, and therefore is discounted. The calculation of this liability under IFRS 17 is not materially different to that under IFRS 4. For the Breakdown portfolio where claims (as a result of breakdown) are incurred and settled in a short time period there is only a liability for incurred claims outstanding at any point in time for costs relating to instances where third parties are used to fulfil claims. As this will be paid within 3 months, no discounting is performed.

Critical Accounting Judgements

The Group has applied the following accounting judgements in setting the IFRS 17 methodology:

- PAA eligibility – the Group has developed a PAA eligibility framework for contracts that are not automatically eligible for PAA. This framework assesses the significance of differences between the GMM and PAA. The Group's conclusion is that all contracts are eligible for PAA.
- Deferred acquisition costs – the Group has elected to defer insurance acquisition costs under the PAA. There is judgement in determining what costs are acquisition costs and judgement in determining the period over which those costs are amortised, which has been estimated as 5 years.
- Discount rates – the Group's discount rate consists of a risk-free rate, based upon UK Government yield curves of appropriate durations, with an illiquidity premium as determined by the Group.
- Risk adjustment – the risk adjustment for non-financial risk has been set using a 75% confidence interval technique. Under this approach the Group has determined a probability distribution of the expected present value of future cash flows from the contracts at each reporting date. The risk adjustment has been calculated as the excess of the value at risk at the target confidence interval over the expected present value of future cash flows allowing for associated risks over all future years. The Group has elected not to disaggregate the changes in the risk adjustment for non-financial risk.

Accounting policies

B. Basis of preparation and basis of consolidation (continued)

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 25 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 30 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 has net liabilities of £50 million and net current liabilities of £33 million. The Group's net liablities position largely reflects the value of separately identifiable intangible assets, offset by the book value of issued bonds of £1,197 million and bank borrowings of £404 million. The Group's third party borrowings have an average time to maturity of three years.

The Company has net assets of £1,030 million and net current liabilities of £72 million. The Directors have considered the financial position and future prospects of the Company.

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 2023 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 2023.

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; and
- 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; and
- 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 subsidiaries

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; and
- 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.

B. Basis of preparation and basis of consolidation (continued)

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.

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 to 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.

Revenue – non-insurance related

For "pay on use" contracts revenue is recognised in accordance with IFRS 15 at the point in time when the performance obligation is satisfied.

For insured services, where contracts have been excluded from being in the scope of IFRS 17, revenue is now recognised over the life of the contract based on the usage profile, whereas previously it was recognised over the life of the contract based on the passage of time.

Revenue – insurance related

For insured services, where contracts have been identified as being in the scope of IFRS 17, revenue reflects business incepted during the year, and exclude any sales-based taxes or duties or levies. Revenue is based on expected premium receipts and include an estimate of pipeline premiums less a provision for anticipated lapses. The Group recognises a liability for remaining coverage ("LRC") equal to the value of the premiums received at initial recognition. Premiums are then recognised in the Income Statement over the life of the contract.

Loss Components

The Group assumes that no contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If at any time before, or during the policy term, there is any indication that a group of contracts is onerous, any loss would be recognised in the income statement immediately through the establishment of a loss component within the liability for remaining coverage.

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. With the exception of roadside assistance, revenue is recognised at a point in time at the effective commencement date or renewal date of each policy. For roadside assistance, revenue is recognised over the life of the contract in line with the underlying subscription revenue. 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.

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.

Accounting policies

F. Goodwill, acquired value-in-force and intangible assets (continued)

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	3–10 years
Computer equipment	4 years

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

Glen, patrol since 2018, Northern

Accounting policies

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.

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.

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, mobile mechanics 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. Insurance contract liabilities

Claims

Insurance claims incurred includes an estimate of all losses occurring during the year, whether reported or not, loss adjustment expenses, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims handling department and any part of the general administrative costs directly attributable to the loss adjustment function.

Liability for Incurred Claims

At each reporting period, a liability for incurred claims is calculated comprising the future fulfilment cash flows related to past service at the reporting date. The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks related to those cash flows. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes.

Liability for Remaining Coverage

At each reporting period, a liability for remaining coverage is calculated based on the proportion of the contract period which has not elapsed, using a straight line method of revenue recognition. As the period of remaining coverage is in most circumstances, less than 12 months, no discounting is performed. The change in this liability is recognised in the Income statement in order that revenue is recognised over the period of risk.

.P. 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.

Q. 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.

R. Income taxes

Income taxes include both current and deferred taxes. Income taxes are (charged)/credited to the Consolidated Income statement except where they relate to items (charged)/credited directly to 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.

S. 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 five or twenty five 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.

T. 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.

T. Employee benefits (continued)

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.

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; and
- 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.

U. Share capital and dividends

Equity instruments

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

i. there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

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

Dividends

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

V. 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.

Management have considered the potential impact of climate change and it is their current view that the impact on the financial statements is immaterial.

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, other than those disclosed on page 147 in respect of IFRS 17.

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 was £760 million and £837 million respectively as at 31 December 2023 and 31 December 2022.

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 2028. 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 14% applied to the cash flow projections is based on the Group's similar market particpants. 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 is independent of the firm's 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 headroom for the Membership Services CGU is £1,296m and for the Insurance CGU is £29m. The key assumptions in this assessment are future cash flows growth rate beyond 2028 and pre-tax discount rate. If the future cash flows growth rate were to reduce from 2.5% to 1%, the effect on the Group for this reduction would be to decrease headroom by £247 million. If the pre-tax discount rate were to increase by 1%, the effect on the Group would be to decrease this headroom by £270 million. We have not noted an impairment in the Insurance or Membership CGU. None of the sensitivities noted above lead to an impairment in either CGU. For the Insurance CGU, for the recoverable amount to equal to the carrying amount, the discount rate would need to increase by 2% or the terminal growth rate would need to be -1.2% rather than 2.5%. For the Membership Services CGU, for the recoverable amount to equal the carrying amount, the discount rate would need to increase by 8% or the terminal growth rate would need to be -19% rather than 2.5%.


Darren, patrol since 2003, Wales

1. Revenue

	2023 £m	2022 £m
Sale of products – transferred at a point in time	35	35
Sale of services (see note 5 for categorisation of revenue)	685	624
Total revenue	**720**	**659**

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

Due to the implementation of IFRS 17 'Insurance Contracts' there have been presentational changes in the consolidated income statement.

Revenue – non-insurance related includes all revenue that is outside the scope of IFRS 17. This includes Pay On Use breakdown contracts and insurance brokerage, plus all other revenue streams as outlined in note 5 other than those captured as insurance related (as noted below).

Revenue – insurance related includes all revenue from insurance contracts that have been identified as being in the scope of IFRS 17 Insurance Contracts. This includes breakdown subscriptions and legal expenses insurance but for the avoidance of doubt does not include any revenue related to insurance brokerage (i.e. the insurance segment, see note 5)

2. Operating items

	2023 £m	2022 £m
Depreciation of owned tangible assets (note 13)	10	7
Depreciation of right of use assets (note 14)	19	15
Amortisation of insurance acquisition cash flows (note 23)	6	8
Amortisation of intangible assets (note 11)	12	70
Amortisation of contract costs (note 12)	21	17
Impairment	–	152
Exceptional items (note 3)	7	41
Employee costs (note 8)	189	174

Notes to the Consolidated Financial Statements

3. Exceptional items

	2023 £m	2022 £m
Transaction costs	–	19
Colleague Payments	7	18
Strategic Initiatives costs	–	3
Restructuring costs	–	1
	7	**41**

During 2023, the Group agreed to various one off payments to colleagues, including those to compensate for the increased cost of living, incurring £7 million of cost.

4. Dividends

The Group paid no dividends during the year (2022: £345 million). No final dividend was paid (2022: £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 below.

Membership services

Membership services is the largest operating segment of the business, offering breakdown cover and related products to Individual Members, SMEs and Corporate Partners. In addition, this segment includes the other products and services such as service maintenance and repair, recalls and inspections, accident management services, branded customer services, telematics devices, retail online, garage services, legal advisory services (including legal expenses insurance) 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. The insurance segment is not to be confused with "Revenue – insurance related" as disclosed in the Consolidated Income Statement which relates to revenue within the scope of IFRS 17 – Insurance Contracts.

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.

	2023 £m	2022 £m
Revenue of products		
Membership services – transferred at a point in time	35	35
Revenue of services		
Membership Services – subscription services*	472	441
Membership Services – other**	147	124
Insurance – transferred at a point in time	66	59
Group revenue	**720**	**659**
Segment EBITDA before head office costs		
Membership services	282	263
Insurance	44	36
Group EBITDA before head office costs	**326**	**299**
Head office costs***	(54)	(44)
Group EBITDA before exceptional items	**272**	**255**
Depreciation of owned tangible assets***	(10)	(7)
Depreciation of right of use assets***	(19)	(15)
Amortisation of insurance acquisition cash flows***	(6)	(8)
Amortisation of contract costs***	(21)	(17)
Amortisation of non-customer acquisition intangible assets***	(12)	(70)
Impairment***	–	(152)
Exceptional items***	(7)	(41)
Operating profit	**197**	**(55)**
Finance expenses***	(86)	(81)
Investment income***	–	34
Profit before tax from continuing operations	**111**	**(102)**

*Included within Membership Services – subscription services revenue is £392 million (2022: £380 million) of revenue categorised as insurance related within the scope of IFRS 17 – Insurance Contracts

**Membership Services other revenue includes revenue from Pay On Use customers and Accident Management Services and other Membership Services.

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

For the purpose of monitoring segment performance, working capital analysis is presented to and monitored by the Board at an 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. Net finance expenses

	2023 £m	2022 £m
Interest payable – third parties	78	72
Interest payable – lease liabilities	4	3
Amortisation of capitalised finance costs	4	4
Refinancing costs	–	2
EBT Investment income	–	(34)
	86	**47**

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.

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.

	2023 £000	2022 £000
Non-audit services	185	15
Audit services		
Audit of Financial Statements	86	79
Audit of subsidiaries	457	420
Total remuneration payable to Deloitte LLP	**728**	**514**

Fees for non-audit services provided by the Group's auditors were £185 thousand (2022: £15 thousand) related to other assurance services associated with the debt refinancings in both the current and prior years.

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.

	2023 number	2022 number
The monthly average number of persons employed during the year was:		
Membership Services	3,641	3,624
Insurance	23	22
Support	371	322
	4,035	**3,968**

During the year ending 31 December 2023, total staff costs of £189million (2022: £174 million) were charged to the income statement.

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:

	2023 £000	2022 £000
Fees and benefits	2,713	2,864
	2,713	**2,864**
Emoluments of the highest paid Director:		
Fees and benefits	1,270	1,239
	1,270	**1,239**

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to no Directors (2022: 1) under a money purchase scheme. During the year no Directors (2022: none) were awarded shares under long-term incentive schemes.

10. Tax

(a) Tax charged to the Consolidated Income Statement

	2023 £m	2022 £m
The total tax charge comprises:		
Current tax:		
For the year	29	21
Adjustment in respect of prior periods	(5)	–
Total current tax	24	21
Deferred tax:		
Origination and reversal of temporary differences	(5)	(14)
Adjustment in respect of prior periods	6	(3)
Total deferred tax	1	(17)
Total tax charged to the Consolidated Income statement	25	4

(b) Tax reconciliation

	2023 £m	2022 £m
Profit before tax	111	(102)
Tax calculated at standard UK corporation tax rate of 23.5% (2022: 19.0%)	26	(19)
Disallowable expenses	(1)	31
Prior year adjustment	1	(3)
Non taxable income	(1)	(5)
Total tax charged to the Consolidated Income statement (note 10(a))	**25**	**4**

The main rate of corporation tax was at 19.0% for accounting periods up to and including 31 March 2023. From 1 April 2023 the main rate of corporation tax increased to 25.0%. Therefore, for the year ended 31 December 2023, the corporation tax rate that has been used is 23.5% (2022: 19.0%).

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 have been reflected at the increased 25.0% corporation tax rate they are expected to be realised or settled.

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

(c) Tax charged to other comprehensive income

Tax credited directly to other comprehensive income in the year amounted to £3 million (2022: charge of £5 million) in respect of tax on movements in hedging instrument fair values.

11. Goodwill and intangible assets

	Goodwill £m	Brand £m	Customer list £m	Other £m	Total £m
Cost:					
At 1 January 2022*	878	864	536	83	2,361
Additions	–	–	–	23	23
Write Off	–	–	–	(9)	(9)
At 31 December 2022	**878**	**864**	**536**	**97**	**2,375**
Additions	–	–	–	28	28
At 31 December 2023	**878**	**864**	**536**	**125**	**2,403**
Amortisation:					
At 1 January 2022*	–	–	481	40	521
Charge for the year	–	–	55	15	70
Impairment	118	27	–	6	151
Write Off	–	–	–	(9)	(9)
At 31 December 2022	**118**	**27**	**536**	**52**	**733**
Charge for the year	–	–	–	12	12
At 31 December 2023	**118**	**27**	**536**	**64**	**745**
Net book value:					
At 31 December 2023	**760**	**837**	**–**	**61**	**1,658**
At 31 December 2022	760	837	–	45	1,642

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. No impairment has been recognised during the year (2022: £151 million). 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.

*Balances as at 1 January 2022 have been restated due to reclassification of assets which are within the scope of IFRS 17 – Insurance Contracts and as such now being recognised net within insurance liabilities. See note 23.

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.

	2023		2022	
	Goodwill £m	Indefinite-lived intangibles £m	Goodwill £m	Indefinite-lived intangibles £m
Membership services	760	749	760	749
Insurance	–	88	–	88
	760	**837**	**760**	**837**

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 2028.

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 14% (2022: 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.

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; and
- 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 2022*	127	127
Additions	18	18
At 31 December 2022	**145**	**145**
Additions	34	34
At 31 December 2023	**179**	**179**
Depreciation:		
At 1 January 2022*	94	94
Charge for the year	17	17
At 31 December 2022	**111**	**111**
Charge for the year	21	21
At 31 December 2023	**132**	**132**
Net book value:		
At 31 December 2023	**47**	**47**
At 31 December 2022	34	34

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.

*Balances as at 1 January 2022 have been restated due to reclassification of assets which are outside the scope of IFRS 17 – Insurance Contracts and as such are now being recognised within contract costs.

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 2022	3	59	13	75
Additions	–	5	–	5
Disposals	–	(20)	–	(20)
At 31 December 2022	**3**	**44**	**13**	**60**
Additions	–	11	–	11
Disposals	(3)	(2)	(5)	(10)
At 31 December 2023	**–**	**53**	**8**	**61**
Depreciation:				
At 1 January 2022	–	34	6	40
Charge for the year	–	7	–	7
Impairment	–	1	–	1
Disposals	–	(20)	–	(20)
At 31 December 2022	**–**	**22**	**6**	**28**
Charge for the year	–	8	2	10
Disposals	–	(2)	(5)	(7)
At 31 December 2023	**–**	**28**	**3**	**31**
Net book value:				
At 31 December 2023	**–**	**25**	**5**	**30**
At 31 December 2022	3	22	7	32

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

14. Right of Use assets

	Property £m	Vehicles £m	Total £m
Cost or valuation:			
At 1 January 2022	**45**	**52**	**97**
Additions	–	21	21
Disposals	–	(19)	(19)
At 31 December 2022	**45**	**54**	**99**
Additions	1	24	25
Disposals	–	(18)	(18)
At 31 December 2023	**46**	**60**	**106**
Depreciation:			
At 1 January 2022	**8**	**33**	**41**
Charge for the year	2	13	15
Disposals	–	(19)	(19)
At 31 December 2022	**10**	**27**	**37**
Charge for the year	2	17	19
Disposals	–	(18)	(18)
At 31 December 2023	**12**	**26**	**38**
Net book value:			
At 31 December 2023	**34**	**34**	**68**
At 31 December 2022	35	27	62

15. Other investments

(a) Movements in the Company's other investments

	2023 £m	2022 £m
Fair value		
At 1 January	**23**	**3**
Acquisitions	1	20
At 31 December	**24**	**23**

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

	2023 £m	2022 £m
Finished goods	**3**	**2**

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 2023 amounted to £15 million (2022: £12 million).

18. Trade and other receivables

	2023 £m	2022 Restated £m
Trade receivables	14	10
Prepayments and accrued income	26	17
Other receivables	4	5
Amounts due from related parties (note 31(a)(i))	16	6
Total	**60**	**38**
Expected to be recoverable within one year	60	38

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 2023 (2022: £nil).

19. Cash and cash equivalents

	2023 £m	2022 £m
Cash and cash equivalents comprise:		
Unrestricted cash at bank and in hand	58	132
Restricted cash at bank	58	4
Total	**116**	**136**

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, plus that held in escrow within RAC Bond Co PLC in anticipation of repayment of third party borrowings.

20. Tax assets and liabilities

	2023 £m	2022 £m
Current tax receivable	–	1
Deferred tax asset	12	16
Deferred tax liability	(207)	(213)
	(195)	**(196)**

Current tax payable includes amounts to be settled by group relief of £nil (2022: £nil) and are payable within one year. During the year an amount of £nil (2022: £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.

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 2022	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)**
(Charge)/credit to Consolidated Income Statement	(3)	3	(1)	–	–	(1)
Credit to other comprehensive income	–	–	–	3	–	3
At 31 December 2023	**1**	**(204)**	**–**	**(3)**	**11**	**(195)**

	2023 £m	2022 £m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability brought forward	(197)	(209)
Deferred tax (charged)/credited to the Consolidated Income statement	(1)	17
Deferred tax credited/(charged) to other comprehensive income	3	(5)
Net deferred tax liability carried forward	**(195)**	**(197)**

The RAC Bidco Limited Group has unrecognised capital losses of £145 million (2022: £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.

21. Provisions

	Other £m	Total £m
At 1 January 2023	3	3
Provided during the year	2	2
Utilised during the year	(4)	(4)
At 31 December 2023	**1**	**1**

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

	2023 £m	2022 Restated £m
Trade payables and accruals	59	44
Deferred income	18	16
Other payables	125	120
Total	**202**	**180**
Expected to be payable within one year	130	120
Expected to be payable in more than one year	72	60
Total	**202**	**180**

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 £77 million (2022: £69 million) in relation to lease liabilities recognised as a result of IFRS 16. The contractual maturity dates of lease liabilities are:

	2023 £m	2022 £m
Within 1 year	11	9
1 to 5 years	23	18
5 to 10 years	43	42
	77	**69**

Lease commitments:

As at 31 December 2023 the company had committed to aggregated undiscounted future lease payments of £3 million payable over a period up to 5 years (2022: £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 (2022: £nil). Lease commitments for short-term and low-value leases at the balance sheet date amounted to £nil (2022: £nil).

23. Insurance contract liabilities

The Group principally issues non-life insurance contracts for breakdown assistance and legal expenses insurance. The most significant risks arise from pricing and inflation risk. The objective of the Group is to ensure that sufficient reserves are available to cover the liabilities associated with the insurance contracts that it issues. The risk exposure is mitigated by diversification across the portfolios of insurance contracts and the ability to reprice at regular intervals. The Group is primarily UK based with a small number of contracts issued within Europe. The Group is not exposed to currency risk on its insurance contract liabilities as all reserves are in sterling.

The liability for incurred claims is not exposed to significant sensitivities due to the immediate or very soon after (within 60 days) nature of the settlement of claims for breakdown assistance and therefore there is no material outstanding claims at the statement of financial position date. For the legal expenses portfolio, while the settlement period will be greater, the liability is not considered material and there are no known risks which would have a significant impact on the valuation of the liability. The impact of a change in the discount rate is therefore not considered to be material.

For the reasons noted above, there are no material incurred claims outstanding in respect of the either the breakdown assistance or legal expenses portfolios and therefore no claims development table has been presented.

	Liability for remaining coverage £m	Liability for incurred claims £m	Insurance acquisition cash flows £m	Total £m
As at 1 January 2022	**92**	**2**	**(19)**	**75**
Insurance service revenue	(380)	–	–	(380)
Insurance service expenses				
– incurred claims and other insurance service expenses	–	192	–	192
– amortisation of acquisition cash flows	–	–	8	8
Insurance service result	**(380)**	**192**	**8**	**(180)**
Premiums received	374	–	–	374
Claims costs paid	–	(189)	–	(189)
Insurance acquisition cash flows	–	–	(7)	(7)
Total cash flows	**374**	**(189)**	**(7)**	**178**
As at 31 December 2022	**86**	**5**	**(18)**	**73**
Insurance service revenue	(392)	–	–	(392)
Insurance service expenses				
– incurred claims and other insurance service expenses	–	221	–	221
– amortisation of acquisition cash flows	–	–	6	6
Insurance service result	**(392)**	**221**	**6**	**(165)**
Premiums received	389	–	–	389
Claims costs paid	–	(219)	–	(219)
Insurance acquisition cash flows	–	–	(9)	(9)
Total cash flows	**389**	**(219)**	**(9)**	**161**
As at 31 December 2023	**83**	**7**	**(21)**	**69**

23. Insurance contract liabilities (continued)

Included within the liability for incurred claims is a risk adjustment of £266 thousand (2022: £181 thousand) which due to its immaterial nature has not been separately presented in the table above. The asset in respect of insurance acquisition cash flows, which includes a £3 million increase due to the different capitalisation criteria of IFRS17 'Insurance Contracts', is expected to be amortised to the income statement for a period greater than 1 year.

As at 1 January 2022, 31 December 2022 and 31 December 2023 the net liability of £75m, £73m and £69m respectively was allocated to breakdown contracts of £72m (1 January 2022), £67m (31 December 2022) and £60m (31 December 2023) and to legal expenses contracts of £3m (1 January 2022), £6m (31 December 2022) and £9m (31 December 2023).

24. Derivative financial instruments

	2023 £m	2022 £m
Cash flow hedge assets	15	26

(a) Hedging

The Group uses financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 30).

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:

	2023 £m	2022 £m
Contract/notional value	404	319
Total derivative financial instrument asset	**15**	**26**

The hedges were effective in the year ending 31 December 2023 (2022: effective) and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income (2022: 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 within Group Policy.

On 4 May 2023, the Group entered into a hedge, for an amount of £30 million, effective from 5 May 2023 with the fixed element of the hedge set to 4.5290% until 30 June 2024. On 22 December 2023, the Group entered into an additional hedge, for an amount of £100 million, effective from 29 December 2023 with the fixed element of the hedge set to 3.5175% until 31 March 2027.

25. Borrowings

(a) Analysis of borrowings	Bonds				Bank Debt			
	Class A1 Notes	Class A2 Notes	Class A3 Notes	Class B2 Notes	2020 Senior Term Facility	2021 Senior Term Facility	2021 Senior Term Facility	Total
Interest rate	4.565%	4.870%	8.250%	5.250%	SONIA + 2.500%	SONIA + 1.800%	SONIA + 2.500%	
At 31 December 2023								
Fair value (£m)	–	667	346	412	145	189	127	**1,886**
Amounts due within one year (£m)	–	5	4	3	–	–	–	**12**
Amounts due in more than one year (£m)	–	598	247	340	141	169	94	**1,589**
Book value (£m)	–	603	251	343	141	169	94	**1,601**
Principal Outstanding (£m)*	–	600	250	345	141	170	95	**1,601**
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**

*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 (2022: £300 million) at a floating rate of 2.533% plus SONIA (prior to 31 January 2020: 2.750% plus LIBOR), incorporating a SONIA floor and matures on 31 January 2025. The Group repaid £20 million of the facility on 10 March 2023, leaving £141 million outstanding (2022: £161 million).

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.

On 19 September 2022, the Group, entered into a new 2022 Senior Term Facility for an amount of £300 million. On 5 May 2023, the Group drew down £200 million of this facility and the remaining £100 million was cancelled. On 13 October 2023 the Group repaid the remaining £200 million and any associated accrued interest.

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%. The Facility was uplifted to £99 million on 28 April 2023 in-line with the terms of our Whole Business Securitisation agreement and is subject to annual renewal.

Interest rate risk arising under the Initial Senior Term Facility is hedged using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 24 and an analysis of the contractual undiscounted cash flows for these borrowings is shown in note 30(a)(iii).

25. Borrowings (continued)

(c) Bonds

Following redemption of £300 million of the existing Class A1 Notes on 9 May 2023, and the Group issuing £250 million of Class A3 Notes on 13 October 2023, the bonds comprise three tranches: Class A2 Notes, Class A3 Notes (together "Class A Notes"), and Class B2 Notes. £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. £345 million of Class B2 Notes were issued 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. £250 million of Class A3 notes were issued with a coupon of 8.250% with an initial period to 6 November 2028 after which interest will be charged at 8.750% 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 Initial Senior Term Facility 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 Initial Senior Term Facility have been capitalised and are being amortised over the lives of the borrowings to which they relate, in accordance with IFRS 9 Financial Instruments.

The Initial Senior Term Facility, Class A2 Notes and Class A3 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.

26. Ordinary share capital

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

	2023	2022
Allotted, called-up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2022: 339,131,773 of £1.00 each)	339	339
	339	**339**

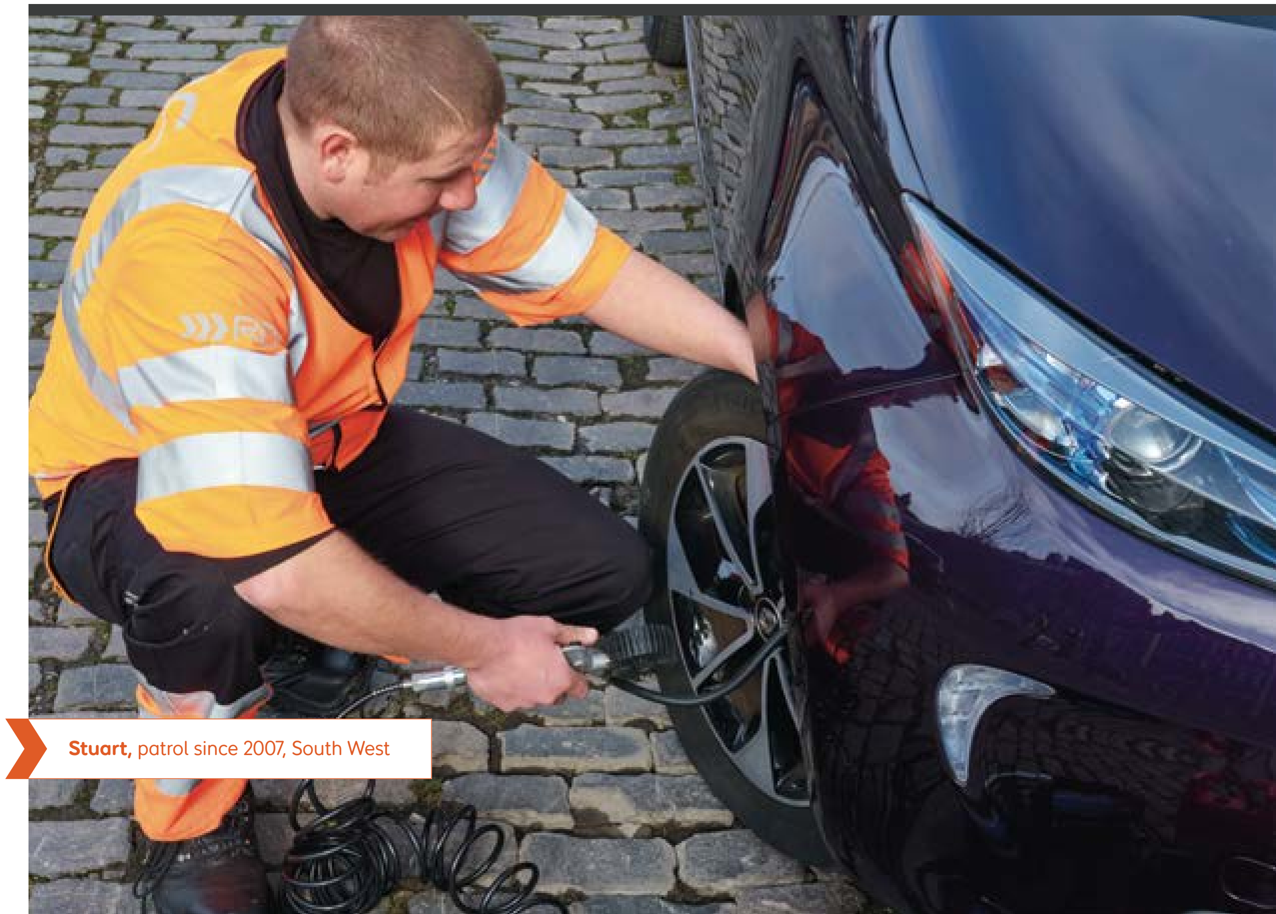
27. Hedging instrument reserve

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.

28. 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:

	2023 £m	2022 £m
As at 1 January	1,642	**1,665**
Cash changes:		
Financing cash flows	(70)	345
Interest and debt issue costs paid	(83)	(83)
Non-cash changes:		
Other finance expense (note 6)	8	9
Bond proceeds held in escow account	–	(345)
Interest expense (note 6)	78	72
Movement in fair value of hedge liabilities (note 24)	(11)	(21)
At 31 December	**1,564**	**1,642**



Stuart, patrol since 2007, South West

29. 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 2023 was 5 (2022: 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 2023 was 65 (2022: 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, £10 million (2022: £9 million) was charged to the RAC Bidco Limited's Consolidated Income statement in respect of the employee defined contribution schemes and £167 thousand (2022: £78 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.

29. 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 2023. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2023.

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

	2023 %	2022 %
Inflation rate	3.10	3.20
Pension increases	3.10	3.20
Deferred pension increases	3.10	3.20
Discount rate	4.75	5.10

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 £251 thousand and £nil respectively (2022: 1% increase in inflation rate would increase liabilities and service costs by £257 thousand and £nil respectively).

29. 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 2023 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	87.4	89.0	89.1	90.6
for future improvements		(22.4)	(24.0)	(24.1)	(25.6)

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 £209 thousand (2022: £296 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 £167 thousand (2022: £78 thousand) in respect of net interest expense recognised in the Consolidated Income statement and £493 thousand (2022: £645 thousand) recognised in other comprehensive income.

29. Employee benefit obligations (continued)

(iii) Experience gains and losses

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

	2023 £m	2022 £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)	(3)
Net deficit in the Schemes	**(3)**	**(3)**

Estimated employer contributions for the year ended 31 December 2023 are £717 thousand in respect of the defined benefit schemes and £10 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:

	2023 £m	2022 £m
Total fair value of assets	–	–
Present value of defined benefit obligations	(3)	(3)
Net deficit in the Schemes	**(3)**	**(3)**

Amounts recognised in the Consolidated Statement of Financial Position:

	2023 £m	2022 £m
Deficits included in non-current liabilities	(3)	(3)
Net deficit in the Schemes	**(3)**	**(3)**

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

29. Employee benefit obligations (continued)

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

	2023		2022	
	Scheme liabilities £m	Net deficit £m	Scheme liabilities £m	Net deficit £m
Balance at 1 January	(3)	(3)	(4)	(4)
Benefits paid	–	–	–	–
Remeasurement gains				
Actuarial gain arising from change in assumptions	–	–	1	1
Balance at 31 December	**(3)**	**(3)**	**(3)**	**(3)**

Alex Heath, Chief People, Customer & Marketing Officer

30. 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 legal entity Boards and the associated executive management and other committees across the Group;
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management;
- 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; and
- 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; and
- Ensure that the Group's banking and card transmissions operate effectively.

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the RAC Bidco Limited Group's current borrowing facilities are disclosed in note 25.

30. Risk management (continued)

(a) Treasury (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 £5 million (2022: £2 million). The impact on shareholders' equity would be a decrease/increase of £4 million (2022: £1 million).

The sensitivity analysis compares the rate of interest on the Initial Senior Term Facility 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, mobile mechanics and recovery vehicles.

30. 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:

	2023 £m	2022 £m
Trade and other receivables	18	15
Cash and cash equivalents	116	136
Derivative financial instruments	15	26
	149	**177**

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 (2022: HSBC Global Liquidity Funds). At 31 December 2023 the balance with that counterparty was £16 million (2022: £20 million).

30. Risk management (continued)

(a) Treasury (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 25).

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:

	2023 £m	2022 £m
Bonds		
Less than 1 month	6	4
1 to 3 months	11	7
3 months to 1 year	51	323
1 to 5 years	1,347	1,013
5 to 10 years	–	–
Total bonds	**1,415**	**1,347**
External bank debt		
Less than 1 month	1	2
1 to 3 months	5	3
3 months to 1 year	24	15
1 to 5 years	434	368
5 to 10 years	–	97
Total external bank debt	**464**	**485**
Total borrowings	**1,879**	**1,832**

30. Risk management (continued)

(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 10 to 73.

(c) Capital risk management

The RAC Bidco Limited Group's capital structure consists of third party borrowings amounting to £1,601 million (2022: £1,668 million), and £339 million (2022: £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, Initial Senior Term Facility, associated accrued interest, lease liabilities and cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In managing its capital, the Group seeks to:

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

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

iii. retain financial flexibility by maintaining strong liquidity; and

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

(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.

31. Related party transactions

(a) The RAC Bidco Limited Group had the following transactions with related parties in 2023 and 2022:

(i) Amounts due from related parties	2023 £m	2022 £m
Other group companies – current accounts	11	1
Other related parties	5	5
	16	**6**

(ii) Amounts due to related parties	2023 £m	2022 £m
Other group companies – current accounts	(7)	(1)
	(7)	**(1)**

Of amounts due to Group companies, £nil (2022: £1m) was due to RAC Midco Limited, RAC Bidco Limited's indirect parent company.

(iii) Transactions with related parties

- In 2023, RAC Bidco Limited paid no dividend (2022: £345 million) to RAC Midco II Limited, its immediate Parent Company.
- In 2023, RAC Bidco Limited received a dividend of £345 million (2022: £nil) from RAC Ltd, its immediate subsidiary.
- In 2023, RAC Bidco Limited group paid Silver Lake, a shareholder of its ultimate parent company, £nil (2022: £2 million) as reimbursement for transaction costs associated with its acquisition of shareholdings in the Group.
- Audit fees of £379 thousand (2022: £347 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.

31. 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:

	2023 £000	2022 £000
Fees and benefits	4,798	4,273
Contributions to defined contribution pension scheme	44	63
	4,842	**4,336**

Fees and benefits include key management bonuses. During the year, payments of £93 thousand (2022: £nil) 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 2023 or 31 December 2022.

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.

32. 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); 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).

Financial asset/liability	Fair value as at 31 December 2023 £m	Fair value movement in profit or loss £m	Fair value movement in other comprehensive £m	Fair value as at 31 December 2022 £m	Fair value hierarchy
Owner occupied property (note 13)	–	1	–	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 24)	15	–	(11)	26	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. Sensitivity analysis provided in note 30(a)(i).

33. Events after the reporting period

In January 2024, the Group successfully refinanced the 2020 Senior Term Facility, replacing it with a new £205m facility. This did not have an impact on the Company's or RAC Bidco Limited Group's financial position as at 31 December 2023.

There have been no other 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 2023.

34. 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 £nil for the year ending 31 December 2023 (2022: £5 million). 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 £11 million (2022: £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 | For the year ending 31 December 2023

The accounting policies on pages 140 to 155 also form an integral part of these Financial Statements.

Company Statement of financial position

	Note	2023 £m	2022 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	4	1,102	1,102
		1,102	1,102
Current assets			
Other receivables	5	–	3
Current tax receivable		3	4
		3	7
LIABILITIES			
Current liabilities			
Other payables	7	(75)	(54)
		(75)	(54)
Net current liabilities		(72)	(47)
Non-current liabilities			
Other payables	7	–	(360)
		–	(360)
Net assets		**1,030**	**695**
EQUITY			
Ordinary share capital	8	339	339
Retained earnings		691	356
Total equity		**1,030**	**695**

The accounting policies on pages 144 to 159 and the notes on pages 200 to 205 are an integral part of these Financial Statements.

The Company's profit for the year was £335 million (2022: Loss £34 million). The Directors have approved the Company's individual profit and loss account and the Company has availed itself of the exemption under Section 408 (3) to publish the Company's individual profit and loss account.

Approved by the Board on 27th February 2024

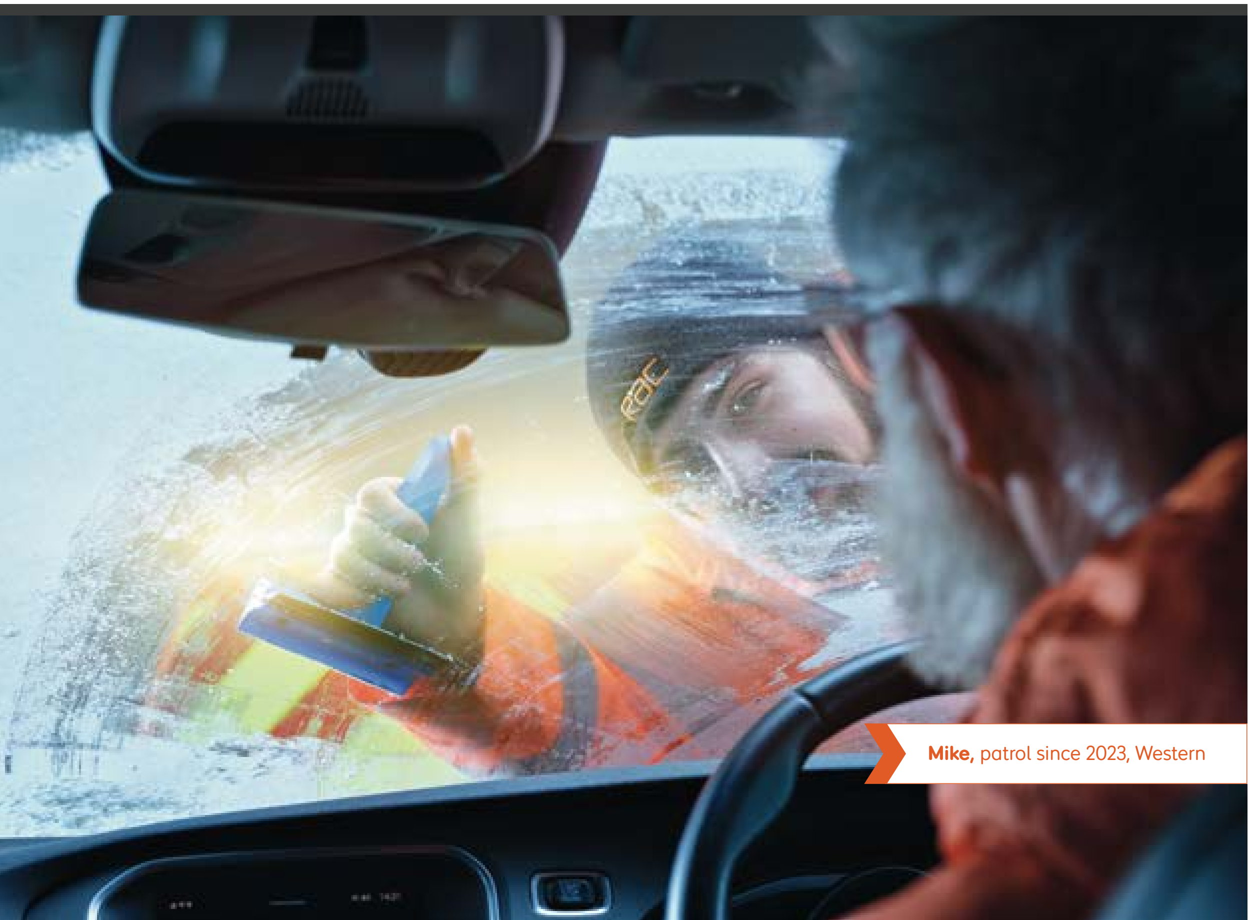
J Baker
Chief Financial Officer

Company financial statements | For the year ending 31 December 2023

Company Statement of Changes in Equity

	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2022	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**
Profit for the year	–	335	335
Other comprehensive income	–	–	–
Total comprehensive income	–	335	335
Balance at 31 December 2023	**339**	**691**	**1,030**

The accounting policies on pages 144 to 159 and the notes on pages 200 to 205 are an integral part of these Financial Statements.



Mike, patrol since 2023, Western

Company Statement of Cash Flows

	2023 £m	2022 £m
Operating activities		
Profit/(loss) before tax	335	(36)
Adjustments to reconcile loss before tax to net cash flows		
Transaction costs	–	23
Dividends received	(345)	–
Net finance expenses	13	15
Working capital adjustments:		
Decrease/(Increase) in other receivables	3	(3)
(Decrease)/Increase in other payables	(8)	24
Taxation received	2	–
Net cash flows generated from operating activities	**–**	**23**
Investing activities		
Dividends received	345	–
Net cash flows from/(used in) investing activities	**345**	**–**
Financing activities		
Dividends paid	–	(345)
Transaction costs	–	(23)
(Repayment)/proceeds from group company loan	(345)	345
Net cash flows used in financing activities	**(345)**	**(23)**
Net increase in cash and cash equivalents	**–**	**–**
Cash and cash equivalents brought forward	**–**	**–**
Cash and cash equivalents carried forward	**–**	**–**

The accounting policies on pages 144 to 159 and the notes on pages 200 to 205 are an integral part of these Financial Statements.

1. Auditor's remuneration

Audit fees of £379 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 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 Consolidated Financial Statements.

4. Investments in subsidiaries

(a) Movements in the Company's investments in subsidiaries:

	2023 £m	2022 £m
Carrying Value		
At 1 January and 31 December	1,102	1,102

4. Investments in subsidiaries (continued)

(a) 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 3. 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.

(b) 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

	2023 £m	2022 £m
Amounts due from related parties (note 9(a)(i))	–	3
Total	**–**	**3**
Expected to be recoverable within one year	–	3
Expected to be recoverable in more than one year	–	3
Total	**–**	**3**

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 2023 (2022: £nil).

6. Tax assets and liabilities

Deferred tax

The movement in the deferred tax asset was as follows:

	2023 £m	2022 £m
Net deferred tax asset brought forward	–	–
Deferred tax credited to other comprehensive income	–	–
Deferred tax asset carried forward	–	–

The main rate of corporation tax was at 19% for accounting periods up to and including 31 March 2023. From 1 April 2023 the main rate of corporation tax increased to 25%. Therefore, for the year ended 31 December 2023, the corporation tax rate that has been used is 23.5% (2022: 19%).

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 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

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

7. Other payables

	2023 £m	2022 £m
Other payables	–	(2)
Amounts due to related parties (note 9(a)(ii))	(75)	(412)
Total	**(75)**	**(414)**
Expected to be payable within one year	(75)	(54)
Expected to be payable in more than one year	–	(360)
Total	**(75)**	**(414)**

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:

	2023 £m	2022 £m
Allotted, called-up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2022: 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 2023 and 2022:

(i) Amounts due from related parties

	2023 £m	2022 £m
Amounts due from Group companies	–	3
	–	**3**

(ii) Amounts due to related parties

	2023 £m	2022 £m
Amounts due to Group companies	(75)	(412)
	(75)	**(412)**

(iii) Transactions with related parties

During 2023, the company paid no dividend to its parent company, RAC Midco II Limited (2022: £345 million).

In 2023, RAC Bidco Limited received a dividend of £345 million (2022: £nil) from RAC Ltd, its immediate subsidiary.

During 2022, the Company recharged £1 million (2022: £2 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:

	2023 £m	2022 £m
Management charges	1	2
	1	**2**

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 31 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 2023 or 31 December 2022.

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.

Bradley,
patrol since 2022,
South West

Nick,
mobile mechanic since 2016,
West Midlands

> “ The fact they came to my house is amazing, saved me so much time and effort. Will use again!
>
> **Chris**, 3 Aug 2023

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