RAC BIDCO LIMITED

Audited Annual Results for the year ending 31 December 2022

3 March 2023

Highlights

RAC Bidco Limited (the Group) continued its operational and financial progress in 2022:

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

	Year ending 31 December	
	2022	2021
Statutory revenue (£m) [1]	**659**	632
Adjusted revenue (£m) [1 2]	**664**	632
Adjusted EBITDA (£m) [2]	**260**	254
Statutory operating (loss)/ profit (£m)	**(55)**	135
Net cash flows generated from operating activities (£m)	**174**	226
Adjusted operating cash conversion (%) [2]	**86**	89
Number of breakdowns (million)	**2.4**	2.3
Roadside repair rate (%) [3]	**80.9**	81.7
Consumer Breakdown churn rate (%) [4]	**14.2**	14.5
Total Group members - (million)	**13.0**	12.9
- Membership Services – Consumer (thousand)	**2,656**	2,564
- Membership Services – Business (thousand)	**9,763**	9,584
- Insurance (thousand)	**623**	704

[1] Revenue for the year ending 31 December 2021 has been restated to reflect a change in accounting treatment for insurance commissions. For more information refer to note 2.

[2] See note 9 for definitions of alternative performance measures.

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

[4] The percentage of Members leaving as a proportion of opening file size plus acquisitions, measured over a rolling 12-month period.

Business Performance

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

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

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

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

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

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

Strategy

Our vision is to become the UK's number one for Driving Services, providing Complete Peace Of Mind for all our members' driving needs. During 2022 we took further significant steps towards that vision. We expanded our core products and services for both Consumer and Business members and launched into the large addressable market of Service, Maintenance and Repair (SMR). We continued to invest in our digital assets, expanding our services for members through our "MyRAC" app which increasingly underpins our whole membership experience.

Accelerating our core businesses

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

During the year we simplified and repositioned our Consumer Breakdown offering, further enhancing our web journey. Together these drove a 10% increase in conversion rates and delivered our biggest and best ever Black Friday event. Our existing members benefited from better digital functionality including improvements to our RAC rewards program, now enjoyed by over a quarter of our Consumer Breakdown members.

In Business Breakdown we expanded our Automotive Services offering which has more than doubled in the last 4 years. We won new recall contracts with existing motor manufacturer partners, increased inspection volumes with BCA, and added new branded services supported by our excellent customer service credentials. This included providing technician training and customer support to Porsche GB and broadening our contact centre with Renault UK to support their sales activity.

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

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

Expanding our addressable market into Service, Maintenance and Repair

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

Accelerating our digital experience

Combining leading edge digital and data technology, our MyRAC app provides a seamless member experience increasingly underpinning our product, service and member interactions ultimately driving loyalty and lifetime value. MyRAC is now used by 1.7 million (2021: 1.4 million) members and in 2022 we started the rollout to our Business Partners significantly expanding its potential reach and ensuring we connect even more strongly with our millions of Business Breakdown end members creating future revenue opportunities and further engagement with the RAC.

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

Our Colleagues – Our OrangeHeroes

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

Financial Review

Adjusted revenue for the year was £664 million, an increase of £32 million (+5%) compared to 2021, statutory revenue for the year was £659 million. Membership Services revenues grew by £41 million, partly driven by a record low churn rate of 14.2%, as well as new member growth. We also saw a strong bounce back on revenues which were impacted by COVID-19 in 2021 such as Pay on Use schemes and European Cover as foreign travel grew.

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

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

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

Macro-economic conditions and the effect of regulatory changes contributed to a non-cash impairment charge of

£152 million against our Insurance segment. As noted above, GIPP impacted both ourselves and the wider insurance market. This was compounded by increasing UK interest rates having a knock-on effect on discount rates alongside a more prudent outlook of our future cash flows. The impairment charge is primarily against goodwill arising from historic business combinations and the brand intangible asset.

Exceptional items of £41 million were incurred during 2022 (2021: £5 million). This primarily comprised one-off costs relating to the Silver Lake transaction. Full details are included in note 1.

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

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

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

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

Contract costs of £33 million are similar to last year (2021: £32 million) and relate to commissions and fees paid to third parties, arising because of a direct sale of an insurance policy. Property, plant and equipment of £32 million as at 31 December 2022 (2021: £35 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group. Right of Use assets of £62 million (2021: £56 million) relate to IFRS 16 'Leases' and comprise vehicles and properties. The £6 million increase primarily reflects additional leased vehicles in excess of depreciation.

Trade and other receivables of £71 million (2021: £401 million) are primarily comprised of trade receivables of £40 million (2021: £39 million) and prepayments and accrued income of £29 million (2021: £17 million). In 2021, this figure included £345 million in amounts due from related parties in relation to the Class B2 debt contingent on the closing of the Silver Lake transaction. Following completion of the Silver Lake transaction these amounts have now been settled.

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

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

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

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

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

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

Consolidated statement of cash flows

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

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

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

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

Outlook

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

These results, combined with our ongoing investment, clear strategy and track record of operational execution ensure we have strong momentum. Despite the continued macro challenges, we remain confident about continuing to deliver long-term profitable growth and are well set for the future.

Dividends

The Company paid dividends of £345 million during the year ending 31 December 2022 (2021: £nil).

Regulatory

The Group includes regulated companies that are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA (Financial Conduct Authority) and PRA (Prudential Regulation Authority) regulations. The Group's PRA regulated entity, RAC Insurance Limited, complied with the requirements of Solvency II throughout the period.

Board of Directors

In connection with the Silver Lake transaction, on 14 March 2022 M Boughton and A Levy resigned from the Company's Board of Directors ("Board") and S Patterson and J Galore were appointed to the Board.

On 1 July 2022 H Ormond resigned from the Board and A Levy was re-appointed to the Board.

On 1 September 2022 T Mohindra was appointed to the Board.

Directors responsibilities statement

Each of the Directors of the Company, confirms that, to the best of his or her knowledge that:

(i) the Group financial statements which have been prepared in accordance with IFRS as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and loss of the Group, the Company and the undertakings included in the consolidation taken as a whole; and

(ii) the Strategic Report contained in the 2022 Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the Company and Group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RAC BIDCO LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of RAC Bidco Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;

- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; 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 33 of the consolidated financial statements and 1 to 9 of the parent company financial statements.

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

2. Basis for opinion

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

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

3. Summary of our audit approach

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

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging group management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows, considering their consistency with other available information, historical performance of the group against previous forecasts and our understanding of the group businesses;
- Assessing management's stress and scenario testing including reverse stress testing.
- 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 (2021: £878m) and indefinite life intangible assets including £837m (2021: £864m) in relation to the value of the RAC brand as at 31 December 2022. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is subject to an annual impairment test. The group's assessment of the carrying value of goodwill and indefinite life intangible assets involves directors' estimation concerning the future cash flows of each cash generating unit ('CGU'). The directors apply judgement in determining the associated discount and growth rates that reflect their view of future business prospects. The two CGUs are 'membership services' and 'insurance' as shown in note 5 to the financial statements. The most sensitive judgements in the determination of the carrying value of goodwill and other indefinite life intangible assets are the future cash flow forecasts and the rate applied in discounting the future cash flows. Inappropriate use of these assumptions either due to fraud or error could give rise to a material misstatement. Management recognised an impairment of £152m (2021:nil) during the year for the insurance CGU as detailed on page 76. Further details of the key judgements involved and sources of estimation are detailed in accounting policies note F and note U, which relate to note 11 to the financial statements for goodwill and intangible assets.
How the scope of our audit responded to the key audit matter	We obtained an understanding of management's process and of the relevant controls identified around the carrying value of goodwill and other indefinite useful life intangible assets. We inspected and challenged management's impairment review accounting paper and assessed whether key judgements made were reasonable. This included gaining an understanding of the budget process that underpins the cashflow forecasts and assessed the 5 year forecast for reasonableness. We also evaluated whether management's value in use VIU calculations were prepared in accordance with the requirements of IAS 36. We involved our valuation specialists in assessing the methodology used to determine the discount rate for compliance with IAS 36: Impairment of assets, 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 for past five years of forecasts made by management by comparing them to actual results and challenged the reasonableness of the growth assumptions built into the forecasts. We also challenged whether the future forecasts and assumptions were used consistently across the preparation of the financial statements, including the evaluation of the going concern assumption for the RAC trading group. We independently recalculated the impairment recognised on the Insurance CGU to verify accuracy. We also assessed management's reverse stress testing and also performed additional stress testing to identify the circumstances in which further impairment, of either CGUs, would be required and assessed if these circumstances are reasonably plausible. We 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 intangible assets were adequate.
Key observations	We concluded that the director's approach fell within our independently determined reasonable ranges for discount and growth rates. We concluded the cash flows used in the model were reasonable, the overall carrying value of goodwill and other indefinite life intangible assets at the year end and the related disclosures in the financial statements are appropriate.

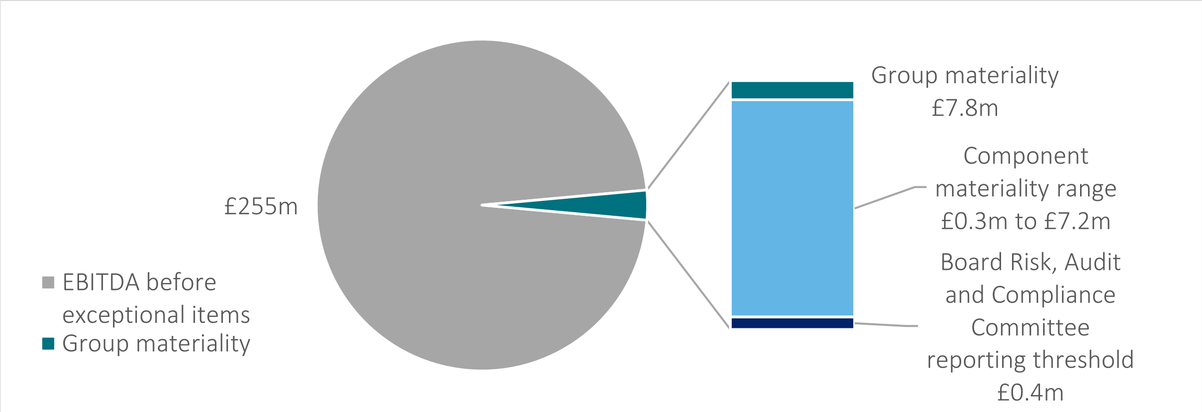
6. Our application of materiality

6.1. Materiality

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

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

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



6.2. Performance materiality

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

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

6.3. Error reporting threshold

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

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, our group audit scope focused on all entities within the group and covered all of the material balances in the income statement and statement of financial position of the group.
We have performed a full scope audit on all entities within the group with the exception of Risk Telematics UK Limited, RAC Cars Limited, RACMS Ireland, RAC Employee Benefits Trust, RAC Group Limited, RAC Midco Limited, RAC Midco II Limited and RAC Motoring Services (Holdings) Limited which are exempt from statutory audit requirements and immaterial to the group. We performed analytical procedures at the group level for these entities.

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

7.2. Our consideration of the control environment

We have not taken reliance over automated IT controls in the current year which is consistent with the prior year. With the involvement of the IT specialist, we have obtained an understanding of the relevant general IT controls in the period. We did not take a controls reliance approach.

7.3. Our consideration of climate-related risks

As part of our audit, we have considered the impact of climate change on the group's operations and its impact on their financial statements. The group continues to implement and embed regulatory requirements in relation to climate change risk management, namely the Taskforce for Climate Related Financial Disclosures ('TCFD') and BEIS requirements including the Prudential Regulation Authority (PRA). 'Financial risks from climate change' requirements. The group has voluntarily adopted many of the recommendations as 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 management, internal audit and the Board Risk, Audit and Compliance Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuation, pensions, IT, conduct risk and data analytics regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: carrying value of goodwill and other indefinite useful life intangible assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.
We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Irish Stock Exchange Plc (Euronext Dublin) Listing Rules, Companies Act 2006, pension and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the Prudential Regulation Authority (PRA) regulations 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 as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.
In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board Risk Audit and Compliance committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the PRA and the FCA; 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, Audit and Compliance Committee, we were appointed by Board of Directors in 31 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 31 December 2014 to 31 December 2022.

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

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

15. Use of our report

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

Kieren Cooper, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
02 March 2023

Consolidated Income statement

For the year ended 31 December 2022

	Note	2022	2021 Restated
		£m	£m
Revenue		659	632
Cost of sales		(289)	(280)
Gross profit		**370**	**352**
Administrative expenses		(425)	(217)
Operating (loss) / profit		**(55)**	**135**
Adjusted EBITDA		260	254
Depreciation of owned tangible assets		(7)	(7)
Depreciation of right of use assets		(15)	(12)
Amortisation of customer acquisition intangibles	5	(8)	(8)
Amortisation of contract costs		(17)	(17)
Amortisation of non-customer acquisition intangible assets	5	(70)	(70)
Impairment	5	(152)	-
Adjusting items	9	(5)	-
Exceptional items	1	(41)	(5)
Operating (loss) / profit		**(55)**	**135**
Finance expenses	3	(81)	(72)
Finance income	3	34	-
(Loss) / profit before tax		**(102)**	**63**
Tax charge	4	(4)	(61)
(Loss) / profit for the year		**(106)**	**2**

All activities relate to continuing operations.

Consolidated Statement of comprehensive income

For the year ended 31 December 2022

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

Consolidated Statement of financial position
As at 31 December 2022

	Note	2022	2021
ASSETS		£m	£m
Non-current assets			
Goodwill and intangible assets	5	1,662	1,860
Contract costs		33	32
Property, plant and equipment		32	35
Right of use assets		62	56
Other investments		23	3
Deferred tax asset		16	10
Derivative financial instruments		26	5
		1,854	2,001
Current assets			
Inventories		2	3
Trade and other receivables	6	71	401
Cash and cash equivalents		136	113
Current tax receivable		1	-
		210	517
LIABILITIES			
Current liabilities			
Borrowings	8	(310)	(10)
Provisions		(3)	(1)
Trade and other payables	7	(245)	(226)
Current tax payable		-	(30)
		(558)	(267)
Net current (liabilities) / assets		(348)	250
Non-current liabilities			
Borrowings	8	(1,358)	(1,660)
Employee benefit liability		(3)	(4)
Trade and other payables	7	(60)	(60)
Deferred tax liability		(213)	(219)
		(1,634)	(1,943)
Net assets		**(128)**	**308**
EQUITY			
Ordinary share capital		339	339
Hedging instruments reserve		18	4
Retained earnings		(485)	(35)
Total equity		**(128)**	**308**

Consolidated Statement of Changes in equity
For the year ended 31 December 2022

	Ordinary Share Capital	Hedging Instruments Reserve	Retained Earnings	Total equity
	£m	£m	£m	£m
Balance at 1 January 2021	**339**	**(3)**	**(37)**	**299**
Profit for the year	-	-	2	2
Other comprehensive income	-	7	-	7
Total comprehensive income	-	7	2	9
Dividends paid	-	-	-	-
Balance at 31 December 2021	**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	-	-	(345)	(345)
Balance at 31 December 2022	**339**	**18**	**(485)**	**(128)**

Consolidated Statement of cash flows
For the year ended 31 December 2022

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

1 Exceptional items

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

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

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

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

2 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, SME and Corporate Partners. In addition, this segment includes the other products and services such as recall and inspections, accident management services, branded customer services, telematics devices, retail online, garage services, service maintenance and repair, legal advisory services and RAC Cars.

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

2 Operating segments (continued)

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

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

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

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

Assets and liabilities

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

3 Finance expenses

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

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

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

4 Tax

(a) Tax charged to the Consolidated Income statement

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

4 Tax (continued)

(b) Tax reconciliation

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

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

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

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Therefore, deferred tax balances from the substantively enacted date of 24 May 2021 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

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

5 Goodwill and intangible assets

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

5 Goodwill and intangible assets (continued)

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated Income statement. As a result of the macro-economic conditions and the effect of regulatory changes, an impairment of £152 million has been recognised during the year (2021: £nil), of which £151 million has been recognised in intangible assets and £1 million in Property, Plant and Equipment. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated Income statement.

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

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). The carrying value of the goodwill and indefinite-lived intangible assets allocated across the two CGUs is £760 million and £837 million, respectively.

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

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

Key assumptions used in management forecasts include:

- Individual Members and Insurance customers having high customer loyalty and retention rates resulting in a stable and predictable revenue stream;
- success rates for Corporate Partner contract renewals based on historical experience 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.

6 Trade and other receivables

	2022	2021
	£m	£m
Trade receivables	32	26
Prepayments and accrued income	28	17
Other receivables	11	13
Amounts due from related parties	-	345
At 31 December 2022	**71**	**401**
Expected to be recoverable within one year	71	401

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

7 Trade and other payables

	2022	2021
	£m	£m
Trade payables and accruals	45	43
Deferred income	137	129
Other payables	123	114
Total	**305**	**286**
Expected to be payable within one year	245	226
Expected to be payable in more than one year	60	60
Total	**305**	**286**

7 Trade and other payables (continued)

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

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

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

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Lease Commitments

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

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

8 **Borrowings**

(a) Analysis of borrowings

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

(b) Bank debt

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

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

8 Borrowings (continued)

(b) Bank debt (continued)

The Group has also entered into agreements for a Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million. The Working Capital Facility is subject to interest of SONIA plus 2.500% from 31 January 2020; this facility matures on 31 January 2025. The Initial Liquidity Facility is subject to interest of SONIA plus 2.250% and is subject to annual renewal.

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

Interest rate risk arising under the 2020 and 2021 Senior Term Facilities is hedged using an interest rate swap exchanging variable rate interest for fixed rate interest.

(c) Bonds

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

(d) Security, covenants and fees

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

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

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

9 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.

APMs exclude certain items because, if included, these items could distort the understanding of performance for the year and the comparability between periods. The directors' commentary discusses these alternative performance measures to remove the effects of items of both income and expense that are considered different in nature from the underlying trading and normal quantum and where treatment as an adjusting item provides stakeholders with additional information to assess period-on-period trading.

The table below details the definition of each APM.

APM	Definition
EBITDA before exceptional items	EBITDA is statutory operating profit before interest, tax, depreciation, amortisation and exceptional items.
Exceptional items	Exceptional items are those which management consider to be material by size and / or nature. Events which give rise to a classification of items as exceptional include costs associated with corporate transactions and restructuring of businesses.
Adjusted Revenue	Adjusted Revenue is statutory Revenue, adjusted for a change in the Group's estimation of deferred service revenue for the sale of certain insured roadside assistance services. This reduced statutory revenue by £5 million for the year ending 31 December 2022 (2021: £nil). This adjustment is not expected to re-occur in subsequent accounting periods.
Adjusted EBITDA	Adjusted EBITDA is EBITDA before exceptional items, adjusted for the change to deferred service revenue estimates noted above.
Adjusted net cash flows from operating activities	Net cash flows from operating activities as shown in the statement of cash flows adjusted for the cash impact of exceptional items included within cash generated from operating activities of £20 million and a one-off payment in 2022 of £29 million to HMRC.
Adjusted operating cash conversion	Adjusted net cash flows from operating activities as a percentage of adjusted EBITDA.

10 Financial information

The results contained in this report were approved by the Board on 2 March 2023. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2021 but is derived from the 2022 accounts, which are prepared on the same basis as the 2021 accounts. Statutory accounts for 2021 have been delivered to the registrar of companies and those for 2022 will be delivered in due course.

Deloitte LLP has reported on the 2022 and 2021 financial statements. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and (iii) did not contain statements under section S498(2) or S498(3) of the Companies Act 2006.

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to the RAC Bidco Limited Group's ("RAC") financial condition, results of operations and business and certain of RAC's plans and objectives with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on RAC's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised.

There are a number of factors, many of which are beyond RAC's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates. All forward-looking statements made in this document or made subsequently, which are attributable to RAC or any other member of RAC or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Subject to compliance with applicable laws and regulations, RAC does not intend to update these forward-looking statements and does not undertake any obligation to do so. Nothing in this document should be regarded as a profits forecast.

Registered Offices: RAC House, Brockhurst Crescent, Walsall WS5 4AW. RAC subsidiaries RAC Motoring Services and RAC Financial Services Ltd are authorised and regulated by the Financial Conduct Authority in respect of insurance mediation activities. RAC Insurance Ltd is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Company's 2022 Annual Report is expected to be issued on the company website in June 2023.