

Registered in England and Wales: No. 09229824

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED  
30 JUNE 2016

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

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# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Company information

#### Directors

M Boughton, D Cougill, T H Gallico, R P Hooper, V Nagarajan, H C Ormond, R Templeman,  
M Wood & C Woodhouse

#### Company secretary

S Morrison

#### Registered office

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

#### Company number

Registered in England and Wales: No. 09229824

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Responsibility statement

We confirm that to the best of our knowledge:

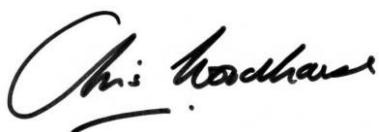
- (a) the condensed set of Financial Statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

At the date of this statement, the Directors are those listed on page 1. Changes to Directors from those listed in the 2015 Annual Report and Financial Statements are as follows:

- A Burgess resigned on 12 April 2016
- R A Jarratt resigned on 15 April 2016
- F Robson resigned on 12 April 2016
- A Stirling resigned on 12 April 2016
- M Boughton was appointed on 12 April 2016
- T H Gallico was appointed on 12 April 2016
- R P Hooper was appointed on 12 April 2016

From 5 September 2016, Diane Cougill will step down from her role as Chief Financial Officer, and will be replaced by Richard Fairman, RAC's current Group Director of Finance.

By order of the Board



Chris Woodhouse  
Chief Executive Officer  
2 September 2016



Diane Cougill  
Chief Financial Officer  
2 September 2016

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Interim management report To the Members of RAC Bidco Limited

The Directors present the unaudited Condensed Consolidated Financial Statements of the RAC Bidco Limited Group for the six month period ended 30 June 2016. The financial information has not been subject to independent review or audit.

#### Cautionary statement

This interim management report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The interim management report should not be relied on by any other party or for any other purpose.

The interim management report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

#### Introduction

During the last six months, the Group has undergone significant change. In December 2015, CVC's Strategic Opportunities Platform ("CVC") formally agreed a deal with The Carlyle Group ("Carlyle") to acquire its stake in the business, which was completed in April 2016. We would like to thank Carlyle for their tremendous support and guidance since their investment in 2011, and welcome the strategic experience of CVC to support the development of the business going forward.

In addition, the business completed a refinancing through a Whole Business Securitisation ("WBS") in May 2016, with strong demand from investors leading to a higher mix of institutional debt and £20 million of annual savings in interest costs. Our new debt structure comprises £280m of senior term facilities, £300m of Class A1 Notes with a seven year term and £600m of Class A2 Notes with a ten year term.

Our achievements during 2016 are testament to the hard work and efforts of our colleagues and partners, and therefore we would like to take this opportunity to thank them. Their dedication enables us to continue as "The Motorist's Champion", serving Members and motorists throughout the UK and abroad.

#### Products and services

RAC is the second largest roadside assistance provider in the UK, representing approximately a quarter of the UK roadside assistance market by value and by number of Members and responding to approximately 1.1 million breakdowns in the six month period ended 30 June 2016 (six month period ended 30 June 2015: 1.1 million). With 119 years of operating history, RAC has established itself as one of the most widely recognised brands in the UK and one of the most trusted in automotive services in the UK, with a stable core membership base, and has successfully leveraged its brand to provide insurance broking, motoring and other products and services.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

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

Products and services (continued)

As "The Motorist's Champion" the Group aims to deliver products and services that enhance and support the driving experience for Members and other UK motorists either at home or abroad, covering a wide variety of motoring needs from within the wider Automotive Service Market.

Financial report

Financial highlights

- Revenue growth of 1.6%, up from £244 million in the six month period ended 30 June 2015 to £248 million in the six month period ended 30 June 2016
- EBITDA of £88 million in line with prior year, despite a challenging market backdrop, particularly in the Insurance broking division
- Growth within our developing Motoring services division
- Operating Cash /EBITDA conversion improving to 97% for the six month period ended 30 June 2016

### **Roadside**

Revenue generated in the roadside segment has increased by £1 million compared to the same period in 2015. EBITDA in the segment is in line with prior year.

### **Insurance broking**

The insurance market has been particularly challenging in the six month period ended 30 June 2016, with EBITDA in this segment decreasing by £1 million, despite revenue remaining in line with prior year. The strength of the RAC brand has enabled us to maintain revenue and volume within this segment, with the EBITDA reduction due to increased costs of acquiring new business.

### **Motoring services**

Revenue has increased in the Motoring services division by £2 million for the six month period, with a resulting increase in EBITDA of £1 million. This has mainly been driven by new business deals in motor claims services.

### **Telematics and Data services**

There has been an increase in revenue in the Telematics and Data services division of £1 million reflecting new business growth.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

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

Financial report (continued)

Key performance indicators

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

	Six months ended 30 June		Year ended 31 December
	2016	2015	2015
Revenue (£m)	248	244	501
EBITDA* (£m)	88	88	183
Roadside repair rate** (%)	81	81	81
Roadside retention rate (%)	80	81	81
Net Promoter Score ***	94	93	93

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

\*\* UK roadside repair rate excluding Road Traffic Collisions

\*\*\* Industry-wide customer satisfaction measure

Our Roadside repair rate and overall level of customer service remained very strong in the period, as reflected by a slight improvement in Net Promoter Score.

Roadside retention rate of 80% in the six month period ended 30 June 2016 (six month period ended 30 June 2015: 81%) is offset by higher average revenue per Member.

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

### Refinancing

RAC completed a Whole Business Securitisation ("WBS") in May, refinancing £1.2 billion of existing bank facilities with long term investment grade debt which was over subscribed at issue. The new debt structure comprises £280 million of senior term facilities, £300 million of Class A1 Notes with a seven year term and £600 million of Class A2 Notes with a ten year term (see note 9).

### Dividends

During the period, the Group paid £25 million in dividends (six month period ended 30 June 2015: £nil) as disclosed in note 13.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

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

### Regulatory

The Group includes regulated companies which hold sufficient capital at all times to meet required solvency levels under PRA and FCA regulations. The Group's PRA regulated entity, RAC Insurance Limited, has been fully compliant with the requirements of Solvency II which was effective from 1 January 2016.

### Strategy and objectives

The Group's vision is to be the leading motoring services brand in the UK, building on a reputation underpinned by an iconic, trusted brand and leading motoring-related product offering. The Board believes that the Group is well positioned to continue to develop its business through four key strategic objectives:

- maintain and grow the Individual Member base;
- strengthen relationships with existing Corporate Partners and win contracts with new Corporate Partners;
- increase cross-selling to address a wider range of Members' motoring and related needs through an integrated multi-product, multi-channel approach; and
- leverage recent investments in its brand and data capabilities to drive growth in revenue and improvements in profitability.

#### Maintain and grow the Individual Member base

RAC continues to focus on maintaining its loyal base of 2.2 million Individual Members (30 June 2015: 2.2 million; 31 December 2015: 2.2 million). Integral to our Members is the roadside experience, a distinguishing factor when comparing us to our competitors. We believe that this is enhanced through our excellent service throughout the customer journey. As part of this, in June 2016, we launched our new App, with enhanced functionality, including "Rescue Me", allowing Members to provide accurate location information in the event of a breakdown.

#### Strengthen relationships with existing Corporate Partners and win contracts with new Corporate Partners

The Group continues to pursue medium-term contracts for roadside assistance services with current and future Corporate Partners, including banks, insurance companies, motor manufacturers, fleet and leasing companies. As part of this strategy, RAC is continuing to enhance the suite of solutions it offers to existing and new Corporate Partners.



# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

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

Strategy and objectives (continued)

**Increase cross-selling to address a wider range of Members' motoring and related needs** through an integrated multi-product, multi-channel approach

One of the Group's key priorities is to promote its various motoring solutions to its large customer base by transforming its business from a product-centric to a customer-centric one. The Group's sales, marketing and customer relationship strategy is now multi-product and multi-channel, providing a significant opportunity to address a wider range of Members' motoring and related needs and increase the number of products per Member among both existing and new Members. We continue to enhance our product offering to all Members, particularly with the evolution of telematics.

Leverage recent investments in its brand and data capabilities to drive growth in revenue and improvements in profitability

RAC has invested significantly in its brand and data capabilities over recent years and intends to leverage this investment to grow revenue and profitability as well as create new opportunities with non-Members.

Principal risks and uncertainties

Specific risks arising from the Group's operations are unchanged from those disclosed in the 2015 Annual Report and Financial Statements. Additional risks, alongside details of actions taken by the Group to mitigate them are set out below.

Impact of Brexit

Following the UK referendum decision to leave the European Union, we have considered the impact upon RAC. RAC is a UK focussed and robust business which has grown strongly over recent years and has a clear strategy for growth. Whilst there remains uncertainty over ultimate Brexit timing, the Government and the Bank of England are taking steps to stabilise the pound and the financial markets. RAC has very limited business outside of the UK's borders. Should there be any negative impact from Brexit to growth prospects for the UK economy, our business has proved in the past to be resilient during recessionary times. We will continue to monitor the impact of the Brexit vote and will take appropriate steps to maintain RAC's competitive position.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

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

Principal risks and uncertainties (continued)

Ability to service the cost of borrowings

The Group's ability to meet its scheduled payment obligations under its borrowings will depend upon the financial condition and performance of the business as a whole and its general financial condition and operating performance.

The Group's treasury function is charged with ensuring the business has sufficient cash resources to service debt. Daily cash flow forecasts are prepared and reviewed, along with forward-looking forecasts to ensure that the Group has sufficient cash to meet its obligations.

The Group's bank facility has a floating interest rate and therefore the Group is subject to adverse financial impact due to changes in fair values or future cash flows of financial instruments as a result of fluctuations in interest rates. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings, with 100% of the bank facility hedged for the initial five year term.

Market environment and outlook

RAC continues to campaign on behalf of motorists, with significant campaigning in the past few months around reducing fuel prices, which have been particularly impacted by the vote to leave the European Union.

We are on track to deliver growth in 2016, through increased revenue across our four divisions. Despite the challenges in the six month period, particularly in the Insurance division as a result of market hardening, our business is robust and we remain well positioned to deliver long-term growth and future value for our shareholders.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed consolidated income statement  
For the six months ended 30 June 2016

	Note	Six months ended 30 June		Year ended 31 December 2015
		2016	2015	
		£m (unaudited)	£m (unaudited)	£m (audited)
Revenue	2	248	244	501
Cost of sales		(110)	(104)	(215)
Gross profit		138	140	286
Administrative expenses		(103)	(184)	(288)
Operating profit/(loss)		35	(44)	(2)
EBITDA		88	88	183
Depreciation	7	(2)	(2)	(4)
Amortisation of customer acquisition intangibles	6	(7)	(5)	(10)
Amortisation of non customer acquisition intangible assets	6	(44)	(125)	(171)
Operating profit/(loss)		35	(44)	(2)
Finance expenses	3	(87)	(41)	(83)
Loss before tax		(52)	(85)	(85)
Tax credit	4	10	17	39
Loss for the period/ year		(42)	(68)	(46)

The accompanying notes on pages 14 to 25 are an integral part of these Condensed Consolidated Financial Statements.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed consolidated statement of comprehensive income  
For the six months ended 30 June 2016

	Note	Six months ended		Year ended
		30 June	2015	31 December
		2016	2015	2015
		£m	£m	£m
		(unaudited)	(unaudited)	(audited)
Loss for the period/ year		(42)	(68)	(46)
Other comprehensive (expense)/income				
<i>Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:</i>				
Net movement on cash flow hedges	10	(11)	1	(1)
Aggregate tax effect		1	-	-
Net other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods		(10)	1	(1)
Total comprehensive expense for the period/ year		(52)	(67)	(47)

The accompanying notes on pages 14 to 25 are an integral part of these Condensed Consolidated Financial Statements.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed consolidated statement of financial position  
As at 30 June 2016

	Note	30 June 2016	30 June 2015	31 December 2015
		£m (unaudited)	£m (unaudited)	£m (audited)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill and intangible assets	6	2,268	2,335	2,300
Property, plant and equipment	7	17	15	15
Deferred tax assets		35	28	9
		<u>2,320</u>	<u>2,378</u>	<u>2,324</u>
<b>Current assets</b>				
Inventories		2	2	3
Trade and other receivables		61	63	62
Cash and cash equivalents		62	69	88
		<u>125</u>	<u>134</u>	<u>153</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	9	(6)	(15)	(13)
Provisions		(1)	(1)	(1)
Current tax payable		(18)	(19)	(28)
Trade and other payables		(240)	(246)	(236)
		<u>(265)</u>	<u>(281)</u>	<u>(278)</u>
<b>Net current liabilities</b>		<u>(140)</u>	<u>(147)</u>	<u>(125)</u>
<b>Non-current liabilities</b>				
Borrowings	9	(1,162)	(1,134)	(1,132)
Employee benefit liability		(6)	(7)	(6)
Trade and other payables		(2)	(4)	(3)
Derivative financial instruments	10	(21)	(8)	(10)
Deferred tax liability		(262)	(294)	(244)
		<u>(1,453)</u>	<u>(1,447)</u>	<u>(1,395)</u>
<b>Net assets</b>		<u>727</u>	<u>784</u>	<u>804</u>
<b>EQUITY</b>				
Ordinary share capital	11	339	874	874
Hedging instruments reserve		(18)	(6)	(8)
Retained earnings		406	(84)	(62)
<b>Total equity</b>		<u>727</u>	<u>784</u>	<u>804</u>

The accompanying notes on pages 14 to 25 are an integral part of these Condensed Consolidated Financial Statements.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed consolidated statement of changes in equity  
For the six months ended 30 June 2016

	Ordinary share capital	Hedging instruments reserve	Retained earnings	Total equity
	£m	£m	£m	£m
Balance as at 1 January 2015	874	(7)	(16)	851
Loss for the period	-	-	(68)	(68)
Other comprehensive income	-	1	-	1
Total comprehensive income/(expense)	-	1	(68)	(67)
Balance as at 30 June 2015	874	(6)	(84)	784
Profit for the period	-	-	22	22
Other comprehensive expense	-	(2)	-	(2)
Total comprehensive (expense)/income	-	(2)	22	20
Balance as at 31 December 2015	874	(8)	(62)	804
Loss for the period	-	-	(42)	(42)
Other comprehensive expense	-	(10)	-	(10)
Total comprehensive expense	-	(10)	(42)	(52)
Dividends paid (note 5)	-	-	(25)	(25)
Capital reduction (note 11)	(535)	-	535	-
Balance as at 30 June 2016	339	(18)	406	727

The accompanying notes on pages 14 to 25 are an integral part of these Condensed Consolidated Financial Statements.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

Condensed consolidated statement of cash flows  
For the six months ended 30 June 2016

	Note	Six months ended 30 June		Year ended 31 December
		2016	2015	2015
		£m (unaudited)	£m (unaudited)	£m (audited)
<b>Operating activities</b>				
Loss before tax		(52)	(85)	(85)
Adjustments to reconcile loss before tax to net cash flows:				
Depreciation of owned tangible assets	7	2	2	4
Amortisation of intangible assets	6	51	130	181
Finance expenses and other gains	3	87	41	83
Working capital adjustments:				
Increase in inventories		-	-	(1)
Decrease/(increase) in trade and other receivables		1	(2)	(3)
Decrease in trade and other payables		(4)	(19)	(28)
<b>Net cash flows generated from operating activities</b>		<b>85</b>	<b>67</b>	<b>151</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment		(3)	(3)	(6)
Additions of intangible assets	6	(19)	(12)	(28)
<b>Net cash flows used in investing activities</b>		<b>(22)</b>	<b>(15)</b>	<b>(34)</b>
<b>Financing activities</b>				
Net proceeds from bank debt	9	272	-	-
Net proceeds from bonds	9	888	-	-
Repayment of bank debt	9	(1,190)	(5)	(10)
Dividends paid	5	(25)	-	-
Interest paid		(34)	(32)	(73)
<b>Net cash flows used in financing activities</b>		<b>(89)</b>	<b>(37)</b>	<b>(83)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(26)</b>	<b>15</b>	<b>34</b>
Cash and cash equivalents brought forward		88	54	54
<b>Cash and cash equivalents carried forward</b>		<b>62</b>	<b>69</b>	<b>88</b>

The accompanying notes on pages 14 to 25 are an integral part of these Condensed Consolidated Financial Statements.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements

#### 1 Accounting policies

##### Basis of preparation

The accompanying unaudited condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union. It should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 December 2015, which were prepared in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

The information for the year ended 31 December 2015 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. Financial Statements for the year ended 31 December 2015 were approved by the Board of Directors on 29 February 2016 and have been delivered to the Registrar of Companies. The auditors reported on these accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The significant accounting policies adopted are consistent with those described in the Annual Report and Financial Statements for the year ended 31 December 2015. A number of amended standards and interpretations are effective for the current financial year, but none of them has had any material impact on the interim financial information.

##### Going concern

The Directors have assessed the financial position and the future funding requirements of the Group and compared them to the level of available committed borrowing facilities. Details of borrowing facilities are set out in note 9 to the Interim Report and Financial Statements. The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 month period from the Statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with terms of its borrowings.

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



# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 2 Operating segments

The Group is primarily UK based and offers an increasing range of breakdown and other motoring services directly to Individual Members and other motorists, as well as indirectly through a range of Corporate Partner relationships. Management has determined the operating segments based on the monthly management accounts reviewed by the Board of Directors, which is used to assess the performance of the business. The Board of Directors has been identified by management to reflect the chief operating decision maker in accordance with the requirements of IFRS 8 Operating Segments. The four operating and reportable segments of the Group are described below.

##### Roadside

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

##### Insurance broking

The Insurance broking division predominantly acts as an insurance intermediary with minimal underwriting risk. A range of insurance products are offered and the majority of the revenue generated from this operating segment is driven by motor insurance products.

##### Motoring services

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

##### Telematics and Data services

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

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 2 Operating segments (continued)

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

	Six months ended		Year ended
	30 June		31 December
	2016	2015	2015
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Revenue of products			
Roadside	13	12	24
Revenue of services			
Roadside	192	192	395
Insurance broking	28	28	56
Motoring services	12	10	21
Telematics and Data services	3	2	5
Group Revenue	248	244	501
Segment EBITDA before head office costs			
Roadside	91	91	187
Insurance broking	14	15	31
Motoring services	2	1	3
Telematics and Data services	1	1	3
Group EBITDA before head office costs	108	108	224
Head office costs*	(20)	(20)	(41)
Group EBITDA	88	88	183
Amortisation of intangible assets	(51)	(130)	(181)
Depreciation	(2)	(2)	(4)
Operating profit/(loss)	35	(44)	(2)
Finance expenses	(87)	(41)	(83)
Loss before tax	(52)	(85)	(85)

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

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 2 Operating segments (continued)

##### Assets and liabilities

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

#### 3 Finance expenses

	Six months ended		Year ended
	30 June		31 December
	2016	2015	2015
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Interest payable - third parties	38	38	77
Amortisation of capitalised finance costs	3	3	6
Write off of capitalised finance costs	46	-	-
Total finance expenses	87	41	83

#### 4 Tax

The major components of the tax credit in the Consolidated income statement are as follows:

	Six months ended		Year ended
	30 June		31 December
	2016	2015	2015
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Current tax	(3)	8	17
Deferred tax	(7)	(25)	(56)
Total tax credit	(10)	(17)	(39)

Tax for the six month period is charged at 20.00%, (six months ended 30 June 2015: 20.25%; year ended 31 December 2015: 20.25%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 5 Dividends

The Company paid ordinary dividends of £25 million during the six month period ended 30 June 2016, amounting to 7.37 pence per share (six months ended 30 June 2015: £nil). No interim or final dividend was paid in the year ended 31 December 2015.

#### 6 Goodwill and intangible assets

	Goodwill	Brand	Acquired value-in- force	Customer List	Other	Sub- total	Customer acquisition intangibles	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 January 2015	906	872	89	536	37	2,440	24	2,464
Additions	-	-	-	-	5	5	7	12
At 30 June 2015	906	872	89	536	42	2,445	31	2,476
Additions	-	-	-	-	6	6	10	16
At 31 December 2015	906	872	89	536	48	2,451	41	2,492
Additions	-	-	-	-	9	9	10	19
At 30 June 2016	906	872	89	536	57	2,460	51	2,511
Amortisation								
At 1 January 2015	-	-	7	3	1	11	-	11
Charge for the period	-	-	82	37	6	125	5	130
At 30 June 2015	-	-	89	40	7	136	5	141
Charge for the period	-	-	-	38	8	46	5	51
At 31 December 2015	-	-	89	78	15	182	10	192
Charge for the period	-	-	-	38	6	44	7	51
At 30 June 2016	-	-	89	116	21	226	17	243
Net book value								
At 30 June 2016	906	872	-	420	36	2,234	34	2,268
At 31 December 2015	906	872	-	458	33	2,269	31	2,300
At 30 June 2015	906	872	-	496	35	2,309	26	2,335

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 6 Goodwill and intangible assets (continued)

Goodwill and brand are held at cost. All other intangible assets are stated at cost less accumulated amortisation. No impairment losses have been recognised in any of the reported periods. Other intangible assets comprise the value of customer relationships and IT development.

#### 7 Property, plant and equipment

	Owner- occupied property	Fixtures, fittings and other equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost				
At 1 January 2015	3	5	5	13
Additions	-	1	3	4
At 30 June 2015	3	6	8	17
Additions	-	1	1	2
At 31 December 2015	3	7	9	19
Additions	-	1	3	4
At 30 June 2016	3	8	12	23
Depreciation				
At 1 January 2015	-	-	-	-
Charge for the period	-	1	1	2
At 30 June 2015	-	1	1	2
Charge for the period	-	1	1	2
At 31 December 2015	-	2	2	4
Charge for the period	-	1	1	2
At 30 June 2016	-	3	3	6
Net book value				
At 30 June 2016	3	5	9	17
At 31 December 2015	3	5	7	15
At 30 June 2015	3	5	7	15

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 8 Group information

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

Company	Type of business	Class of share	Proportion held
RAC Limited	Holding company	Ordinary	100%
RAC Bond Co plc	Funding vehicle	Ordinary	100%
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)	Roadside assistance	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
Net Cars Limited	Online motoring services	Ordinary	100%
Risk Telematics UK Limited	Software development	Ordinary	100%

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

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

As at 30 June 2015, RAC Management Limited, a holding company incorporated in England and Wales, was also included in the RAC Bidco Limited Group. RAC Management Limited was subsequently dissolved in November 2015.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

Notes to the Condensed Consolidated Financial Statements (continued)

### 9 Borrowings

#### (a) Analysis of borrowings

	Bonds		Bank Debt			Total
	Class A1 Notes	Class A2 Notes	First Lien Loan	Second Lien Loan	Initial Senior Term Facility	
Interest rate	4.565%	4.870%	LIBOR + 4.750%	LIBOR + 7.250%	LIBOR + 2.750%	
At 30 June 2016						
Fair value (£m)	302	604	-	-	280	1,186
Amounts falling due within one year (£m)	2	4	-	-	-	6
Amounts falling due in more than one year (£m)	296	593	-	-	273	1,162
Book value (£m)	298	597	-	-	273	1,168
At 31 December 2015						
Fair value (£m)	-	-	955	238	-	1,193
Amounts falling due within one year (£m)	-	-	10	3	-	13
Amounts falling due in more than one year (£m)	-	-	907	225	-	1,132
Book value (£m)	-	-	917	228	-	1,145
At 30 June 2015						
Fair value (£m)	-	-	962	238	-	1,200
Amounts falling due within one year (£m)	-	-	12	3	-	15
Amounts falling due in more than one year (£m)	-	-	909	225	-	1,134
Book value (£m)	-	-	921	228	-	1,149

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 9 Borrowings (continued)

##### (a) Analysis of borrowings (continued)

On 6 May 2016, the RAC Bidco Limited Group completed a refinancing through a Whole Business Securitisation ("WBS"). The RAC Bidco Limited Group repaid its existing banking facilities, comprising the First Lien Loan and Second Lien Loan. In addition, RAC Limited entered into a new agreement to borrow under the Senior Term Facility, and RAC Bond Co plc entered into agreements to issue listed bonds on the Irish Stock Exchange. As part of the WBS, the RAC Bidco Limited Group is subject to a debt cover financial covenant on the Class A debt, which includes the Bonds and the Initial Senior Term Facility. Fees relating to the WBS have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Fees relating to the First Lien Loan and Second Lien Loan were written off when the facilities were repaid, and have been included in Finance Expenses (see note 3).

The Class A 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, although RAC Insurance Limited and RACMS (Ireland) Limited are not obligors.

##### (b) Bank debt

The Senior Term Facility is for an amount of £280 million at a floating rate of 2.75% plus LIBOR, and incorporates a LIBOR floor. In addition, there is a 25% Excess Cash Sweep for the year ended 31 December 2018, 50% for the year ended 31 December 2019 and 100% for the year ended 31 December 2020. The facility is due for repayment on 6 May 2021.

In addition, the RAC Bidco Limited Group has available to it an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million. Neither facility has been drawn. The Initial Working Capital Facility is subject to interest of LIBOR + 2.750% and is subject to repayment on 6 May 2021. The Initial Liquidity Facility is subject to interest of LIBOR + 2.250% and is subject to annual renewal.

The RAC Bidco Limited Group hedges the interest rate risk arising under the Senior Term Facility using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 10.

Prior to the WBS, the bank debt consisted of three facilities; the First Lien Loan, the Second Lien Loan and a Revolving Credit Facility. The First Lien Loan was repayable at a rate of 25 bps per quarter, with a final bullet repayment of the remaining 94.25 per cent of the loan payable on 10 December 2021. During the six month period ended 30 June 2016, the RAC Bidco Limited Group repaid £2 million of the First Lien Loan (six month period ended 30 June 2015: £5 million; year ended 31 December 2015: £10 million). The Second Lien Loan was a bullet repayment, repayable on 10 December 2022. A Revolving Credit Facility of £50 million was also available to the RAC Bidco Limited Group, which was never drawn. The Revolving Credit Facility bore interest at LIBOR + 4.50%, and was a bullet repayment, repayable on 10 December 2020. Upon drawing 30% or more of the Revolving Credit Facility, the RAC Bidco Limited Group was subject to a debt cover financial covenant.



# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 9 Borrowings (continued)

##### (c) Bonds

On 6 May 2016, RAC Bond Co plc issued bonds as listed debt on the Irish Stock Exchange. The bonds comprise two tranches: Class A1 Notes and Class A2 Notes. £300 million of Class A1 Notes were issued at a coupon of 4.565%, and have an initial period to 6 May 2023, after which interest will be charged at 5.065% per annum. £600 million of Class A2 Notes were issued at a coupon of 4.870%, and have an initial period to 6 May 2026, after which interest will be charged at 5.370% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November. No payments have been made in any of the reported periods.

#### 10 Derivative financial instruments

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

	30 June 2016	30 June 2015	31 December 2015
	£m	£m	£m
Contract/notional value	280	800	800
Fair value of liability	(21)	(8)	(10)
Total derivative financial instrument liability	(21)	(8)	(10)

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

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

Prior to the refinancing, four hedges were undertaken (each with a separate counterparty). The fixed element of the swaps was set to 1.5692%, 1.5747%, 1.5830% and 1.5889% respectively for the period from 31 March 2015 to 31 December 2017. The floating rate was calculated on a notional principal amount. The notional principal amount for each hedge was variable over its life as follows: £131,250 thousand between 31 March 2015 and 30 December 2015; and £200 million between 31 December 2015 and 31 December 2017. As a result of the refinancing, the four existing hedges were novated to a single counterparty and restructured into the single hedge.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 11 Ordinary share capital

As at 30 June 2016, ordinary share capital was £339 million (30 June 2015 and 31 December 2015: £874 million). On 29 February 2016, a capital reduction of £535 million was completed, reducing ordinary share capital but increasing retained earnings.

#### 12 Fair value of financial assets and liabilities

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair Value Hierarchy	30 June 2016	30 June 2015	31 December 2015
		£m	£m	£m
Cash flow hedge liability (note 10)	Level 2	(21)	(8)	(10)

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

The following table shows the fair values of financial instruments which are not held at fair value:

	Fair Value Hierarchy	30 June 2016	30 June 2015	31 December 2015
		£m	£m	£m
Borrowings (note 9)	Level 2	1,186	1,200	1,193

The fair value of borrowings is included at the amount the Group would have to pay at the statement of financial position date to settle the borrowings. This therefore includes the principal amount and accrued interest.

# RAC BIDCO LIMITED

## INTERIM REPORT AND FINANCIAL STATEMENTS

### Notes to the Condensed Consolidated Financial Statements (continued)

#### 13 Related party transactions

- On 5 May 2016, RAC Bidco Limited paid a dividend of £20 million to RAC Midco II Limited, its immediate Parent Company, followed by a further dividend of £5 million on 6 May 2016 (six month period ended 30 June 2015: £nil; year ended 31 December 2015: £nil).
- On 6 May 2016, RAC Limited sold its direct subsidiary, RAC Finance Limited, and its indirect subsidiaries, RAC Finance Group Limited and RAC Finance (Holdings) Limited, to RAC Midco Limited, an indirect Parent Company for consideration of £1.
- During the six month period ended 30 June 2016, the RAC Bidco Limited Group paid £250 thousand (six month period ended 30 June 2015: £500 thousand; year ended 31 December 2015: £1 million) in respect of a monitoring fee to The Carlyle Group and GIC. Until 12 April 2016, The Carlyle Group owned 41% of the RAC Group, which was then sold to CVC.
- In June 2016, Nebula Systems Limited paid £500 thousand to the RAC Bidco Limited Group (six month period ended 30 June 2015: £nil; year ended 31 December 2015: £nil) in respect of a brand license fee. In addition, Nebula Systems Limited paid £25 thousand during the six month period ended 30 June 2016 to the RAC Bidco Limited Group for support costs (six month period ended 30 June 2015: £nil; year ended 31 December 2015: £nil). Nebula Systems Limited is a related party as it is owned by RAC Midco Limited, an indirect Parent Company of the RAC Bidco Limited Group.