

RAC
Annual Report
and Financial
Statements 2020
RAC Bidco Limited



We offer market leading subscription-based products to over 12.7 million members across breakdown, insurance and other driving services.

Company information

Directors:

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Registered office:

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

Auditor:

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

Company number:

Registered in England and Wales: No. 09229824

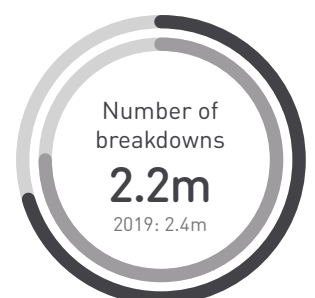
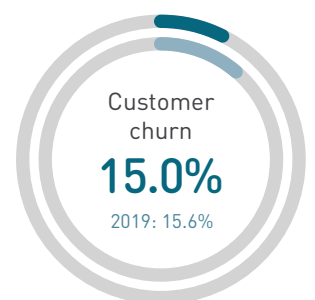
Other information:

The RAC Bidco Limited Group of companies ("RAC Bidco Limited Group" or "RAC") comprises RAC Bidco Limited ("the Company") and its subsidiaries, as set out on page 115.

For the year ended 31 December 2020, the Company is a member of the RAC Group (Holdings) Limited Group of companies ("Group") whose subsidiaries included RAC Midco Limited, RAC Midco II Limited and the RAC Bidco Limited Group.

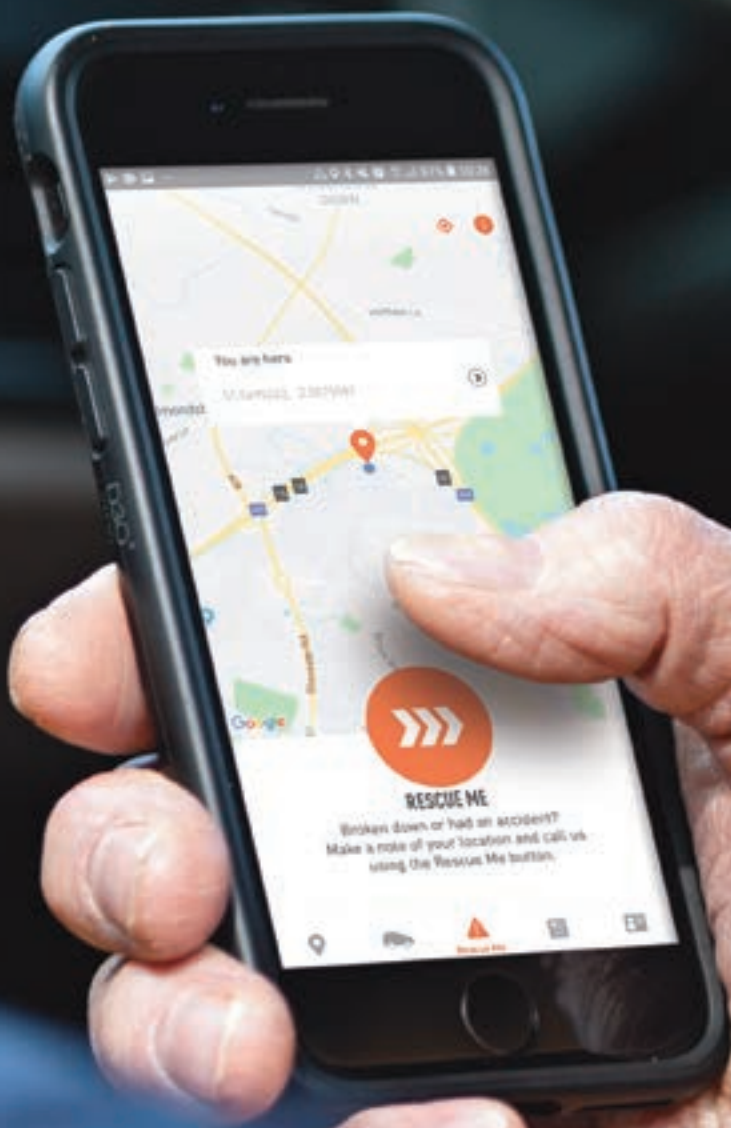
These Consolidated Financial Statements are presented for the year ended 31 December 2020. Comparatives are presented for the year ended 31 December 2019.

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



Our **“Complete Peace of Mind”** proposition is underpinned by our trusted brand, differentiated products, reputation for service and engaged colleagues. All powered by our unique data and digital platforms.





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Guy's and St Thomas' NHS
NHS Foundation Trust

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Strategic Report

For the year ended 31 December 2020



A message from our CEO



Dave Hobday

Chief Executive Officer

Delivering for our members and our colleagues through the pandemic

As Covid-19 hit, our focus was on ensuring we could continue to safely deliver service for our members and partners, keep roads clear, and secure colleague employment and wellbeing for the long-term.

Against that backdrop, I am proud of the performance and progress of RAC in 2020. It's clearly been a tough year and like many, we were hit with unprecedented challenge, closure of sales channels, operational impacts, constantly moving goal posts, new travel patterns, changing consumer behaviour and continual disruption. We rebalanced the business and safeguarded jobs, allowing us to continue to provide our essential services from the first lockdown and throughout the year. We added 600,000 members, balanced across all Divisions, and ended the year with over 12.7m members, strong customer satisfaction, operational improvements and positive colleague engagement.

As the business navigated through the crisis, we continued to lay the foundations to sustain our future. We developed new, broader driving services products and services alongside an expansion in our digital and data capabilities to help maintain momentum looking forward.





Group Revenue for the year was £624 million (2019: £631 million) underpinned by continued recurring subscription revenue growth. Following H1 year-on-year Covid-driven revenue decline, a strong second half of 2020 saw overall revenue above H2 2019 as plans delivered, Covid-19 restrictions eased and impacted business volumes began to return. EBITDA increased by £15 million (+7%) to £241 million, our 9th successive year of growth, driven by member growth, new products, data and digitally led services, revenue performance, retention improvements, and ongoing operational cost efficiency initiatives. Cash flow remained healthy at £222 million, up £17 million (+8%) vs 2019.

This performance underlines our enduring resilience and relevance, and our ability to stand-out from competition. We see favourable long-term structural growth trends in automotive mobility, digital and data. These are accelerating change and creating years of opportunity with RAC firmly at the heart of new ecosystems.

Our response to the crisis

Covid-19 has been the ultimate test of our strategy, our business model and our colleagues. We reacted quickly to face into the crisis and the whole company came together to handle unprecedented levels of pressure and change. The relevance of our differentiated propositions, resilience of our subscription-based business model and unique, over-arching promise of Complete Peace of Mind

during this time of critical need underpinned our performance throughout.

We introduced new ways of operating, transitioned to home working for the majority of office-based colleagues, reconfigured sites to ensure safe working conditions for those in essential customer-facing roles, provided PPE, introduced additional safety and social distancing measures at roadside and looked after those shielding and with health issues. We also helped thousands of NHS staff with free breakdown cover, discounts on batteries and colleague fundraising. The result was our best ever RAC engagement scores, reflecting the tireless efforts of the whole organisation to remain positive and stay safe.

We also supported our members with payment holidays and policy extensions, flexible membership, new products, new distribution channels, new digital functionality and new processes to keep them safe at roadside. Our highest ever customer satisfaction scores are testament to our focus on the fact we were there 24/7 for all our members, prioritising key workers and keeping the roads clear and the nation moving.

CEO review

For the year ended 31 December 2020

Our Strategy: “Brilliant Basics” and further differentiation continued to deliver core growth

“Brilliant Basics”, the first part of our strategy, has supported continued momentum in our Core Breakdown and Motor Insurance businesses, where there remains substantial opportunity to grow. We significantly out-performed the market by adding more new products and services, continuing to differentiate and innovate, and win members and partners from competitors. During the year we surpassed competition to become the UK’s #1 for Business Breakdown, and continued to grow our market share as the UK’s #2 overall roadside assistance provider and #3 motor insurance broker in the UK. The RAC emerges from 2020 stronger, more efficient and with the 600,000 membership increase testament to our unique propositions with plenty more to come.

In Consumer Roadside we grew our membership by 90,000. We delivered our lowest ever churn and launched our game-changing “Complete Breakdown Service” proposition. This sees us lead the market and further innovate away from competition. In addition, cross and upsell continued to drive revenues and provide more Complete Peace of Mind for members.

In Business Roadside we grew members by over 460,000, retaining all our key accounts (including Barclays, BGL, Co-Op Bank and RSA) and winning new business and new partners (including Mercedes Vans, Smart, Isuzu and By Miles). We also added new products and services with existing partners (including Renault, Porsche, Groupe PSA and NFU Mutual).

Our ability to differentiate on service while also reducing costs in call centres and at roadside, combined with a clear strategy of continued investment in data, new technologies like EVs and our digital platforms supports our success in Consumer and Business. This is further evidenced by our growing roster of new technology-enabled disruptors like Monzo where we can contribute to a seamless digital experience for their customers and support their growth ambitions.

In Insurance and Financial Services, we leveraged our unique data assets, broking model and data science and pricing capabilities to drive continued profitable volume growth resulting in over 65,000 more motor members during the year. Our proprietary “mileage data validation” capability enables our insurer panel to better segment risk, improve pricing and give us a unique sustainable competitive advantage.

“Continued investment in new technologies like EVs and our digital platforms drives our success in both the Consumer and Business markets.”



Our Strategy: “Adjacent Market Expansion” is enabling new revenue streams for years to come

“Adjacent Market Expansion”, the second part of our strategy, is opening up opportunities in the broader £40 billion driving services markets to give further long-term growth. Our scalable digital platforms, customer base, iconic brand and unique data give us a right to win in this exciting space.

For Consumer, we accelerated our entry into the underserved Service, Maintenance and Repair (SMR) market. Having built the UK’s largest independent garage network, we partnered with the technology business WhoCanFixMyCar.com to provide a seamless digital layer to connect our members with their local garage. Combined with our unique vehicle data, analytics and App, we can now enable new SMR products and revenue streams during 2021.

In Business, our entry into the growing and fragmented recalls and inspections market is well underway. New inspections partnerships including British Car Auctions, London Electric Vehicle Co and emerging online players Cinch and Cazoo, coupled with the Nissan, Hyundai and PSA recall

programmes means we are rapidly becoming the UK’s leading provider and go-to brand for Original Equipment Manufacturers (OEMs) and car dealers. We inspected almost half a million vehicles in the second half of 2020, up nearly twenty-fold versus the whole of 2019, demonstrating our ability to quickly and effectively leverage our technical expertise and operational platforms to add value to our partners’ operations while simultaneously providing a new source of data.

In the Insuretech space, we successfully trialled our pioneering “Pay by Mile” proposition which will launch in H1 2021. This combines RAC’s trusted brand, data and pricing capabilities and telematics expertise with a flexible and scalable app based digital platform to create a convenient, value-for-money solution that meets the untapped demands of a growing number of low mileage drivers.

Finally we are doubling down on the growing SME segment where we are beginning to take share and will expand our Accident Services proposition.

Together these opportunities are perfectly timed for RAC to capitalise on the acceleration of digital and consumption-based services, and to take material share in new and growing markets.

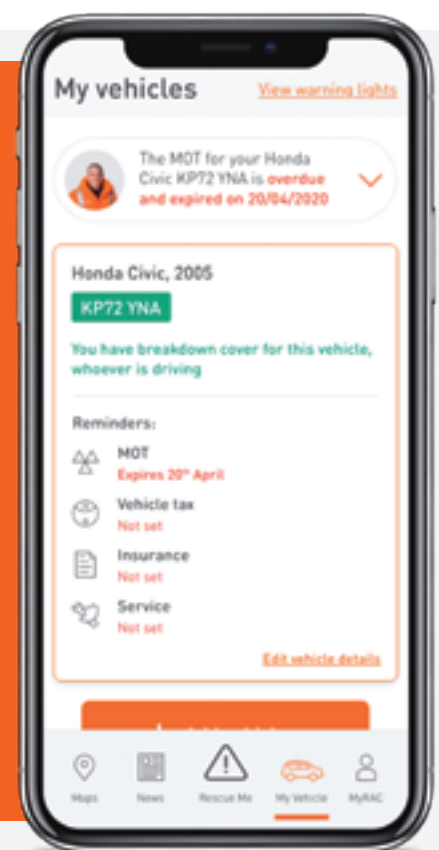
Spotlight: MyRAC

The number of customers registered with our digital platform, MyRAC is now over 1 million, and it’s still growing.

During the year we redesigned the MyRAC homepage to make it more engaging. Customers now see a benefits-led page that reinforces our ‘Complete Peace of Mind’ promise, tailored to highlight important information and make it clearer and quicker to see what’s relevant on the page.

In November we re-launched the MyRAC app, giving instant access to policy documents, cover information and member benefits, plus options to update vehicle and contact details. We have also made life on the road that bit easier by enabling customers to plan routes, avoid traffic jams and never forget a key date for their cars with handy reminders that provide ‘Complete Peace of Mind’ for their driving needs from a brand they can trust.

These important milestones provide a stable foundation for us to build on and deliver the MyRAC vision, with customers seeing a steady flow of new features, functions and improvements throughout 2021.



CEO review

For the year ended 31 December 2020



Gavin, RAC patrol since 2006

Digital platforms and big data continue to unlock more opportunities

Underpinning our Core business and new adjacent markets are digital platforms and RAC's unique data. With tens of millions of interactions with vehicles and customers every year, and exponential growth in connected cars, we have access to a wealth of information. This is helping us to improve our own operation, offer new services to members and partners, and ultimately build the UK's biggest driver and vehicle 'data lake' to facilitate future partnerships and new revenue streams and position RAC ever more firmly at the heart of new mobility ecosystems.

Continued investments in our operational digital 'intelligent breakdown deployment' capabilities allow us to use real-time, predictive algorithms to manage communications and patrol deployment giving better service and reducing costs.

“Continued investments in our digital 'intelligent breakdown deployment' capabilities helped us to better serve our members and deliver further efficiencies.

Further our new digital smartphone "Locate Me" functionality allows patrols to locate members with pinpoint accuracy saving time, and we are continuing to develop "TrackMyRescue", showing the patrol en-route and saving repeat calls.

MyRAC, our digital subscription platform, enables members to seamlessly access RAC's products and services. We have over 1 million members engaging with the platform which has doubled in 12 months. During 2021 we will open up MyRAC to our 9.5 million Business members. We continue developing the platform, introducing more tools like online breakdown reporting and using our data to add relevant functionality including MOT reminders.

Our "remote fix" capability uses video calling and image enhancement technology to resolve breakdowns without the need to send a patrol. This not only improves service and cost, but because it is delivered via our proprietary smartphone technology, we are able to add diagnostic data. This is very powerful for our OEM partners allowing them to improve their products and services and allowing us to create further value.

RAC is at the heart of new emerging mobility trends and ecosystems

As the mobility industry evolves, RAC is perfectly positioned in this increasingly complex world. With our most trusted automotive brand and 123 year history, ever-expanding driver and vehicle “data lake”, digital platforms and growing 12.7 million member relationships RAC is starting to capitalise on the changes ahead.

The most obvious mobility shift is to Electric Vehicles and RAC is already “#1 for EVs”. We are the only provider with onboard charging technology and state-of-the-art Patrol vans to support the growing EV car parc. Our inspections and recalls engineers are leading the way in EVs and our EV customer service skills are used by Hyundai, Porsche and Renault Group to support their customers with all aspects of owning an EV vehicle. Looking forward we will continue to grow our EV products and services, directly and with partners, to remain at the leading edge of this growing market opportunity.

Another change is the emergence of the “Connected Car” and by 2030 70%+ of the UK car parc will be connected. With every new connected vehicle we increase our “data lake”, allowing more new data-centric opportunities for members, OEMs and third parties. RAC is well set through our market leading “Black Box Insurance” proposition, telematics technology, and “bCall” (Breakdown Call) provision. We are working now with leading manufacturers and telecom partners to develop and deliver connected propositions including “Porsche Connect” which already puts us at the heart of the Porsche owners’ digital driving experience.

Confident in our core. Excited about the future opportunities we are bringing to market

We have managed our way through the crisis, sustained our growth trajectory, and now have the potential to accelerate as we expand into more of the £40 billion driving services market. Our confidence is grounded in the strength of our Core Breakdown and Motor Insurance businesses which were tested to extremes through Covid-19 and did not miss a beat. The investments in new markets are already reaping rewards and play to our strengths.

More than ever, this unprecedented year has proven how crucial our colleagues are to the success of RAC. I would like to thank all our #OrangeHeroes for their hard work, passion and determination and for how they have come together to make RAC stronger than ever. Their commitment is inspirational and underpins every element of our performance.

2021 has started well, with customer numbers, revenue and EBITDA all up and putting us on track to deliver our 10th consecutive year of sustainable growth. We have already made further demonstrable progress in our efforts to expand and diversify our revenue streams underpinned by digital and data. We are excited about the long-term future and RAC’s position at the heart of new mobility ecosystems.

“ I would like to thank all our **#OrangeHeroes** for their hard work, passion and determination and for how they have come together to make RAC stronger through the crisis.

Dave Hobday, RAC CEO

A message from our CFO



Jo Baker

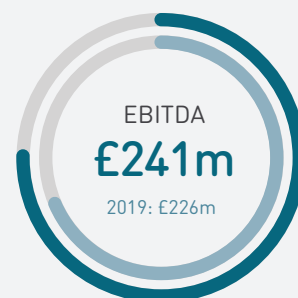
Chief Financial Officer

The Consolidated Financial Statements of the RAC Group are set out from page 76 onwards.

The Group made further operational and financial progress in 2020, materially growing the membership base in each of our divisions and maintaining a relentless focus on service to deliver **Complete Peace of Mind** to members. As a result, we delivered our 9th consecutive year of EBITDA growth.



Gurmakh, RAC patrol since 2003

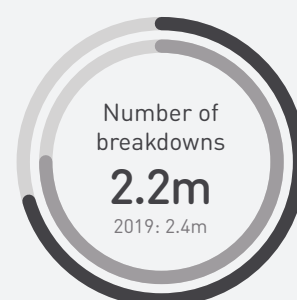


Financial Highlights

- Overall Membership grew by 0.6 million to 12.7 million (2019: 12.1 million), driven by strong new business flows across all divisions and Consumer Breakdown churn at a record low of 15.0% (2019: 15.6%)
- Group revenue increased in H2 compared to prior year and at £624 million (2019: £631 million) was only 1% down overall for the full year, as continued growth in our recurring subscription revenues largely offset the volume related reductions seen during periods of national lockdown
- Operating costs of £383 million were 5% lower than prior year (2019: £405 million), as we adapted our deployment model to reduce costs across our breakdown operations
- EBITDA grew by £15 million or +7% to £241 million (2019: £226 million), and operating profit grew by £25 million or +25% to £126 million (2019: £101 million)
- Net cash flow from operating activities was £17 million higher at £222 million (2019: £205 million), with a cash conversion ratio of 92% (2019: 91%). Capital investment of £54 million (2019: £47 million) ensures we continue to be well invested for our Core and our new Adjacent Markets
- We successfully refinanced our Senior Term Facility ("STF") and Working Capital Facility ("WCF") ahead of maturity on more favourable terms, and completed a buyback of £65 million of our Class B1 Notes, reducing net debt leverage to 5.7x

Consolidated Income statement

	2020 £m	2019 £m
Revenue	624	631
EBITDA before exceptional items	241	226
Depreciation	(19)	(18)
Amortisation	(95)	(107)
Exceptional items	(1)	-
Operating profit	126	101
Finance expenses	(76)	(76)
Profit before tax	50	25
Tax (charge)/credit	(32)	2
Profit after tax	18	27



CFO review

For the year ended 31 December 2020

Group Revenue for the year was £624 million, a decrease of £7 million (-1%) compared to 2019, on account of lower volumes due to the effects of the nationwide restrictions on movement, particularly in the first half of the year. Revenues returned to growth in the second half of the year and we entered 2021 with strong momentum.

Our core recurring breakdown and insurance subscription revenues continued to grow throughout the year, supported by growth in our membership numbers across all areas of the Group. In addition, we saw buoyant growth in cross-sales of add-on options to our members in both roadside and insurance, and in business we added revenue through extending existing relationships into new products and services.

We experienced reductions in volume-related revenues in some areas, which were offset by lower volume-related costs. The areas impacted included our pay-on-use corporate revenues, claims and fee revenues in our insurance business, and specific product lines such as European Breakdown Cover. We expect all of these to return to growth as volumes return.

Revenues from Accident Management Services in Business Breakdown also reduced as we moved to a new partnership model to enhance the services offered to our customers and position ourselves for future growth. As a result, we now recognise income on a net basis rather than gross revenue and cost of sales. This will have a negligible impact on EBITDA.

EBITDA of £241 million was £15 million (+7%) higher than 2019. This performance was underpinned by sustainable and profitable growth in membership numbers and locked-in structural cost efficiencies delivered during the year, as well as lower volume-related costs. We took the opportunity during the first lockdown to reshape our deployment model, accelerating investment in our digital capability and recruiting additional patrols to reduce our reliance on third party garage contractors from already low levels. Together these investments have led to a material reduction in costs as well as directly benefitting customer experience.

Depreciation was £19 million (2019: £18 million) with the increase due primarily to additional investments to support the increase in the number of patrols at roadside.

Amortisation of intangible assets amounted to £95 million (2019: £107 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. The reduction in the charge during the year was due to insurance customer lists now being fully amortised.

Exceptional items of £1 million have been incurred in 2020 (2019: £nil) comprising one-off restructuring costs in relation to a Group re-organisation completed during the year.



Bobbie, RAC patrol since 2019

Consolidated Statement of financial position

	2020 £m	2019 £m
Goodwill and intangible assets	1,914	1,974
Contract costs	32	29
Property, plant and equipment	34	25
Right of Use asset	61	67
Trade and other receivables	46	53
Trade and other payables	(286)	(287)
Net current liabilities	(104)	(111)
Borrowings	(1,408)	(1,434)
Shareholders' equity	299	327

Finance expenses of £76 million were incurred in 2020 (2019: £76 million). A reduction in underlying interest costs was offset by one-off costs relating to the refinancing of the Senior Term Facility and the Class B buyback during the year.

Profit before tax in 2020 was £50 million (2019: £25 million). The 2020 tax charge increased to £32m, as a result of the announcement in the Budget 2020 that the main rate of corporation tax will remain at 19% for the accounting periods up to and including the years ending 31 December 2021 which has increased the deferred tax liabilities and hence the tax charge.

As at 31 December 2020, goodwill and intangible assets amounted to £1,914 million (2019: £1,974 million) primarily representing the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The movement of £60 million primarily reflects amortisation in the period, offset by additions to capitalised software development costs and customer acquisition intangibles during the year.

Contract costs of £32 million (2019: £29 million) relate to commissions and fees paid to third parties, arising because of a direct sale of an insurance policy. The increase reflects the growth in the volume of sales during the year.

Property, plant and equipment of £34 million as at 31 December 2020 (2019: £25 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group. The increase of £9 million during the year reflects £7 million investment in technology hardware

as part of a Group-wide project to replace colleague devices, as well as £2 million relating to our ongoing programme of maintenance and investment in our sites.

Right of Use assets of £61 million (2019: £67 million) relate to IFRS 16 'Leases' and comprise vehicles and properties. The £6 million decrease primarily reflects the depreciation of existing leased vehicles.

Trade and other receivables of £46 million (2019: £53 million) are primarily comprised of trade receivables of £14 million (2019: £14 million) and prepayments and accrued income of £25 million (2019: £33 million). The £8m decrease in prepayments and accrued income primarily reflects a reduction in Accident Management Services revenue (due to the changes in operating model) and the purchase of technology hardware (spend committed and treated as a prepayment at 2019 year-end).

“ We took the opportunity during the first lockdown to reshape our deployment model, accelerate investment in our digital capability, and recruit additional patrols.

CFO review

For the year ended 31 December 2020

Trade and other payables of £286 million (2019: £287 million) predominantly represent deferred income of £118 million (2019: £113 million) relating to subscriptions revenue received in advance, and £168 million (2019: £174 million) of trade payables, accruals and other payables including lease liabilities of £67 million recognised under IFRS 16 'Leases' (2019: £71 million).

The Group has net current liabilities of £104 million as at 31 December 2020 (2019: £111 million) reflective of the working capital structure of the business where we benefit from most customers paying for our services in advance, which results in up-front cash receipts and a partially offsetting current liability in deferred income.

The capital structure of the Group consists of third-party bank borrowings amounting to £297 million (2019: £260 million) and bonds issued of

£1,111 million (2019: £1,174 million). The Group remains strongly cash generative and successfully refinanced its £300 million Senior Term Loan and £50 million Working Capital Facilities in January 2020 (ahead of maturity), achieving a reduction of 25 basis points compared to the terms of the original facilities as well as increasing borrowings by £38 million.

This additional funding, in addition to excess cashflow, was used to buy-back £65m of RAC Bond Co plc's £275m Class B1 Secured Notes, reducing third party leverage at year end to 5.7x (2019: 6.3x). Standard & Poor's reaffirmed the ratings on the Group's Class A Notes (at BBB-) and Class B Notes (at B) on 31 July 2020.

A summary of the Group's funding structure is set out to the right.

Spotlight: Boosting our EV Capability

Since 2019 the RAC has brought peace of mind to electric vehicle (EV) owners with the introduction of the UK's only mobile EV charging capability; and with the sale of both petrol and diesel cars banned from 2030 in the United Kingdom, we are well placed to support this transition with our experience of hybrid technologies and practical knowledge of EVs.

Range anxiety is a common phenomenon, particularly among those new to EVs, and our mobile charger helps to reassure drivers that there is help available in the unlikely event that they do run out of charge.

Capable of giving stranded out-of-charge cars an up to 10 mile power boost from one of its standard orange roadside rescue vans, the RAC EV Boost charger works with all Type 1 and Type 2 connections ensuring it will charge 99% of electric vehicles on UK roads today and in the future.

With nearly 100 vans already equipped and located in high density EV areas, the capability is being added to more orange vans during 2021.



Gavin, RAC patrol since 2006

Group funding structure

	2020 £m	%	2019 £m	%
Third Party Borrowings				
Bank borrowings	297	17.0	260	14.7
Bonds	1,111	63.6	1,174	66.2
Related Party Sources				
Ordinary shares	339	19.4	339	19.1
Total Sources	1,747	100.0	1,773	100
Undrawn working capital facility	48		49	
Total Committed Facilities	1,795		1,822	
Gross Debt	1,408		1,434	
Unrestricted Cash	(98)		(87)	
Restricted Cash	(8)		(8)	
Total Cash	(106)		(95)	
Net Debt	1,302		1,339	
IFRS 16 Liability	67		71	
3rd Party Leverage ¹	5.7x		6.3x	
Senior Leverage ²	4.8x		5.1x	

¹ 3rd Party Leverage calculated as drawn 3rd party gross debt plus IFRS 16 lease liabilities less unrestricted cash, divided by EBITDA

² Senior Leverage calculated as drawn 3rd party Senior debt (Senior Term Facility plus Class A1 and A2 Notes) plus IFRS 16 lease liabilities less unrestricted cash, divided by EBITDA

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

- The Initial Senior Term Facility, 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 B1 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 2020 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

	2020 £m	2019 £m
Cash and cash equivalents	106	98
Net cash flows from operating activities	222	205
Interest paid	(71)	(71)
Net increase in cash and cash equivalents	8	2

The RAC Bidco Limited Group generated a net cash inflow from operating activities of £222 million (2019: £205 million), an increase in EBITDA conversion to 92% (2019: 91%). Interest paid was £71 million (2019: £71 million), with a broadly neutral impact from the £300 million Senior Term Loan and £50 million Working Capital Facilities refinancing and buy-back of £65m Class B1 Notes in the year.

CFO review

For the year ended 31 December 2020

Capital investment totalled £54 million in the year (2019: £47 million). £24 million of spend related to customer acquisition intangibles and contract costs (2019: £28 million), connected to the growth in customers and subscription revenue seen in the period and the remaining £30 million to investment and maintenance capital projects. This includes £2.5 million that was committed and held in prepayments in 2019.

Specific customer facing projects undertaken in the year included the development of the 'Complete Breakdown' Consumer proposition, further functionality and enhancements made to the 'MyRAC' digital platform and app, and investment in a new customer management platform, giving greater capability to personalise offers and communications for customers. We also made significant investments to develop our insurance operating platform for the future, including in house pricing models and ongoing development of our unique data assets.

We also continued to invest more at roadside by increasing our fleet of unique rapidly deployable 'all wheels up' trailers and award winning 'Heavy Duty 4x4' patrol vehicles, and expansion of our Electric and Hybrid vehicle charging capabilities.

Consistent capital spend ensures that we continue to be well-invested for our Core Business and for our new Adjacent Markets, supporting our growth trajectory and helping to unlock further value.

Key Performance Indicators ("KPIs")

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

	2020	2019
Revenue (£m)	624	631
EBITDA before exceptional items (£m) ¹	241	226
Operating profit (£m)	126	101
Number of breakdowns (million)	2.2	2.4
Consumer Membership Services churn rate (%) ²	15.0	15.6
Total Group members – (million)	12.7	12.1
– Membership Services members – Consumer (million)	2.5	2.4
– Membership Services members – Business (million)	9.5	9.0
– Insurance & Financial Services members (million)	0.7	0.7

¹ Earnings before interest, tax, depreciation, amortisation, and exceptional items. The Board believes that the use of EBITDA pre-exceptional items gives a better indication of the underlying performance of the group. This is consistent with how business performance is measured internally.

² The percentage of Members leaving as a proportion of opening filesize plus acquisitions, measured over a rolling 12-month period.

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

For commentary on the Key Performance Indicators, refer to the Divisional Review on pages 22 – 26.

Outlook

Given the strong trading performance and operating cash generation, despite the challenges of the Covid-19 crisis, I am confident that the Group continues to be well positioned for further growth in 2021.

Spotlight: Complete Breakdown

As part of our Complete Peace of Mind vision, we took our breakdown product to a new level in October 2020 with the launch of our new and game changing 'Complete Breakdown' packages.

In the context of fewer but more critical journeys in a post-Covid world, the peace of mind of having good roadside assistance becomes even more important. However, a recent RAC study found:

- 8 in 10 customers believe a breakdown policy should cover you both at home and at the roadside as standard.
- Nearly 1 in 2 customers find it very inconvenient to be without their car for a short period while it was being fixed.
- And another 8 in 10 customers worry about being overcharged when taking their car to a garage and 6 in 10 not fully understanding 'garage speak'.

Our three unique new cover packages offer a range of inclusive benefits and show just how breakdown cover should be in the 21st century; as much about what happens after the call-out as what happens during it.

Complete Breakdown means every customer is rescued wherever they break down, including at home, is given help with garages and has access to alternative transport if their car can't be fixed immediately, whatever the cover level. A far greater range of benefits than customers could buy elsewhere for the same money.

So, our groundbreaking 'complete breakdown' is just the peace of mind needed.



CFO review

For the year ended 31 December 2020

Membership Services

	£m	2020	2019
Consumer Breakdown Members	000s	2,470	2,377
Business Breakdown Members	000s	9,504	9,039
Total Membership Services Members	000s	11,974	11,416
Number of Breakdowns	m	2.23	2.40
Roadside Repair Rate	%	82	81
Consumer Breakdown Churn Rate	%	15.0	15.6
Membership Services Revenue	£m	521	535
Membership Services EBITDA	£m	239	222
Membership Services Operating Margin	%	46%	41%

The resilience shown in all three of our consumer, small business and larger business bases was strong in 2020, and we grew Membership Services by 5% to 12.0 million members, an increase of over 550,000 from 2019. We saw strong acquisition and retention performance in all areas, despite the impact of Covid-19, and broadly stable average revenue per user (ARPU). We are particularly proud that our growth in year made us the #1 breakdown provider for business.

Our Membership Services revenue reduced by 5%, reflecting the impact of lockdown restrictions on our pay-on-use corporate revenues, offset by lower volume-related costs, and a reduction in revenue from our Accident Management Services business, where we outsourced some of the specialist services to a third party during the year to support our plans for future growth. Encouragingly, our core recurring subscription revenues continued to grow during the period, supported by the growth in membership numbers. We also saw strong performance in sales of batteries and parts, and significant growth in revenues from our recalls and inspections services and branded contact centre services for OEMs which helped to support revenue and margin across the division.

Membership Services EBITDA increased by 8% to £239 million with costs reducing significantly, in line with lower activity levels. Breakdown volumes reduced by 7%, reflecting the government-mandated restrictions on movement and changes to working patterns as a result of Covid-19. We expect the impact of these changes to abate as we go into 2021 and return to more normal usage levels. We worked hard to sustain our cost efficiency in light of lower activity levels and reduced our spend on third party garage contractors significantly at the beginning of the first lockdown, which reduced our cost per breakdown. Having seen the benefit of this change, we recruited more patrols in the second half of the year to lock in these improvements for the future, securing an overall reduction in our cost to serve for the long term.

Consumer Breakdown

Strong retention and acquisition performance as well as continued product innovation has fuelled the continued membership and ARPU growth of our Consumer base.

We reduced our consumer churn to a best ever level of 15.0% on the back of good performance in our inbound and outbound call centres and continued investment in our retention customer experience with enhancements to our digital tools, loyalty scheme and renewal pricing all delivering results. Our H2 performance was particularly strong, giving us good momentum into 2021.

Our acquisition performance has also been at record levels across the year, with many customers new to the RAC recognising the importance of having breakdown cover in present times. Due to the changing external environment, we have also diversified our sales channels in 2020 with a series of new affinity partnerships and a launch of a value product into the aggregator channel, giving us a stronger foundation to take into 2021. This is all supported by investment in a new marketing system we implemented across our estate during the year, giving us greater capability to personalise offers and communications for both customers and prospects.

Business Breakdown

We continue to see strong growth in our business breakdown membership base, underpinned by the depth of the relationships we have with over 300 corporate and 15 OEM partners, and we remain extremely proud of our strong retention performance, maintaining relationships with all of our key accounts in the year, including notable renewals for Barclays, Kia and Co-Op Bank. We also further improved our reach, winning a number of new business accounts, including British Car Auctions, Isuzu and London Electric Vehicle Company. We also continued to deepen existing partnerships, with a mix of joint marketing and expansion of core products and services with Renault, Porsche, Groupe PSA and NFU Mutual. All helped us move to the top spot as #1 for business breakdown.

In addition, we continued to focus on diversifying our business revenue streams across 2020, in particular in inspections and recalls where we believe we have significant opportunity. We completed almost half a million Inspections and recalls in 2020 and are targeting over 1 million in 2021.

Digital and Data

We continued to invest in our roadside service across the year, increasing our overall number of roadside patrols as well as further investments in our call centre capabilities and significantly, extensive additional investment in our digital estate. These helped to drive our best ever customer satisfaction scores as well as reducing our overall costs.

By the end of 2020 we achieved the milestone of 1 million members having access to our MyRAC digital platform where they can quickly and seamlessly access the RAC for easy registration, MOT and tax reminders, RAC product access and loyalty rewards.

Operationally, we also enhanced our end to end "Digital Breakdown" capabilities in the year, including upgrades to our 'intelligent deployment' system and processes, helping us to better serve our members as well as deliver further operational efficiencies. Members can now directly log an incident via our MyRAC app or online, enabling us to seamlessly auto-dispatch our patrols to them. Our newly launched 'Locate Me' functionality has materially improved the ability of our patrols to locate broken-down members "first time" in instances where the member is unaware of their location. Finally, members can then get live updates via 'TrackMyRescue', rounding off our Complete Peace of Mind service when they need it most.

“ We continued to focus on diversifying our business revenue streams across 2020.

CFO review

For the year ended 31 December 2020

2021 Outlook

Our Membership Services division enters 2021 well set for another strong year. Our evolution across 2020 sees us with an even stronger foundation from which to build further. We have more and deeper partnerships, strong consumer and business member retention, an increasingly differentiated proposition and a growing network of support services, all underpinned by an enhanced and digitally-enabled roadside service model.

We also expect market mobility trends to continue to work in our favour across the year, both at the micro and macro level. For example, from increased UK staycations through to a growing EV car parc from which we can best exploit our '#1 for EVs' market position.

We are confident our Complete Peace of Mind strategy continues to set us apart from our competition and deliver better and better service to our members.

“We're proud to partner with the RAC for our breakdown needs and they continue to be a strong partner, never more so than through the Covid-19 challenges of 2020. We were delighted for them when they achieved #1 for business roadside this year.

Mark Thomason, Renault UK

Spotlight: Recalls and Inspections

As the car market evolves and new business models develop, including the increase of online car sales and 'on the drive' delivery, RAC is creating new services to support these exciting growth areas. Using our highly skilled technicians, we provide unique services that are very difficult to replicate. Our business has increased significantly in 2020 and is expected to double again in 2021.

In 2020, we won the inspections business for BCA, Europe's largest vehicle remarketing and automotive services group. The deal, the largest of its kind in the UK, sees the RAC carrying out pre-auction inspections on around 770,000

vehicles, and capturing additional vehicle data to provide BCA with richer insight into the condition of vehicles that it handles. We have also entered into partnerships with Cinch and Cazoo, online car retailers, to provide quality inspections to support their rapidly growing businesses and provide an independent "seal of approval" on the cars that they sell, creating additional value for both parties.

We see scope for further benefits as we gather data from the vehicles and link this to the other data available via our breakdown or insurance products to create unique insight which will add even more value to customers and partners in the future.



Ed, RAC inspector since 1988

Insurance and Financial Services

	£m	2020	2019
Total Motor and Black Box Insurance Members	000s	683	615
Total Insurance Members	000s	747	704
Insurance & FS Gross Revenue	£m	103	96
Insurance & FS EBITDA	£m	45	44
Insurance Operating Margin	%	44%	46%

RAC's core Insurance Broker business continued to grow strongly despite the challenges of the Covid-19 crisis. Total Car Insurance customers grew by 11% to 683k and this led to overall Insurance Broker revenue growth of 7%, despite reductions due to lockdown in some of the key revenue streams such as claims and fee income. The reduction in those revenue streams meant that EBITDA grew by 2%. The combination of customer and revenue growth means we are well placed as the impact of Covid-19 reduces in 2021 and the benefit of all income streams returns.

In 2020 we had a strong focus on dedicated actions to retain more of our customers and a combination of improved customer communication, bespoke targeted offers and price optimisation meant that 348k customers renewed their car insurance with RAC, an increase of 47k on 2019.

Our growth in Telematics Car Insurance was impacted by fewer driving tests in 2020 but we have been redeveloping our product in anticipation of demand returning in 2021. We continue to invest in our telematics solutions for fleet customers which allow us to leverage our strong B2B relationships in the sector.

Other insurance policies in force declined in 2020 as a result of deliberate action to manage down volumes for Van and Home Insurance with existing partners in advance of the relaunch of these products on our new broker platform which will go live in H1 2021.

In financial services we have continued to grow our legal expenses insurance products which have seen increased demand as uncertainty caused by Covid-19 has led to increased use of legal helpline services, particularly for employment-related queries. This has supported legal expenses insurance customer growth to 1.7m from a combination of new customer wins (including Atlanta Group) and growth of our existing customers. The impending implementation of the Civil Liabilities Act is increasing demand for our unique offering in this market with a strong pipeline of opportunity as we enter 2021.

We have supported customers during the Covid-19 crisis with several initiatives including assistance in the event of payment difficulties, free cover changes if customers need to use their car in different ways and proactively discussing price changes for customers that have reduced their mileage.

This support combined with improvements to digital purchase journeys implemented during H2 2020 has led satisfaction as measured by Net Promoter Score to record highs and in the top quartile of industry peers.

CFO review

For the year ended 31 December 2020

Digital and Data

One of our core differentiators that underpinned customer growth in 2020 is the unique RAC insight, developed in house, to assist the underwriters on our insurance panel to more competitively price insurance risk. This was extended to the majority of our panel during the year and was used in 75% of new sales by Q4 2020, with additional data factors planned for launch in 2021.

There will be significant changes in the Car Insurance Market over the next two years following the draft remedies published by the FCA following their General Insurance Market Study. We welcome the intent of the changes to ensure fair pricing for all customers and our investment in data and pricing allied to the improvement in retention performance means that we are well positioned to continue to grow as we implement the requirements of the new regulation.

2021 Outlook

The Insurance Market remains highly competitive but our core differentiators that have underpinned our growth to date remain highly relevant and our continued investment into proprietary insight into insurance risk will underpin future growth.

Furthermore, the improvements we saw in retaining customers in 2020 demonstrated the significant opportunity that this represents. Our plans draw learnings from our Consumer Breakdown business including better propositions for existing customers that reinforce the RAC difference, improving operational performance alongside ensuring that our existing customers have highly competitive prices. Together, these initiatives mean that we have clear line of sight to material increases in the proportion of customers that we retain.

Finally, we have also improved the sophistication of our retail pricing with the investment in market leading software – ‘Radar live’ – that will go live Q1 2021. This will increase our analytics capability and the speed and frequency of price changes enabling us to better realise market opportunities as they will undoubtedly emerge in 2021.

“One of our core differentiators that underpinned customer growth in 2020 is the unique RAC insight, developed in house, to assist the underwriters on our insurance panel to more competitively price insurance risk.

Spotlight: Pay by Mile Car Insurance

The overall number of miles driven by consumers in the UK is reducing, but conversely car ownership is increasing, meaning more cars driving fewer miles.

The number of miles a customer drives directly correlates to insurance risk, however, current insurance products rely on the estimate customers provide when getting a quote which results in many drivers paying more than they need to.

Analysis of insurance quotes prior to Covid-19 showed 36% of motorists drive less than 6,000 miles, which means there is a significant market opportunity for a differentiated proposition that recognises this. If anything, this

opportunity has only increased as a result of Covid-19.

RAC's new Pay by Mile car insurance is a new digital monthly subscription proposition designed to meet that customer need by only charging for the actual miles driven.

Launching in H1 2021, it has been developed by bringing together RAC's connected expertise to create a low-cost solution to measure mileage, delivered via a digital subscription platform built by insure-tech experts Wrisk (in whom RAC invested in 2019). Policies will be underwritten by LV leveraging RAC risk insight to create a highly competitive proposition for this large untapped market.







Strategic Management

For the year ended 31 December 2020



Principal activity

The RAC Group 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. There were no significant changes in those activities during the year.

Strategic Management

For the year ended 31 December 2020

Business model

Our business model is built around providing Complete Peace of Mind to our members for all their driving needs. We are set up to deliver long term sustainable growth from a growing base of subscription customers, underpinned by a quality customer experience and enabled by digital platforms, data and our colleagues.

In Membership Services for Consumers, we provide breakdown cover and a broad range of exclusive optional extras to individual members and small business owners on either an annual or flexible monthly subscription basis, and a related range of garage services and third-party products through partners. As a result of launching and cross-selling new products, we now derive over 10% of our consumer revenue from non-breakdown services. We acquire customers through a range of channels including direct to our website, paid and organic search, price comparison websites, direct sales agents, and multiple partners and affiliates. We focus on growing the base through new acquisitions, maximising our cross-sell opportunities and delivering great service and fair pricing to maximise retention.

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

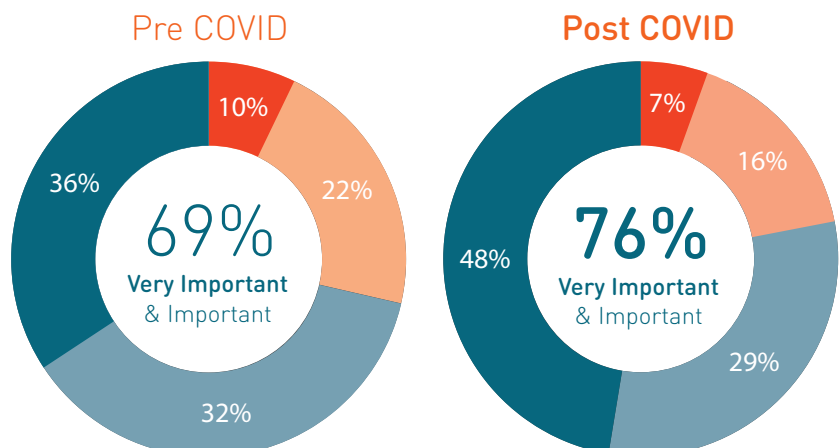
and working with existing partners to profitably grow the customer base, while driving additional value through cross sell of related products and services. Our innovation in motoring services means that over 30% of our business revenue is now derived from non-breakdown services.

Our breakdown service is delivered 24/7 by an outstanding team of dedicated patrols and front-line colleagues. Through our ongoing investment in training and development, we continue to deliver the strong levels of customer service that distinguish us positively from our competitors, supporting better retention rates and sustainable business growth. Recent technical innovations and investments in 'All Wheels Up Recovery' and 'EV boost' mean our patrol fleet continues to lead the industry and benefit from a unique and comprehensive capability to carry out effective repairs at the roadside, or to recover members' vehicles if required.

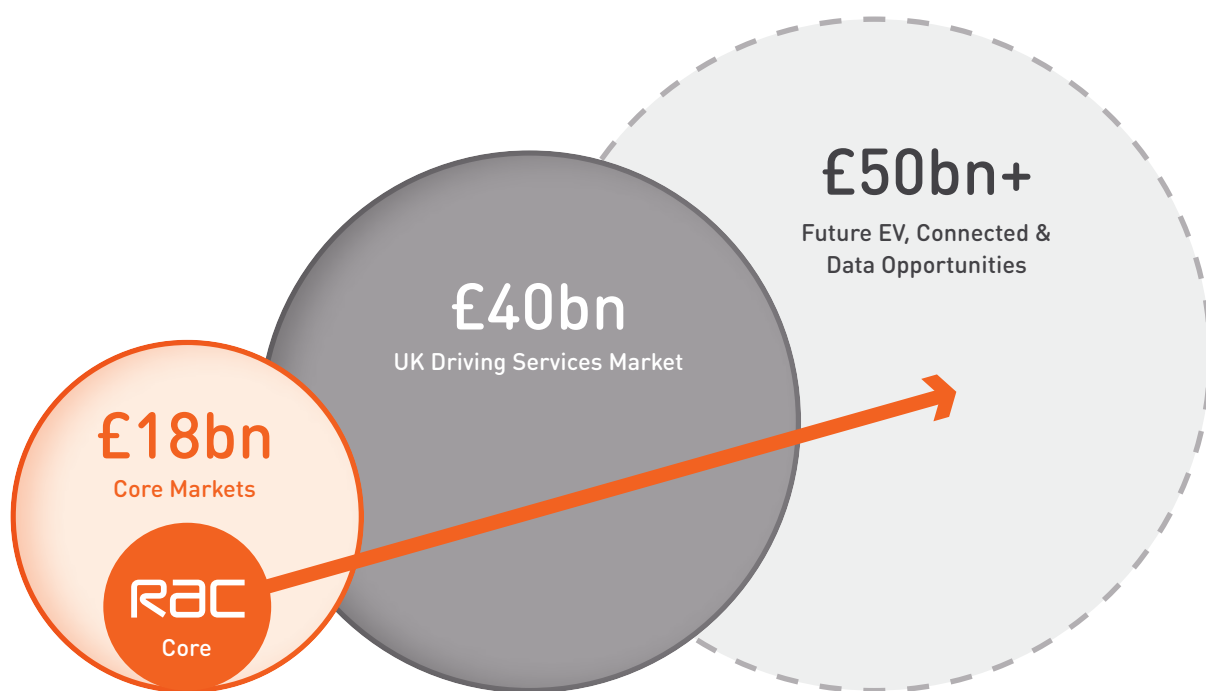
In Insurance and Financial Services, we offer primarily motor and telematics insurance policies through price comparison websites. As a broker, we work with a panel of leading underwriters and leverage our unique and differentiated data assets and data science capabilities to obtain the most competitive rates for our customers, leading the thinking on how to split risks with insurers. Coupled with the investments we have made in putting Insurer Hosted Pricing into our panel, which enables us to get more competitive quotes in real time, and our own in-house pricing capabilities, this puts us in a strong position to continue to successfully acquire and retain profitable customers.

Increased importance of cars to customers post covid

- Very Important
- Important



Source: Roland Berger Automotive Disruption Radar #8



Our markets

Our Core markets are breakdown and motor insurance. In breakdown we have an overall market share of around 35%, with a strong position in both the Consumer market, where we are the second largest player, and the B2B market where we are now the largest provider. In insurance we have less than 1% market share overall.

Over the last twelve months, the services we offer have proved increasingly relevant. Customer reliance on cars has increased, despite an overall reduction in miles driven, with more people saying that their car is important to them, and the used car parc is growing, ensuring the demand for our Core products continues to grow. In addition, there has been a shift towards online retail, necessitating a growing network of delivery vehicles, which will drive accelerated growth in demand for van and commercial breakdown. Connected to the growth in online, we have seen a rapid increase in digital adoption across segments, where our unique capabilities put us in a strong position to differentiate as MyRAC continues to evolve and become our central platform for new products and services, leading to sustainably better cost efficiency.

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

Adjacent to our Core markets are related “Driving Services” markets within fragmented market sectors, which represent £40 billion in value. The strength and consistency of the performance in our Core Businesses allow us to focus now on expanding into areas where we have identified opportunities to leverage our expertise and brand. The size of these markets mean that fractional gains can lead to a significant acceleration in growth.

Longer term, structural growth trends in mobility and advances in automotive technology are accelerating change, creating ever more complex vehicles and putting our technical capabilities even more in demand. We are at an inflexion point, with electric vehicles growing exponentially and projected to overtake the number of ICE vehicles in the next 15 to 20 years, reaching an estimated 18 million vehicles by 2035. Connected car technology is already at scale and expected to reach 70% penetration in the next 10 years. With new technologies and increased options appearing on the market, consumers need guidance and OEMs need help supporting their customers through the lifecycle.

These macro trends create present immediate and growing opportunities. The RAC is perfectly positioned at the centre of these emerging new ecosystems to leverage our leading position and scale, our trusted brand, our unique driver and vehicle data and our growing 12.7 million member relationships to capitalise on these trends.

Strategic Management

For the year ended 31 December 2020

Our strategy

Our vision is to become the UK's leading driving services subscription business and the UK leader in future mobility solutions, providing **Complete Peace of Mind** for all of our customers' driving needs. Our strategy to achieve that vision remains consistent, with a continued focus on growing our Core Businesses of breakdown and motor insurance providing the foundation and the momentum to expand well beyond our Core and exploit changes in the automotive mobility sector to capitalise on new opportunities for continued, sustainable long-term growth.

Strategic objectives

Continue delivering **"Brilliant Basics"** across our core divisions, building on what is already working and underpinning our results:

- Grow our recurring subscription membership base every year
- Retain our existing and win new B2B partners and growing services
- Continue to develop our insurance operating model and pricing differentiation
- Deliver roadside efficiency and great end-to-end service
- Re-engineer selected parts of our core business model for greater value and efficiency

Selectively expand our products and services into new **"Adjacent Driving Services"** markets in the broader £40 billion mobility space to accelerate our growth trajectory

- Our adjacencies will provide new relationships and open up additional customer segments
- Our brand, assets and expertise give us the right to win in these markets

Macro mobility trends give future opportunity beyond that with RAC data and brand perfectly positioned in an increasingly complex world

- We will lead the UK for electric vehicle expertise, products and services
- We will play a critical role in data and connected services with unique propositions

Driving Services					
	Recalls & Inspections	Usage Based Insurance	Accident Services	SME Customers	Service, Maintenance & Repair
Market Size	£170m	£3bn	£5bn	£8bn	£13bn
Current RAC Share	3%	0%	<1%	<1%	<0.1%
RAC relevance	Using our skills to add value to dealers & OEM's	Using our telematics expertise to create a unique proposition	Using our recovery and repair expertise in the end to end process	Using our consumer experience to build better propositions to SME's	Adding trust and value into a fragmented market
Foundations in place for 2021	Highly skilled dedicated technicians and processes in place with strong pipeline of activity	Product relevance increased in a post-Covid world - test product in market with full launch in H1 2021	Existing business restructured in 2020, now partnered with industry leader in claims	Growing market share with new products and channels in the pipeline for 2021 to take advantage of growth in "local delivery" services	Garage network relaunched and growing with SMR proposition development well advanced

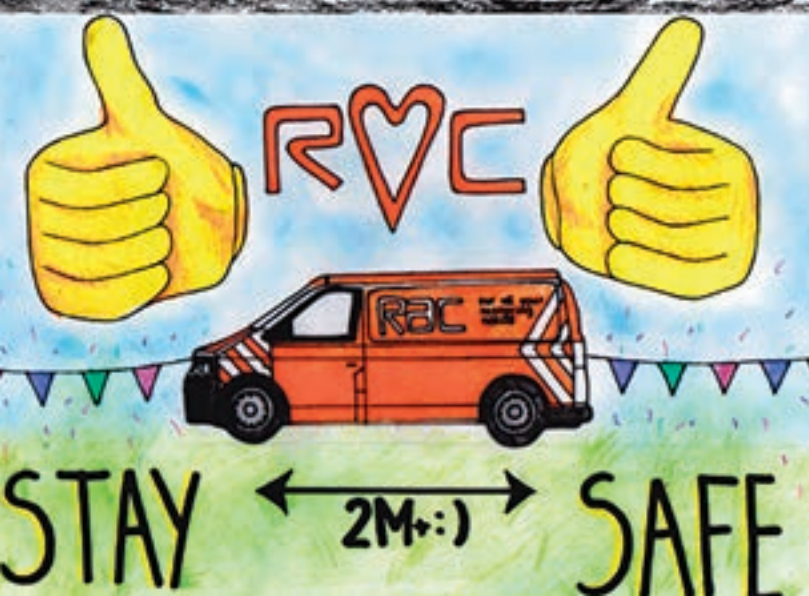
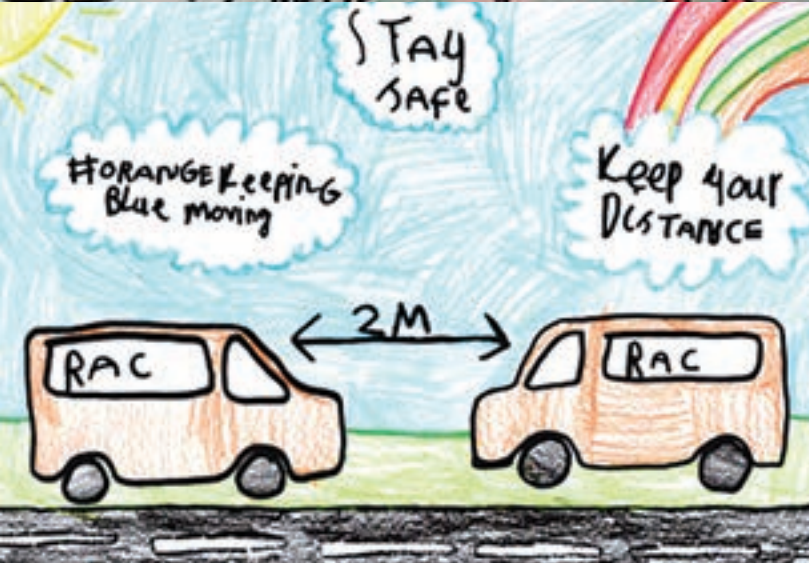


Paul, RAC patrol since 2006

All of this will be seamlessly enabled by our “MyRAC” digital subscription platform which will act as the focal point for members and partners to access the RAC family of products, services and content, powered by data to enhance the customer experience and grow value. With multiple interactions with vehicles and customers every year, and growth in connected car data, RAC generates millions of data points every year. RAC is uniquely positioned to capture and mine these huge volumes of customer and vehicle data, to better understand the needs of our members, help OEMs and partners create better products and services, and better serve our collective customers, joining up the broader mobility solutions ecosystem.

We remain well positioned to proactively respond to and capitalise on emerging opportunities in our sector and continue delivering uninterrupted Complete Peace of Mind service across all areas of our business. Our focus on differentiation and innovation will set us apart, to become the UK’s leading driving services subscription business and the UK leader in future mobility solutions.

“ Our vision is to become the UK’s leading driving services subscription business and the UK leader in future mobility solutions, providing **Complete Peace of Mind** for all of our customers’ driving needs.



Risk Management

For the year ended 31 December 2020

RAC operates an Enterprise Risk Management Framework to ensure that the risks to which the Group is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management strategy, policies, risk appetite statements, registers and risk reports and the governance and oversight structure.

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

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

Risk Management

For the year ended 31 December 2020

Three lines of defence

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

First Line

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

Second Line

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

Third Line

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

Risk Registers are maintained for each of RAC's Business Divisions and Group Functions and record material risks within each area, mitigating actions and controls, as well as any additional actions that need to be taken to mitigate each risk. Risk Registers are subject to a formal update cycle and a summary of the key risks within each area is

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

Principal risks

During the course of 2020, a full review of the principal risks has been undertaken which has resulted in a number of changes to the risks shown in this section. This review has included a full review of the risks arising out of the Covid-19 pandemic where the Group has taken the appropriate steps to manage these risks, with oversight by the Executive and Board Risk, Audit & Compliance Committees.

The Principal risks to the Group are shown below, along with details of the actions being taken to address these risks.

Financial risks

Market risk

RAC is exposed to interest rate risk arising primarily on its borrowings. This risk is managed by RAC using interest rate swap agreements to hedge the variability of cash flows associated with changes in interest rates in relation to these borrowings as set out in note 23.

RAC is also exposed to risks from fluctuations in fuel prices which can lead to increased operating costs. This risk is managed by RAC using forward purchases of fuel, typically for a period of up to twelve months to hedge the variability of cash flows associated with the purchasing of fuel for use in RAC's operational fleet of patrols and recovery vehicles. RAC has limited exposure to fluctuations in foreign exchange rates. However, RAC continues to monitor its exposure and will take steps to mitigate its exposure should the value and volume of foreign currency transactions increase in the future.

Credit risk

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

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

Liquidity risk

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

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

Capital & funding risk

RAC maintains an efficient capital structure comprising equity shareholders' funds and third-party borrowings, consistent with its overall risk profile and the regulatory and market requirements of the business (see the Consolidated Statement of Financial Position on page 88).

In managing its capital, RAC seeks to:

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

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA and PRA regulations. The Group's ability to transfer retained earnings to its shareholders is therefore restricted to the extent that these earnings form part of UK regulatory capital, as well as by restrictions and covenants under the Class A and Class B debt.

The Group has been in compliance with the solvency requirements throughout the period.

Risk Management

For the year ended 31 December 2020

Covid 19

The Group acted quickly to mitigate the risks presented by Covid-19 and has been able to maintain the delivery of full services to our members and partners.

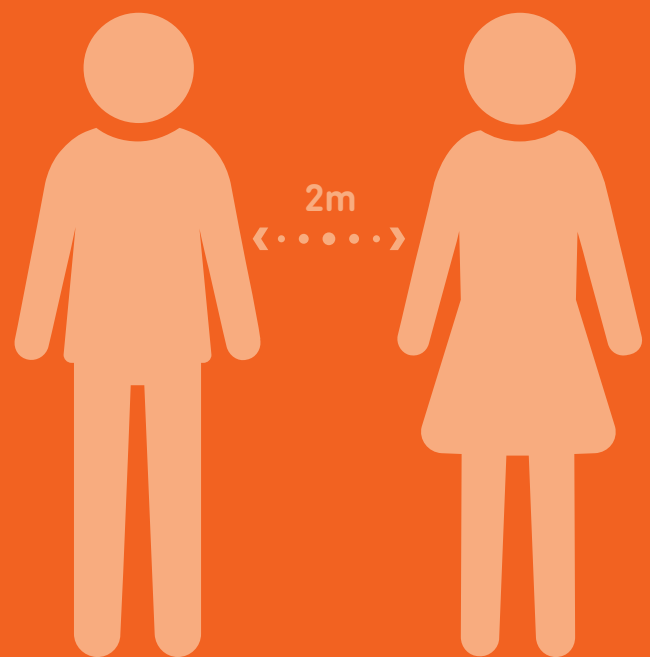
The Group's response to Covid-19 was coordinated through the formal business continuity command structure which was invoked at an early stage. Actions taken in order to ensure that any impacts on the business have been limited have included:

- Changes to our operational processes at roadside in order to protect our customers and colleagues;
- Changes to working arrangements at our main operational sites in order to ensure the safety of our colleagues and to ensure that we operate a Covid compliant working environment;
- Moving a large proportion of RAC's workforce to home working arrangements;
- Robust risk management processes focused on COVID-19, whereby risks posed by COVID-19 are identified and mitigated, with an Executive-level risk owner allocated and with oversight provided by the Executive Risk, Audit & Compliance Committee;
- Engagement with our suppliers to ensure that our supply chains are maintained.

Covid-19 has resulted in some changes to the demand patterns for our roadside assistance services as various lockdown measures have been implemented and released. This has been mitigated by careful management of our operation in order to ensure that the right resources are in place to respond to customer demand.

Whilst sales volumes were impacted by temporary closures of Covid-19 affected business units, this has been offset by growth in recurring subscription revenues and also through careful management of our cost base. COVID-19 has not resulted in any material issues in terms of liquidity or solvency of the Group.

The Group will continue to closely monitor the impact of COVID-19 on the business and to take appropriate action to reduce any impacts.



Follow the rules

Keep everyone safe

Thank you

Risk Management

For the year ended 31 December 2020

Operational resilience

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

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

This risk is also mitigated through our defined and embedded Business Continuity and Crisis Management frameworks. As described above, these processes were invoked for COVID-19 and allowed the Group to rapidly react to changes in alert levels and ensure that the business continued to operate safely and effectively.

Brand / reputational risk

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

Reputational damage could arise from mistakes or misconduct, or allegations thereof, by its Patrons and other employees, contractors or agents, or poor customer service. A decline in the favourable recognition of RAC's brand could impact its ability to attract or retain Members or other customers, which could have a material adverse effect on its business, financial condition and results of operations.

The Group manages this risk by continuing to focus on ensuring that customers receive excellent service. Service levels and customer satisfaction are regularly monitored to ensure the Group continues to deliver the high level of service expected.

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

Regulatory / conduct risk

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

Failure to comply with relevant regulations could result in customer detriment, regulatory enforcement and/or significant brand/reputational damage to RAC.

To mitigate these risks the Group has clear governance procedures in place in order to minimise the risk of any legal/compliance failure or breach. The Group also has specialist committees and working groups in place with responsibility for oversight of specific areas of regulatory or conduct risk, such as Board and Executive Risk, Audit & Compliance Committees and a Conduct Risk Committee. The Group also employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are adhered to. Legislative and regulatory developments are monitored and assessed in order that the Group can adapt to any changes and minimise any impact. RAC provides regular training and briefings to its employees to ensure a customer-centric and compliant culture exists throughout the business.

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

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

In September 2020 the FCA published the final report of its market study into the pricing of home and motor insurance. The FCA is proposing significant reform of these markets through measures which seek to enhance competition, ensure consumers will receive fair value, and increase trust in these markets. In summary:

- Existing Home and Motor customers must not be charged more than new customers for the same product purchased through the same channel ("Price Equalisation");
- For consumer based general insurance customers "Auto-renewals" must be more clearly communicated, and more easily cancelled;
- Reporting and attestation processes to be in place to confirm compliance with the Price Equalisation remedy for Motor and Home customers; and
- Enhanced product governance provisions for consumer based general insurance products.

The final remedies are timetabled to be confirmed in Q2 2021 with implementation anticipated in Q3/Q4 2021.

The RAC have planned accordingly and are well placed to implement the required changes. Scenario planning has been undertaken to assess particularly the impact of the equalisation of

pricing and our current assessment is that we will be able to manage the transition to the new rules within the expected timelines. In parallel, we have established a cross division group to manage the implementation of the other components of the proposed remedies.

Information security & data protection risk

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

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

RAC is committed to ensuring that its information assets are secure and protected from potential threats. The Group has specialist teams in place to ensure the appropriate recording, storage, safeguarding and usage of data and operates a number of controls and procedures to ensure full compliance with laws and regulations including the General Data Protection Regulation ("GDPR"). The Group continues to enhance its processes and controls in this area. Regular training and briefings are provided to employees to ensure that information security and data protection obligations are understood and embedded across the organisation.



Risk Management

For the year ended 31 December 2020

Health and safety risk

The Group defines this as the risk of serious injury or death of employees, Members or third parties from road traffic collisions.

The Group's roadside operations necessarily require attendance by Patrols or third-party contractors to inspect and repair Members' vehicles at the roadside. RAC recognises that health and safety is an essential part of its responsibility towards its employees and all those affected by its business activities.

Appropriate policies are maintained, and the Group regards health and safety at work as of equal importance to profitability and business ethics, and it is an integral part of the roles of the Group's employees. The Group has a health and safety management system which is mandatory in all areas of the business and which enables all levels of line management to understand the health and safety aspects of their activities and applicable legislation. The Group's Health & Safety Committees meet on a regular basis to review reports and take action to address any issues with a potential impact on health and safety.

Strategy & business model

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

RAC has a clear strategy in place ("RAC 2025") to embrace the opportunities presented by changes in the car industry, including the growth in electric, hybrid, connected and ultimately autonomous vehicles. The Group has plans to leverage future mobility trends and to continue to develop a market leading electric vehicle ("EV") proposition to service customer needs in this growing area as EVs become more mainstream. In addition, the Group also has plans to embrace the growth in 'connected' vehicles in order to protect market share and to grow revenues.

The Group's Technical Department also monitors vehicle technology developments to ensure that its patrols have the skills and equipment required to continue to provide a high level of service to customers at the roadside.

Market share & margin

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

The Group continues to invest in its products and data, including widening the product set and channels through which they are distributed, with a focus on clear product differentiation and leveraging our data to benefit Members. The Group also continues to focus on the corporate partnership sector and to maintain and to grow the number of corporate partnership arrangements it has.

Recession / economic downturn

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

During the economic downturn resulting from Covid-19, the Group has continued to achieve profitable growth and the Group has also proved to be extremely resilient during previous economic downturns.

The Group continues to focus on developing its products and on expanding the distribution channels it uses, for example with the launch of breakdown products on the aggregator channel in 2020. The strategy review completed in Q4 2020 also includes appropriate actions in response to the economic downturn.

Quality of Service

The Group defines this risk as the risk that customers receive poor service from their dealings with RAC across any of RAC's customer facing channels. The effect of this could result in adverse customer outcomes, reduced retention rates of our consumer customers and loss of corporate partners.

In order to mitigate this risk, the Group employs specialist forecasting techniques to assess and manage its exposure to customer demand and to ensure that customers receive excellent service. The Group continues to evolve the systems and processes it uses to deploy Patrols to customers to further improve the customer experience. In addition, various programmes of work are in progress to simplify the operation to improve its overall efficiency and effectiveness and to deliver the target customer experience, including the digitalisation of the process for customers to notify RAC of a breakdown.

Other risks – Brexit

The Group defines this as the risk of adverse economic conditions in light of the UK leaving the European Union. Furthermore, there remains the potential for disruption to the supplies of key products and services required to repair vehicles.

Whilst there remains uncertainty in relation to the long term impact of the UK leaving the European Union, fundamentally RAC is a UK focused business, with very limited trade outside of the UK's borders. We expect to be able to continue providing service in other European countries, either directly (as is the case in Ireland) or through existing partnerships. 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.

RAC continues to monitor the impact of Brexit and will take appropriate steps to maintain RAC's competitive position. RAC will continue to engage with key suppliers in order to ensure the continuity of supplies now that the Brexit transition period has ended.

Climate and environmental risk

The Group defines this as the risk of damaging the environment in which we operate or of climate change resulting in adverse operational or financial impacts on the business

As a motoring organisation we are aware of our environmental impact, with roadside operations being our highest contributor to carbon emissions. We have attained ISO14001 accreditation across the whole of our operation and use a risk management process to identify and address environmental issues resulting from our business.

Our environmental management system focuses on the following areas:

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

The Group also continues to monitor the potential operational and financial impacts of climate change on the business, in particular the potential for changing weather patterns to result in changes in customer demand, as well as the potential need for investment in new vehicle types. As part of this, the Group is taking steps to implement PRA requirements in relation to managing the financial risks from climate change which are required to be implemented by the end of 2021.



Section 172 (1) Statement

For the year ended 31 December 2020

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, RAC Bidco Limited (the "Company") is required to include a statement in its Strategic Report describing how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 when performing their duties for the 2020 financial year. This section, together with those pages incorporated by reference, acts as the Company's section 172(1) statement.


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

The long-term success of the business is at the heart of the Company's "RAC 2025" strategy and the Board plays an active role in the development of the strategy. Delivery of the strategy enables RAC to benefit from changing automotive and mobility

markets, providing new products and services that meet customers' changing needs and allowing the Company to build closer relationships with customers and suppliers, all of which will drive sustainable long-term growth at the same time as providing opportunities for colleagues. The Company operates a risk management framework, ensuring that the key risks to the delivery and implementation of the strategy are identified, monitored and managed and the directors discharge their responsibility in this respect through the Board Risk, Audit and Compliance Committee. Further details on the Company's strategy and risk management framework are set out on pages 34 to 43 of the Strategic Report section of this report.

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

As approved by the Board.



J Baker
Chief Financial Officer
23 February 2021

Section 172 (1)	Decisions/Considerations
<p>(a) The likely consequence of any decision in the long term</p>	<p>The Board plays an active role in the development of the Company's strategy and takes account of certain external factors when approving the strategy, including the impact to stakeholders and wider society. The Board monitors its progress against KPI's with regular Board strategy sessions scheduled throughout the year.</p> <p>Further details of how the Directors of the Company have regard to the likely consequences of any decision in the long term can be found on the following pages:</p> <p>Strategic Management Report: pages 28 – 33 Risk Management Report: pages 34 – 43</p>
<p>(b) The interests of the company's colleagues</p>	<p>The Directors recognise that the delivery of RAC's purpose, strategy and long-term sustainable growth will only be achieved with engaged colleagues and ensures that management keep colleagues fully informed of the Company's plans, vision, purpose and culture through various engagement forums, blogs, briefings and round table events.</p> <p>Further details of how the Directors of the Company have regard to the interests of the colleagues can be found on the following pages:</p> <p>Governance Report: pages 46 – 54 Corporate Social Responsibility Report: pages 58 – 67</p>

Section 172 (1)	Decisions/Considerations
<p>(c) The need to foster the company's business relationships with suppliers, customers and others.</p>	<p>The Board recognises the importance of the Company developing strong relationships with all of its stakeholders and actively seeks information on such interaction so it can make informed decisions on ensuring the long-term sustainability of the business.</p> <p>Further details of how the Directors of the Company have regard to fostering the Company's business relationships with suppliers, customers and others can be found on the following pages:</p> <p>Strategic Management Report: pages 28 – 33 Risk Management Report: pages 34 – 43 Governance Arrangements: page 53 Corporate Social Responsibility Report: pages 58 – 67</p>
<p>(d) The impact on the company's operations on the community and environment</p>	<p>The Directors understand that ensuring the Company's operations have a positive impact on the community and the environment is a strategic imperative. A number of initiatives have been implemented to ensure a continued reduction in carbon emissions with the Company also attaining ISO14001 accreditation.</p> <p>Further details of how the Directors of the Company have regard to the impact of the Company's operations on the community and environment can be found on the following pages:</p> <p>Corporate Social Responsibility Report: pages 58 – 67 Directors Report: pages 68 – 74</p>
<p>(e) The desirability of the company maintaining a reputation for high standards of business conduct; and</p>	<p>The Company considers that maintaining its reputation for the highest standard of business conduct is a key priority. The Board ensures that an appropriate framework, including relevant policies and codes of conduct, is in place to support this and the Board is made aware of and involved in the management of all issues that might have a material impact on the Company's reputation for high standards.</p> <p>Further details of how the Directors maintain a reputation for high standards of business can be found on the following pages:</p> <p>Risk Management Report: pages 34 – 43 Governance Report: pages 46 – 54 Directors Report: pages 68 – 74</p>
<p>(f) The need to act fairly as between the Company's owners</p>	<p>The Company engages positively and proactively with its shareholders and enjoys effective and regular engagement with its two principal shareholders, who remain committed to ensuring the Company continues to be positioned for future long-term success.</p> <p>Further details of how the Directors ensure the need to act fairly as between the Company's owners can be found on the following pages:</p> <p>Governance Report: pages 46 – 54</p>



RAC is already
#1 for Electric
Vehicles in the UK

Governance report

For the year ended 31 December 2020

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

The following disclosures have been made on a voluntary basis as the Group is not required to comply with the Corporate Governance Code, hence certain disclosures required by the code have not been given in full.

A comprehensive corporate governance framework has been put in place which documents the following:

- Terms of Reference for the Board and the committees which sit under it;
- Processes for financial governance (including delegations of authority, transaction limits and treasury procedures);
- Comprehensive Group policies; and
- Registers of interests and guidance for directors on their duties and for Senior Managers and Certification Functions (in the context of PRA and FCA authorisation).

Governance Report

For the year ended 31 December 2020

Ownership Structure

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

The Group's Board includes three Non-Executive Directors representing CVC Funds and two Non-Executive Directors representing GIC.

The Board

The Board comprises the Chairman, two executive directors being the Chief Executive Officer and Chief Financial Officer, and six Non-Executive directors ('NEDs') comprising three CVC appointed NEDs, two GIC appointed NEDs and the Independent Chair of the Group Risk, Audit and Compliance Committee.

The Board considers that the team has an appropriate balance of executive and non-executive directors and of skills, knowledge and experience commensurate with the nature and breadth of the business.

The Board provides practical leadership to the Group, setting the tone for a culture across the business committed to achieving the right outcomes for customers and thereby delivering long term value both for RAC and the wider community.

The Board meets a minimum of nine times per year and leads the strategic direction of the Group, monitors operational performance and ensures appropriate internal controls are in place. Through the ongoing review of suitably detailed management information the Board ensures that risks are appropriately monitored and managed.

The Regulated Entities Board

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

The Regulated Entities Board is chaired by an independent non-executive director, and its other members are two executive directors being the Chief Executive Officer and Chief Financial Officer, the Group non-executive Chairman and one additional independent non-executive director.

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

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

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

Division of responsibilities

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

The Chairman is responsible for:

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

The Chief Executive Officer is responsible for:

- Overseeing day to day management of the Group;
- Allocating decision making and responsibility to the executive management team;
- Overseeing the adoption of the firm's culture;
- Development and maintenance of the firm's business model;
- Effective communication with all stakeholders including shareholders, colleagues, customers and members; and
- Ensuring the successful execution of the strategic objectives agreed by the Board.

The Chief Financial Officer is responsible for:

- Preparing and ensuring the integrity of the Group's financial statements and its regulatory reporting;
- Managing the allocation and maintenance of the Group's capital and liquidity;
- Managing RAC Financial Services Limited's internal stress-tests and ensuring the accuracy and timeliness of information provided to the FCA for the purposes of stress-testing;
- Performing RAC Insurance Limited's Own Risk and Solvency Assessment; and
- Managing the Group's policies and procedures for countering the risk that the firm might be used to further financial crime.

The Non-Executive directors are responsible for:

- Using their wide and varied experience to offer independent advice, scrutiny and objectivity;
- Monitoring and offering objective challenge to executive management decisions where appropriate; and
- Bringing specific expertise to the Board. For example, the team includes a non-executive Director with extensive financial services experience from serving in senior positions of several major financial institutions.

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

Board of Directors



Rob Templeman

Chairman

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



Dave Hobday

Chief Executive Officer

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



Jo Baker

Chief Financial Officer

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



Mark Wood

Chair of Risk, Audit and Compliance Committee

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

Non-Executive Directors – GIC Group

AL

Alex Levy

Alex has been a Non-Executive Director since August 2020. He is Vice President in GIC's Direct Investments Group. Prior to joining GIC in 2010, he worked at J.P.Morgan.

HO

Henry Ormond

Henry has been a Non-Executive Director since September 2014. He is a Senior Vice President and head of GIC's Direct Investment Group in Europe. Prior to joining GIC in 2012, Henry was a Managing Director at Leeds Equity Partners and a Principal at Quadrangle Group.

Non-Executive Directors – CVC Group

MB

Marc Boughton

Marc has been a Non-Executive Director since April 2016. Marc is Managing Partner, CVC Capital Partners, Founder Chairman of CVC's Global Philanthropy Program and a member of CVC's global ESG Committee. Marc joined CVC in 1995, was a member of the Private Equity Investment and Portfolio committees and, in 2000, set up and managed CVC's Capital Markets Team. In 2006, Marc founded CVC Credit Partners as an independent private credit business. In 2015, Marc founded, led and chaired CVC's Strategic Opportunities investment platform. Prior to CVC, Marc worked for Electra Partners and at Deloitte Haskins & Sells (now PricewaterhouseCoopers) where he qualified as a Chartered Accountant and specialised in corporate recovery and investigations.

TG

Tim Gallico

Tim has been a Non-Executive Director since April 2016. Tim is a Senior Managing Director of CVC Capital Partners. He currently sits on the boards of Asplundh Tree Expert LLC and Pension Insurance Corporation Group. Tim joined CVC in 2005 and was previously a consultant at Bain & Company. He also serves as a Trustee of the London Youth Games Foundation.

PH

Pev Hooper

Pev has been a Non-Executive Director since April 2016. Pev is a Managing Partner at CVC Capital Partners, and currently sits on the boards of Domestic & General and Premiership Rugby. He was also responsible for CVC's prior investments in Saga, Merlin Entertainments and Virgin Active. He joined CVC in 2003 after working in mergers and acquisitions at Citigroup and Schroders.

Governance Report

For the year ended 31 December 2020

Board committees

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

Board risk, audit and compliance committee

This committee is chaired by Mark Wood and its other members are the Group non-executive Chairman and one additional independent non-executive director. It is attended by the Chief Executive Officer, the Chief Financial Officer and other non-executive executive directors, the external auditors, and also members of the RAC senior management team as required.

The Committee assists the Board in discharging its responsibilities for the integrity of the Group's Financial Statements and the effectiveness of the systems of risk management and internal controls and also monitors the effectiveness, performance and objectivity of the internal and external auditors.

Key areas for which the committee is responsible include:

- Reviewing the Group's Financial Statements prior to approval on behalf of the Board and reviewing the external auditor's reports thereon;
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately;
- Ensuring that the principles of Treating Customers Fairly are understood by all staff and embedded consistently across the business;
- Reviewing internal controls and approving the internal audit plan to monitor the effectiveness of those controls;
- Considering the consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where judgement has to be applied; and
- Assessing the independence and objectivity of the external auditors.

Remuneration committee

This committee is chaired by the Chairman of the Board, and is attended by the Chief Executive Officer, at least one non-executive director from CVC and GIC and members of the senior management team as required. It is responsible for the following key areas:

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

Other committees and working groups

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

Corporate Governance Arrangements

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, the Company has chosen to apply the Wates Corporate Governance Principles (the “Principles”) for Large Private Companies for reporting in relation to the 2020 financial year. The Principles, and an explanation of how each Principle has been addressed by the Company, are set out below.

Principle	Explanation
1. Purpose and Leadership	<p>The Company has a clear purpose, to provide Complete Peace of Mind to our members for their driving needs, with a focus on differentiation and innovation to set it apart from the competition. This is aligned to the strategy to deliver long term sustainable growth, which is at the forefront of decision making, underpinned by a quality customer experience enabled by people, digital platforms and data. The Company understands that the delivery of the strategy is only possible through its people and their success individually and collectively, was reflected in the best-ever engagement scores in 2020 and in the continued growth in all key metrics across the business. The new company values have now been in place for over two years and together with the passion, commitment and integrity of colleagues, the values continue to embed the RAC culture.</p> <p>CEO Review: pages 8 – 13 Corporate Social Responsibility Report: pages 58 – 67</p>
2. Board Composition	<p>The Board provides practical leadership to the Company and has an appropriate balance of executive and non-executive directors and of skills, knowledge and experience appropriate to meet the strategic needs and challenges of the organisation and to enable effective decision making. Evaluation of the effectiveness of the Board and other Committees takes place on a regular basis and in 2020 a Board Composition Review was undertaken resulting in some changes to the membership of the Board and its Committees, including the appointment of Patrick Gale (independent non-executive director) as Chair of the Regulated Entities Board, replacing Mark Wood (independent non-executive director) who continues as a member of the Regulated Entities Board and Chair of the Board Risk, Audit and Compliance Committee.</p> <p>Governance Report: pages 46 – 54 Directors Report: pages 68 – 74</p>
3. Director Responsibilities	<p>There is a clear division of responsibility between the Chairman, the Executive Directors and the Non-Executive Directors. Clear terms of reference for the membership and responsibilities of the various Board Committees supports effective decision making and ensures that the Board has oversight on all key aspects of the business including, the financial performance of the business, operational matters, colleague engagement, health and safety, data protection, strategy and sustainability.</p> <p>Corporate Governance Report: pages 46 – 54</p>
4. Opportunity and Risk	<p>The Board is at the forefront of the Company’s efforts to enhance its existing products, as well as its expansion into new areas as it seeks to offer what customers want and to drive the long-term sustainable growth of the Company. All material business development opportunities are subject to a detailed and rigorous board review and approval process. A formal risk management framework is in place for the identification, monitoring and management of risks, which is overseen by the Board Audit, Risk and Compliance Committee. During the course of 2020 the Board has overseen the Company’s response to Covid-19, ensuring that appropriate action has been taken to ensure the continuity of services to customers and the health and safety of both customers and colleagues. In addition, the Board continues to oversee and monitor the impact of Brexit, engaging with key suppliers in order to ensure continuity of supplies now that the Brexit transition period had ended.</p> <p>CEO review: pages 8 – 13 Strategic Management Report: pages 28 – 33 Risk Management Report: pages 34 – 43</p>

Governance Report

For the year ended 31 December 2020

Principle	Explanation
5. Remuneration	<p>Remuneration is ultimately overseen by the Board Remuneration Committee, which is responsible for agreeing the individual remuneration packages (including pension rights, compensation payments and other benefits) for each of the CEO, the Chairman, each executive director and other senior executives of the Group. The Remuneration Committee is also responsible for incentive and bonus arrangements and awards, including setting the relevant targets for performance related schemes. The Committee ensures that the remuneration policy is aligned with the Company's sustainable long-term growth by ensuring that the remuneration practices across the Group operate in line with PRA and FCA requirements and specifically that they do not drive inappropriate behaviours, ensuring a focus on regulatory adherence supporting the delivery of positive customer outcomes. Remuneration Committee: page 52</p>
6. Stakeholder Relationships and Engagement	<p>The Company recognises that having effective relationships with its stakeholders is critically important to ensure the long-term sustainability of the business and ensures effective engagement and due regard to their views when taking decisions.</p> <p>Colleagues</p> <p>The Company has a number of initiatives to encourage feedback and communication between colleagues and the Executive team, including quarterly business briefings, colleague engagement forums, CEO 'round table' discussions, strategy briefing sessions and via our intranet. In 2020 the Company introduced a number of colleague wellbeing initiatives and a range of virtual social engagement activities to support colleagues through the Covid-19 pandemic.</p> <p>Customers</p> <p>In terms of customer engagement, surveys are conducted to determine the Net Promoter Score (NPS) used as a tool to pinpoint areas for improvement and to continually enhance the customer journey the scores of which are regularly discussed and considered at Board meetings. The Company's social media channels provide a useful medium in which to allow customers to interact directly with the Company 24 hours a day, seven days a week.</p> <p>Community</p> <p>The Company strives to create long-term benefits for the community by creating employment, providing support to drivers through its products and services, forging links with charitable associations and has continued to support its chosen charities in 2020 as well support NHS staff via discounted sales and free breakdown cover as part of its Covid-19 response.</p> <p>Suppliers</p> <p>Positive supplier engagement is imperative in ensuring the effective procurement and supply of goods and services which is critical to the smooth running of the business and since the introduction of the Duty to Report on Payment Practices in 2018 the Company has been reporting its payment practices.</p> <p>Regulators</p> <p>When engaging with its regulators the Company is open and transparent and any such engagement is considered and discussed at Board meetings, where directors can provide appropriate guidance and support. The Company also ensures that it proactive in ensuring it is compliant and up to date on all legislative and regulatory requirements.</p> <p>Shareholders</p> <p>The Company engages positively and proactively with its shareholders and enjoys effective and regular engagement with its two principal shareholders, representatives of whom are appointed to the Board as non-executive directors.</p> <p>Governance Report: pages 46 – 54 Corporate Social Responsibility Report: pages 58 – 67 Directors Report: pages 68 – 74</p>



Jason, RAC patrol since 2000

An orange van with white text and graphics. The text 'RAC' is prominently displayed in a stylized font. Below it is the phone number '0333 2000 100'. At the bottom, the phrase 'Complete peace o' is visible. A driver is seen through the window on the right side of the van.

RAC

0333 2000 100

Complete peace o



Ben, RAC patrol since 2016



“ The RAC has maintained a reputation for innovation and continually looks at ways in which to evolve better ways of working.

Corporate Social Responsibility report

For the year ended 31 December 2020

Delivering a successful sustainable growing business

The RAC is proud of its heritage and business reputation and loyalty of its members and is committed to being a responsible and sustainable business, ensuring its long-term success.

Our Board acknowledges that a sustainable business model is essential for discharging its responsibility for promoting the success of the Company and ensures that decisions taken consider the impact on our members, colleagues, health and safety, the environment, suppliers, business partners and our community.



Complete Peace of Mind brand promise

Corporate Responsibility is woven into every area of our business through our Complete Peace of Mind brand promise which combines our purpose, our proposition, our culture and commitment to sustainability and being a good corporate citizen. Four important behaviours help us to have a positive impact on the environment and communities in which we work, be it through our operations, products and services or through our interactions with our members, colleagues, corporate partners and suppliers. They are:

I. Living our brand promise

Our brand promise summarises our beliefs, about what matters to us, the products and services we provide and the way we behave. Our aim is to always act in accordance with them.

II. Our Values are at the heart of everything we do

Our Values ensure that we keep the best interests of our colleagues and customers at the heart of everything we do and define who we are, what we believe and how behave. Handle it Together, Exceptional Service, Raise the Bar and Own It are integrated into every process within our colleague journey, from hiring methods to induction and performance management appraisals. From the first interview to the last day of work, these four core 'HERO' values form the basis of every decision the company makes.

III. Being responsive to the expectations of others

Our business activities make us an integral part of society. Our aim is to understand what others expect of us and look for opportunities to work in partnership with them. We make it a priority to develop and sustain good working relationships with all our stakeholders. We aim to be responsive to the needs of all our stakeholders, including members, colleagues, regulators, suppliers, contractors, and partners and within the local community of our sites and colleagues.

IV. Respecting the space we live in

As a responsible motoring organisation, the RAC recognises that its activities, products and services have an impact on the environment. We are committed to being compliant with all relevant environmental legislation and regulations and are proud to be accredited with ISO14001 environmental management systems, helping us protect our short and long-term environmental impacts. We take a lead in influencing motorist behaviour, government transport strategy, and the wider motor industry including manufacturers and parts suppliers, as together we can reduce the impact on the environment from motoring.

Colleagues

The RAC employs around 4,000 colleagues and values their contribution and involvement in the business. We:

- provide a safe working environment to ensure the health, safety and welfare of our colleagues;
- require all colleagues to treat each other with respect - discrimination, bullying and other forms of harassment are not tolerated;
- invest in the development of our colleagues' skills, abilities and potential;
- treat all colleagues and job applicants fairly and equally regardless of their sex, sexual orientation, marital status, race, colour, nationality, ethnic or national origin, religion, age, disability or union membership status; and
- consult with our colleagues through our union relationship with Unite and colleague forums.

Following the outbreak of Covid-19 and the subsequent national lockdowns, we restricted all non-essential travel, transitioned the majority of our office-based colleagues to work from home, and made our workspaces Covid-Secure for critical workers to ensure they could work safely, introducing a number of measures to prevent and control the spread of the virus in line with Public Health England and Government guidance. We also implemented safe systems of work for our Patrols on the front line, ensuring that they observed social distancing, wore face masks and gloves, and used antibacterial wipes and sanitiser to clean their work area, equipment and hands.

Our priority has been to continue to focus on the health and wellbeing of our colleagues and minimise any risk to our customer service. We stepped up our internal communications on Covid-19 with a daily email bulletin, ensuring we kept our colleagues fully involved on an ongoing basis and we continue to run our quarterly business briefings, colleague engagement forums, CEO 'round table' discussions, and strategy briefing sessions, albeit now virtually.

Our teams across the RAC worked hard to support colleagues in every corner of the business using a comprehensive suite of tools and support including:

- A dedicated wellbeing space on our intranet, Hero Hub;
- Our free and confidential Colleague Assistance Programme available to all colleagues, 365 days of the year;
- Sharing other independent/free support networks which we listed on our intranet, including Shout and Mind along with our own Mental Health First Aiders;
- Mental health awareness training sessions for line managers;
- Guidance and resources on physical, mental and financial wellbeing on the Company's intranet to encourage mindfulness and enable resilience; and
- Supporting colleagues in maintaining morale and motivation and a sense of connection across the business with a range of virtual social engagement activities.

We run an annual employee engagement survey and once again we saw an excellent response rate and a further improvement in our year-on-year engagement scores. Our inclusive approach means we work in partnership with Unite the Union and colleague representatives from an elected forum to engage and involve colleagues in the direction of the business, continuing to make sure that we are doing the right things to make RAC a great place to work.

The RAC offers an Employee Assistance Programme (EAP) for all colleagues. This confidential service provides colleagues with access to qualified trained advisers and counsellors who can provide support on life events that affect them or their family, ranging from support to help manage money, relationship issues, personal or family crisis, illness and injury, moving house and retirement.

In addition to this, our flexible benefit service MyFlex, enables colleagues to choose the benefits that are tailored to suit their lifestyle. This can include additional products to protect family health for those near and dear, wellbeing options, saving money on childcare costs or using the shopping discounts. With so much choice, there is something that suits everyone.

Corporate Social Responsibility report

For the year ended 31 December 2020

Human rights, equality and diversity

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. Our Equality and Diversity Policy ensures that every colleague is treated equally and fairly as part of creating an inclusive working environment that attracts, develops and retains the best people. The policy confirms that there will be no direct or

indirect discrimination in respect of age, disability, religious belief, gender, sexual orientation, race, colour, marital status, political belief and nationality, or any other category defined by law in all aspects of employment including recruitment, promotion, and opportunities for training, pay and benefits.

The following table sets out our diversity balance as between men and women at the end of 2020:

At 31 December	2020			2019		
	Female	Male	Total	Female	Male	Total
Director	2	8	10	2	8	10
Senior Manager	8	26	34	8	26	34
Employee	1,130	2,864	3,994	1,134	2,870	4,004
Total	1,144	2,904	4,038	1,144	2,904	4,048

In April 2020, the difference between mean (average) pay for male and female colleagues within the RAC Group was 6%, and the Median was 11%. Although greater than we would like, this continues to compare favourably to the UK median of 15.5% [ONS November 2020]. We are pleased to demonstrate continued improvement against all measures since 2018, including colleague bonus and Gender Pay quartile metrics. In 2020, we have seen a focus on increased female representation

across the business, including at senior levels alongside a broader inclusion of our female colleagues within bonus schemes. We continue to strive to achieve gender pay parity across our business, and from our efforts to date we are already delivering positive results. We will continue to review and develop our processes to ensure we carry on driving our gender balanced approach throughout 2021 and beyond.



 Nikki, Business Roadside since 2015

Health and safety

The RAC continues to work hard to maintain a healthy and safe working environment for all colleagues and we are committed to preventing accidents, injuries and physical or mental illness related to work. We have an extensive suite of Health and Safety practices and policies to help our colleagues stay in good health.

Our most significant health and safety risk relates to the dangers posed to our roadside colleagues by distracted drivers and illegal driving behaviours. The RAC is spearheading a campaign in conjunction with the Government and industry specialists to make our motorways safer and drivers more aware of roadside working. This follows on from our "Be Phone Smart" campaign which has been adopted by the government along with increasing penalties associated with dangerous driving behaviours.

RAC are also committed to the continuous improvement and development of industry safety standards and we work closely with industry experts ensuring our colleagues and vehicles are highly visible when working in high risk roadside locations. We also work closely with government agencies (Highways England, Transport Scotland) developing joint working practices that also support the safety of the public when they breakdown or have an incident on the UK road network.

Our vehicle design is under constant review and we regularly evaluate the latest vehicle technologies to ensure our colleagues are working in as safe an environment as we can provide. All our vehicles now incorporate telematics and camera technology that helps us understand driving and working behaviours, further supporting training and process development.

The RAC also continues to be a lead member of "Survive Group" and actively works with this group to raise awareness of roadside working risks and promote best practice guidelines within the industry.

Whistleblowing

The Group takes any whistleblowing concern seriously. Our Whistleblowing Policy is designed to empower colleagues to raise concerns about against any actual or suspected wrongdoing without fear of reprisal. All employees and contractors can raise concerns via their manager or utilise the services of Navex, an independent third party that provides a 24-hour reporting service.

When making a whistleblowing report, colleagues can remain anonymous, and all reports remain confidential. All whistleblowing reports are reviewed and investigated by the Group's Internal Audit team and findings reported to the Board Risk Committee, who will oversee any remedial action required as a result of any investigations.

Customers

Our Complete Peace of Mind brand promise, that you can trust the RAC for all your driving needs, guides our strategy from customer experience through to product development. We measure customer satisfaction (via an independent third party) using "Net Promoter Score" on a daily basis and we use this as a tool to pinpoint areas for further investment, such as communications through the breakdown and insurance customer journey. We continue to invest and innovate to remain at the forefront of our industry, which helps us continue to deliver profitable and sustainable growth as part of our RAC vision and strategy.

Our company policies and reward practices support the delivery of a culture that places positive customer outcomes at the heart of everything we do. The reward structure for our senior executives have embedded compliance and service components and objectives to reflect our focus on meeting our regulatory obligations and doing the right thing for customers. In 2020, this was extended so that a compliance element is incorporated for all colleagues eligible to participate in the company's discretionary bonus plan. Our front-line sales colleagues are similarly rewarded to put customers first through a rigorous quality assurance framework that is linked to their incentive schemes.

Corporate Social Responsibility report

For the year ended 31 December 2020

Under our Code of Conduct, every colleague of the company is tasked with safeguarding assets and resources entrusted to our care, including customer information, from loss, theft or misuse. Colleagues are requested to confirm their adherence to our code of conduct and renew their promise on an annual basis.

We take the privacy of our members seriously, underpinning the fundamental right of our members to the protection of their personal data. Good governance and colleague training play a vital part in upholding these rights. In 2020, we launched a #DataHeroes campaign in which the Data Protection Team and Information Security Team joined forces to give our colleagues the knowledge and tools to become #DataHeroes and protect all the valuable information we hold – from sensitive commercial information to information about people.

We also work closely with our supply chain to ensure that all of our suppliers are operating in line with our ethical standards, including commitments to the protection of customers and company data, abolishing modern slavery and anti-corruption and bribery measures and human rights.

Community

We continue to contribute to the communities in which we operate, particularly those neighbouring our sites, through the support of community initiatives and local charities. We:

- sponsor charities that provide rescue services or promote road safety,
- support campaigns on major motoring issues, that will help change things for the better, and
- provide advice on safe and better driving behaviour.

NHS Charity Initiatives

During the early stages of the Covid-19 outbreak we wanted to do more for all our members who are NHS workers and therefore launched our “#OrangeKeepingBlueMoving” promise, giving NHS workers half price batteries where a replacement was needed and a free upgrade to include ‘at home and recovery’. We also rescued any NHS workers who were not members and needed assistance, waiving the normal call out charge.

Inspired by fundraising events such as Captain Tom Moore and the #TwoPointSixChallenge, we launched our own fundraising initiative in 2020 - RAC Challenge 123 - to do even more to support our #NHSHeroes working tirelessly every day to fight the coronavirus. After an incredible response, we raised £17,500 for the NHS Charities Together.



“You Choose” charity of the year

Following colleague feedback from our engagement surveys, we introduced a charity initiative ‘You Choose’. This initiative enabled colleagues to have the freedom to choose which charities they wished to support, from a shortlist that colleagues voted on. Our Colleagues selected three charities: Midlands Air Ambulance, St Mungo’s and Just 4 Children. Collectively, with the support of our shareholders CVC and GIC match funding colleague donations, we have raised £20,000 during 2020, more than doubling our funds raised last year. This has been completed through a variety of activities ranging from dress down day donations, taking part in sponsored challenges and donating time and money at charity events. Overall, our colleagues have made a real difference to the community.

We raised **£20,000** for Midlands Air Ambulance, St Mungo’s and Just For Children

Princes Trust

We have a strong partnership with The Prince’s Trust to support their “Get Into” program. This aims to give young people aged 16 to 25, who are work-ready but do not have vocational skills, a mixture of practical training and experience that will enable them to get a job. It also provides them with the opportunity to meet potential employers.

Prior to the Covid-19 outbreak this year and to build on the success of previous programmes, we worked with The Prince’s Trust, this time piloting our own RAC “Get Into” program in our Bristol Sales Operations contact centre. This involved six 16-25-year olds who had a desire to work in a sales and customer service environment taking part in a three-week training and work experience programme. Attendees from our pilot program experienced all areas of the business, and we were delighted to offer placements to some of the attendees within the RAC apprenticeship scheme. This programme was made possible through a grant from the CVC Capital Partners Foundation.



Corporate Social Responsibility report

For the year ended 31 December 2020

Apprenticeship Levy – Supporting local

RAC is working in partnership with West Midlands Combined Authority (WMCA) to maximise opportunities utilising our apprenticeship levy. In line with levy rules, we are supporting local SMEs by sponsoring STEM based apprenticeships helping to develop local talent and sustainable skills in the West Midlands. We are investing over £200k of our Apprenticeship levy supporting 18 young people between the ages of 19-30 in motor engineering and digital apprenticeships.

Environment

As a motoring organisation, managing our impact on the environment is imperative for us. We aim to minimise the impact by driving fewer miles, using less fuel and investing in a cleaner fleet, supporting local communities and customers whilst ensuring that our business remains sustainable for the long term.

Our environmental management strategy focuses on the following areas:

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

Energy and Carbon Emissions

We are fully compliant with the Government and Environment Agencies Energy Saving Opportunities Scheme (ESOS Phase 2) and Streamlined Energy & Carbon Reporting as set out on page 70 of the Directors Report.

We have implemented a new energy procurement process, reset our available supply capacity and improved the efficiency of our building management and heating, ventilation and air conditioning (HVAC) systems by replacing both plant equipment and upgrading software systems to monitor, measure and optimising energy usage.

Together with investments in our fleet and deployment algorithms, this has resulted in an overall reduction of 5% in our Group emissions during the year, measured in tCO₂e. More details of recent initiatives can be found in the Directors Report.

95%

of our fleet are now
compliant with the **Euro
6 emission** standard





Directors' report

For the year ended 31 December 2020



The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and independent auditor's report for the year ended 31 December 2020. Under the terms of the Companies Act 2006, the Directors' report is required to contain certain statutory, regulatory and other information. The Directors have incorporated the business review, employee participation & diversity by cross-reference to the Corporate Social Responsibility report, as permitted by the Companies Act 2006.

The names of the current Directors are set out on page 2. Those who have served in office during the year have been as follows:

J Baker

M Boughton

T Gallico

D Hobday

P Hooper

A Levy

(appointed 25 August 2020)

V Nagarajan

(resigned 25 August 2020)

H Ormond

R Templeman

M Wood



Directors' report

For the year ended 31 December 2020

Directors' indemnities

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

Results and dividends

The results of the Group for the year ended 31 December 2020 are set out on page 87 and discussed in the Strategic Report on pages 8 to 26.

The Group paid interim dividends of £44 million during the year, amounting to 13.11 pence per share (2019: £54 million, amounting to 15.96 pence per share). No final dividend was paid (2019: £nil).

There are no final dividends proposed.

Capital structure

CVC Funds and GIC have equal control of the Group by virtue of their indirect shareholding in the Company.

Political donations

The Group did not make any political donations during the year (2019: £nil).

Financial risk management

Details of the Group's use of financial instruments, together with information on risk objectives and policies and exposure to market, credit, liquidity and interest rate risks, can be found on pages 34 to 43 of the Strategic report.

Streamlined Energy & Carbon Reporting

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

There is no prescribed reporting methodology under the legislation, although for effective emissions management and transparency it is important that robust and accepted methods are used. RAC Group (Holdings) Limited waste data is collated by the waste carriers and the records made available on a portal, split by category. Transport fuel data and other energy use data is collated monthly or as frequently as it becomes available and used for ongoing analysis. RAC has assessed greenhouse gas emissions using the 'GHG Reporting Protocol – A Corporate Accounting and Reporting Standard' and in accordance with the Defra's 'Environmental Reporting guidelines: including Streamlined Energy and Carbon Reporting requirements'.

The reporting scope in the table below includes the following in the organisational boundary, following an operational control approach:

- RAC Group (Holdings) Limited UK emissions
- Wholly owned UK subsidiaries in the RAC Group

The reporting scope includes the following energy sources:

- Electricity used for RAC Group (Holdings) Ltd operations at RAC occupied buildings (scope 2, see row 1 in table below)
- Gas used to heat RAC Group (Holdings) Ltd operations at RAC occupied buildings (scope 1, see row 2 in table below)
- Transport fuel used for RAC Group (Holdings) Ltd operations under RAC operational control (scope 1, see row 3 in table below), which includes purchased diesel for roadside fleet and fuel purchased on fuel cards

- Transport fuel used for RAC Group (Holdings) Ltd operations under RAC operational control (scope 3, see row 4 in table below), which includes business mileage in personal vehicles, and business mileage in contractor vehicles
- Water used for RAC Group (Holdings) Ltd operations at RAC occupied buildings (scope 3, see row 5 in table below)
- Waste generated at RAC Group (Holdings) Ltd occupied buildings (scope 3, see row 6 in table below)
- Vehicle waste generated from RAC Group (Holdings) Ltd operations (scope 3, see row 7 in table below)

For some data sources, assumptions have been used where energy and carbon use cannot be calculated exactly from primary data – for example where utility invoices are provided quarterly rather than monthly. These are recorded and any changes in source data and methodology in future years will be notified. Estimates have been used for January 2019 for roadside waste, as the system for recoding data was not in place until February 2019. All carbon emissions factors are taken from 'UK Government GHG Conversion Factors for Company Reporting' issued by Defra and BEIS, for the appropriate years.

GHG emissions and energy use data for period 1 January 2020 to 31 December 2020

RAC Group (Holdings) Ltd

	2020		2019	
	Energy (kWh)	Emissions (tCO ₂ e)	Energy (kWh)	Emissions (tCO ₂ e)
Electricity ¹	4,861,746	1,133.5	5,182,766	1,324.7
Gas ²	3,745,838	691.3	3,322,524	612.8
Transport fuel ³ Purchased diesel for roadside fleet and fuel purchased on fuel cards.	49,345,250	11,873.8	56,406,344	13,823.3
Transport fuel ⁴ Business mileage in personal vehicles, and business mileage in contractor vehicles	60,636,413	15,468.0	56,811,363	14,853.9
Total	118,589,247	29,166.6	121,722,997	30,614.7
Intensity ratio: kWh and tCO ₂ e / Total jobs handled	41.26	0.01015	44.93	0.01130

	2020		2019	
	Unit	Emissions (tCO ₂ e)	Unit	Emissions (tCO ₂ e)
Water ⁵	17,664 m ³	18.0	28,193m ³	28.7
Office Waste ⁶	136.8t	1.0	199.1t	1.7
Vehicle Waste ⁷	12.8t	0.3	6.7t	0.1
Total	-	19.2	-	30.6

Directors' report

For the year ended 31 December 2020

In 2020 we have seen some reductions due to the Covid-19 Pandemic. The number of breakdowns was down on 2019, although total attended jobs went up due to a large increase in inspections. Diesel used by the roadside fleet decreased, whilst the scope 3 contractor mileage increased compared to the previous year, due to an increase in towing mileage. Overall combined carbon associated with breakdown vehicles has reduced overall. Site energy use was impacted as a result of decreased small power use in some areas due to reduced occupancy on site, however plant equipment usage increased due to running the air handling system at 100% fresh air to comply with HSE guidance. This was needed to enable adequate heating and ventilation within the offices.

Overall, there has been a drop in energy use and associated carbon emissions per attended job, showing an increase in operational energy efficiency.

In addition to the impact from Covid-19, we have also been able to isolate, and measure decreases due to a number of energy and fuel saving measures that have come into force over 2020. The RAC has an environmental management system certified to ISO 14001:2015, which has ensured that a flow of new improvements have been identified and implemented over the 2020 year.

Over the past year, 95% of our roadside fleet have become Euro 6 compliant; and they are also now fitted with Telematics and CCTV cameras and recording systems. By using this active Telematics data, we have begun to review driving behaviours and support, and target training and coaching towards those who are in the highest at-risk groups.

We also continue with our ongoing program of informing and training our colleagues in initiatives and CBT programs such as, 'Safe and fuel efficient driver training' and 'Environmental management at the roadside' that detail how to deal with roadside generated wastes and environmental incidents such as spillages.

We constantly review our vehicles and equipment to adopt new technologies. Over 2020, new aerodynamic reduced weight beacon bars that use LED lighting have been fitted to all roadside vehicles. We have also initiated a project to replace the steel racks and drawers in the back of vehicles with a more lightweight, robust and recyclable plastic alternative, which will be rolled out in 2021 and beyond.

RAC has developed the all wheels up trailer, which means that our Patrol vehicles can now either repair or tow over 90% of our customers' vehicles, reducing the need to send a second resource. Our new vehicles also have an EV boost onboard charger, which we developed in 2019, but has now been rolled out across a greater proportion of the fleet. These vehicles can provide a top-up charge to an EV customer in order for them to reach the nearest charge point. This reduces the need for a tow and has reduced carbon emissions in these cases significantly.

We have also developed a new Company Car policy, which started in early 2021. This caps CO2 emissions and encourages the selection of Hybrid and pure Electric vehicles through subsidised support.

In order to achieve reductions in electric and gas use, we undertook a number of energy conservation measures at our largest two sites in early 2020. This included a full upgrade of the building management system with the software control strategy being re-written with energy efficient routines. This has helped provide significant reductions in run time seen on the chillers, mechanical plant and boilers. We can now also make changes to our strategy in response to TRIAD warnings, which means that we use less electricity during periods of peak demand, to ease the pressure on the grid.

Over the 2020 year we have installed sub-metering on all of the main energy using plant, and for the main incoming electric and gas for both the Bescot and Bradley Stoke sites. This enables us to review performance of all the main energy users, to ensure savings are maintained.

In 2021 we will continue developing our ESG Strategy and the key workstreams, with a key focus on enhancing and developing our long-term carbon strategy to support the community, our customers and the environment whilst ensuring the long-term sustainability of the business

Going concern

The Directors have assessed the financial position and the future prospects and funding requirements of the RAC Bidco Limited Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 18 and 23 to the Consolidated Financial Statements. The RAC Bidco Limited Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 28 to the Consolidated 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 including the impact of the UK leaving the EU and a consideration of the continued uncertainty as a result of the Covid-19 pandemic. The Directors considered a range of potential trading and market-related risks, including temporary Covid-related volume reductions, regulatory change, roadside demand and usage change, plus mitigating actions and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

The RAC Bidco Limited Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 6 to 33. The Directors also considered what mitigating actions the RAC Bidco Limited Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net assets of £299 million and net current liabilities of £104 million. The Directors do not consider there to be a liquidity risk as a result of the net current liabilities position as this is due to deferred income of £118 million which is not a current liability that will require cash settlement. The Groups' net asset position largely reflects the value of separately identifiable intangibles assets, offset by book value of issued bonds of £1,111 million and bank borrowings of £297 million.

The Company has net assets of £1,075 million and net current liabilities of £27 million. The Directors have considered the financial position and future prospects of the Company.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Bidco Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2020 Company and Consolidated Financial Statements to be prepared on a going concern basis.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor of the Group and Company and their reappointment will be proposed to the Board at the April 2021 Board meeting.

Disclosure of information to the auditor

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

Directors' report

For the year ended 31 December 2020

Statement of Directors' responsibilities

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

In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

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

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

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

Events since the Statement of financial position date

There have been no events since the Statement of financial position date which have a material impact on the Company's financial position as at 31 December 2020.

Approved by the Board on 23 February 2021.



J Baker
Chief Financial Officer
23 February 2021

Test Results - Battery

Battery State of Health



Reserve Capacity

Test Not Performed

VOLTAGE
12.39 V

MEASURED
562 EN

RATING
950 EN

TEMP.
-1.0 °C

SOC
69 %

REPLACE

Battery is not in a good state of health. Low Cold Cranking Amps (CCA) will compromise the batteries ability to start the vehicle.

Battery Application:

Automotive

Battery Chemistry:

Flooded

Continue

Panasonic CF-19

TOUGHBOOK



RAC



GB
PI RAC



Financial Statements

For the year ended 31 December 2020

Financial Statements

Independent auditor's report to the members of RAC Bidco Limited

Opinion:

In our opinion the Financial Statements of RAC Bidco Limited (the 'Company') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- 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 Company Statement of financial position;
- the Consolidated and Company Statements of changes in equity;
- the Consolidated and Company Statement of cash flows;

- the Accounting policies; and
- the related notes 1 to 32 of the consolidated Financial Statements and 1 to 10 of the Company Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

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 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

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

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the carrying value of goodwill and other indefinite life intangible assets.
Materiality	The materiality that we used for the Group Financial Statements was £7.2m 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 RAC Bidco Limited and its subsidiaries was performed by a single audit engagement team at the same time. Over 99% of the Group revenue, net assets and adjusted EBITDA was audited to full or specific scope audit procedures.
Significant changes in our approach	In the current year, we pinpointed our key audit matter to the accuracy of the future cash flow forecasts in addition to the discount rate because these were found to be the most sensitive assumptions in management's impairment assessment. There have been no other significant changes in our approach.

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 Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- Enquiring of senior management in relation to their going concern assessment including impacts of Covid-19 and Brexit, the steps they will take in the event that economic and other factors deteriorate further due to government imposed lockdowns;
- Assessing management's stress and scenario testing and performing reverse stress testing;
- Challenging management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows and considering its consistency with other available information and our understanding of the group businesses;
- Challenging management's going concern assessment and inspecting forecasts, including comparing this to post year end performance;
- Evaluating the accuracy of management's forecasts by assessing historical performance of the group against previous forecasts, including key performance indicators, and evaluating the mathematical accuracy of current forecasts;
- Evaluating management's assessment of the risks facing the group and the company including liquidity risk, capital risk (including minimum and/or solvency capital requirements), funding risk and operational matters as appropriate to the group business;
- Inspecting correspondence between the company and its regulators up to the date of signing our audit report, including correspondence relating to the group and the company's responses to the emergence of Covid-19 and government imposed lock downs;
- Assessing compliance with financial covenants on listed debt held by RAC Bond Co plc, which consolidates into the group, and the Senior Term Facility;

- Evaluating the impact of the net current liability position of the group on the going concern assumption;
- Assessing the group's operational resilience, business continuity plans, monitoring of outsourced operations, ability to continue to serve customers, comply with regulations and maintain appropriate internal controls;
- Evaluating all relevant audit evidence obtained, whether corroborative or contradictory, and considering any indicators of management bias;
- Assessing the consistency of forecasts used in preparation of the financial statements with those used to evaluate the recoverability of the intercompany debtors for RAC Bond Co plc; and
- Evaluating the appropriateness of disclosures in the 2020 financial statements relating to going concern and the principal risks and uncertainties that the group faces, with particular focus on Covid-19 and Brexit.

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 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.

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.

Financial Statements

Independent auditor's report to the members of RAC Bidco Limited

Key audit matter (continued)

Carrying value of goodwill and indefinite life intangible assets

Key audit matter description	<p>As at 31 December 2020, the Group holds goodwill of £878m (2019: £878m) and indefinite life intangible assets including £864m (2019: £864m) in relation to the value of the RAC brand. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is required to be subject to an annual impairment test.</p> <p>The Group's assessment of the carrying value of goodwill and indefinite life intangible assets is a judgemental process which requires estimates concerning the future cash flows of each cash generating unit ('CGU') and associated discount and growth rates based on management's view of future business prospects. The two CGUs are 'Membership services' and 'Insurance and Financial Services' as shown in note 5 to the Financial Statements.</p> <p>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 discount rate applied to take into consideration the value in use of money. Inappropriate use of these assumptions either due to fraud or error could give rise to a material misstatement.</p> <p>Further details of the key judgements involved and sources of estimation are detailed in accounting policies F and U, which relate to note 11 to the Financial Statements for goodwill and intangible assets.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of management's process and of the relevant controls identified around the impairment assessment for goodwill and other indefinite useful life intangible assets. We considered the method/model, assumptions and data used in the impairment assessment as part of our risk assessment.</p> <p>We performed sensitivity analysis on the inputs to management's forecasts to identify the most sensitive assumptions adopted in the impairment review and focused our testing on the discount rate and future cash flow forecasts accordingly. We also performed reverse stress testing to identify the circumstances in which an impairment, of either CGUs, would be required and assessed if these circumstances are reasonably plausible.</p> <p>We inspected and challenged management's impairment review accounting paper and assessed whether the key judgements made were reasonable.</p> <p>We gained an understanding of the budget process that underpins the cash flow forecasts and assessed the 5-year cash flow forecast for reasonableness. We also evaluated whether management's value in use ('VIU') calculations were prepared in accordance with the requirements of IAS 36.</p> <p>We involved our valuation specialists to assess the methodology used to determine the discount rate for compliance with IAS 36 and market practice and independently determine a reasonable range for the discount rate.</p> <p>Given the inherent susceptibility to misstatements in estimates, we considered indicators of management bias including benchmarking our valuation of the business to that of comparable peer groups of similar size and risk profile.</p> <p>We evaluated the historical accuracy of forecasts made by management by comparing them to actual results. 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 also assessed whether the disclosures in relation to the impairment of goodwill and indefinite useful life intangible assets were reasonable.</p> <p>We increased our focus on the evaluation of the audit evidence obtained regarding the key assumptions adopted by management, including both corroborative and contradictory audit evidence. We also performed a 'stand back test' and used our internally generated discount rates to determine an independent range compared to that of management for the VIU per CGU.</p>
Key observations	<p>We concluded that management's current cash flow forecasts and the discount rate used to estimate the value in use of each CGU, as part of the impairment assessment are reasonable.</p> <p>We concluded that the overall carrying value of goodwill and other indefinite useful life intangible assets at the year end and the related disclosures in the financial statements are reasonable.</p>

Our application of 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	£7.2m (2019: £6.8m)	£6.8m (2019: £6.4m)
Basis for determining materiality	3.0% (2019: 3.0%) of EBITDA before exceptional items.	When determining materiality, as the 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 0.6% (2019: 0.6%) of the carrying value of investments held by the 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 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.

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	65% (2019: 70%) of Group materiality	65% (2019: 70%) of 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 Company in previous audits. We adopted a lower performance materiality at 65% compared to the prior year in light of Covid-19 remote working arrangements and the impact these may have on the control environment including IT controls, which may increase the likelihood and magnitude of misstatements.	

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 (2019: £0.3m), 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.

Financial Statements

Independent auditor's report to the members of RAC Bidco Limited

An overview of the scope of our audit

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 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 £0.5m to £6.8m (2019: £0.4m to £6.4m). These account for over 99% (2019: 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.

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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

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.

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 procedure 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.

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, actuaries, valuations, pensions, IT, conduct risk and financial instruments 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 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 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 imposed by the Prudential Risk Authority (PRA) or the Financial Conduct Authority (FCA).

Financial Statements

Independent auditor's report to the members of RAC Bidco Limited

Audit response to risks identified

As a result of performing the above, we identified carrying value of goodwill and other indefinite 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 that 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 FCA and the PRA; 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

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 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.

Matters on which we are required to report by exception

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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.

Other matters which we are required to add

Auditor tenure

Following the recommendation of the Board Risk, Audit and Compliance Committee, we were appointed by Board of Directors in 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 seven years, covering the years ending 31 December 2014 to 31 December 2020.

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).

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

23 February 2021



Consolidated Financial Statements

Consolidated Income Statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	1	624	631
Cost of sales		(295)	(313)
Gross profit		329	318
Administrative expenses		(203)	(217)
Operating profit	2	126	101
EBITDA before exceptional items		241	226
Depreciation of owned tangible assets	13	(7)	(7)
Depreciation of right of use assets	14	(12)	(11)
Amortisation of customer acquisition intangibles	11	(9)	(9)
Amortisation of contract costs	12	(16)	(14)
Amortisation of non-customer acquisition intangible assets	11	(70)	(84)
Exceptional items	3	(1)	–
Operating profit		126	101
Net finance expenses	6	(76)	(76)
Profit before tax		50	25
Tax (charge)/credit	10	(32)	2
Profit for the year		18	27

All activities relate to continuing operations.

The accounting policies and notes on pages 92 to 131 are an integral part of these Financial Statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the year		18	27
Other comprehensive expense			
<i>Other comprehensive expense to be reclassified to profit or loss in subsequent periods:</i>			
Net movement on cash flow hedges		(3)	(1)
Aggregate tax effect	10(c)	1	–
<i>Net other comprehensive expense to be reclassified to profit or loss in subsequent periods</i>		(2)	(1)
Total comprehensive income for the year		16	26

The accounting policies and notes on pages 92 to 131 are an integral part of these Financial Statements.

Consolidated Financial Statements

Consolidated Statement of Financial Position as at 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Non-current assets			
Goodwill and intangible assets	11	1,914	1,974
Contract costs	12	32	29
Property, plant and equipment	13	34	25
Right of use assets	14	61	67
Other investments	15	2	-
Deferred tax asset	20	9	18
		<u>2,052</u>	<u>2,113</u>
Current assets			
Inventories	17	4	2
Trade and other receivables	18	46	53
Cash and cash equivalents	19	106	98
		<u>156</u>	<u>153</u>
LIABILITIES			
Current liabilities			
Borrowings	24(a)	(8)	(9)
Provisions	21	(1)	(1)
Trade and other payables	22	(226)	(222)
Current tax payable	20	(25)	(32)
		<u>(260)</u>	<u>(264)</u>
Net current liabilities		<u>(104)</u>	<u>(111)</u>
Non-current liabilities			
Borrowings	24(a)	(1,400)	(1,425)
Employee benefit liability	28(c)(iv)	(5)	(4)
Trade and other payables	22	(60)	(65)
Deferred tax liability	20	(179)	(176)
Derivative financial instruments	23	(5)	(5)
		<u>(1,649)</u>	<u>(1,675)</u>
Net assets		<u>299</u>	<u>327</u>
EQUITY			
Ordinary share capital	25	339	339
Hedging instruments reserve		(3)	(1)
Retained earnings		(37)	(11)
Total equity		<u>299</u>	<u>327</u>

The accounting policies and notes on pages 92 to 131 are an integral part of these Financial Statements.

Approved by the Board on 23 February 2021.



J Baker

Chief Financial Officer

Consolidated Statement of Changes in Equity

	Note	Ordinary share capital £m	Hedging instruments reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019		339	–	16	355
Profit for the year		–	–	27	27
Other comprehensive expense		–	(1)	–	(1)
Total comprehensive (expense)/income		–	(1)	27	26
Dividends paid	4	–	–	(54)	(54)
Balance at 31 December 2019		339	(1)	(11)	327
Profit for the year		–	–	18	18
Other comprehensive expense		–	(2)	–	(2)
Total comprehensive (expense)/income		–	(2)	18	16
Dividends paid	4	–	–	(44)	(44)
Balance at 31 December 2020		339	(3)	(37)	(299)

The accounting policies and notes on pages 92 to 131 are an integral part of these Financial Statements.



Consolidated Financial Statements

Consolidated Statement of Cash Flows for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Operating activities			
Profit before tax		50	25
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	13	7	7
Depreciation of right of use assets	14	12	11
Amortisation	11 & 12	95	107
Net finance expenses	6	76	76
Working capital adjustments:			
Increase in inventories		(2)	–
Decrease/(Increase) in trade and other receivables		7	(5)
Increase in trade and other payables		3	–
Payment to employment benefit schemes		–	(1)
Taxation paid	20	(26)	(15)
Net cash flows from operating activities		222	205
Investing activities			
Purchase of other investments	15	(2)	–
Purchase of property, plant and equipment	13	(16)	(8)
Purchase of intangible assets	11 & 12	(38)	(39)
Net cash used in investing activities		(56)	(47)
Financing activities			
Repurchase of bonds	24	(65)	–
Repayment of bank debt	24	(262)	(18)
Proceeds from new bank debt	24	300	–
Transaction costs	24	(3)	–
Repayment of obligations under leases		(13)	(13)
Dividends paid	4	(44)	(54)
Interest paid and debt issue costs		(71)	(71)
Net cash flows used in financing activities		(158)	(156)
Net increase in cash and cash equivalents		8	2
Cash and cash equivalents brought forward	19	98	96
Cash and cash equivalents carried forward	19	106	98

The accounting policies and notes on pages 92 to 131 are an integral part of these Financial Statements.



Accounting Policies

A. Corporate information

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

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

The Consolidated and Parent Company Financial Statements of RAC Bidco Limited for the year ended 31 December 2020 were approved for issue by the Board on 23 February 2021.

B. Basis of preparation and basis of consolidation

Basis of preparation

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

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

The Consolidated and Company Financial Statements are presented in pounds sterling, which is the presentation currency of the RAC Bidco Limited Group and the Company. Unless otherwise noted, the amounts shown in these Financial Statements are in millions of pounds sterling ("£m").

The separate Financial Statements of the Company are set out from page 87. On publishing the Company Financial Statements here together with the RAC Bidco Limited Group Financial Statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement. The Company's profit for the year ended 31 December 2020 was £46 million (2019: £56 million).

Application of new and revised International Financial Reporting Standards ("IFRSs")

The following new and amended IFRSs are effective and relevant for these Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Financial Statements.

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3;
- Amendments to IAS 1 and IAS 8; and
- Amendments to IFRS 9, IAS 39 and IFRS 7.

At 31 December 2020, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 17 Insurance contracts¹

1. Effective for annual periods commencing on or after 1 January 2023

Going concern

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

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 month period from the Statement of financial position date, including the impact of the UK leaving the EU and a consideration of the continued uncertainty as a result of the Covid-19 pandemic. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

The RAC Bidco Limited Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on pages 6 to 33. The Directors also considered what mitigating actions the RAC Bidco Limited Group could take to limit any adverse consequences.

The RAC Bidco Limited Group has net assets of £299 million and net current liabilities of £104 million. The Directors do not consider there to be a liquidity risk as a result of the net current liabilities position as this is due to deferred income of £118 million which is not a current liability that will require cash settlement. The Groups' net asset position largely reflects the value of separately identifiable intangibles assets, offset by book value of issued bonds of £1,111 million and bank borrowings of £297 million.

The Company has net assets of £1,075 million and net current liabilities of £27 million. The Directors have considered the financial position and future prospects of the Company.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Bidco Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2020 Company and Consolidated Financial Statements to be prepared on a going concern basis.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2020.

Subsidiaries are those entities in which the RAC Bidco Limited Group, directly or indirectly, has power to exercise control. Control is achieved when

the RAC Bidco Limited Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the RAC Bidco Limited Group controls an investee if and only if it has:

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

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

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

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

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

Profit or loss of each component of other comprehensive income is attributed to the equity holders of the parent of the RAC Bidco Limited Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Accounting Policies

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

When necessary, adjustments are made to the Financial Statements of the subsidiaries to bring their accounting policies in line with the RAC Bidco Limited Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the RAC Bidco Limited Group are eliminated in full on consolidation.

The acquisition method of accounting is used for business combinations. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The excess of the consideration transferred over the fair value of the net assets and liabilities of the subsidiary acquired is recorded as goodwill. Acquisition related costs are expensed as incurred.

Investments in subsidiaries

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

Business combinations

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as

an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

C. Revenue recognition

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

Service revenue

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

Products

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

Commission and arrangement fees

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

Interest income

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

Dividend income

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

D. Exceptional items

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

E. Contract costs

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

Accounting Policies

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the RAC Bidco Limited Group's share of the net assets of the acquired subsidiary at the acquisition date. Goodwill is carried at cost, less any impairment subsequently incurred.

Brand

The RAC brand has been assessed as having an indefinite life due to the strength and durability of the brand that has existed since 1897.

Acquired value-in-force business

The acquired value-in-force represents future margins in deferred income in the Consolidated Statement of financial position at the date of acquisition. This intangible asset is amortised over its useful life of less than twelve months.

Customer lists and other intangible assets

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

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

Customer acquisition intangibles

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

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

Intangible assets acquired in a business combination

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

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

Impairment testing

For impairment testing, goodwill has been allocated to the two cash generating units ("CGUs") that exist as these represent the lowest level within the Group which generates independent cash inflows. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying amount. Details of the testing performed and carrying values of goodwill and intangibles is shown within note 11.



Marc, RAC patrol since 2007

Accounting Policies

G. Property, plant and equipment

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

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

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

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

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

H. Other investments

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

I. Inventories

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

J. Impairment of non-financial assets

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

K. Trade receivables

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

L. Cash and cash equivalents

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

M. Borrowings

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

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

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

N. Derivative financial instruments

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

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

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

Accounting Policies

O. Cash flow hedges

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the Consolidated Income statement in the periods when the hedged item is recognised in the Consolidated Income statement, in the same line of the Consolidated Income statement as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the Consolidated Income statement.

P. Provisions and contingent liabilities

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

under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable yet still possible or the amount cannot be reliably estimated.

Q. Income taxes

Income taxes include both current and deferred taxes. Income taxes are (charged)/credited to the Consolidated Income statement except where they relate to items (charged)/credited directly to other comprehensive income or equity. In this instance, the income taxes are also (charged)/credited directly to other comprehensive income or equity respectively.

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

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

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

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

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

R. Leases

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

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

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

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

S. Employee benefits

Pension obligations and other post-retirement benefit obligations

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

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

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

Remeasurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest) are recognised immediately in the Consolidated Statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Accounting Policies

S. Employee benefits (continued)

Costs charged to the Consolidated Income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the schemes' administration expenses), past service cost (resulting from changes to benefits with respect to previous years' service), and gains or losses on curtailment (when the employer materially reduces the number of employees covered by the scheme) or on settlements (when a scheme's obligations are transferred from the Group).

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

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

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

Termination benefits

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

T. Share capital and dividends

Equity instruments

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

- i. there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- ii. the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

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

U. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Financial Statements in conformity with IFRSs requires the RAC Bidco Limited Group to make estimates and judgements using assumptions that affect items reported in the Consolidated Statement of financial position and Consolidated Income statement and the disclosure of contingent assets and liabilities at the reporting date. Estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Set out below are items where management have taken a judgement or which management consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

i. Critical judgements in applying the RAC Bidco Limited Group's accounting policies

The Directors do not consider there to be any critical judgements at the Statement of financial position date.

ii. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Consolidated Statement of financial position date are discussed below:

Incremental borrowing rate

In calculating the Group's lease liability, in accordance with IFRS 16, management have determined that the Group is unable to calculate the rate implicit within the lease ('IRIL') for all its lease liabilities and has therefore utilised the Group's incremental borrowing rate for the purposes of discounting the minimum value of future lease obligations.

In calculating this measure, management have made certain judgements regarding the finance spread adjustment applicable to the Group and lease specific adjustments. Inherently there is an element of judgment in determining these amounts. The effect of a 1% decrease in the discount rate would increase both the asset and liability by £5 million and the combined interest and depreciation charge by £nil. The effect of a 1% increase in the discount rate would decrease both the asset and liability by £4 million and the combined interest and depreciation charge by £nil.

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at 31 December 2020 and 31 December 2019 was £878 million and £864 million respectively.

Impairment of goodwill and indefinite lived intangible assets (continued)

The RAC Bidco Limited Group performs impairment testing annually in October 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 2025. The growth rate used to extrapolate future cash flows beyond the Group's forecasts for both CGUs is 3%, based on the expected average long term growth rate of the UK economy. The pre-tax discount rate of 9% applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

This assessment was based on management's forecasts and cash flow assumptions. The key assumptions in this assessment are future cash flows growth rate beyond 2025 and pre-tax discount rate. If the future cash flows growth rate were to reduce from 3% to 1%, the effect on the Group for this reduction would be to decrease this headroom by £933 million. If the pre-tax discount rate were to increase by 2%, the effect on the Group would be to decrease this headroom by £1,215 million. None of the sensitivities noted above lead to an impairment.



Notes to the Consolidated Financial Statements

1. Revenue	2020 £m	2019 £m
Sale of products - transferred at a point in time	39	32
Sale of services (see note 5 for categorisation of revenue)	585	599
Total revenue	624	631

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

2. Operating items	Note	2020 £m	2019 £m
The following items have been charged to operating profit:			
Depreciation of owned tangible assets	13	7	7
Depreciation of right of use assets	14	12	11
Amortisation of customer acquisition intangible assets	11	9	9
Amortisation of non-customer acquisition intangible assets	11	70	84
Amortisation of contract costs	12	16	14
Government assistance		(2)	-
Employee costs	8	166	171

3. Exceptional items	2020 £m	2019 £m
Restructuring	1	-
	1	-

During 2020 the Group conducted a strategic review of the business and as a result, the Group has incurred £1 million in associated restructuring costs.

4. Dividends

The Group paid interim dividends of £44 million during the year, amounting to 13.11 pence per share (2019: £54 million, amounting to 15.96 pence per share). No final dividend was paid (2019: £nil).

Notes to the Consolidated Financial Statements

5. Operating segments

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

Management has determined the operating segments based on the management accounts reviewed by the Board of Directors, which are used to assess the performance of the business. The Board of Directors has been identified by management to reflect the chief operating decision maker in accordance with the requirements of IFRS 8 Operating Segments. The two operating and reportable segments of the Group are described below.

Membership services

Membership services is the largest operating segment of the business, offering breakdown cover and related products to Individual Members, SME

and Corporate Partners. In addition this segment includes the other products such as recall and inspections, accident management services, branded customer services, retail online, garage services, and RAC Cars.

Insurance and financial services

The insurance and financial services 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. This segment includes the sale of telematics devices, both as part of insurance policies and to Corporate Partners and SME businesses, and the provision of other products and services including loans and legal advisory services.

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.

	2020 £m	2019 £m
Revenue of products		
Membership services - transferred at a point in time	39	32
Revenue of services		
Membership services - Insurance related - transferred over time	393	385
Membership services - Non-insurance related - transferred at a point in time	89	118
Insurance and financial services - transferred at a point in time	103	96
Group Revenue	624	631
Segment EBITDA before head office costs		
Membership services	239	222
Insurance and financial services	45	44
Group EBITDA before head office costs	284	266
Head office costs*	(43)	(40)
Group EBITDA before exceptional items	241	226
Amortisation of intangible assets	(95)	(107)
Depreciation	(19)	(18)
Exceptional items*	(1)	-
Operating profit	126	101
Finance expenses	(77)	(77)
Investment income	1	1
Profit before tax from continuing operations	50	25

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

Assets and liabilities

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

	2020 £m	2019 £m
Interest payable – third parties	68	69
Interest payable – lease liabilities	3	4
Amortisation of capitalised finance costs	3	4
Write off of capitalised finance costs	3	–
Investment income	(1)	(1)
	76	76

Interest payable to third parties relates to finance expenses in respect of third party borrowings. All of the finance expenses except investment income relate to financial liabilities held at amortised cost.

7. Auditor remuneration

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

	2020 £000	2019 £000
Non-audit services	–	–
Audit services		
Audit of Financial Statements	55	48
Audit of subsidiaries	292	269
Total remuneration payable to Deloitte LLP	347	317

Notes to the Consolidated Financial Statements

8. Employee information

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

	2020 Number	2019 Number
The monthly average number of persons employed during the year was:		
Membership Services	3,297	3,156
Insurance and financial services	82	94
Support	366	370
	3,783	3,620

	2020 £m	2019 £m
Total staff costs were:		
Wages and salaries	141	146
Social security costs	16	15
Pension costs	9	9
Termination benefits	–	1
	166	171

	2020 £m	2019 £m
These costs were charged within:		
Cost of sales	122	119
Administrative expenses	44	52
	166	171

9. Directors

Executive Directors are remunerated as employees by RAC Motoring Services, a wholly owned subsidiary. Details of the aggregate remuneration of the Directors of the Company for qualifying services in respect of the RAC Bidco Limited Group comprise:

	2020 £000	2019 £000
Fees and benefits	2,544	1,990
Termination benefits	–	–
Contributions paid into money purchase pension schemes	–	–
	2,544	1,990
Emoluments of the highest paid Director:		
Fees and benefits	1,303	1,066
Termination benefits	–	–
Contributions paid into money purchase pension schemes	–	–
	1,303	1,066

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to 1 Director (2019: 1) under a money purchase scheme. During the year no Directors (2019: none) were awarded shares under long-term incentive schemes.

10. Tax

(a) Tax charged/(credited) to the Consolidated Income statement	2020 £m	2019 £m
The total tax charge/(credit) comprises:		
Current tax:		
For the year	21	17
Adjustment in respect of prior years	(1)	(2)
Total current tax	<u>20</u>	<u>15</u>
Deferred tax:		
Origination and reversal of temporary differences	(11)	(11)
Adjustment in respect of prior years	4	(6)
Effect of change in tax rate	19	–
Total deferred tax	<u>12</u>	<u>(17)</u>
Total tax charged/(credited) to the Consolidated Income statement	32	(2)

(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:

	2020 £m	2019 £m
Profit before tax	50	25
Tax calculated at standard UK corporation tax rate of 19.00% (2019: 19.00%)	10	5
Disallowable expenses	–	1
Prior year adjustment	3	(8)
Effect of change in tax rate	19	–
Total tax charged/(credited) to the Consolidated Income statement (note 10(a))	32	(2)

The headline rate of UK corporation tax is currently 19%. In accordance with the Budget 2020 the main rate of corporation tax will remain at 19% for the accounting periods up to and including the years ending 31 December 2021.

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.

The Budget 2020 maintained the corporation tax rate at 19%, reversing the reduction to 17% enacted on 15 September 2016. Therefore, deferred tax balances at 31 December 2020 have been reflected at the 19% tax rate they are expected to be realised or settled.

(c) Tax charged to other comprehensive income

Tax credited directly to other comprehensive income in the year amounted to £1 million (2019: £nil) in respect of tax on movements in hedging instrument fair values.

Notes to the Consolidated Financial Statements

11. Goodwill and intangible assets

	Goodwill £m	Brand £m	Acquired value–inforce £m	Customer list £m	Other £m	Non customer acquisition intangibles subtotal £m	Customer acquisition intangibles £m	Total £m
Cost:								
At 1 January 2019	878	864	89	536	100	2,467	40	2,507
Additions	–	–	–	–	12	12	9	21
At 31 December 2019	878	864	89	536	112	2,479	49	2,528
Additions	–	–	–	–	14	14	5	19
Disposal	–	–	–	–	(60)	(60)	–	(60)
At 31 December 2020	878	864	89	536	66	2,433	54	2,487
Amortisation:								
At 1 January 2019	–	–	89	297	60	446	15	461
Charge for the year	–	–	–	68	16	84	9	93
At 31 December 2019	–	–	89	365	76	530	24	554
Charge for the year	–	–	–	58	12	70	9	79
Disposal	–	–	–	–	(60)	(60)	–	(60)
At 31 December 2020	–	–	89	423	28	540	33	573
Net book value:								
At 31 December 2020	878	864	–	113	38	1,893	21	1,914
At 31 December 2019	878	864	–	171	36	1,949	25	1,974

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated Income statement. No impairment has been recognised during the year (2019: £nil). Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are shown in the Consolidated Income statement.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the two cash generating units ("CGU") further details of which are given in note 5. The carrying value of the goodwill and indefinite-lived intangible assets allocated across the two CGUs is £878 million and £864 million respectively.

	2020		2019	
	Goodwill £m	Indefinite-lived intangibles £m	Goodwill £m	Indefinite-lived intangibles £m
Membership services	748	719	748	719
Insurance and financial services	130	145	130	145
	878	864	878	864

The RAC Bidco Limited Group performs impairment testing annually in October 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 2025. The growth rate used to extrapolate future cash flows beyond the Group's forecasts for all CGUs is 3%, based on the expected average long term growth rate of the UK economy. The pre-tax discount rate of 9% (2019: 9%) applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of non-current assets.

Key assumptions used in management forecasts include:

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

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

Notes to the Consolidated Financial Statements

	Costs to obtain contracts £m	Total £m
12. Contract costs		
Cost or valuation:		
At 1 January 2019	69	69
Additions	18	18
At 31 December 2019	87	87
Additions	19	19
At 31 December 2020	106	106
Depreciation		
At 1 January 2019	44	44
Charge for the year	14	14
At 31 December 2019	58	58
Charge for the year	16	16
At 31 December 2020	74	74
Net book value:		
At 31 December 2020	32	32
At 31 December 2019	29	29

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



13. Property, plant and equipment	Owner-occupied property £m	Fixtures, fittings and other equipment £m	Computer equipment £m	Total £m
Cost or valuation:				
At 1 January 2019	3	34	6	43
Additions	–	8	–	8
At 31 December 2019	3	42	6	51
Additions	–	9	7	16
At 31 December 2020	3	51	13	67
Depreciation:				
At 1 January 2019	–	14	5	19
Charge for the year	–	6	1	7
At 31 December 2019	–	20	6	26
Charge for the year	–	7	1	7
At 31 December 2020	–	27	6	33
Net book value:				
At 31 December 2020	3	24	7	34
At 31 December 2019	3	20	–	25

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

In line with the Group's accounting policy, the owner-occupied property was revalued in November 2020 by Colliers International, an accredited independent valuer. There was no material change in the fair value of the property at the balance sheet date. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2020 and 31 December 2019 would be £3 million.

Notes to the Consolidated Financial Statements

	Property £m	Vehicles £m	Total £m
14. Right of Use assets			
Cost or valuation:			
At 1 January 2019	45	38	83
Additions	–	5	5
Disposals	–	(3)	(3)
At 31 December 2019	45	40	85
Additions	–	6	6
Disposals	–	(1)	(1)
At 31 December 2020	45	45	90
Depreciation:			
At 1 January 2019	2	8	10
Charge for the year	2	9	11
Disposals	–	(3)	(3)
At 31 December 2019	4	14	18
Charge for the year	2	10	12
Disposals	–	(1)	(1)
At 31 December 2020	6	23	29
Net book value:			
At 31 December 2020	39	22	61
At 31 December 2019	41	26	67

	2020 £m	2019 £m
15. Other investments		
a. Movements in the Company's other investments		
Fair value		
At 1 January	–	–
Acquisitions	2	–
At 31 December	2	–

During 2020, the Group invested £2 million into its controlling entity, RAC Group (Holdings) Limited. The Directors do not consider there to have been any change in fair value between the date of acquisition and the Statement of financial position date.

16. Group information

a. Information about subsidiaries

The Consolidated Financial Statements of the Group includes the following subsidiaries:

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 2. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

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

RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited (Company

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

b. The Parent company

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

Notes to the Consolidated Financial Statements

17. Inventories	2020 £m	2019 £m
Inventories	4	2

All inventories are classified as finished goods. The cost of inventories recognised as an expense and included within Cost of sales in the year ended 31 December 2020 amounted to £22 million (2019: £18 million).

18. Trade and other receivables	2020 £m	2019 £m
Trade receivables	14	14
Prepayments and accrued income	25	33
Other receivables	7	6
Total	46	53
Expected to be recoverable within one year	46	53

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 2020 (2019: £nil).

19. Cash and cash equivalents	2020 £m	2019 £m
Cash and cash equivalents comprise:		
Unrestricted cash at bank and in hand	98	90
Restricted cash at bank	8	8
Total	106	98

Restricted cash is the amount of cash the RAC Bidco Limited Group is required to hold to meet regulatory Solvency II requirements.

20. Tax assets and liabilities	2020 £m	2019 £m
Current tax payable	(25)	(32)
Deferred tax asset	9	18
Deferred tax liability	(179)	(176)
	(195)	(190)

Current tax payable includes amounts to be settled by group relief of £nil (2019: £nil) and are payable within one year. During the year an amount of £nil (2019: £3 million) in respect of group relief was settled by an intercompany transfer.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019 and clarifies the accounting for uncertainties in income taxes. IFRIC 23 has been considered in regard to all uncertain tax positions for the RAC group of companies. A provision for 100% of the potential corporation tax (being £25 million (2019: £24 million)) has been made as measured in accordance with the standard. This is the same position adopted in the prior year statutory accounts of RAC Group Limited and

the consolidated accounts of RAC Bidco Limited & RAC Group (Holdings) Limited. There are no further uncertain tax positions identified that would require measurement under IFRIC 23.

Based on professional advice, the Group claimed tax deductions in its returns for several years and reduced its tax payments accordingly. HMRC have indicated that they do not agree with the Group's interpretation of the relevant tax legislation. The Group has provided HMRC with all information requested in support of the deductions claimed, and discussions continue in order to reach a conclusion on the differing interpretations. It cannot currently be reliably estimated how long it will take to reach an agreed resolution of this issue.

Deferred tax	Property, plant & equipment £m	Intangible assets & Contract costs £m	Retirement benefit obligations £m	Revaluation of financial assets £m	Other temporary differences £m	Total £m
At 1 January 2019	3	(187)	1	1	7	(175)
(Charge)/credit to Consolidated Income statement	(1)	11	–	–	7	17
Charge to other comprehensive income	–	–	–	–	–	–
At 31 December 2019	2	(176)	1	1	14	(158)
(Charge)/credit to Consolidated Income statement	–	(3)	–	–	(9)	(12)
Charge to other comprehensive income	–	–	–	–	–	–
At 31 December 2020	2	(179)	1	1	5	(170)

	2020 £m	2019 £m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability brought forward	(158)	(175)
Deferred tax credited to the Consolidated Income statement	(7)	17
Deferred tax charged to other comprehensive income	–	–
Net deferred tax liability carried forward	(165)	(158)

The RAC Bidco Limited Group has unrecognised capital losses of £146 million (2019: £146 million) to carry forward indefinitely against future capital gains. No asset has been recognised as there are no capital gains expected in the foreseeable future. The Group has an unrecognised deferred tax asset of £5 million (2019: £3 million) in respect of interest disallowed under the Corporate Interest Restriction rules.

Notes to the Consolidated Financial Statements

21. Provisions

	Customer refunds £m	Other £m	Total £m
At 1 January 2020	–	1	1
Provided during the year	2	–	2
Utilised during the year	(1)	–	(1)
Released during the year	(1)	–	(1)
At 31 December 2020	–	1	1

Customer refunds

During the year the Group made a provision of £2 million for estimated costs of refunding customers who were identified as having potentially mistakenly purchased more than one policy. All refunds were completed during 2020, totalling £1m. This amount was charged to revenue in the Income statement.

Other provisions

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

22. Trade and other payables

	2020 £m	2019 £m
Trade payables and accruals	51	62
Deferred income	118	113
Other payables	117	112
Total	286	287
Expected to be payable within one year	226	222
Expected to be payable in more than one year	60	65
Total	286	287

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 £67 million (2019: £71 million) in relation to lease liabilities recognised as a result of IFRS 16. The contractual maturity dates of lease liabilities are:

	2020 £m	2019 £m
Within 1 year	10	10
1 to 5 years	16	19
5 to 10 years	41	42
	67	71

Lease Commitments

As at 31 December 2020 the company had committed to aggregated undiscounted future lease payments of £2 million payable over a period up to 5 years (2019: £1 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 (2019: £nil). Lease commitments for short-term and low-value leases at the balance sheet date amounted to £nil (2019: £nil).

23. Derivative financial instruments

	2020 £m	2019 £m
Cash flow hedge liabilities	(5)	(5)

a. Hedging

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

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

b. Cash flow hedges

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

	2020 £m	2019 £m
Contract/notional value	275	275
Total derivative financial instrument liability	(5)	(5)

The hedges were effective in the year ending 31 December 2020 (2019: effective) and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income (2019: recognised in other comprehensive income).

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

On 31 January 2020, the Senior Term Facility was re-financed for an amount of £300 million. In accordance with the terms of the hedge designation memo, the hedged transactions have been replaced with those under the new Senior Term facility with the fixed element of the hedge continuing to be set to 2.025% per annum until 6 May 2021. In addition, the Company has executed a second hedging instrument, effective from 6 May 2021 with the fixed element of the hedge set to 0.642% per annum until 31 March 2024. The floating rate is calculated on a notional principal amount.

RAC's LIBOR based facilities, including its Senior Term Facility and Hedge, will be transitioned from a LIBOR basis to a SONIA basis in 2021, ahead of the 31 December 2021 deadline. This will not impact on the ability of the Group to undertake hedge accounting.

Notes to the Consolidated Financial Statements

24. Borrowings

a. Analysis of borrowing

	Class A1 Notes	Class A2 Notes	Bonds Class B1 Notes	Bank Debt Initial Senior Term Facility	Total
Interest rate	4.565%	4.870%	5.000%	LIBOR + 2.500%	
At 31 December 2020					
Fair value (£m)	302	605	212	300	1,418
Amounts due within one year (£m)	2	4	2	–	8
Amounts due in more than one year (£m)	299	596	208	297	1,400
Book value (£m)	301	600	210	297	1,408
Interest rate	4.565%	4.870%	5.000%	LIBOR + 2.750%	
At 31 December 2019					
Fair value (£m)	302	605	277	262	1,446
Amounts due within one year (£m)	2	5	2	–	9
Amounts due in more than one year (£m)	298	595	272	260	1,425
Book value (£m)	300	600	274	260	1,434

b. Bank debt

On 31 January 2020, the Senior Term Facility was re-financed for an amount of £300 million (and an additional £80 million accordion facility) at a floating rate of 2.500% plus LIBOR, incorporating a LIBOR floor and matures on 31 January 2025. As a result of the re-financing the Group incurred transaction costs of £3 million.

The Group has also entered into agreements for an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million. As at 31 December 2020, £2 million of the Working Capital Facility was utilised (2019: £1 million). The Initial Working Capital Facility was subject to interest of LIBOR plus 2.750% prior to 31 January 2020 and is subject to interest of LIBOR plus 2.500% from 31 January 2020, this facility matures on 31 January 2025. The Initial Liquidity Facility is subject to interest of LIBOR plus 2.250% and is subject to annual renewal.

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

c. Bonds

The bonds comprise three tranches: Class A1 Notes and Class A2 Notes (together "Class A Notes"), and Class B1 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. £210 million (following repurchase of £65 million on 9 November 2020) of Class B1 Notes were issued at a coupon of 5.000% and have an initial period to 6 November 2022, after which interest will be charged at 4.500% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November.

On 9 November 2020, £65 million of Class B1 Notes were repurchased for a tender value of 99.50 percent of the principal amount.

d. Security, covenants and fees

The Class A Notes, Class B1 Notes and Initial Senior Term Facility are secured by way of first ranking security in respect of the undertakings and assets of RAC Bidco Limited and its subsidiaries, excluding RAC Insurance Limited and RACMS (Ireland) Limited.

Fees relating to the Class A Notes, Class B1 Notes and Initial Senior Term Facility have been capitalised and are being amortised over the lives of the borrowings to which they relate, in accordance with IFRS 9 Financial Instruments.

The Initial Senior Term Facility, Class 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 B1 Notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges. The Group has complied with these financial covenants throughout the periods since issue of the Class A Debt and Class B Debt.

25. Ordinary share capital

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

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2019: 339,131,773 of £1.00 each)	339	339
	339	339

26. Hedging instrument reserve

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

Notes to the Consolidated Financial Statements

27. Reconciliation of financial liabilities

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

	2020 £m	2019 £m
As at 1 January	1,439	1,454
Cash changes:		
Financing cash flows	(27)	(18)
Interest paid	(72)	(68)
Non-cash changes:		
Other finance expense (note 6)	6	4
Interest expense (note 6)	67	68
Movement in fair value of hedge liabilities (note 23)	-	(1)
At 31 December	1,413	1,439

28. Employee benefit obligations

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

a. Introduction

The RAC Bidco Limited Group operates a number of employee benefit schemes as follows:

RAC Group Personal Pension Plan ("RAC GPP Plan")

The RAC GPP Plan is a defined contribution pension plan open to all RAC employees which is provided by Aviva Pensions Trustees UK Limited who are authorised and regulated by the FCA.

Unfunded Unapproved Pension Scheme ("UUP Scheme")

A UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2020 was 7 (2019: 7).

Post-Retirement Medical Benefits Scheme ("PRMB Scheme")

Under the PRMB Scheme the RAC Bidco Limited Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK which is administered by Aviva Health UK Limited who are authorised and regulated by the FCA. The number of pensioners entitled to this benefit at 31 December 2020 was 94 (2019: 126).

Disability Benefit Scheme ("DB Scheme")

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

b. Charges to the Consolidated Income statement

During the year, £9 million (2019: £9 million) was charged to the RAC Bidco Limited's Consolidated Income statement in respect of the employee defined contribution schemes and £89 thousand (2019: £146 thousand) in respect of employee defined benefit schemes.

c. Employee benefit scheme assumptions and disclosures

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

i. Assumptions for the liabilities of the Schemes

The projected unit credit method

The inherent uncertainties affecting the measurement of the liabilities of the Schemes require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the Schemes using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowances for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to economic conditions, and changes in these assumptions can materially affect the measurement of the employee liability obligations.

Valuations and assumptions

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2020. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2020.

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

	2020 %	2019 %
Inflation rate	2.90	3.00
Pension increases	2.90	3.00
Deferred pension increases	2.90	3.00
Discount rate	1.40	2.00

The inflation rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the inflation rate would increase liabilities and service costs by £429 thousand and £nil respectively (2019: 1% increase in inflation rate would increase liabilities and service costs by £414 thousand and £nil respectively).

Notes to the Consolidated Financial Statements

28. Employee benefit obligations (continued)

c. Employee benefit scheme assumptions and disclosures (continued)

Mortality assumptions of the Schemes

Mortality assumptions are significant in measuring the RAC Bidco Limited Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2020 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances	65.0	88.1	89.7	89.6	91.1
for future improvements		(23.1)	(24.7)	(24.6)	(26.1)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming life expectancy was one year higher would increase the Schemes' liabilities by £257 thousand (2019: £402 thousand).

Guaranteed Minimum Pension Equalisation

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

ii. Employee defined benefit expense

During the year the total employee defined benefit expense for the Schemes comprised £89 thousand (2019: £146 thousand) in respect of net interest expense recognised in the Consolidated Income statement and £464 thousand (2019: £381 thousand) recognised in other comprehensive income.

iii. Experience gains and losses

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

	2020 £m	2019 £m
Fair value of the Scheme's assets at the end of the year	-	-
Present value of the Schemes' liabilities at the end of the year	(5)	(4)
Net deficit in the Schemes	(5)	(4)

Estimated employer contributions for the year ended 31 December 2021 are £1 million in respect of the defined benefit schemes and £x million in respect of the defined contribution scheme.

iv. Schemes' deficit

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

	2020 £m	2019 £m
Total fair value of assets	-	-
Present value of defined benefit obligations	(5)	(4)
Net deficit in the Schemes	(5)	(4)

Amounts recognised in the Consolidated Statement of financial position:

	2020 £m	2019 £m
Deficits included in non-current liabilities	(5)	(4)
Net deficit in the Schemes	(5)	(4)

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

v. Movement in the Scheme deficits and surplus comprise:

	2020		2019	
	Scheme liabilities £m	Net deficit £m	Scheme liabilities £m	Net deficit £m
Balance at 1 January	(4)	(4)	(5)	(5)
Benefits paid	-	-	1	1
Remeasurement losses				
Actuarial loss arising from change in assumptions	(1)	(1)	-	-
Balance at 31 December	(5)	(5)	(4)	(4)

Notes to the Consolidated Financial Statements

29. Risk management

The Group operates an Enterprise Risk Management Framework to ensure that the risks to which the Group is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management policies, risk appetite statements, risk reports and the governance and oversight structure.

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

The RAC Bidco Limited Group's measurement of risk is used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions. The RAC Bidco Limited Group carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to the potential conditions.

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

- a formal Investment Agreement which sets out the Board terms of reference and delegated authorities and which sets out certain limited matters which require the consent of major shareholders.
- defined terms of reference for the legal entity Boards and the associated executive management and other committees across the Group;
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management;

- allocation of Senior Management Functions, Prescribed Responsibilities, Overall Responsibilities and Key Functions for each of our regulated subsidiaries under the Senior Managers and Certification Regime, documented in the Management Responsibilities Map; and
- a risk management framework which sets out risk management and control standards.

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

a. Treasury

The Group Treasury department's main responsibilities are to:

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

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

i. Market risk

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

The RAC Bidco Limited Group is exposed to interest rate risk arising primarily on external borrowings. The Group's policy aims to manage its interest cost within the constraint of its business plan and its financial covenants. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings. If the borrowings were to be left unhedged and market interest rates were to increase or decrease by 1%, the impact on

the profit before tax would be a decrease/increase of £3 million (2019: £3 million). The impact on shareholders' equity would be a decrease/increase of £2 million (2019: £2 million).

The sensitivity analysis compares the rate of interest on the Initial Senior Term Facility of LIBOR +2.500% and increases this by 1%.

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

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

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

ii. Credit risk

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

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

	2020 £m	2019 £m
Trade and other receivables	21	20
Cash and cash equivalents	106	98
	127	118

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

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

The RAC Bidco Limited Group has not been generally exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances.

The RAC Bidco Limited Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the reported periods were held with institutions who are A rated. The RAC Bidco Limited Group's largest cash and cash equivalent counterparty is HSBC (2019: HSBC). At 31 December 2020 the balance with that counterparty was £20 million (2019: £19 million).

Notes to the Consolidated Financial Statements

29. Risk management (continued)

a. Treasury (continued)

iii. Liquidity risk

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

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

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

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

	2020 £m	2019 £m
Bonds		
Less than 1 month	5	5
1 to 3 months	9	9
3 months to 1 year	40	43
1 to 5 years	719	749
5 to 10 years	610	639
Total bonds	1,383	1,445
External bank debt		
Less than 1 month	2	1
1 to 3 months	3	2
3 months to 1 year	15	11
1 to 5 years	349	267
5 to 10 years	–	–
Total external bank debt	369	281
Total borrowings	1,752	1,726

b. Strategic and operational risk

The strategy (including operational risks) for the RAC Bidco Limited Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the annual report and Financial Statements of that company.

c. Capital risk management

The RAC Bidco Limited Group's capital structure consists of third party borrowings amounting to £1,418 million (2019: £1,446 million), and £339 million (2019: £339 million) of funds from shareholders.

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

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

In managing its capital, the Group seeks to:

- i. match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
- ii. maintain financial strength to support new business growth and satisfy the requirements of its members and regulators;
- iii. retain financial flexibility by maintaining strong liquidity; and
- iv. allocate capital efficiently to support growth and repatriate excess capital where appropriate.

d. Regulatory risk

The RAC Bidco Limited Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA and PRA regulations. The RAC Bidco Limited Group's ability to transfer retained earnings to its shareholders is therefore restricted to the extent that these earnings form part of UK regulatory capital.

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

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

Notes to the Consolidated Financial Statements

30. Related party transactions

a. The RAC Bidco Limited Group had the following transactions with related parties in 2020 and 2019:

i. Amounts due from related parties

	2020 £m	2019 £m
Other group companies -current accounts	-	-
	-	-

Of amounts due from Group companies, £nil (2019: £nil) was due from RAC Midco II Limited, RAC Bidco Limited's parent company.

ii. Transactions with related parties

- In 2020, RAC Bidco Limited paid dividends of £44 million (2019: £54 million) to RAC Midco II Limited, its immediate Parent Company.
- Audit fees of £347 thousand (2019: £317 thousand) were borne by RAC Motoring Services, a subsidiary of RAC Group (Holdings) Limited, on behalf of the RAC Group.

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

b. Key management compensation

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

	2020 £000	2019 £000
Fees and benefits	5,432	4,331
Contributions to defined contribution pension scheme	101	95
	5,533	4,426

Fees and benefits include key management bonuses. During the year, payments of £237 thousand (2019: £93 thousand) were made to key management for loss of office.

c. Key management interests

No key management personnel held equity stakes in the RAC Bidco Limited Group at 31 December 2020 or 31 December 2019.

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

d. Immediate Parent Company

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

e. Ultimate controlling party

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

31. Fair value of financial assets and liabilities

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

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

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

Financial asset/liability	Fair value as at 31 December 2020 £m	Fair value movement £m	Fair value as at 31 December 2019 £m	Fair value hierarchy
Owner occupied property (note 13)	3	–	3	Level 2

Valuations are performed by an external valuer in accordance with Group accounting policies

Cash flow hedge liability (note 23)	(5)	–	(5)	Level 3
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The interest rate swaps have been valued using market data of interest rate curves built using cash rates, swap rates and forward rates.

32. Events after the Reporting Period

There have been no events since the statement of financial position date which have a material impact on the Company's or RAC Bidco Limited Group's financial position as at 31 December 2020.

Company Financial Statements

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The accounting policies on pages 92 to 103 also form an integral part of these Financial Statements.

Company Financial Statements

Company Statement of financial position as at 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Non-current assets			
Investments in subsidiaries and associates	4	1,102	1,102
		<u>1,102</u>	<u>1,102</u>
Current Assets			
Other receivables	5	-	-
		<u>-</u>	<u>-</u>
LIABILITIES			
Current liabilities			
Other payables	7	(27)	(29)
Current tax payable		-	-
		<u>(27)</u>	<u>(29)</u>
Net-current liabilities		<u>(27)</u>	<u>(29)</u>
Net assets		<u>1,075</u>	<u>1,073</u>
EQUITY			
Ordinary share capital	8	339	339
Retained earnings		736	734
Total equity		<u>1,075</u>	<u>1,073</u>

The accounting policies on pages 92 to 103 and the notes on pages 135 to 139 are an integral part of these Financial Statements.

The Company's profit for the year was £46 million (2019: £56 million).

Approved by the Board on 23 February 2021.



J Baker
Chief Financial Officer

Company Statement of changes in equity

For the year ended 31 December 2020

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2019	339	732	1,071
Profit for the year	–	56	56
Other comprehensive income	–	–	–
Total comprehensive income	–	56	56
Dividends paid	–	(54)	(54)
Balance at 31 December 2019	339	734	1,073
Profit for the year	–	46	46
Other comprehensive income	–	–	–
Total comprehensive income	–	46	46
Dividends paid	–	(44)	(44)
Balance at 31 December 2020	339	736	1,075

The accounting policies on pages 92 to 103 and the notes on pages 135 to 139 are an integral part of these Financial Statements.

Company Statement of cash flows as at 31 December 2020

	Note	2020 £m	2019 £m
Operating activities			
Profit before tax		46	56
Adjustments to reconcile profit before tax to net cash flows:			
Dividends received		(44)	(54)
Working capital adjustments:			
Decrease in other receivables		–	3
(Decrease) in other payables		(2)	(5)
Taxation received		–	–
Net cash flows generated from operating activities		–	–
Investing activities			
Dividends received	9(a)(iii)	44	54
Net cash flows generated from investing activities		44	54
Financing activities			
Dividends paid		(44)	(54)
Net cash flows used in financing activities		(44)	(54)
Net increase in cash and cash equivalents		–	–
Cash and cash equivalents brought forward		–	–
Cash and cash equivalents carried forward		–	–

The accounting policies on pages 92 to 103 and the notes on pages 135 to 139 are an integral part of these Financial Statements.

Notes to the Company Financial Statements

1. Auditor's remuneration

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to auditor's remuneration may be found in note 7 of the Consolidated Financial Statements.

2. Employee information

The Company has no employees. All employees are employed by and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in note 8 of the Consolidated Financial Statements.

3. Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group. Disclosures relating to Directors' remuneration may be found in note 9 of the Consolidated Financial Statements.



Company Financial Statements

4. Investments in subsidiaries

a. Movements in the Company's investments in subsidiaries

	2020 £m	2019 £m
Cost		
At 1 January and 31 December	1,102	1,102

b. Information about subsidiaries

The Company had the following directly or indirectly held investments in subsidiaries:

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 2. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

In accordance with IFRS, the Company is deemed to control the RAC Employee Benefit Trust ("EBT") by virtue of RAC Limited, a direct subsidiary of the Company, having power over the EBT.

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

c. Parent company

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

5. Other receivables

	2020 £m	2019 £m
Amounts due from related parties (note 9(a)(i))	-	-
Total	-	-
Expected to be payable within one year	-	-
Expected to be recoverable in more than one year	-	-
Total	-	-

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 2020 (2019: £nil).

6. Tax assets and liabilities

Deferred tax

The movement in the deferred tax asset was as follows:

	2020 £m	2019 £m
Net deferred tax asset brought forward	-	-
Deferred tax credited to other comprehensive income	-	-
Deferred tax asset carried forward	-	-

The headline rate of UK corporation tax is currently 19%. In accordance with the Budget 2020 the main rate of corporation tax will remain at 19% for the accounting periods up to and including the years ending 31 December 2021.

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.

The Budget 2020 maintained the corporation tax rate at 19%, reversing the reduction to 17% enacted on 15 September 2016. Therefore, deferred tax balances at 31 December 2020 have been reflected at the 19% tax rate they are expected to be realised or settled.

Company Financial Statements

7. Other payables

	2020 £m	2019 £m
Amounts due to related parties (note 9(a)(ii))	(27)	(29)
Total	(27)	(29)
Expected to be payable within one year	(27)	(29)

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

8. Ordinary share capital

Details of the Company's ordinary share capital are as follows:

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
339,131,773 ordinary shares of £1.00 each (2019: 339,131,773 shares of £1.00 each)	339	339
	339	339

9. Related party transactions

a. The Company had the following transactions with related parties in 2020 and 2019:

i. Amounts due from related parties	2020 £m	2019 £m
Amounts due from Group companies	-	-
	-	-

ii. Amounts due to related parties	2020 £m	2019 £m
Amounts due to Group companies - current account	(27)	(29)
	(27)	(29)

iii. Transactions with related parties

During 2020, the company paid £44 million in dividends to its parent company, RAC Midco II Limited (2019: £54 million).

During 2020, the Company recharged £3 million (2019: £2 million) to RAC Limited, a direct subsidiary, in respect of a Management Services Agreement. This agreement allocates the strategic and governance costs of the RAC Bidco Limited Group and recharges them to the trading entities where appropriate.

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

iv. Amounts included in the Income statement

Transactions included within the Income statement that have taken place during the reported periods

	2020 £m	2019 £m
Management charges	3	2
Dividends received from subsidiary	44	54
	47	56

b. Key management compensation

The Directors and key management of the Company are considered to be the same as for the RAC Group (Holdings) Group. Information on key management compensation may be found in note 30 of the Consolidated Annual Report and Financial Statements.

c. Key management interests

No key management personnel held equity stakes in the Company at 31 December 2020 or 31 December 2019.

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

d. Immediate and ultimate controlling party

The immediate controlling entity of the Company is RAC Midco II Limited.

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

10. Critical accounting judgements and key sources of estimation uncertainty

There are no critical accounting judgements and key sources of estimation uncertainty for RAC Bidco Limited Company.



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