Registered in England and Wales: No. 07665596

RAC LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

RAC Limited

Contents

RAC Limited

Company information

Directors:

J Baker
D Hobday
R Templeman
G M Wood

Company Secretary:

K Bowden

Auditor:

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

Registered office:

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

Company number:

Registered in England and Wales: No. 07665596

Other information:

The Company is a member of the RAC Group of Companies ("the Group"), which includes RAC Group (Holdings) Limited and its subsidiaries, which during 2021 and 2020 included RAC Midco Limited, RAC Midco II Limited, RAC Bidco Limited, RAC Bond Co plc, RAC Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, RAC Cars Limited and Risk Telematics UK Limited.

These Financial Statements are presented for the year ended 31 December 2021. Comparatives are presented for the year ended 31 December 2020.

RAC Limited

Strategic report

For the year ended 31 December 2021

The Director's present their strategic report for the year ended 31 December 2021.

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development and performance during the financial year and the position at the end of the financial year. In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business.

Principal activity

The principal activity of the Company is that of a holding company for its subsidiary and a financing entity within the Group. There were no significant changes in that activity in the year.

Review of the business including major events

On 30 July 2021, the Group drew down upon a new 2021 Senior Term Facility for an amount of £265 million and on the same date prepaid £139 million of the existing £300 million Senior Term Facility. Further information about this can be found in note 14 to the financial statements.

On 31 January 2020, the £300 million Senior Term Facility was re-financed, further details can be found in note 14. The Company paid ordinary interim dividends of £nil thousand during the year (2020: £44,457 thousand during the year, amounting to 565.24 pence per share).

Key Performance Indicators ("KPI"s)

As the principal activity of the Company is that of a holding company, the Directors consider there are no non-financial KPIs to report.

The Company's Directors are also Directors of RAC Group (Holdings) Limited, the ultimate Parent Company. A detailed performance review is included in the Consolidated Annual Report and Financial Statements of that company.

Financial review

The financial position of the Company at 31 December 2021 is shown in the Statement of financial position on page 14, with the results shown in the Income statement on page 12.

The Company made a loss before tax of £57,390 thousand during the year ended 31 December 2021 (2020: profit of £13,806 thousand). The main factors responsible for this result are:

- a dividend of £nil thousand received from its subsidiary RAC Group Limited (2020: £74,457 thousand);
- recharges to other Group companies of £8,693 thousand (2020: £8,425 thousand) in respect of a Management Services Agreement; offset by
- recharges from other group companies of £2,891 thousand (2020: £2,594 thousand) in respect of a Management Services Agreement; and
- net finance expenses of £61,044 thousand (2020: £64,635 thousand) in respect of interest on third party borrowings and related party loans.

The net current liabilities of the Company is £166,740 thousand (2020: net current liabilities of £25,852 thousand) due to payments made by subsidiary companies on behalf of the Company.

Objectives and future developments

The strategy for the Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Consolidated Annual Report and Financial Statements of that company (see note 16(d)).

RAC Limited

Strategic report (continued)

For the year ended 31 December 2021

Principal risks and uncertainties

The Company's principal risks and uncertainties include Credit & Liquidity risk; Covid-19 risk; Brexit risk; Market risk and Climate risk as set out below:

Credit & Liquidity Risk Management

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.

The Company has not been generally exposed to significant concentrations of credit risk to third parties due to the nature of activity undertaken, however it is exposed to risk with respect to intercompany receivables. The Directors have assessed the recoverability of amounts due from Group Companies and concluded the balances are neither past due nor impaired.

Cash and cash equivalents throughout the years reported on were held with relationship banks. Treasury reviews and shares bank ratings on a monthly basis. The Company's largest cash and cash equivalent counterparty is Barclays (2020: Barclays). At 31 December 2021 the balance held by this counterparty was £107 thousand (2020: £107 thousand).

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with its financial liabilities when they fall due. The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due.

RAC manages this risk by 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.

Covid -19 Risk

The Group continues to monitor its risks in light of the continuing challenges presented by Covid-19 and has been able to continue to maintain the delivery of full services to our members and partners.

The Group's response to Covid-19 continues to be led by government guidance and to be coordinated through the formal business continuity command structure. Actions taken have included moving a large proportion of the workforce to home working, changes to working arrangements at our main operational sites and continuing to adjust our operational processes at roadside in order to protect our customers and colleagues.

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, and as a result of the continued increase in UK-only travel. 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.

Brexit risk

RAC continues to monitor the impact of Brexit and will take appropriate steps to maintain RAC's competitive position. RAC is a UK focused business, with very limited trade outside of the UK's borders and, to date, there has been no material impact on our operations.

RAC will continue to engage with key suppliers to ensure the continuity of supplies now that the Brexit transition period has ended. 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 Limited

Strategic report (continued)

For the year ended 31 December 2021

Market risk

The Company is exposed to interest rate risk arising primarily on its borrowings. This risk is managed through the use of 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 13.

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.

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 has taken steps to implement PRA requirements in relation to managing the financial risks from climate change which were required to be implemented by the end of 2021 and will continue to evolve its approach to managing the risks from climate change.

In 2021 the Group implemented an ESG Committee with responsibility for oversight of the overall Group ESG agenda.

Capital management

In managing its capital, the Company 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 to 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.

Section 172(1) Statement

RAC Limited is a wholly owned subsidiary of RAC Group (Holdings) Limited and decisions on matters covered in section 172 (1) of the Companies Act 2006 are made at group level. Accordingly, RAC Limited refers to the section 172(1) statement of RAC Group (Holdings) Limited, which is set out in the 2021 Annual Report and Accounts of RAC Group (Holdings) Limited, an electronic copy of which is available on the website www.raccorporate.co.uk. In discharging their responsibilities, in respect of the matters covered in s172(1) (a)–(f), the Directors of the company who are also Directors of RAC Group (Holdings) Limited have applied the group policies to RAC Limited by making decisions in relation to capital and risk management in order to ensure long-term success. This includes ensuring dividends paid by the company are in line with the group dividend policy and determining strategy for refinancing of debt arrangements.

Approved by the Board on 30 June 2022

J Baker
Chief Financial Officer

RAC Limited

Directors' report

For the year ended 31 December 2021

The Directors present their Annual Report on the affairs of RAC Limited, together with the Financial Statements and independent auditor's report for the year ended 31 December 2021.

Directors

The names of the current Directors of the Company appear on page 1.

Those who have served in office during the year and up to the date of approval of the financial statements were as follows:

J Baker
D Hobday
R Templeman
G M Wood

At 31 December 2021 and 31 December 2020, none of the Directors had any interest in the shares of the Company.

Objectives and future developments

The strategy for the 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.

Results and dividends

The Company paid ordinary interim dividends of £nil during the year (2020: £44,457 thousand during the year, amounting to 565.24 pence per share). The Directors do not recommend payment of a final dividend (2020: £nil).

Directors' indemnities

RAC Group (Holdings) Limited, the Company's ultimate Parent Company, has granted an indemnity to all RAC Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. This indemnity was first granted in 2011 and 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 to the Companies Act 2006.

Employees

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

RAC Limited

Directors' report (continued)

For the year ended 31 December 2021

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a loss of £48,230 thousand for the year ended 31 December 2021 (2020: profit of £25,221 thousand) and at 31 December 2021 had net liabilities of £21,062 thousand (2020: net assets of £20,103 thousand). The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 4. Details of cash facilities are set out in note 9 to the Financial Statements. The Company'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 on page 3 of the Strategic Report.

The Directors have assessed the financial position and the prospects and future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. This assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 18 month period from the Statement of financial position date, 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.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, for a period of at least twelve months from the date of approval of the Financial Statements. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor of the Group and Company and their reappointment will be proposed at the July 2022 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.

Strategic Report

The Companies Act 2006 requires the Company to prepare a Strategic Report, set out on pages 2 to 4. The Strategic Report includes information about the Company's operations and business model, financial performance throughout the year, financial instruments and risk management, likely future developments, key performance indicators, and principal risks.

RAC Limited

Directors' report (continued)

For the year ended 31 December 2021

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 year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Events since the Statement of financial position date

Subsequent to the Statement of Financial Position date, regulatory approval in respect of the Silver Lake partial acquisition of the Group was received, with completion taking place on 11 March 2022. This does not have a material impact on the Company's financial position as at 31 December 2021.

Approved by the Board on 30 June 2022

J Baker
Chief Financial Officer

RAC Limited

Independent auditor's report to the members of RAC Limited

Report on the audit of the Financial Statements

Opinion

In our opinion the financial statements of RAC Limited ("the Company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity;
- the Accounting policies; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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 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.

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.

Independent auditor's report to the members of RAC Limited (continued)

Other information (continued)

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 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 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 procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, risk and compliance and those charged with governance about their own identification and assessment of the risks of irregularities.

Independent auditor's report to the members of RAC Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Companies Act 2006, IT and tax regulations.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included money laundering regulations, the Data Protection Act 2018 and the Bribery Act 2010.

We discussed among the audit engagement team including relevant internal specialists such as tax and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and FCA.

Independent auditor's report to the members of RAC Limited (continued)

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 company and its 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

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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
Date: 30 June 2022

RAC Limited

Financial Statements 2021

Income statement

For the year ended 31 December 2021

	Note	2021	2020
		£000	**£000**
Income	**1**	8,693	83,207
Administrative expenses		(5,039)	(4,766)
Operating profit		**3,654**	**78,441**
Net finance expenses	**6**	(61,044)	(64,635)
(Loss)/Profit before tax		(57,390)	13,806
Tax credit	**7**	9,160	11,415
(Loss)/Profit for the year		**(48,230)**	**25,221**

The accounting policies and notes on pages 16 to 30 are an integral part of these Financial Statements.

RAC Limited

Financial Statements 2021 (continued)

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021	2020
		£000	£000
(Loss)/Profit for the year		(48,230)	25,221
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent years:			
Net movement on cash flow hedges		9,427	(2,899)
Aggregate tax effect		(2,362)	822
Net other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent years		7,065	(2,077)
Other comprehensive income/(expense), net of tax		7,065	(2,077)
Total comprehensive (expense)/income for the year		**(41,165)**	**23,144**

The accounting policies and notes on pages 16 to 30 are an integral part of these Financial Statements.

RAC Limited

Registered in England and Wales: No. 07665596

Financial Statements 2021 (continued)

Statement of financial position

As at 31 December 2021

	Note	2021	2020
ASSETS		**£000**	**£000**
Non-current assets			
Investments in subsidiaries	**8**	916,408	916,408
Deferred tax asset	**11**	-	952
Other receivables	**10**	541,440	533,567
		1,457,848	1,450,927
Current assets			
Other receivables	**10**	10,596	67
Current tax receivable	**11**	10,096	11,656
Cash and cash equivalents	**9**	107	107
		20,799	11,830
LIABILITIES			
Current liabilities			
Borrowings	**14**	(9,302)	(8,403)
Other payables	**12**	(178,237)	(29,279)
		(187,539)	(37,682)
Net current liabilities		**(166,740)**	**(25,852)**
Non-current liabilities			
Borrowings	**14**	(1,316,142)	(1,399,963)
Derivative financial instruments	**13**	5,318	(5,009)
Deferred Tax Liability	**11**	(1,346)	-
		(1,312,170)	(1,404,972)
Net (liabilities)/assets		**(21,062)**	**20,103**
EQUITY			
Ordinary share capital	**15**	79	79
Share premium		7,920	7,920
Capital redemption reserve		1	1
Hedging instruments reserve		4,039	(3,026)
Retained (deficit)/earnings		(33,101)	15,129
Total equity		**(21,062)**	**20,103**

The accounting policies and notes on pages 16 to 30 are an integral part of these Financial Statements.
Approved by the Board on 30 June 2022.

J Baker
Chief Financial Officer

RAC Limited
Financial Statements 2021 (continued)
Statement of changes in equity
For the year ended 31 December 2021

	Note	Ordinary share capital	Share premium	Capital redemption reserve	Hedging instruments reserve	Retained earnings/ (deficit)	Total equity
		£000	£000	£000	£000	£000	£000
Balance at 1 January 2020		**79**	**7,920**	**1**	**(949)**	**34,365**	**41,416**
Profit for the year		-	-	-	-	25,221	25,221
Other comprehensive expense		-	-	-	(2,077)	-	(2,077)
Total comprehensive income		-	-	-	(2,077)	25,221	23,144
Dividends paid	**2**	-	-	-	-	(44,457)	(44,457)
Balance at 31 December 2020		**79**	**7,920**	**1**	**(3,026)**	**15,129**	**20,103**
Loss for the year		-	-	-	-	(48,230)	(48,230)
Other comprehensive Income		-	-	-	7,065	-	7,065
Total comprehensive (expense)		-	-	-	7,065	(48,230)	(41,165)
Dividends paid	**2**	-	-	-	-	-	-
Balance at 31 December 2021		**79**	**7,920**	**1**	**4,039**	**(33,101)**	**(21,062)**

The accounting policies and notes on pages 16 to 30 are an integral part of these Financial Statements.

RAC Limited

Accounting policies

(A) Corporate information

The Company is a private limited liability company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England & Wales. The principal activity of the Company is that of a holding company for its subsidiary and a financing entity within the Group. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

The Financial Statements of RAC Limited for the year ended 31 December 2021 were approved for issue by the Board on 28 June 2022.

(B) Basis of preparation

The Financial Statements of the Company have been prepared on the historical cost basis, except for certain 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 goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Company meets the definition of a qualifying entity under FRS 100 'Application on Financial Reporting Requirements' issued by the FRC. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of IFRSs as adopted by the UK but makes amendments where necessary in order to comply with Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard as detailed below.

The Financial Statements are presented in pounds sterling, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these Financial Statements are in thousands of pounds sterling ("£000"). The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

The Company is exempt from preparing group financial statements by virtue of Section 400 of the Companies Act 2006, as it is a subsidiary of an EU parent, RAC Group (Holdings) Limited. The Financial Statements present information about the Company as an individual company and not about its group.

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

The following new IFRS' 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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

At 31 December 2021, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the UK:

- IFRS 3 Reference to conceptual framework [1]
- Annual improvements to IFRS standard 2018-2020 [1]
- Amendment to IAS 1 and IFRS practice statement 2 [1]
- Amendment to IFRS 4 [1]
- Amendment to IAS 12 and 8 [1]
- Amendments to IFRS 9, IAS 39 and IFRS 7.

1 Effective for annual periods commencing on or after 1 January 2022

In September 2019, the IASB issued Interest Rate Benchmark Reform, (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7) Financial Instruments: Disclosures. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

RAC Limited

Accounting policies

(B) Basis of preparation (continued)

The amendments are relevant to the Company given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Company's accounting in the following ways:

- The Company has floating rate debt, historically linked to LIBOR and now to SONIA, which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Company will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Company consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

Disclosure exemptions applied

(i) The requirements of IFRS 7 *Financial Instruments: Disclosures* and IAS 1 paragraphs 134 to 136.
(ii) The requirements of IAS 7 *Statement of Cash Flows.*
(iii) The requirements of IAS 24 *Related Party Disclosure.*
(iv) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a loss of £48,230 thousand for the year ended 31 December 2021 (2020: profit of £25,221 thousand) and at 31 December 2021 had net liabilities of £21,062 thousand (2020: net assets of £20,103 thousand). The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 4. Details of cash facilities are set out in note 9 to the Financial Statements. The Company'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 on page 3 of the Strategic Report.

The Directors have assessed the financial position and the prospects and future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. This assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 18 month period from the Statement of financial position date, 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.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, for a period of at least twelve months from the date of approval of the Financial Statements. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

Accounting policies (continued)

(C) Investments in subsidiaries

Subsidiaries are those entities (including special purpose entities) in which the Company, directly or indirectly, has power to exercise control. Control is achieved when the Company 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 Company controls an investee if and only if the Company 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.

In the Statement of financial position, subsidiaries are stated at cost less any impairment.

(D) Revenue recognition

Dividend income

Dividend income from investments is recognised when the shareholder's 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).

Management charges

The Group operates a Management Services Agreement ('MSA') across the RAC Bidco Group in order to allocate the costs of managing each group company to the respective entities. The Company recognises amounts recharged to group companies on satisfaction of the performance condition which is at a point in time where the service is provided.

Other Income

Other income is recognised when a gain is made on the repurchase of debt instruments. The Company recognises this income on satisfaction of the performance condition which is at a point in time when the instrument is repurchased.

(E) 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.

(F) Financial assets

Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All financial assets are recognised initially at the fair value of consideration given plus transaction costs. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The resulting amortisation is included in finance income in the Income statement.

(i) Impairment of financial assets

An impairment is recognised on financial assets 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 finance costs for loans and in other operating expenses for other receivables.

RAC Limited

Accounting policies (continued)

(G) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand and deposits held at call with banks 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.

(H) 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 Income statement over the period of the borrowings using the effective interest rate method.

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

(I) Income taxes

Income taxes include both current and deferred taxes. Income taxes are charged/(credited) to the 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 recognition 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 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.

RAC Limited
Accounting policies (continued)

(J) Share capital and dividends

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.

(K) Derivative financial instruments

The Company holds derivative financial instruments, which include 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 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 Income statement.

Accounting policies (continued)

(L) 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 profit or loss, and is included in the 'net finance expenses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the 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.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the 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.

(M) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Financial Statements in conformity with IFRS requires the Company to make estimates and judgements using assumptions that affect items reported in the Statement of financial position and 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 Company's accounting policies

The Directors the following to be critical judgements at the Statement of financial position date.

Hedge accounting

In applying the Company's interest rate hedging strategy and the corresponding hedge accounting applied in the Financial Statements, a judgement has been made that there will be highly probable floating interest rate payments over the term of the interest rate derivatives.

(ii) Key sources of estimation uncertainty

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of financial position date.

RAC Limited
Notes to the Financial Statements

1 Investment Income

	2021	2020
	£000	£000
Investment income - Dividends received from subsidiaries	-	74,457
Other income - Gain on repurchase of class B1 notes	-	325
Management charge received	8,693	8,425
Total investment income	**8,693**	**83,207**

All income relates to UK operations.

2 Dividends

The Company paid ordinary interim dividends of £nil during the year (2020: £44,457 thousand during the year, amounting to 565.24 pence per share). The Directors do not recommend payment of a final dividend (2020: £nil).

3 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Deloitte LLP, is shown below.

	2021	2020
	£000	£000
Audit services		
Audit of financial statements	9	7
Total remuneration payable to Deloitte LLP	**9**	**7**

There were no fees payable to Deloitte LLP in respect of non-audit services (2020: £nil).

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company.

4 Employee information

The Company has no employees. All employees of the Group are employed by and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

5 Directors

Executive Directors of the Company are remunerated as employees by RAC Motoring Services, a fellow Group company. Management recharges for the wider executive group, which includes the executive Directors of the Company, have been charged to the main trading subsidiaries of the Group. It is not deemed practical to separate the remuneration of the executive Directors from the wider management recharges.

Disclosures relating to Directors' remuneration can be found in the Annual Report and Financial Statements of RAC Group (Holdings) Limited.

6 Net finance expenses

	2021	2020
	£000	£000
Interest receivable - related parties	(7,872)	(9,027)
Interest payable - related parties	51,908	56,203
Interest payable on senior term facility - third parties	12,351	12,140
Amortisation of capitalised finance costs	4,657	5,319
	61,044	**64,635**

7 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2021	2020
	£000	£000
Current tax:		
For the year	(11,088)	(11,656)
Adjustment in respect of prior years	999	(432)
Total current tax	**(10,089)**	**(12,088)**
Deferred tax:		
Origination and reversal of timing differences	185	496
Effect of changes in tax rates	744	177
Total deferred tax	929	673
Total tax credited to the Income statement	**(9,160)**	**(11,415)**

7 Tax (continued)

(b) Tax reconciliation

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

	2021	2020
	£000	**£000**
(Loss)/profit before tax	(57,390)	13,806
Tax calculated at standard UK corporation tax rate of 19% (2020: 19%)	(10,903)	2,623
Non-taxable dividends	-	(14,147)
Non-deductible expenses	-	364
Effect of changes in tax rates	744	177
Adjustment in respect of prior years	999	(432)
Total tax credited to the Income statement (note 7(a))	**(9,160)**	**(11,415)**

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

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.

For accounting periods ending on or after 1 April 2023 the main rate of corporation tax will increase to 25%. Therefore, deferred tax balances from the substantively enacted date of 24 May 2021 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

8 Investments in subsidiaries

(a) Movement in investments in subsidiaries

	2021	2020
Cost and Net Book Value	**£000**	**£000**
At 1 January and 31 December	**916,408**	**916,408**

No impairment has been recognised in respect of investment in subsidiaries.

RAC Limited
Notes to the Financial Statements (continued)

8 Investments in subsidiaries (continued)

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

All subsidiaries are registered in England and Wales and operate in the United Kingdom, except RACMS (Ireland) Limited which operates and is registered in Ireland. All subsidiaries, except RACMS (Ireland) Limited, have the same registered office as the Company, which is disclosed on page 1. The registered office of RACMS (Ireland) Limited is Marine House, Clanwilliam Court, Dublin 2.

9 Cash and cash equivalents

Cash and cash equivalents in the Statement of cash flows at 31 December 2021 comprises £107 thousand (2020: £107 thousand) of cash at bank and in hand.

10 Other receivables

	2021	2020
	£000	**£000**
Amounts due from related parties	551,957	533,568
Prepayments	79	66
Total	**552,036**	**533,634**
Expected to be recoverable within one year	10,596	67
Expected to be recoverable in more than one year	541,440	533,567
Total	**552,036**	**533,634**

Receivables of £552,036 thousand (2020: £533,634 thousand) 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 2021 (2020: £nil). Amounts due from related parties expected to be recoverable in more than one year is a loan balance which accrues interest at LIBOR +1.5%.

11 Tax assets and liabilities

	2021	2020
	£000	**£000**
Current tax receivable	10,096	11,656
Deferred tax (liability)/asset	(1,346)	952
	8,750	**12,608**

Current tax receivable of £10,096 thousand (2020: £11,656 thousand) is to be settled by Group relief within one year. The remaining £nil thousand is receivable from tax authorities (2020: £nil).

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

The Company has an unrecognised deferred tax asset of £1,109 thousand (2020: £843 thousand) in respect of interest disallowed under the corporate interest restriction rules.

a) Current tax

The balance at 31 December comprises:

	2021	2020
	£000	**£000**
Current tax receivable	10,096	11,656
	10,096	**11,656**

b) Deferred tax

The balance at 31 December comprises:

	2021	2020
	£000	**£000**
Deferred tax on cash flow hedge	(1,346)	952
	(1,346)	**952**

The movement in the net deferred tax asset was as follows:

	2021	2020
	£000	**£000**
Net deferred asset brought forward	952	803
Origination and reversal of timing differences in the Income statement	(185)	(496)
Effect of changes in tax rates in the Income Statement	(744)	(177)
Charge to other comprehensive income	(1,791)	551
Effect of changes in tax rates in other comprehensive income	422	271
Net deferred tax (liability)/asset carried forward	**(1,346)**	**952**

RAC Limited
Notes to the Financial Statements (continued)

12 Other payables

	2021	2020
	£000	£000
Amounts due to related parties	177,574	29,027
Other payables	663	252
Total	**178,237**	**29,279**
Expected to be payable within one year	178,237	29,279
Total	**178,237**	**29,279**

All payables are financial liabilities and carried at amortised cost which is considered to be a reasonable approximation of the relevant fair value. Amounts due to related parties attract no interest and are repayable on demand and are trading balances.

13 Derivative financial instruments

	2021	2020
	£000	£000
Cash flow hedge liabilities	(5,318)	5,009
	(5,318)	**5,009**

(a) Hedging

The Company makes use of derivative financial instruments, including over-the-counter instruments, in line with the Company's overall risk management strategy.

The Company has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IFRS 9 Financial Instruments.

(b) Cash flow hedges

The Company 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:

	2021	2020
	£000	£000
Contract/notional value	275,000	275,000
Total fair value of (liability)/asset	**(5,318)**	**5,009**

13 Derivative financial instruments (continued)

(b) Cash flow hedges (continued)

The hedges were effective in the year ending 31 December 2021 (2020: effective) and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income (2020: recognised in other comprehensive income).

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

On 30 July 2021, the Group drew down upon a new 2021 Senior Term Facility for an amount of £265 million and on the same date prepaid £139 million of the existing £300 million Senior Term Facility. In accordance with the terms of the hedge designation memo, some of the hedged transactions have been replaced with those under the 2021 Senior Term Facility with the fixed element of the hedge continuing to be set to 0.624% until 31 March 2024. In addition, the Group has executed a third hedging instrument, for an amount of £120 million, effective from 30 June 2021 with the fixed element of the hedge set to 0.715% until 31 January 2025.

14 Borrowings

Analysis of borrowings

	Related Party Debt				Bank Debt			Total
	Class A1 facility	Class A2 facility	Class B1 Notes	Class B2 Notes	Senior Term Facility	Senior Term Facility	Senior Term Facility	
Interest rate	4.565%	4.870%	5.000%	5.250%	LIBOR + 2.500%	SONIA + 1.800%	SONIA + 2.500%	
At 31 December 2021								
Amounts due within one year (£000)	2,089	4,603	-	2,610	-	-	-	9,302
Amounts due in more than one year (£000)	299,352	596,423	-	-	158,919	167,762	93,686	1,316,142
Book value (£000)	**301,441**	**601,026**	**-**	**2,610**	**158,919**	**167,762**	**93,686**	**1,325,444**
Interest rate	4.565%	4.870%	5.000%		LIBOR + 2.500%			
At 31 December 2020								
Amounts due within one year (£000)	2,092	4,603	1,708	-	-	-	-	8,403
Amounts due in more than one year (£000)	298,752	595,647	208,131	-	297,433	-	-	1,399,963
Book value (£000)	**300,844**	**600,250**	**209,839**	**-**	**297,433**	**-**	**-**	**1,408,366**

RAC Limited
Notes to the Financial Statements (continued)

14 Borrowings (continued)

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 the RAC Bidco Limited Group 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. Interest on Class A and B Notes are payable 6 monthly in arrears.

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 and B2 notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges. The Group has complied with these financial covenants throughout the periods since issue of the Class A Debt and Class B Debt.

On 9 November 2020, £65 million of Class B1 Notes were repurchased for a tender value of 99.50 percent of the principal amount, the remaining £210 million were repurchased at par on 30 July 2021. On 4 November 2021, the Group issued £345 million of Class B2 Notes with a coupon of 5.250%, with an initial period to 4 November 2027 after which interest will be charged at 4.750% per annum. Interest is payable on the bonds semi-annually on 6 May and 6 November.

The Initial Working Capital Facility of £50 million is subject to interest of LIBOR plus 2.500% and matures on 31 January 2025. Interest rate risk continues to be hedged using an interest rate swap exchanging variable rate interest for fixed rate interest.

On 1 January 2022, the Group transitioned its remaining LIBOR based debt to be SONIA based. No other changes were made to the debt instruments.

15 Ordinary share capital

	2021	2020
	£000	**£000**
Allotted, called up and fully paid:		
7,865,113 ordinary shares of £0.01 each	79	79
	79	**79**

16 Related party transactions

(a) Key management compensation

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

(b) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2021 or 31 December 2020.

At no time during the reported years 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.

(c) Immediate parent company

As at 31 December 2021 and 31 December 2020, the Company's immediate and controlling shareholder was RAC Bidco Limited which prepared consolidated group financial statements in accordance with section 400 of the Companies Act 2006.

16 Related party transactions (continued)

(d) Ultimate controlling entity

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

17 Fair value of financial assets and liabilities

The information set out below provides information about how the Company 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 2021	Fair value movement	Fair value as at 31 December 2020	Fair value hierarchy
	£000	£000	£000	
Cash flow hedge liability (note 13)	(5,318)	10,327	5,009	Level 3
The interest rate swaps have been valued using market observable inputs of interest rate curves built using cash rates, swap rates and forward rates.				