Registered in England and Wales: No. 07665596

RAC LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

RAC Limited

Contents

RAC Limited

Company information

Directors:

J Baker
D Hobday
T Mohindra
R Templeman
G M Wood

Company Secretary:

L Griffiths

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 2022 and 2021 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 2022. Comparatives are presented for the year ended 31 December 2021.

RAC Limited

Strategic report

For the year ended 31 December 2022

The Director's present their strategic report for the year ended 31 December 2022.

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

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.

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 2022 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 £46,780 thousand during the year ended 31 December 2022 (2021: loss of £57,390 thousand). The main factors responsible for this result are:

- recharges to other Group companies of £6,606 thousand (2021: £8,693 thousand) in respect of a Management Services Agreement; offset by
- recharges from other group companies of £2,150 thousand (2021: £2,891 thousand) in respect of a Management Services Agreement; and
- net finance expenses of £49,336 thousand (2021: £61,044 thousand) in respect of interest on third party borrowings and related party loans.

The net current liabilities of the Company is £540,639 thousand (2021: £166,740 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)).

Principal risks and uncertainties

The Company's principal risks and uncertainties include Credit & Liquidity 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 (2021: Barclays). At 31 December 2022 the balance held by this counterparty was £157 thousand (2021: £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.

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 climate risk as the potential adverse impact of 'Transitional' and 'Physical' climate change risks on RAC's strategy, financial targets, business model and/or, operations/sites. Environmental risk is defined as the risk of RAC damaging the environment in which it operates.

The Group mitigates climate risk through the regular assessment of the material risks to the business presented by climate change. The Group continues to develop its ESG Strategy which is overseen by the Group ESG committee and plans to put in place a decarbonisation plan with associated strategy, targets and timelines during 2023. The Group also continues to implement and embed regulatory requirements in relation to climate change risk management, namely the Taskforce for Climate Related Financial Disclosures ("TCFD") requirements and the PRA 'Financial risks from climate change' requirements.

RAC Limited

Strategic report (continued)
For the year ended 31 December 2022

Climate and Environmental risk (continued)

As a motoring organisation we are also 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.

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. Retain financial flexibility by maintaining strong liquidity; and
iii. Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

Section 172(1) Statement

RAC Limited is an indirect wholly owned subsidiary of RAC Group (Holdings) Limited. The Board holds meetings as and when it is required to consider material matters or Group proposals which impact the Company. The nature and purpose of the Company, a holding Company and financing vehicle within the Group, means that the Company has limited stakeholders compared to that of the ultimate parent Company, RAC Group (Holdings) Limited or other operating Companies within the RAC Group. The Company does not have any employees and whilst its operations have a limited societal and environmental impact, the Directors are mindful of such impacts and align to the Group's ESG strategy. The Company applies the same high standards of business conduct and ethics, as seen across the RAC Group, which protect the RAC's brand and its reputation. The Company also applies Group policies which are applicable to its operations.

In 2022, the Directors made decisions which they believe best promote the success of the Company in the longer term. The material decision taken by the Board during the year was in respect of refinancing, which supports the Group's strategic objectives including the 2027 vision and the longer-term financial objectives. Further information on the Group's governance arrangements and disclosures in relation to the Group decisions and their impact on stakeholders are available in the RAC Group (Holdings) Limited S172(1) statement and Governance Report, both of which are set out in the 2022 Annual Report and Financial Statements of RAC Group (Holdings) Limited. An electronic copy of which is available on the website www.raccorporate.co.uk.

Approved by the Board on 26 April 2023

J Baker

Chief Financial Officer

RAC Limited

Directors' report

For the year ended 31 December 2022

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 2022.

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
T Mohindra (Appointed 1st September 2022)
R Templeman
G M Wood

At 31 December 2022 and 31 December 2021, 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 (2021: £nil during the year). The Directors do not recommend payment of a final dividend (2021: £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.

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 £39,208 thousand for the year ended 31 December 2022 (2021: £48,230 thousand) and at 31 December 2022 had net liabilities of £45,700 thousand (2021: £21,062 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. As the Company is in net liabilities position, a letter of support has been provided by its Parent Company, RAC Bidco Limited to ensure that the Company is able to pay its liabilities as they become due.

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. The Directors considered a range of potential trading and market-related risks, including regulatory change, roadside demand and usage change, plus mitigating actions and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

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

The appointment of the auditor for the year ending 31 December 2023 will be proposed to the Board at the July 2023 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.

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.

Approved by the Board on 26 April 2023

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 2022 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 the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector

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; and
- 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.

K. J. Cooper

Kieren Cooper FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
Date: 26 April 2023

RAC Limited

Financial Statements 2022

Income statement

For the year ended 31 December 2022

	Note	2022	2021
		£000	**£000**
Income	**1**	6,606	8,693
Administrative expenses		(4,050)	(5,039)
Operating profit		**2,556**	**3,654**
Net finance expenses	**6**	(49,336)	(61,044)
Loss before tax		(46,780)	(57,390)
Tax credit	**7**	7,572	9,160
Loss for the year		**(39,208)**	**(48,230)**

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

RAC Limited

Financial Statements 2022 (continued)

Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022	2021
		£000	£000
Loss for the year		(39,208)	(48,230)
Other comprehensive income that may be reclassified to profit or loss in subsequent years:			
Net movement on cash flow hedges		19,427	9,427
Aggregate tax effect		(4,857)	(2,362)
Net other comprehensive income that may be reclassified to profit or loss in subsequent years		14,570	7,065
Other comprehensive income, net of tax		14,570	7,065
Total comprehensive expense for the year		**(24,638)**	**(41,165)**

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 2022 (continued)

Statement of financial position

As at 31 December 2022

	Note	2022	2021
ASSETS		**£000**	**£000**
Non-current assets			
Investments in subsidiaries	**8**	916,408	916,408
Derivative financial instruments	**13**	25,997	5,318
Other receivables	**10**	917,620	541,440
		1,860,025	1,463,166
Current assets			
Other receivables	**10**	124	10,596
Current tax receivable	**11**	9,126	10,096
Cash and cash equivalents	**9**	157	107
		9,407	20,799
LIABILITIES			
Current liabilities			
Borrowings	**14**	(309,664)	(9,302)
Other payables	**12**	(240,382)	(178,237)
		(550,046)	(187,539)
Net current liabilities		**(540,639)**	**(166,740)**
Non-current liabilities			
Borrowings	**14**	(1,358,587)	(1,316,142)
Deferred Tax Liability	**11**	(6,499)	(1,346)
		(1,365,086)	(1,317,488)
Net liabilities		**(45,700)**	**(21,062)**
EQUITY			
Ordinary share capital	**15**	79	79
Share premium		7,920	7,920
Capital redemption reserve		1	1
Hedging instruments reserve		18,609	4,039
Retained deficit		(72,309)	(33,101)
Total equity		**(45,700)**	**(21,062)**

The accounting policies and notes on pages 16 to 30 are an integral part of these Financial Statements.
Approved by the Board on 26 April 2023

J Baker
Chief Financial Officer

RAC Limited
Financial Statements 2022 (continued)
Statement of changes in equity
For the year ended 31 December 2022

	Note	Ordinary share capital	Share premium	Capital redemption reserve	Hedging instruments reserve	Retained deficit	Total equity
		£000	£000	£000	£000	£000	£000
Balance at 1 January 2021		**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)
Balance at 31 December 2021		**79**	**7,920**	**1**	**4,039**	**(33,101)**	**(21,062)**
Loss for the year		-	-	-	-	(39,208)	(39,208)
Other comprehensive income		-	-	-	14,570	-	14,570
Total comprehensive expense		-	-	-	14,570	(39,208)	(24,638)
Balance at 31 December 2022		**79**	**7,920**	**1**	**18,609**	**(72,309)**	**(45,700)**

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 2022 were approved for issue by the Board on 26 April 2023.

(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 IAS 16, IFRS 3, IAS 37 and Annual Improvements to IFRS Standards 2018-2020

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 17 and Amendments to IFRS 17 [1]
- Amendments to IAS 1 and IFRS Practice Statement 2 [1]
- Amendment to IAS 12 and 8 [1]
- Amendment to IFRS 16 [2]

1 Effective for annual periods commencing on or after 1 January 2023
2 Effective for annual periods commencing on or after 1 January 2024

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, linked 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 £39,208 thousand for the year ended 31 December 2022 (2021: £48,230 thousand) and at 31 December 2022 had net liabilities of £45,700 thousand (2021: £21,062 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. As the Company is in net liabilities position, a letter of support has been provided by its Parent Company, RAC Bidco Limited to ensure that the Company is able to pay its liabilities as they become due.

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. The Directors considered a range of potential trading and market-related risks, including regulatory change, roadside demand and usage change, plus mitigating actions and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

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.

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.

(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 consider the following to be critical judgements at the Statement of financial position

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

	2022	2021
	£000	£000
Management charge received	6,606	8,693
Total investment income	**6,606**	**8,693**

All income relates to UK operations.

2 Dividends

The Company paid ordinary interim dividends of £nil during the year (2021: £nil). The Directors do not recommend payment of a final dividend (2021: £nil).

3 Auditor's remuneration

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

	2022	2021
	£000	£000
Audit services		
Audit of financial statements	11	9
Total remuneration payable to Deloitte LLP	**11**	**9**

There were no fees payable to Deloitte LLP in respect of non-audit services (2021: £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

	2022	2021
	£000	£000
Interest receivable - related parties	(31,180)	(7,872)
Interest receivable - third parties	(112)	-
Interest payable - related parties	61,079	51,908
Interest payable on senior term facility - third parties	15,693	12,351
Amortisation of capitalised finance costs	3,856	4,657
	49,336	**61,044**

7 Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2022	2021
	£000	£000
Current tax:		
For the year	(9,126)	(11,088)
Adjustment in respect of prior years	1,258	999
Total current tax	**(7,868)**	**(10,089)**
Deferred tax:		
Origination and reversal of timing differences	238	185
Effect of changes in tax rates	75	744
Adjustment in respect of prior years	(17)	-
Total deferred tax	296	929
Total tax credited to the Income statement	**(7,572)**	**(9,160)**

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:

	2022	2021
	£000	**£000**
Loss before tax	(46,780)	(57,390)
Tax calculated at standard UK corporation tax rate of 19% (2021: 19%)	(8,888)	(10,903)
Effect of changes in tax rates	75	744
Adjustment in respect of prior years	1,241	999
Total tax credited to the Income statement (note 7(a))	**(7,572)**	**(9,160)**

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

	2022	2021
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.

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 retail 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 5th Floor, 40 Mespil Road, Dublin 4.

9 Cash and cash equivalents

Cash and cash equivalents in the Statement of cash flows at 31 December 2022 comprises £157 thousand (2021: £107 thousand) of cash at bank and in hand.

10 Other receivables

	2022	2021
	£000	£000
Amounts due from related parties	917,656	551,957
Prepayments	88	79
Total	**917,744**	**552,036**
Expected to be recoverable within one year	124	10,596
Expected to be recoverable in more than one year	917,620	541,440
Total	**917,744**	**552,036**

Receivables of £917,744 thousand (2021: £552,036 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 2022 (2021: £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

	2022	2021
	£000	£000
Current tax receivable	9,126	10,096
Deferred tax liability	(6,499)	(1,346)
	2,627	**8,750**

Current tax receivable of £9,126 thousand (2021: £10,096 thousand) is to be settled by Group relief within one year. The remaining £nil thousand is receivable from tax authorities (2021: £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 £4,819 thousand (2021: £1,109 thousand) in respect of interest disallowed under the corporate interest restriction rules.

a) Current tax

The balance at 31 December comprises:

	2022	2021
	£000	£000
Current tax receivable	9,126	10,096
	9,126	**10,096**

b) Deferred tax

The balance at 31 December comprises:

	2022	2021
	£000	£000
Deferred tax on cash flow hedge	(6,499)	(1,346)
	(6,499)	**(1,346)**

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

	2022	2021
	£000	£000
Net deferred asset brought forward	(1,346)	952
Origination and reversal of timing differences in the Income statement	(238)	(185)
Adjustment in respect of prior years	17	-
Effect of changes in tax rates in the Income Statement	(75)	(744)
Charge to other comprehensive income	(3,691)	(1,791)
Effect of changes in tax rates in other comprehensive income	(1,166)	422
Net deferred tax liability	**(6,499)**	**(1,346)**

12 Other payables

	2022	2021
	£000	**£000**
Amounts due to related parties	239,817	177,574
Other payables	565	663
Total	**240,382**	**178,237**
Expected to be payable within one year	240,382	178,237
Total	**240,382**	**178,237**

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

	2022	2021
	£000	**£000**
Cash flow hedge assets	25,997	5,318
	25,997	**5,318**

(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:

	2022	2021
	£000	**£000**
Contract/notional value	275,000	275,000
Total fair value of asset	**25,997**	**5,318**

13 Derivative financial instruments (continued)

(b) Cash flow hedges (continued)

The hedges were effective in the year ending 31 December 2022 (2021: effective) and therefore the full movement in the fair value of cash flow hedges has been recognised in other comprehensive income (2021: recognised in other comprehensive income).

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

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 B2 Notes**	**Senior Term Facility**	**Senior Term Facility**	**Senior Term Facility**	
Interest rate	4.565%	4.870%	5.250%	SONIA + 2.500%	SONIA + 1.800%	SONIA + 2.500%	
At 31 December 2022							
Amounts due within one year (£000)	302,068	4,603	2,927	27	24	15	309,664
Amounts due in more than one year (£000)	-	597,238	339,476	159,453	168,516	93,904	1,358,587
Book value (£000)	**302,068**	**601,841**	**342,403**	**159,480**	**168,540**	**93,919**	**1,668,251**
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**

14 Borrowings (continued)

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

Fees relating to the Class A Notes, Class B2 Notes and Initial Senior Term Facility have been capitalised and are being amortised over the lives of the borrowings to which they relate, in accordance with IFRS 9 Financial Instruments. 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 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 15 September 2022, The Group, entered into a new £300m Senior Term Facility agreement (the "2022 STF") in order to have committed funds available to refinance, if required, the outstanding Class A1 Notes in full ahead of their Expected Maturity Date on 6 May 2023. The Facility carries an opening interest rate of SONIA + 1.500%, subject to increases over the life of the 2022 STF pursuant to a margin grid (to a maximum of SONIA + 4.250%). The Group may decide not to utilise the Facility

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

	2022	2021
	£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 2022 or 31 December 2021.

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 2022 and 31 December 2021, 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.

RAC Limited
Notes to the Financial Statements (continued)

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 2022	Fair value movement	Fair value as at 31 December 2021	Fair value hierarchy
	£000	£000	£000	
Cash flow hedge asset (note 13)	25,997	(20,679)	5,318	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.				