Annual Report & Financial Statements 2021

Bobbie,
patrol since 2020,
South Wales

Company information

Directors:

J Baker, S Fox, P Gale, T Gallico, J Galore, D Hobday, P Hooper, H C Ormond, S I Patterson, R Templeman & M Wood

Registered office:

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

Auditor:

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

Company number:

Registered in England and Wales: No. 09229561

Other information:

The RAC Group ("the Group" or "RAC") comprises RAC Group (Holdings) Limited ("the Company") and its subsidiaries, as set out on page 123.

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

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

At a glance

We've continued to safely deliver service for our members and partners, drive sustainable growth, and significantly out-perform the market by adding more new products and services, continuing to differentiate and innovate, and winning members and partners from competitors.

We've continued to grow rapidly

12.9m
members

1.3m+
MyRAC members

+93k
consumer net adds

We're leading the way

#1
overall roadside assistance provider

#1
for Electric Vehicles in the UK

#3
motor insurance broker in the UK

We've excelled in service at the roadside

2.3m
breakdowns attended

1600
Patrols across the UK

14.5%
Consumer Breakdown churn

Financial highlights

£653m
Revenue
2020: £624m

£254m
EBITDA
2020: £241m

£135m
Operating profit
2020: £126m

£226m
Operating cashflow
2020:£225m

Chris, patrol since 2003, West Midlands

Our partners

As well as retaining all the major accounts that were up for renewal, this year we expanded our services for many of our key partners. We also brought on important new partners, including Northgate, Eurotunnel, Ageas, Maxus and SsangYong.

Motor manufacturers

Financial

Fleet

Affinity

Stuart, patrol since 2007, South West

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Strategic Report

For the year ended 31 December 2021

Stuart, patrol since 2007, South West

A message from the CEO

Dave Hobday
Chief Executive Officer

"We have the support of three globally renowned partners in GIC, CVC and now Silver Lake, bringing an incredible track record for growing strong businesses like ours using technology, digital and data. And we're very excited to be working with them as we enter the next exciting phase of our RAC journey together. Together, we will build on our fantastic achievements to date and create an ever stronger RAC.

Dear Stakeholders,

2021 marked a decade of uninterrupted growth in EBITDA since our separation from Aviva in 2011. This is testament to our winning strategy, differentiated propositions, ongoing investment, market leading innovation and of course our passionate and committed colleagues, our **#OrangeHeroes**.

Last year the continued multi-faceted impacts of Covid-19 had the potential to cause disruption across our business. Yet again, our colleagues rose to the challenge and continued to deliver "Complete Peace of Mind" for all our 13 million Members.

The business performed strongly, with revenue and EBITDA growth alongside a further increase in our members, to become the country's largest breakdown provider during the year.

We continued to lead the market in innovation, investing in and launching new, unique products including Long Term Plans for our consumer breakdown members, Garage and Parts Cover for members needing further work after a breakdown, and the expansion of our Electric Vehicle products underpinning our position as the UK's #1 for EV. Our digital proposition went from strength to strength as we added new features to MyRAC, our membership subscription platform. This now has over 1.3 million active registered members, representing over 50% of our consumer member base. And we continued to develop our digital breakdown reporting service, Rescue Me, already used in 26% of breakdowns (H2 2021) and delivering a superior member experience.

These strong foundations put us in the best possible position to realise our long-term vision to become the UK's #1 driving services provider. More services delivered to more members, increasingly enabled by digital, data and technology.

The agreement of Silver Lake to become a major shareholder gives us the opportunity to accelerate our progress towards that vision. Their unparalleled technology expertise further strengthens our digital agenda and will enable us to go "bigger, better and broader" while continuing to deliver an ever stronger core service to our members. The transaction has received all the necessary approvals and completed in March 2022.

Financial Performance

It has been another tough year with the twin challenges of Covid-19 and staycation. Higher absence, more long tows and onward travel combined with a more difficult fault mix and the busiest and most volatile holiday season on record led to additional costs. Again, our colleagues rallied round to deliver service safely for our members and our corporate partners.

Despite the challenges, group revenue increased by £29 million (+5%) to £653 million in the year, reflecting growth across our entire business and maintaining the strong top line momentum we have established over the last few years. The recurring nature of these revenues provides a solid platform into 2022 and beyond. EBITDA before exceptional items increased by £13 million (+5%) to £254 million. This result is driven by the positive sales performance, churn and retention improvements, and ongoing efficiency initiatives to help offset the Covid-19 impacts.

RAC continued to deliver good operating cash flow with EBITDA cash conversion of 89% (2020 93%). This resulted in net cash flow from operating activities of £226 million, up £1 million (+0.5%) vs 2020.

Divisional Highlights

Consumer Breakdown performed strongly with membership growing by 0.1m to 2.6m, driven by record full year churn of 14.5% (-0.5%ppts vs 2020) and strong sales volumes. We increased ARPU (average revenue per user) by building on the successful launch last year of our Complete Breakdown suite of products to sell more of our higher cover levels. We also continued to grow in the under-developed and fast-growing SME van segment, launching two new products for van owners and growing our van business partnerships.

In Business Breakdown, we grew membership by 0.1m to 9.6m. We successfully retained all of the major accounts that were up for renewal in the year and we won a number of material contracts including Northgate, Eurotunnel, Ageas, Maxus and SsangYong. We also saw strong growth in our other product lines including recalls and inspections, where we completed 1 million inspections in the year, and legal services where we won a major contract with Atlanta serving 0.1m new members.

CEO review

For the year ended 31 December 2021

In Insurance, we focused on maintaining profitability in a competitive market, sustaining our membership base at 0.7m policies. We also launched our new broker platform, which will initially focus on sales of van, home and black box insurance under the RAC brand.

Ownership of electric vehicles continues to grow and we launched an array of services to help members make the switch to EV ownership. These include support at roadside, from our multi-award winning EV Boost technology, through to leasing and charging packages for members, and expert technical support for business partners like Porsche. We are taking that experience into our own fleet with our first fully-electric patrol van hitting the road in Q1 2022.

Covid-19

Throughout the year under review, we continued to see significant impacts from Covid-19 on our business. Our key focus remained keeping colleagues and members safe. This meant many colleagues worked remotely, social distancing was in place on site, and a number of colleagues were having to self-isolate at various times. Regional breakdown volatility and constant changes to driving patterns created further pressures albeit total breakdown volumes were c5% below normal due to lockdown restrictions.

Great Service

Throughout the year, our business continued to grow and we were pleased to welcome over 100,000 new members to the RAC. To ensure that our members continue to receive excellent service, we recruited an extra 200 patrols and trained over 3,000 colleagues on our processes for identifying and dealing with vulnerable customers to ensure that every member gets the support they need and we prioritise those in need of urgent help.

> We rescued over 2.3 million members in 2021. To ensure more members see an Orange patrol, we recruited 200 extra roadside patrols and launched our patrol apprenticeship scheme to develop the next generation of "Orange Heroes".

We launched our digital breakdown service, Rescue Me, in our app making it easier for members to contact us and request assistance in the event of a breakdown.

As well as providing a convenient way for members to get in touch, it also helps locating the vehicle using GPS technology.

We were delighted to receive the DataIQ award for how we have used data to transform our member experience. This reflects both the significant investment that has gone into delivering outstanding service to our members every day and the increasing use of data to drive every aspect of RAC.

Our people

Strategy

Our strategy is to continue to grow our membership base by providing excellent service, rewarding loyalty and expanding our proposition to offer an increasingly broad range of additional services. Evolving our already successful formula to become a one stop shop for all the driving needs of our members.

Our premium "Complete Peace of Mind" service will be increasingly digitally fulfilled, delivering an ever better and broader member experience while driving new levels of efficiency, as well as improving engagement and loyalty to reduce churn.

Colleagues

None of our sustainable success would be possible were it not for our amazing colleagues, the 4000 "Orange Heroes" who work tirelessly to give outstanding service and seamless experiences to our members.

I must thank them once again for everything that they have done through 2021 and the pandemic to deliver our decade of positive growth.

Outlook

As we celebrate our 125th anniversary later in 2022, we look forward with confidence and positivity.

Macro trends in the industry are favourable. There is an increasing desire to own a car, and rely on it for everyday transport, and we are well positioned for the future.

We have strong momentum in our core business, and a digital agenda that is delivering. Together with our new partner Silver Lake, we will be able to accelerate our already proven model through further investment, and make it even better. We look forward to another decade of growth ahead as we focus on our vision of becoming the UK's #1 for Driving Services.

A message from our CFO

Jo Baker
Chief Financial Officer

"We have delivered a strong set of results for 2021, navigating successfully through the challenging backdrop of Covid-19. Our performance once again demonstrates the underlying strength of our subscription-based business model, with more members staying longer and spending more. As we enter our 125th year, we are stepping up investment in our digital product capability, creating even more opportunities for growth.

The Consolidated Financial Statements of the RAC Group (Holdings) Limited Group are set out from page 80 onwards.

The Group continued its operational and financial progress in 2021, growing its roadside membership base to become the UK's #1 for breakdown by member numbers. Despite a challenging Covid-19 impacted operating environment our relentless focus on service to members resulted in our 10th consecutive year of EBITDA growth.

Financial Highlights

- Overall Membership rose by 0.2 million to 12.9 million (2020: 12.7 million), driven by healthy new business flows in breakdown services and continued reduction of Consumer breakdown churn, which reached a record low of 14.5% (2020: 15.0%)
- Group Revenue grew by 5% to £653 million (2020: £624 million) reflecting growth in membership and the return to normality of pay-on-use volumes from our Business breakdown customers
- EBITDA before exceptional items increased by £13 million or +5% to £254 million (2020: £241 million), whilst Operating Profit also increased by £9 million or 7% to £135 million (2020: £126 million)
- EBITDA margin remained at 39% (2020: 39%) as a result of strong cost control despite a challenging C-19 operational environment
- Net cash flow from operating activities was £226 million (2020: £225 million), with a cash conversion ratio of 89% (2020: 93%). Capital investment of £49 million (2020: £54 million) ensures we continue to be well invested as we enter the next stage of RAC's growth
- Following our rating uplift by S&P in June 2021, we successfully secured a new Senior Term Facility ("the 2021 STF"), the proceeds of which were used to redeem the outstanding Class B1 Notes and to prepay part of the 2020 STF
- Following the announcement of the Silver Lake transaction in November 2021 RAC issued £345m of Class B2 Notes. The funds were held in escrow until successful completion of the Silver Lake transaction on 11 March 2022

Consolidated Income Statement

	2021 £m	2020 £m
Revenue	653	624
EBITDA before exceptional items	254	241
Depreciation	(19)	(19)
Amortisation	(95)	(95)
Exceptional items	(5)	(1)
Operating profit	135	126
Net finance expenses	(196)	(190)
Loss before tax	(61)	(64)
Tax charge	(61)	(32)
Loss after tax	**(122)**	**(96)**

CFO review

For the year ended 31 December 2021

Group Revenue for the year was £653 million, an increase of £29 million (+5%) compared to 2020, as volumes returned closer to historic levels, despite continuing extended periods of lockdown across various parts of the country.

Core recurring breakdown subscription revenues continued to grow, driven by both improving churn rates to retain higher volumes of customers and increasing the numbers of new customers attracted to RAC by our focus on "Complete Peace of Mind" and the launch of Long Term Plans during the second half of the year.

Pay on use revenues from our corporate customers benefited from the loosening of travel restrictions throughout the year. Additionally, our focus on recalls and inspections provided a further source of growth as volumes more than doubled following a significantly expanded relationship with BCA and further recall work secured with several OEMs (Nissan, PSA, Kia, Vauxhall and Hyundai).

Insurance acquisition revenues were impacted by tough conditions as lower claims frequency drove a reduction in premiums across the market. We focused on maintaining the profitability of our motor book, resulting in a good financial performance with a robust retention rate and Insurance EBITDA growing by 12%.

EBITDA before exceptional items of £254 million was £13 million (+5%) higher than in 2020. This growth was underpinned by record low churn numbers which is testament to our members perception of the service we continued to deliver despite a very challenging breakdown service environment. Demand levels were volatile throughout the year and coupled with record levels of UK holiday makers at a time when government mandated Covid isolation and sickness absences ran high this presented a tough challenge. This necessarily had an impact on wait times and also adversely impacted roadside operational costs through the summer months. While our Net Promoter Scores remained strong, the challenges experienced have led to a renewed focus on improving repair rates and work-time which we expect to benefit performance in 2022 and beyond.

Depreciation was £19 million (2020: £19 million) broadly in line with prior year, reflecting consistent investment levels in tools and equipment for our roadside fleet as well as ongoing maintenance spend on our physical infrastructure.

Amortisation of intangible assets amounted to £95 million (2020: £95 million), representing amortisation of both acquired intangibles and separately identified intangible assets, predominantly customer lists, arising from the business combination in 2014 in which RAC Bidco Limited acquired the RAC Group of Companies.

Exceptional items of £5 million were incurred during 2021 (2020: £1 million). This compromised one-off costs relating to the Silver Lake transaction, a special recognition payment for front line colleagues, refinancing activities and restructuring costs from a Group re-organisation.

Jason, patrol since 2000, South West

Consolidated Statement of financial position

	2021 £m	2020 £m
Goodwill and intangible assets	1,860	1,914
Contract costs	32	32
Property, plant and equipment	35	34
Right of Use assets	56	61
Trade and other receivables	49	40
Trade and other payables	(286)	(287)
Net current assets / (liabilities)	244	(109)
Borrowings	(2,803)	(2,419)
Shareholders' equity	(834)	(719)

Net finance expenses of £196 million were incurred in 2021 (2020: £190 million) as related party interest increased due to its compounding nature offset by a reduction in third party interest costs with the redemption of the Class B1 notes being replaced with lower cost STF debt.

Loss before tax in 2021 was £61 million (2020: £64 million). The 2021 tax charge on the income statement increased to £61 million (2020: £32 million) due to an adjustment to the fair value of a deferred tax liability as the result of the Budget 2021 announcement that the main rate of corporation tax will increase to 25% from April 2023. This adjustment to the balance sheet liability does not impact the cash tax paid in the current year.

As at 31 December 2021, goodwill and intangible assets amounted to £1,860 million (2020: £1,914 million) primarily representing the goodwill, brand and customer lists recognised on the acquisition of the RAC Group of Companies in 2014. The movement of £54 million (2020: £60 million) primarily reflects amortisation in the period of customer acquisition intangibles, with additions and amortisation of capitalised software development costs offsetting during the year.

Contract costs of £32 million (2020: £32 million) relate to commissions and fees paid to third parties, arising because of a direct sale of an insurance policy.

Property, plant and equipment of £35 million as of 31 December 2021 (2020: £34 million) relates to owner-occupied property, fixtures and fittings and computer hardware across the Group. The increase of £1 million during the year relates to our ongoing programme of maintenance and investment in our sites.

Right of Use assets of £56 million (2020: £61 million) relate to IFRS 16 'Leases' and comprise vehicles and properties. The £5 million decrease primarily reflects the depreciation of existing leased vehicles.

Trade and other receivables of £49 million (2020: £40 million) are primarily comprised of trade and other receivables of £32 million (2020: £14 million), prepayments and accrued income of £17 million (2020: £26 million).

Trade and other payables of £286 million (2020: £287 million) predominantly represent deferred income of £129 million (2019: £118 million) relating to subscriptions revenue received in advance, and £157 million (2020: £168 million) of trade payables, accruals and other payables including lease liabilities of £64 million recognised under IFRS 16 'Leases' (2020: £67 million).

CFO review

For the year ended 31 December 2021

The Group has net current assets of £244 million as at 31 December 2021 (2020: net current liabilities of £109 million). The £353 million movement represents £345 million of amounts due from related parties in relation to the class B2 bond issuance and £8m of other movements.

The capital structure of the Group consists of third-party bank borrowings amounting to £420 million (2020: £297 million) and bonds issued of £1,250 million (2020: £1,111 million). The Group remains strongly cash generative and following our rating uplift by S&P in June 2021, we successfully secured a new Senior Term Facility ("the 2021 STF") comprising two tranches; Facility A is £170m over 4 years at SONIA plus 1.8% and Facility B is £95m over 7 years at SONIA plus 2.5%.

This additional funding, in addition to excess cashflow, was used to redeem at par the outstanding £210m of Class B1 Notes, reducing the Group's cost of borrowing, and to repay £139.5m of the 2020 STF.

During 2021, RAC successfully transitioned all of its LIBOR facilities to SONIA, i.e. the 2020 STF, Working Capital Facility, Liquidity Facility and associated Interest Rate Swap. The Liquidity Facility transitioned from its renewal in April 2021, the other facilities from 1 January 2022 (i.e. immediately post cessation of LIBOR).

Group funding structure

	2021 £m	%	2020 £m	%
Third Party Borrowings				
Bank borrowings	420	20.9	297	17.0
Bonds	1,250	62.2	1,111	63.6
Related Party Sources				
Preference shares	1,133		1,011	
Ordinary shares	10	16.9	10	19.4
Total Sources	**2,813**	**100.0**	**2,429**	**100**
Undrawn working capital facility	44		48	
Total Committed Facilities	**2,857**		**2,477**	
Gross Debt	1,670		1,408	
Unrestricted Cash	(106)		(99)	
Restricted Cash	(353)		(8)	
Total Cash	(459)		(107)	
Net Debt	1,211		1,301	
IFRS 16 Liability	64		67	

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

- The Initial Senior Term Facility, Class A1 Notes and Class A2 Notes (together "Class A Debt") are subject to one financial covenant, being the ratio of free cash flow to Class A Debt service charges.
- The Class B1 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.

At 31 December 2021 the Group had comfortable levels of headroom against both financial covenants and has complied with these financial covenants throughout the periods since issue.

Consolidated statement of cash flows

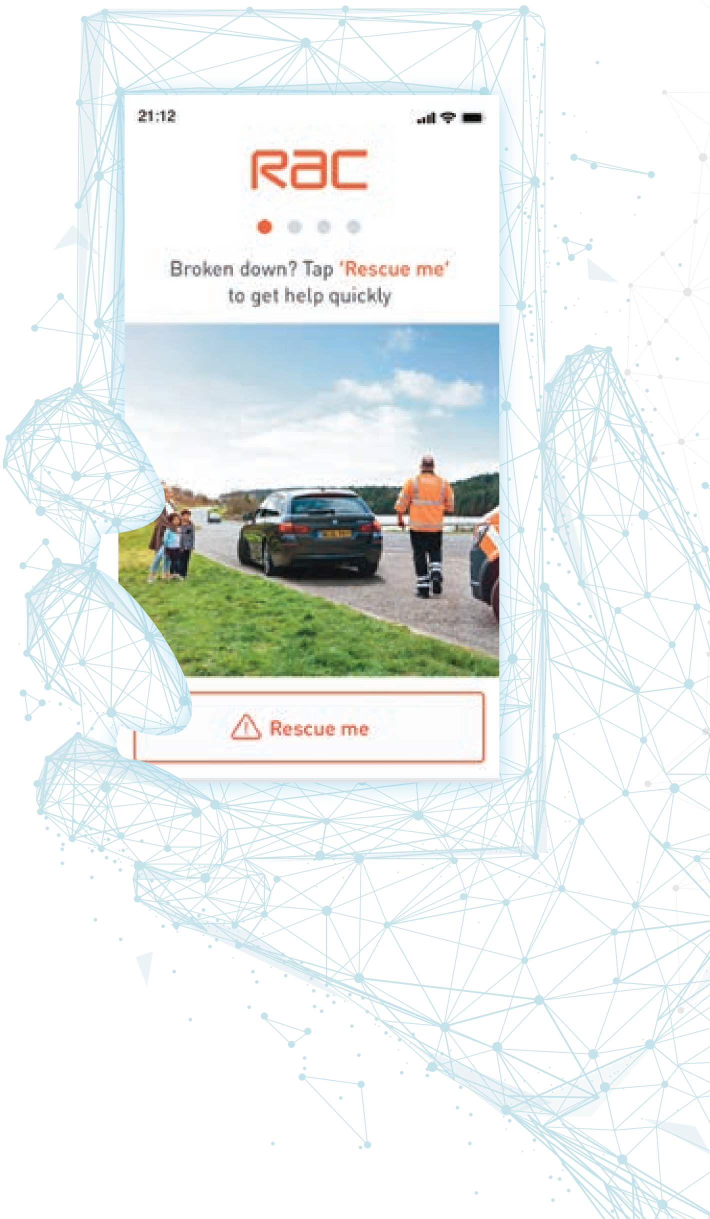
	2021 £m	2020 £m
Cash and cash equivalents	459	107
Net cash flows from operating activities	226	225
Interest paid	(68)	(95)
Net increase in cash and cash equivalents	352	9

The Group generated a net cash inflow from operating activities of £226 million (2020: £225 million), a decrease in EBITDA conversion to 89% (2020: 93%). Interest paid was £68 million (2020: £95 million), reduced because of the refinancing activity to repay the class B1 bonds, which were replaced by the 2021 STF.

Capital investment totalled £49 million in the year (2020: £54 million). £24 million of spend related to customer acquisition intangibles and contract costs (2020: £24 million), connected to the growth in customers and subscription revenue seen in the period and the remaining £25 million to investment and maintenance capital projects (2020: £30 million).

Specific customer facing projects undertaken in the year included the development of the 'Long Term Plans' Consumer proposition, further enhancement of MyRAC introducing dynamic presentation of customer rewards, the launch of online upgrade capability, and the release of 'MyRAC Lite' opening up digital registration to our corporate customer base. We also made significant investments in continuing to develop our insurance operating platform for the future, including developing our own standalone broker platform, establishing a full in house pricing capability, ongoing development of our unique data assets, and preparations for the changes in pricing practices regulation.

Consistent capital spend ensures that we continue to be well-invested for our Core Business, expanding into new Adjacent Markets and accelerating the development of new digital capabilities which will all help to support our future growth trajectory.



CFO review

For the year ended 31 December 2021

Key Performance Indicators ("KPIs")

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

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

For commentary on the Key Performance Indicators, refer to the Operating Review on pages 20 to 26.

	2021	2020
Revenue (£m)	653	624
EBITDA before exceptional items (£m) [1]	254	241
Operating profit (£m)	135	126
Number of breakdowns (million)	2.3	2.2
Consumer Breakdown churn rate (%) [2]	14.5	15.0
Total Group members – (million)	12.9	12.7
– Membership Services members – Consumer (million)	2.6	2.5
– Membership Services members – Business (million)	9.6	9.5
– Insurance & Financial Services members (million)	0.7	0.7

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

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

Outlook

Given strong trading performance, continued robust operating cash generation and the resilient response to challenges thrown up by the Covid-19 pandemic I am confident that the Group continues to be well positioned for further growth in 2022.

Operating Review - Membership Services

	£m	2021	2020	vs. PY
Consumer Breakdown Members	000s	2,563	2,470	4%
Business Breakdown Members	000s	9,584	9,504	1%
Total Membership Services Members	000s	12,147	11,974	1%
Number of Breakdowns	m	2.31	2.23	4%
Roadside Repair Rate	%	78	82	-4%
Consumer Breakdown Churn Rate	%	14.5	15.0	-0.5%
Membership Services Revenue	£m	559	529	6%
Membership Services EBITDA	£m	255	249	2%
Membership Services Operating Margin	%	45%	47%	-2%

Consumer Breakdown

RAC has seen continued growth in both the membership base and in ARPU, driven through a full year of our Complete Breakdown proposition and introduction of further innovations to our propositions. This includes the introduction in August 2021 of Long Term Plans which give our members the opportunity to purchase cover for a longer period of up to 24 months and benefit from a lower price.

Our members are continually choosing to stay with us for longer, testament both to the service that RAC provides and the value that members receive from being a part of the RAC. Member churn improved again in 2021 to a new best-ever level of 14.5%, an improvement of 0.5% on 2020's previous record, reflecting ongoing investment into the member experience and tailored renewal pricing. 2021 saw enhancements to RAC's loyalty programme, upgrades to call centre back office capability and improved communication with members to introduce better cross- and upsell of services most relevant to them, using data to drive performance.

We have balanced our acquisition activity across channels in consideration of both cost per acquisition and reach across consumer segments in reaching record levels of new memberships. The impacts of Covid have been felt in various channels at different times, in particular where our face-to-face and non-member breakdown channels have been 'switched off' during periods of lockdown and high roadside demand respectively. We have been agile in deploying promotional activity to attract new members, with consumers continuing to recognise the importance of breakdown cover even in a global pandemic. The launch of Long Term Plans, new affinity partnerships and online chat have all contributed to making this the best year ever for acquisition activity, providing a great foundation for further proposition innovations in 2022.

Long Term Plans

In August 2021 we launched our exclusive Long-Term Plans, giving our members even more Complete Peace of Mind and fantastic value in exchange for a longer length policy.

Through our research, members told us Long Term Plans gave them the peace of mind that they did not have to renew every year and that they were willing to sign up for a longer contract in exchange for a discounted price. Customers are able to choose between a monthly flexible policy, or a 12, 18 or 24 month policy paid annually or monthly.

Along with the benefit of locking in a great price for longer, members can be assured of receiving the most comprehensive breakdown cover on the market alongside the convenience of less frequent renewals to ensure continuation of cover. Long Term Plans are a key component of our constantly evolving proposition which aims to provide outstanding breakdown cover for our members.

CFO review

For the year ended 31 December 2021

Business Breakdown

The business breakdown membership base grew again this year despite the impact of Covid on some of our partners, with some of our OEM partners suffering from lower new car sales and our banking partners seeing lower sales of breakdown packages linked to travel insurance. Declines in these sectors were more than offset by growth in insurance partners and fleet customers.

We retained all key accounts in the year and secured new partnerships with **Ageas**, **Eurotunnel**, **SsangYong** and **Northgate Vehicle Hire**.

We further expanded our services to do more for partners in 2021 with our growing recalls and inspections business more than doubling in size to complete over 1 million inspections in the year and continuing expansion of our branded contact centre teams supporting partners with their customer service operations.

At the beginning of 2021, we moved our Legal and Accident services teams along with Telematics services into the Business division and as a result we have seen increases in cross sales activity, in particular seeing substantial growth in legal expenses insurance with policies in force increasing by 44% in 2021 to over 2 million.

Our outlook

> We are confident the expansion of our proposition to become the UK's #1 for Driving Services continues to set us apart from our competition and deliver better and better service to our members.

Digital and Data

In 2021 we further developed and enhanced our "Digital Breakdown" capabilities, with the roll out of 'Rescue Me' functionality now fully embedded within our MyRAC app as well as being available online, giving Members the ability to log their breakdown digitally allowing us to seamlessly despatch patrols to them. We saw a material uptake of this functionality in year with 1 in 4 breakdowns now logged digitally as of Q4 2021.

Additionally, we rolled out our 'Locate Me' functionality which has delivered a step change in our ability to accurately locate Members who are unaware of their location, giving peace of mind that we can quickly trace their breakdown location anywhere in the country.

2022 Outlook

Our achievements in the Membership Services division sets us up well to deliver further growth into 2022. Our growing loyal customer base gives us a solid foundation to leverage the next phase of our strategy through digital, technology and data to support core performance and enhancing our propositions to broaden member relationships, through increased cross-sell, new service, maintenance and repair services, and investment in our operations to deliver even better customer experiences.

There are significant shifts in market and driver trends that provide real opportunity for the RAC, with cars becoming ever more important in a post pandemic landscape, with increasing consumer demand for digitally enabled products and services, and exponential growth in the EV car parc where we are continuing to cement our market leadership position.

We are confident the expansion of our proposition to become the UK's #1 for Driving Services continues to set us apart from our competition and deliver better and better service to our members.

Service, Maintenance and Repair ("SMR")

RAC's expertise at the roadside is proven in emergency situations, with our 1,600 fully-trained patrols attending 2.31m breakdowns in 2021. It is our aspiration to bring Complete Peace of Mind to more motorists through leveraging this expertise into the broader consumer Service, Maintenance and Repair market where consumers can book ahead for support in care and upkeep of their vehicle, either on a pay on use or on a subscription basis.

In 2021 we launched a new garage referral portal allowing motorists to find and select a reputable garage to fulfil their servicing, MOT and repair needs. This gives access to direct booking with 5k garages, of which 1.1k come with the complete peace of mind of being part of the RAC garage network. This booking facility presents key information to the driver ensuring a frictionless journey.

We continued our journey into this space though launch of our new Garage and Parts Cover to address a clear consumer need for warranty and service products. Garage and Parts Cover offers customers protection against unwanted garage bills they may suffer following a breakdown, offering 'no quibbles' cover for all mechanical faults and claims up to £500 fulfilled via our patrols or garages.

RescueMe (data): Since its launch in March 2020, the digital breakdown notification journey – Rescue Me – has rapidly become a key element of our membership experience. As consumer demand for and adoption of digital service experiences has grown with the impact of Covid, we are seeing high levels of usage by our members, with over 25% of breakdown calls in H2 logged through this channel. The benefit of the ability to give an immediate notification with consistent and simple member validation and highly accurate location data has worked extremely well and we are seeing this through our member NPS scores.

Rescue Me is part of a bigger "Digital Breakdown" programme, linking in with personalised SMS communications, "Track My Patrol" digital mapping and digital breakdown documentation. Rescue Me is also a key driver behind the significant growth in MyRAC app downloads, with many members choosing to use this way to notify their breakdowns.

MyRAC

MyRAC is at the heart of our enhanced membership proposition and is the key enabler to achieve our vision to be the UK's #1 Driving Services Provider. It's how our members will interact with us, how they will consume RAC products and services, and it will be indispensable to managing your driving life. Over the last 3 years the MyRAC platform has developed to include new features and capabilities and we have grown the active registered MyRAC membership base to over 1.3m direct members logging in on average 2.6 times per year. We have invested in the technology and capabilities to build a digital platform that is secure, convenient, and easy to use.

Over the last 12 months, we have launched the RAC loyalty rewards programme – including dynamic personalisation of rewards presentation in MyRAC, the Rescue Me digital breakdown notification experience, and MyRAC "Lite" – opening up digital registration to our broader base of 13m members to deepen our relationships. MyRAC has now become an ecommerce platform with the launch of the first ever online upgrade transactional capability – allowing members to upgrade, renew and pay via MyRAC with a single click.

Car Insurance '5*' upgrade

In Q2 2021 we introduced the ability for members purchasing car insurance via Price Comparison Websites (PCW's) to enable them to upgrade their cover to our more benefit rich Car Insurance Plus product that has a 5* Defaqto rating. This improves the quality of product our member purchases with additional covers such cover against vandalism and protections if hit by an uninsured driver.

Initially introduced via one price comparison website in Q2 2021 the ability to upgrade was built into the digital purchase journey once the member has clicked through to the RAC digital journey to confirm purchase in a simple and seamless experience. The member take up was very strong with over 40% of customers choosing to upgrade their cover. Based on that initial success the same approach was introduced to the other three major Price Comparison Websites during Q3 with similar customer take up rates. From this very strong base we will continue to improve the member experience both in the context of the '5*' upgrade and investigate other proposition opportunities to further enhance our members cover.

Operating Review – Insurance

	£m	2021	2020	vs. PY
Total Motor and Black Box Insurance Members	000s	658	683	-4%
Total Insurance Members	000s	704	747	-6%
Insurance Gross Revenue	£m	94	95	-2%
Insurance EBITDA	£m	46	41	12%
Insurance Operating Margin	%	49	42	7%

RAC's core Insurance Broker business delivered strong growth in EBITDA in 2021 largely from an increase in our operating margin. This was in the context of a highly competitive car insurance market which saw the average UK premium for motor insurance falling by 7% to its lowest level in six years.

We saw a number of competitors discounting heavily to grow their acquisition volumes, particularly in the second half of the year. In contrast, we focused on maintaining the profitability of our book, maintaining strong commission and income from other streams which delivered the increase in operating margin. albeit slightly reducing the number of Insurance Members in 2021.

Alongside balancing margin and customer volumes, 2021 was a year of transformation for RAC Insurance with the delivery of several new capabilities that will continue to support the RAC's insurance broking business for the future.

Firstly, the implementation of market leading pricing software, RADAR live which will increase the speed and flexibility of RAC's pricing and enable the integration of additional data to improve sophistication.

In addition, the new RAC Broker platform was deployed to customers in 2021 with Black Box (Telematics Car Insurance), Van and Home Insurance launched.

Finally, we agreed a 3-year extension to our arrangements to Dec 2025 with BGL to continue our partnership supporting our ambitions to grow car insurance.

Throughout 2021 we continued to invest in our customer experience and maintained focus on supporting members through Covid related challenges. As a result, we delivered strong NPS performance which was in the top quartile of industry peers.

Digital and Data

Data remains at the heart of RAC insurance as we use our proprietary insight on drivers and their vehicles to enable insurers to better price risk and offer more competitive prices. We are deepening our relationship with our key insurers to both increase the usage of RAC data and to better embed into pricing algorithms and expect this to deliver improved price competitiveness in 2022.

We have continued to invest in improving the digital experience for RAC's insurance members and now across all products over 90% fully complete their purchase digitally with further changes planned to the digital experience to improve this even further. Additionally, there is further opportunity to improve the digital experience to enhance 'in life' changes and renewals which will be deployed into 2022 with the aim of reducing churn from an enhanced experience underpinned by the improved use of data in pricing.

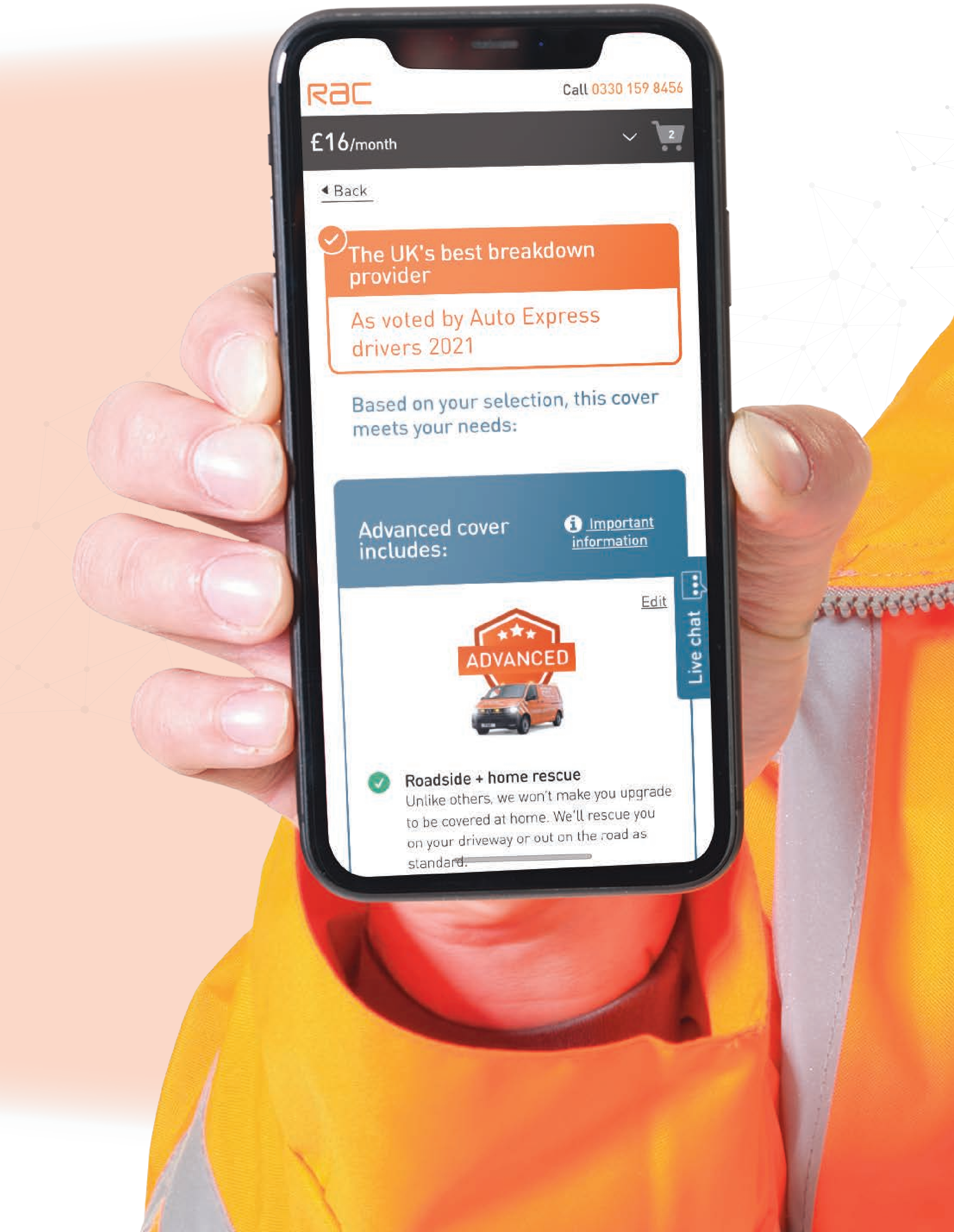
2022 Outlook

There will be significant changes in the Car Insurance Market in 2022 following implementation of the remedies introduced by the FCA following their General Insurance Market Study from the 1st January 2022.

We have implemented all the required changes to ensure we are fully compliant and in the medium term believe that, as well as offering a fairer outcome for customers, RAC is well placed to benefit and to grow from our investment in market leading pricing software and capability.

The changes required to meet the new regulation are significant and with the entire market making the change at the same time we do expect performance volatility in H1 2022 as pricing at acquisition and renewal is adjusted by different insurers and brokers across the market as they adapt to the new environment.

Paul, patrol since 1996, East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The UK's best breakdown provider
As voted by Auto Express drivers 2021
Based on your selection, this cover meets your needs:
Advanced cover includes:
Important information
Edit
Live chat
ADVANCED
Roadside + home rescue
Unlike others, we won't make you upgrade to be covered at home. We'll rescue you on your driveway or out on the road as standard.

Strategic Management

For the year ended 31 December 2021

Principal activity

The RAC Group is a driving services subscription business, providing a differentiated range of driving and mobility related services, principally breakdown assistance and vehicle repair services, for consumer and business members, and retail motor insurance products underwritten by a panel of leading insurers. There were no significant changes in those activities during the year.

Stuart, patrol since 2007, South West

Strategic Management

For the year ended 31 December 2021

Business Model

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

In Membership Services for Consumers, we provide breakdown cover and a broad range of exclusive optional extras to individual members and small business owners on either an annual or monthly subscription basis, and a related range of garage services and third-party products through partners. As a result of launching and cross-selling new products, we derive over 10% of our consumer revenue from non-breakdown services. Market analysts have recognised that RAC provides a differentiated market-leading offering and this has changed the overall landscape in terms of what members expect from their breakdown providers. We acquire members through a range of channels including direct to our website, paid and organic search, price comparison websites, direct sales agents, and multiple partners and affiliates. We focus on growing the base through new acquisitions, maximising our cross-sell opportunities and delivering great service and fair pricing to maximise retention.

In Membership Services for Business, we provide assistance for breakdowns and accidents, technical and member support services to individuals through our partnerships with leading motor manufacturers, banks, insurance companies and fleets. These are typically long-term relationships, with contracts renewing every three to five years, but most partners having a far longer history with us. The service can be provided either on an annual or monthly subscription basis, or as a pay-on-use service. We focus on winning new partners and working with existing partners to profitably grow the member base, while driving additional value through cross sell of related products and services. Our innovation in motoring services means that over 30% of our business revenue is now derived from non-breakdown services. We continue to expand the services we offer to corporate partners, such as undertaking 'recalls and inspections' campaigns and by providing branded customer contact centres.

Our breakdown service is delivered 24/7 by an outstanding team of dedicated patrols and front-line colleagues. Through our ongoing investment in training and development, we continue to deliver the strong levels of member service that distinguish us positively from our competitors, supporting better retention rates and sustainable business growth. Market-leading technical innovations and investments in 'All Wheels Up Recovery' and award winning 'EV boost' to keep EVs moving, mean our patrol fleet continues to lead the industry and benefit from a unique and comprehensive capability to carry out effective repairs at the roadside, or to recover members' vehicles if required. This unique EV offering in the market is enabling us to win business from the competition, as our EV vision aligns with future thinking OEMs, Fleets and leasing companies making the switch to electric.

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

Our markets

Our Core markets are breakdown and motor insurance.

In breakdown we have an overall market share of around 38%, making us the **#1 breakdown provider** in the UK, covering more drivers than any other breakdown organisation with our "Complete Peace of Mind" offering.

Our breakdown service is supported by the largest garage network in the UK with over 1,100 RAC-approved and accredited garages, providing RAC-backed vehicle repairs nationwide. In motor insurance we currently hold less than 1% market share but are in a strong position to achieve growth; the motor insurance market is in the midst of wholesale changes to pricing approaches to respond to the FCA's focus on equalising prices between new customers and renewing customers. The market continues to be dominated by Price Comparison Websites where RAC is competitive for its chosen segments and consumers show a tendency to choose our trusted brand over cheaper, less trusted providers.

Over the last two years, the services we offer have proved increasingly relevant. Member reliance on cars has increased, despite an overall reduction in miles driven, with more people saying that their car is important to them, and the used car parc is growing, ensuring the demand for our Core products continues to grow. In addition, there has been a shift towards online retail, necessitating a growing network of delivery vehicles, which will drive accelerated growth in demand for van and commercial breakdown; a trend which hasn't diminished as the pandemic eases.

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

Longer term, structural growth trends in mobility and advances in automotive technology are accelerating change, creating ever more complex vehicles and putting our technical capabilities even more in demand. We are at an inflexion point, with electric vehicles growing exponentially and projected to overtake the number of ICE vehicles in the next 15 to 20 years, reaching an estimated 18 million vehicles by 2035.

These macro trends present immediate and growing opportunities. The RAC is perfectly positioned at the centre of these emerging new ecosystems to leverage our leading position and scale, our trusted brand, our unique driver and vehicle data and our 13 million member relationships to capitalise on these trends.

Strategic Management

For the year ended 31 December 2021

Marc, patrol since 2007, Yorkshire & Humber

Our strategy

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

Our strategy to achieve that vision remains consistent, with a continued focus on growing our Core Businesses of breakdown and motor insurance providing the foundation and the momentum to expand well beyond our Core and exploit changes in the automotive mobility sector to capitalise on new opportunities for continued, sustainable long-term growth.

We have already established footholds in multiple other driving related services which gives us a strong platform and the momentum to continue our growth well into the future. As we continue to accelerate the growth trajectory of our membership base through reduced churn, we will also expand the products and services we offer to meet the broader driving needs of our members, creating further member loyalty and driving a material increase in member value through cross and upsell, with significant revenue from selected new markets including servicing.

The core of our proposition will be delivered through: An enhanced and complete membership offering, bringing together everything our members need to own, run and maintain their vehicles in one place:

- Award winning Complete Breakdown Cover
- Data-driven smart car insurance
- Convenient subscription SMR packs
- Bundled together to cover all driving needs
- Highly rewarding membership benefits

Convenient end-to-end digital experiences; with our seamless and secure digital platform delivering better member experiences while driving new levels of efficiency:

- A single, secure place to see and do everything
- Flexibility of web & app with help one click away
- Data driven vehicle content and e-fulfilment
- Personalised handy reminders to make life easy
- One-click service, bookings and payments

Premium trusted service – delivered locally, whether it's a member's local patrol or an RAC approved garage, giving members a quality branded experience they can trust and rely on:

- Best in market digital member journeys and unique "to-you" service-on-the-drive delivery
- 1,600 RAC patrols with 11yrs average tenure
- 1,200 RAC Approved Garages covering 90% of UK postcodes with digital booking capability
- Everything you need for an EV, with EV specific: advice, eLeasing, charging & charge points, electricity tariffs, insurance and breakdown

Our growth will be underpinned by a step-change in leveraging our digital products, leveraging our unique data capabilities, allowing us to build deeper member relationships, with more frequent contact, and seamless transactional and servicing capabilities.

Our focus on differentiation and innovation will set us apart, to become the UK's leading driving services subscription business and the UK's #1 Driving Services Provider.

Risk Management

For the year ended 31 December 2021

Darren, patrol since 2003, Wales

Risk Management

For the year ended 31 December 2021

Risk management

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

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

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

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

First line

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

Second line

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

Third line

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

Risk Registers are maintained for each of RAC's Business Divisions and Group Functions and record material risks within each area, mitigating actions and controls, as well as any additional actions that need to be taken to mitigate each risk. Risk Registers are subject to a formal update cycle and a summary of the key risks within each area is reported to the Executive Risk, Audit & Compliance Committee. The summary of key risks reported to the Executive Risk, Audit & Compliance Committee includes a summary of risk events that have occurred in the period. A Group Key Risks Register is also in place and is reviewed with the Executive Team on a regular basis and is reported in summary format to the Board Risk, Audit & Compliance Committee.

In 2021 a Chief Risk Officer ("CRO") was appointed in order to further strengthen the Group's risk management framework. The CRO enhances the framework by leading the risk debate at senior management level and supporting appropriate decision-making by providing effective challenge to both senior management and the business units, as well as driving enhanced value by continuing to increase risk capability and further embed RAC's risk culture at all levels across the business.

Principal risks

During the course of 2021, the Board and Executive Risk Committees have continued their oversight of the principal risks.

The principal risks to the Group are shown below, along with details of the actions being taken to address these risks. The key movements to principal risks are to reflect changes in the economic outlook and to reflect the risk of the challenging operating environment due to the ongoing COVID-19 situation affecting quality of service. In addition, we have included a new "People" risk within our principal risks to reflect the challenging recruitment and retention environment that the UK is currently experiencing.

Financial risks

Market risk: RAC is exposed to interest rate risk arising primarily on its borrowings. This risk is managed by RAC using interest rate swap agreements to hedge the variability of cash flows associated with changes in interest rates in relation to these borrowings as set out in note 21.

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

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

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

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

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

Capital & funding risk: RAC maintains an efficient capital structure comprising equity shareholders' funds and third-party borrowings, consistent with its overall risk profile and the regulatory and market requirements of the business (see the Consolidated Statement of financial position on page 96).

In managing its capital, RAC seeks to:

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

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

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

Paul, patrol since 1996, East

Covid-19

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 in order to ensure that any impacts on the business have been limited have included:

James, patrol since 2017, East Midlands

- Continuing to adjust our operational process at roadside in order to protect our members and colleagues;
- Changes to working arrangements at our main operational sites in order to ensure the safety of our colleagues and to ensure that we operate a Covid compliant working environment;
- Reviewing our absence monitoring processes to ensure early sight, and proactive management, of risks to the business arising from colleague absence;
- Enabling a number of our colleagues to work remotely in line with government guidance;
- Robust risk management processes focused on Covid-19, whereby risks posed by Covid-19 have been identified and mitigated, with an Executive-level risk owner allocated and with oversight provided by the Executive Risk, Audit & Compliance Committee; and
- Engagement with our suppliers to ensure that our supply chains are maintained.

Covid-19 has resulted in some changes to the demand patterns for our roadside assistance services as various lockdown measures have been implemented and released, and due to 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.

Whilst sales volumes have continued to be impacted where Covid restrictions have necessitated the temporary closure of individual business units (for example, our direct sales force), or by reduced demand for products (for example as a result of reduced European travel) this has been offset by growth in recurring subscription revenues and also through careful management of our cost base. Covid-19 has not resulted in any material issues in terms of liquidity or solvency of the Group. Covid-19 risks are now managed primarily through our BAU processes, although the business continuity command structure has been reconvened as and when the infection rates and/or government changes have led to significant changes in the overall landscape and the Group will continue to closely monitor the impact on the business and to take appropriate action to reduce any impacts.


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Operational Resilience

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

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

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

In addition, the Group is undertaking a programme of work to address the new FCA, PRA and Bank of England requirements on Operational Resilience which includes:

- Identifying the Group's 'Important Business Services' (IBS).
- Asset mapping these IBS to identify the people, processes, places, and technology which support them.
- Identifying and testing 'severe but plausible' scenarios that could impact the IBS to ensure minimal disruption to our members if they were to occur and to identify any areas where resilience could be improved.

The first stage of this work was completed in March 2022 in line with the required regulatory timescales.

Brand / Reputational risk

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

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

The Group manages this risk by continuing to focus on ensuring that customers receive excellent service. Service levels and customer satisfaction are regularly monitored to ensure the Group continues to deliver the high level of service expected. The Group also regularly monitors other key brand metrics to ensure no material harm is caused to its reputation or commercial performance through damage to the RAC brand.

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

Regulatory / Conduct risk

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

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

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

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

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

RAC has recently successfully implemented a wide range of regulatory driven changes required as a result of the FCA's final report on its market study into the pricing of home and motor insurance which introduced a package of changes to enhance competition, ensure consumers will receive fair value, and increase trust in these markets. RAC expects that the scope of regulatory change will continue to be wide and to be introduced at pace by the regulators, notably with the introduction later this year of the Consumer Duty rules by the FCA.

The Group has planned accordingly and is well placed to respond to the continued regulatory change.

Information security & data protection risk

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

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

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

Health and safety risk

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

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

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

Strategy & Business Model

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

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

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

Market Share & Margin

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

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

Within the General Insurance area, the Group uses a number of models to structure its relationships with partner firms. During 2021 a new RAC Broker model was implemented for its Black Box Insurance, Van and Home insurance products with the objective of taking more control over the value chain, allowing greater influence on fair value considerations and ensuring that it remains competitive in the market for these products.

Economic Outlook

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

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

The Group mitigates this risk by continuing to focus on developing its products and expanding the distribution channels it uses to ensure it is providing customers with a range of options to cater to different needs. The Group maintains active relationships with its colleagues, unions and supplier network and works closely with all stakeholders to manage its cost base and pricing strategy appropriately in the context of inflation. The Group ensures that appropriate KPIs are in place and are regularly monitored, undertaking stress tests and planning scenarios, as well as ensuring that it has a strong cash position. Ongoing reviews of the Group strategy also ensure that it remains appropriate in view of prevailing economic conditions. The risk of recession has reduced during the course of 2021 as the UK economy has started to recover from the effects of the Covid-19 pandemic, however economic uncertainty is expected to remain high throughout 2022 with the disruption to global trade and supply chains caused by the pandemic and the war in Ukraine increasing the risk of inflation in the long term.

Quality of Service

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

In order to mitigate this risk, the Group employs specialist forecasting techniques to assess and manage its exposure to customer demand and to ensure that customers receive excellent service. The Group continues to evolve the systems and processes it uses to deploy Patrols to customers to further improve the customer experience.

In addition, various programmes of work are in progress to simplify the operation to improve its overall efficiency and effectiveness and to deliver the target customer experience, including the digitalisation of the process for customers to notify RAC of a breakdown.

During 2021 the Group experienced unprecedented demand for its services which resulted from Covid-19 restrictions being released and also from the UK 'staycation' trend following restrictions being imposed on foreign travel. These challenges were in line with the rest of the breakdown services industry. The Group continues to improve its service delivery capabilities and ability to respond to the volatility in demand for its services that has been experienced following Covid-19.

People Risk

The Group defines this risk as the risk of failure to deliver our strategic plans due to an inability to attract new skilled talent, retain existing colleagues, put in place appropriate succession planning, and successfully engage colleagues across the group. This could result in a loss of opportunities, operational disruption for our customers, and a decrease in colleague well-being. This new risk has been added to RAC's principal risks in 2021.

In order to mitigate this risk, the Group has expanded its internal recruitment function and also works with specialist recruitment agencies to address any recruitment hotspots. The Group works hard to retain existing colleagues, with an active reward and engagement strategy. RAC utilises succession planning focused on business-critical roles and undertakes regular reward benchmarking across individual business areas.

Other Risks

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

Whilst there remains some uncertainty in relation to the long-term impact of the UK leaving the European Union, to date, there has been no material impact on our operations. Fundamentally RAC is a UK focused business, with very limited trade outside of the UK's borders and we expect to be able to continue providing service in other European countries, either directly (as is the case in Ireland) or through existing partnerships. Should there be any negative impact from Brexit to growth prospects for the UK economy, our business has proved in the past to be resilient during recessionary times.

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

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

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

Our environmental management system focuses on the following areas:

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

The Group also continues to monitor the potential operational and financial impacts of climate change on the business, in particular the potential for changing weather patterns to result in changes in customer demand, as well as the potential need for investment in new vehicle types. As part of this, the Group 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. These steps include the allocation of overall responsibility for the financial risks from climate change to a Senior Management Function Holder, an assessment of the risks posed to the Group by climate change and the implementation of revised risk appetite statements that include statements on climate change and ESG risk. The Group will continue to evolve its approach to managing the risks from climate change.

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

Glen, patrol since 2018, Wales

Section 172 (1) Statement

For the year ended 31 December 2021

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, RAC Group (Holdings) Limited (the "Company") is required to include a statement in its Strategic Report describing how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 when performing their duties for the 2021 financial year. This section, together with those pages incorporated by reference, acts as the Company's section 172(1) statement.

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

The long-term success of the business is at the heart of the Company's five-year strategy and the Board plays an active role in the development of the strategy. Delivery of the strategy enables RAC to benefit from changing automotive and mobility markets, providing new products and services that meet customers' changing needs and allowing the Company to build closer relationships with customers and suppliers, all of which will drive sustainable long-term growth at the same time as providing opportunities for colleagues. The Company operates a risk management framework, ensuring that the key risks to the delivery and implementation of the strategy are identified, monitored, and managed and the directors discharge their responsibility in this respect through the Board Risk, Audit and Compliance Committee. Further details on the Company's strategy and risk management framework are set out on pages 34 – 45 of the Strategic Report section of this report.

J Baker
Director
30 June 2022

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

Section 172 (1)	Decisions/Considerations
(a) The likely consequence of any decision in the long term	The Board plays an active role in the development of the Company's strategy and takes account of certain external factors when approving the strategy, including the impact to stakeholders and wider society. The Board reviewed the strategy during 2021 and concluded that it continued to support the long-term success of the Company. The Board will continue to monitor progress against KPI's with regular Board strategy sessions scheduled throughout 2022. Further details of how the Directors of the Company have regard to the likely consequences of any decision in the long term can be found on the following pages: Strategic Management Report: pages 28 – 33 Risk Management Report: pages 34 – 45
(b) The interests of the company's colleagues	Directors recognise that the delivery of RAC's purpose, strategy and long-term sustainable growth will only be achieved with engaged colleagues and ensures that management keep colleagues fully informed of the Company's plans, vision, purpose and culture through various engagement forums, blogs, briefings, and round table events. This is further evidenced in 2021 by our commitment to support the mental wellbeing of our colleagues with increased mental health awareness training and additional mental health first aiders across the Company. Further details of how the Directors of the Company have regard to the interests of the colleagues can be found on the following pages: Corporate Governance Arrangements: pages 54 – 59 Corporate Social Responsibility Report: pages 60 – 71

Section 172 (1)	Decisions/Considerations
(c) The need to foster the company's business relationships with suppliers, customers and others.	The Board recognises the importance of the Company developing strong relationships with all of its stakeholders and regular updates on interactions with key suppliers and customers are provided at Board meetings to enable the Board to make informed decisions on ensuring the long-term sustainability of the business. This is evident in our Covid 19 response where our focus during 2020/21 has been on ensuring we continue to deliver service for our members and partners, and we have maintained our key relationships, and successfully extended those up for renewal during the period. Further details of how the Directors of the Company have regard to fostering the Company's business relationships with suppliers, customers and others can be found on the following pages: Strategic Management Report: pages 28 – 33 Risk Management Report: pages 34 – 45 Corporate Governance Arrangements: pages 54 – 59 Corporate Social Responsibility Report: pages 60 – 71
(d) The impact on the company's operations on the community and environment	The Directors understand that ensuring the Company's operations have a positive impact on the community and the environment is a strategic imperative. This is evidenced in the launch of our Board Environmental, Social and Governance Committee, implemented to review the effectiveness of our ESG strategy and the governance in place to ensure the successful delivery of activities across the ESG elements, including our commitment to being net-zero by 2050. The Board decided during 2021 to repay in full the support received under the furlough scheme at the outset of the Covid-19 pandemic, once it became clear that the Group was in a position to do so. Further details of how the Directors of the Company have regard to the impact of the Company's operations on the community and environment can be found on the following pages: Corporate Social Responsibility Report: pages 60 – 71 Directors Report: page 72 – 79
(e) The desirability of the company maintaining a reputation for high standards of business conduct; and	The Company considers that maintaining its reputation for the highest standard of business conduct is a key priority. The Board ensures that an appropriate framework, including relevant policies and codes of conduct, is in place to support this and the Board is made aware of and involved in the management of all issues that might have a material impact on the Company's reputation for high standards. During 2021, the Company published its Sustainability Policy and Supplier Code of Conduct setting expectations of high standards of business from its suppliers and, their commitment to reduce their environmental impact. Further details of how the Directors maintain a reputation for high standards of business can be found on the following pages: Risk Management Report: pages 34 – 45 Corporate Governance Report: pages 50 – 59 Directors Report: pages 72 - 79
(f) The need to act fairly as between the Company's owners	The Company engages positively and proactively with its shareholders and enjoys effective and regular engagement with its two principal shareholders, who remain committed to ensuring the Company continues to be positioned for future long-term success. During the course of the Covid-19 pandemic and throughout 2021, we have successfully adapted the way in which we engage with shareholders so that we can continue effective dialogue remotely. Changes to future governance arrangements have been agreed with Silver Lake as part of their proposed investment and the Board has been actively involved in decisions relating to the proposed new shareholder arrangements. Further details of how the Directors ensure the need to act fairly as between the Company's owners can be found on the following pages: Corporate Governance Report: pages 50 – 59

Governance Report

For the year ended 31 December 2021

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

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

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

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

James, patrol since 2017, East Midlands

Governance Report

For the year ended 31 December 2021

Darren, patrol since 2003, Wales

Ownership Structure

As at 31 December 2021 the Group's equity is owned by: investment vehicles managed by CVC Capital Partners ("CVC Funds"); a nominated investment vehicle of GIC Special Investments Pte Ltd ("GIC"); investment vehicles controlled by Universities Superannuation Scheme Limited (acting as corporate trustee of Universities Superannuation Scheme); an investment vehicle controlled by Public Sector Pension Investment Board (PSP Investments); an investment vehicle managed by HarbourVest Partners, LLC; RAC Management; and RAC's Employee Benefit Trust.

The Board

As at 31 December 2021 the Board comprises the Chairman, two executive directors being the Chief Executive Officer and Chief Financial Officer, and seven Non-Executive directors ('NEDs') comprising three CVC appointed NEDs, three GIC appointed NEDs and the Independent Chair of the Group Risk, Audit and Compliance Committee.

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

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

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

Division of responsibilities

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

The Chairman is responsible for:

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

The Chief Executive Officer is responsible for:

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

The Chief Financial Officer is responsible for:

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

The Non-Executive directors are responsible for:

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

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

Governance Report

For the year ended 31 December 2021

Board of Directors

RT

Rob Templeman

Chairman

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

DH

Dave Hobday

Chief Executive Officer

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

JB

Jo Baker

Chief Financial Officer

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

MW

Mark Wood

Chair of Risk, Audit and Compliance Committee

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

PG

Patrick Gale

Chair of the Regulated Entities Board

Patrick is Chairman of the Regulated Entities Board. He Joined RAC in June 2015. After a successful executive career with Misys PLC, including seven years as CEO of Sesame Group, he embarked on an Independent Non Executive (iNED) plural career in 2007. He has been on the Board of Clerical Medical, Aegon Insurance and Chairman of Defaqto. His current portfolio includes Aztec Group, Succession Holdings and BeSpace Limited, a small Oxfordshire based charity.

Non-Executive Directors – GIC Group

HO

Henry Ormond

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

AL

Alexandre Levy

(resigned 14 March 2022)

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

SF

Simon Fox

Simon has been a Non-Executive Director since November 2019. He was Chief Executive of Reach plc from 2012 to 2019 and is now Chief Executive of Frieze Group. He began his career as a graduate trainee at Bank of America before joining Boston Consulting Group. He has worked for a number of retail companies including Kingfisher plc and between 2006 and 2012 was Chief Executive of HMV Group plc.

Non-Executive Directors – Silver Lake

SP Simon Patterson

Simon Patterson joined Silver Lake in 2005 and is a Managing Director and co-head of the firm's activities in Europe, the Middle East, and Africa. He is currently a board member of Dell Technologies, IVC Evidensia and ZPG, and previously served on the boards of Skype, Cegid, Intelsat, FlixBus, MultiPlan, and Gerson Lehrman Group. Prior to joining Silver Lake, he was a member of the founding management team of the logistics software company GF-X (acquired by Descartes) and worked in various management roles at the Financial Times. He is a Trustee of the Natural History Museum in London, a Trustee and Vice Chairman of The Royal Foundation of the Duke and Duchess of Cambridge, and a Non-Executive Director of Tesco plc. Simon holds an M.A. from King's College, Cambridge University and an M.B.A. from the Stanford University Graduate School of Business, where he was an Arjay Miller Scholar and received the Alexander Robichek Award for Finance.

JG Jonathan Galore

Jonathan Galore joined Silver Lake in 2015 and is an Operating Partner. Prior to Silver Lake, he held a number of senior executive roles, most recently as Chief Technology Officer at Wonga Group, a global online finance company.

Jonathan also founded Trussle.com, the UK's first online mortgage advisor, and was co-founder and Vice President of Product for Wealthfront.com, an automated investment service. Jonathan has also held advisory and board roles with a number of early stage financial technology sector businesses. He holds a B.A. in computer science from the Academic College of Tel Aviv Yaffo and an M.B.A. from the Stanford Graduate School of Business.

Non-Executive Directors – CVC Group

MB Marc Boughton
(resigned 14 March 2022)

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

TG Tim Gallico

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

PH Pev Hooper

Pev has been a Non-Executive Director since April 2016. Pev is a Managing Partner at CVC Capital Partners, and currently sits on the boards of Domestic & General, Six Nations Rugby/Premiership Rugby, NewDay and Away Resorts. He joined CVC in 2003 after working in mergers and acquisitions at Citigroup and Schroders.

Board committees

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

Board risk, audit and compliance committee

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

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

Key areas for which the committee is responsible include:

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

Remuneration committee

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

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

Board Environmental, Social and Governance ('ESG') Committee

In 2021 the ESG Committee was established to provide oversight of the Group's Environmental, Social and Governance ('ESG') strategy. The ESG Committee is chaired by the Chief Financial Officer and is attended by the Chief Executive Officer, at least one non-executive from CVC and GIC, the independent chair of the Regulated Entities Board and members of the senior management team as required. It is responsible for the following key areas:

- Approval, monitoring, and reviewing the effectiveness of the Group's ESG strategy and the governance in place to ensure the successful delivery of the activities across ESG matters;
- Overseeing the implementation and ongoing effectiveness of Group policies, principles, projects, and standards in so far as they relate to ESG, and ensure they are compliant with any legislative, regulatory, or legal requirements;
- Setting KPIs and associated targets relating to ESG matters and monitor the Group's progress against those KPIs and targets relating to each component of the ESG strategy;
- Monitoring, reviewing, and overseeing the Group's decarbonisation plans;
- Ensuring that best practice and thinking from across the market is considered as part of the Group's ESG strategy;
- Making recommendations to the Board in relation to any funding of ESG related activity, and on behalf of the Board, overseeing the deployment and control of any such funds, and
- Working in conjunction with the Board Risk, Audit and Compliance Committee to oversee the identification and mitigation of risks relating to ESG, as well as the identification of opportunities related to ESG matters.

The Regulated Entities Board

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

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

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

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

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

Other committees and working groups

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

Corporate Governance Arrangements

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, the Company has chosen to apply the Wates Corporate Governance Principles (the "Principles") for Large Private Companies for reporting in relation to the 2021 financial year. The Principles, and an explanation of how each Principle has been addressed by the Company, are set out below.

Governance Report

For the year ended 31 December 2021

Principle	Explanation
1. Purpose and Leadership	The Company has a clear purpose, to provide Complete Peace of Mind to our members for their driving needs, with a focus on differentiation and innovation to set it apart from the competition. This is aligned to the strategy to deliver long term sustainable growth, which is at the forefront of decision making, underpinned by a quality customer experience enabled by people, digital platforms, and data. The Company understands that the delivery of the strategy is only possible through its people and their success individually and collectively, was reflected in continued strong engagement scores in 2021, broadly in line with the 2020 engagement scores. The company values have now been in place for over three years and together with the passion, commitment and integrity of colleagues, the values are well embedded in the RAC culture. CEO Review: pages 10 – 13 Corporate Social Responsibility Report: pages 60 – 71
2. Board Composition	The Board provides practical leadership to the Company and has an appropriate balance of executive and non-executive directors and of skills, knowledge, and experience appropriate to meet the strategic needs and challenges of the organisation and to enable effective decision making. Evaluation of the effectiveness of the Board and other committees takes place on a regular basis and in 2020 a Board Composition Review was undertaken resulting in some changes to the membership of the Board and its Committees, including the appointment of Patrick Gale (independent non-executive director) as Chair of the Regulated Entities Board, replacing Mark Wood (independent non-executive director) who continues as a member of the Regulated Entities Board and chair of the Board Risk, Audit and Compliance Committee. A further evaluation of the effectiveness of the Board and other committees is planned for 2022 to identify any areas for continued improvement in the overall governance of the Group. Corporate Governance Report: pages 50 – 59 Directors Report: pages 72 – 79
3. Director Responsibilities	There is a clear division of responsibility between the Chairman, the Executive Directors, and the Non-Executive Directors. Clear Terms of Reference for the membership and responsibilities of the various Board Committees supports effective decision making and ensures that the Board receives regular and timely information on all key aspects of the business including, the financial performance of the business, operational matters, colleague engagement, health and safety, data protection, strategy and ESG matters, all supported by key performance indicators (KPIs). Corporate Governance Report: pages 50 – 59

4. Opportunity and Risk	The Board is fully engaged in the Company's efforts to enhance its existing products, as well as its expansion into new areas as it seeks to offer what customers want and to drive the long-term sustainable growth of the Company. All material business development opportunities are subject to a detailed and rigorous board review and approval process. A formal risk management framework is in place for the identification, monitoring and management of risks, which is overseen by the Board Audit, Risk and Compliance Committee. During the course of 2021 the Board has overseen the Company's response to Covid-19, ensuring that appropriate action has been taken to ensure the continuity of services to customers and the health and safety of both customers and colleagues. In addition, the Board continues to oversee and monitor the impact of Brexit, engaging with key suppliers in order to ensure continuity of supplies now that the Brexit transition period had ended. CEO review: pages 10 – 13 Strategic Management Report: pages 28 – 33 Risk Management Report: pages 34 – 47
5. Remuneration	Remuneration is ultimately overseen by the Board Remuneration Committee, which is responsible for agreeing the individual remuneration packages (including pension rights, compensation payments and other benefits) for each of the CEO, the Chairman, each executive director, and other senior executives of the Group. The Remuneration Committee is also responsible for incentive and bonus arrangements and awards, including setting the relevant targets for performance related schemes. The Committee ensures that the remuneration policy is aligned with the Company's sustainable long-term growth by ensuring that the remuneration practices across the Group operate in line with PRA and FCA requirements and, specifically that they do not drive inappropriate behaviours, ensuring a focus on regulatory adherence supporting the delivery of positive customer outcomes. The Group continues to publish its gender and pay reporting externally. Remuneration Committee: page 54

6. Stakeholder Relationships and Engagement

The Company is clear that good governance and effective communication with its stakeholders is critically important to ensure the long-term sustainability of the business and ensures effective engagement and due regard to their views when taking decisions.

Colleagues

The Company has several initiatives to encourage feedback and communication between colleagues and the Executive team, including quarterly business briefings; colleague engagement forums and surveys, with the launch of 'MySurvey 2021' in 2021, a change to our existing survey framework, aimed at simplification for colleagues to enable focus on the key issues for colleagues; CEO 'round table' discussions, and; strategy briefing sessions. Our intranet also continued to be important method of communication and feedback between colleagues and the executive team. Also, in 2021 the Group continued its colleague wellbeing initiatives and focus on mental health awareness with the introduction of mental health first aiders across the business alongside a range of virtual social engagement activities to continue to support colleagues through the Covid-19 pandemic.

Customers

In terms of customer engagement, surveys are conducted to determine the Net Promoter Score (NPS) which is used as a tool to pinpoint areas for improvement and to continually enhance the customer journey. The NPS scores are regularly discussed and considered at Board meetings. The Company's social media channels provide a useful medium in which to allow customers to interact directly with the Company 24 hours a day, seven days a week. In 2021 the business set up the Data Ethics Committee and framework to ensure that, over and above our legal and regulatory requirements, we have active consideration and a common view on what is right and fair when processing data (including customer data).

Community

The Company strives to create long-term benefits for the community by creating employment, providing support to drivers through its products and services, forging links with charitable associations and continuing to support its chosen charities in 2021 as well as setting up an RAC Patrol Apprenticeship scheme in London.

Suppliers

Positive supplier engagement is imperative in ensuring the effective procurement and supply of goods and services which is critical to the smooth running of the business. The RAC Group continues to publish data evidencing its payment performance as part of the duty to report on payment practices and performance. In 2021 the Group published its Sustainability Policy and Supplier Code of Conduct setting out its expectations of its suppliers and the requirement for their commitment to reduce their environmental impact.

Regulators

When engaging with its regulators the Company is open and transparent and any such engagement is considered and discussed at Board meetings, where directors can provide appropriate guidance and support. The Company also ensures that it is proactive in ensuring it is compliant and up to date on all legislative and regulatory requirements.

6. Stakeholder Relationships and Engagement (continued)

Shareholders

The Company engages positively and proactively with its shareholders and enjoys effective and regular engagement with its principal shareholders, representatives of whom are appointed to the Board as non-executive directors.

Corporate Governance Report: pages 50 – 59
Corporate Social Responsibility Report: pages 60 – 71
Directors Report: pages 72 – 79

Gemma, HR since 2018

Sustainability, Corporate & Social Responsibility Report

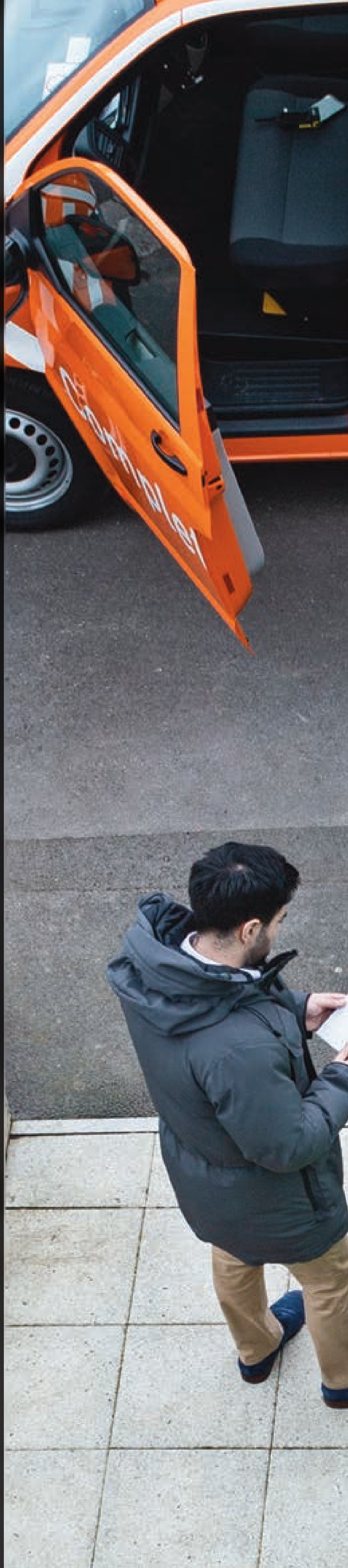
For the year ended 31 December 2021

Delivering a successful, sustainable, growing business

This year, RAC celebrates its 125th anniversary. RAC is proud of its heritage and business reputation and loyalty of its members and is committed to being a responsible and sustainable business, ensuring its long-term success. Our Board acknowledges that a sustainable business model is essential for discharging its responsibility for promoting the success of the Company and ensures that decisions taken consider the impact upon our members, colleagues, health and safety, the environment, suppliers, business partners and our community.

Our Environmental, Social and Governance ('ESG') strategy has significantly gathered pace over the last 12 months. We have used this time to gather, understand and formulate our sustainability framework. We also created our Board ESG Committee, implemented to review the effectiveness of our ESG strategy and the governance in place to ensure the successful delivery of activities across the ESG elements.

In addition to launching our Board ESG Committee, the business conducted an EcoVadis assessment in July 2021, focussing on environmental, labour & human rights, ethics, and sustainable procurement. We are pleased to report we achieved a 'Silver' rating, with strong scores in ethics and environmental as a result of: our comprehensive polices we have in place; qualitative objectives on water, local and accidental pollution; quantitative objectives on energy consumption and GHGs; and reduction of carbon emissions. The EcoVadis assessment has also helped us to identify common themes and actions that can be incorporated into our ESG workstreams to further advance our ESG culture.



Jason, patrol since 2000, South West

Sustainability, Corporate & Social Responsibility Report

For the year ended 31 December 2021

Complete peace of mind

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

I. Living our brand promise

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

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

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

III. Being responsive to the expectations of others

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

IV. Respecting the space we live in

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

Our Sustainability, Corporate & Social Responsibility Report focuses on the three 'ESG' pillars

- Environmental
- Social
- Governance

Gurmakh, patrol since 2003, South West

Environmental

As a motoring organisation, managing our impact on the environment is imperative for us...

Our primary goal is that we will achieve net-zero carbon by 2050. We will achieve this through incremental improvements in network efficiency and vehicle fuel efficiency and electrification of our lighter vehicle fleets and company car fleet from now until 2030. 2030 to 2050 will see a more dramatic decline in carbon emissions as new technologies such as hydrogen become available, battery and hybrid technology mature, commercial viability improves and customer demand for these solutions increases.

Our environmental management strategy focuses on the following areas:

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

Energy and Carbon Emissions: RAC has continued to capture UK emissions as requires by the SECR regulations that came into force on 1 April 2021 as set out on page 74 of the Directors' Report.

Here are some examples of our 2021 initiatives:

- We implemented a new energy procurement process, reset our available supply capacity, and improved the efficiency of our building management and heating, ventilation, and air conditioning (HVAC) systems by replacing both plant equipment and upgrading software systems to monitor, measure and optimise energy usage;
- A key focus for us has been supporting the transition to EVs for our colleagues and customers. We have continued to update our company car fleet to electric and hybrid, with 50% of our company car fleet now being hybrid or electric with plans for this to increase to 70% during 2022. We also offer our colleagues a salary sacrifice scheme and, as part of the greener salary sacrifice scheme, we now offer only Hybrid and EV vehicles for our colleagues;
- We have rolled out a new hybrid working model to allow colleagues from support functions to work from home more often which reduces travel requirements and the impact on the environment;
- We launched our 'Fix Local' initiative, which improves our repair rate for breakdowns and minimises the need to tow vehicles for long distances; and
- We have been working with our motoring partners to explore, develop, trial, and test the use and viability of electricity as a fuel source for our patrol and recovery vehicles.

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

In 2022...

we will be accelerating our ESG strategy and embarking on our '2022 Decarbonisation Plan' to a develop a net-zero roadmap with ambitious but realistic carbon targets.

Social

We are a responsible business and take pride in caring for our colleagues, customers, and communities...

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

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

Covid-19: During the pandemic and throughout 2021 we have continued to support our colleagues through the challenges presented by Covid-19. We restricted non-essential travel, supported many of our office-based colleagues to work from home, and made our workspaces Covid-secure for critical workers to ensure they can work safely, introducing a number of measures to prevent and control the spread of the virus in line with Public Health England and Government guidance. We also implemented safe systems of work for our Patrols at roadside, ensuring that they observe social distancing, wear face masks and gloves, and use antibacterial wipes and sanitiser to clean their work area, equipment, and hands.

Our priority has been to continue to focus on the health and wellbeing of our colleagues alongside minimising any risk to our customer service.

We maintained our internal communications on Covid-19 with a daily email bulletin, ensuring we kept our colleagues fully involved on an ongoing basis and we continue to run our quarterly business briefings, colleague engagement forums, CEO 'round table' discussions, and strategy briefing sessions, albeit now virtually.

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

- A dedicated wellbeing space on our intranet, with guidance and resources on physical, mental, and financial wellbeing to enable resilience;
- A regular focus on wellbeing throughout the team on all our communication channels and a range of centrally organised, virtual social engagement activities;
- Our free and confidential Employee Assistance Programme available to all colleagues, 365 days of the year;
- Increasing mental health first aiders across all parts of the business;
- Mental health awareness training sessions for line managers.

The roll out of our new hybrid working model, allowing colleagues from support functions that have worked remotely during the pandemic to work from home more often (once Covid-19 restrictions have eased). has been positively received, providing greater flexibility for colleagues, and helping us attract and retain talent.

Unions: Our inclusive approach means we work in partnership with Unite the Union and colleague representatives from an elected forum to engage and involve colleagues in the direction of the business, continuing to make sure that we are doing the right things to make RAC a great place to work.

Employees Assistance Programme (EAP) and MyFlex:

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

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

2021 Engagement Survey: We ran our annual employee engagement survey in November 2021 and once again we saw an excellent response rate and our year-on-year scores remained broadly in line with our 2020 engagement scores. The results indicate that we need to continue supporting our colleagues with their mental and physical wellbeing, which has resulted in the following commitments being made and actioned. As such, we are in the process of:

- Investing in and introducing a new EAP, with a dedicated helpline and extended online support;
- Training 50 wellbeing champions across the business to support our colleagues - a ratio of 1 champion to every 42 colleagues (in addition to the 50 mental health first aiders we are also training);
- Increasing the provision of online training for all people managers to raise awareness of physical and mental wellbeing so they can support colleagues; and
- Asking all teams to look at their survey results and develop a 'team pledge' to encourage team working, connection and collaboration.

Human rights, equality, and diversity

Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. Our Equality and Diversity Policy ensures that every colleague is treated equally and fairly as part of creating an inclusive working environment that attracts, develops and retains the best people. The policy confirms that there will be no direct or indirect discrimination in respect of age, disability, religious belief, gender, sexual orientation, race, colour, marital status, political belief and nationality, or any other category defined by law in all aspects of employment including recruitment, promotion, and opportunities for training, pay and benefits.

During 2021 we recognised that we needed more information to drive our diversity, inclusion, and equality agenda, so we started to collect and record diversity and inclusion data to allow us to understand the current situation and build plans to improve in the future.

The following table sets out our diversity balance between men and women at the end of 2021:

At 31 December	2021			2020		
	Female	Male	Total	Female	Male	Total
Director	1	9	10	2	8	10
Senior Manager	7	26	33	8	26	34
Employee	1,123	2,928	4,051	1,130	2,864	3,994
Total	**1,131**	**2,963**	**4,094**	**1,140**	**2,898**	**4,038**

In April 2021, the difference between mean (average) pay for male and female colleagues within the RAC Group was 6%, and the Median was 11%. Although greater than we would like, this continues to compare favourably to the UK median of 15.5% (ONS November 2020). We have improved against all measures overall, including colleague bonus and Gender Pay quartile metrics since we started reporting in 2018. We continue to strive to achieve gender pay parity across our business. We will continue to review and develop our processes to ensure we carry on driving our gender balanced approach throughout 2022 and beyond.

Health and Safety

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

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

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

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

Here are some examples of our 2021 initiatives:

- We introduced a new strategic Health and Safety plan and restructured our support team to operate as divisional and regional business partners, enabling us to get better insight and provide tailored support;
- We invested in upskilling the Health and Safety team to enable them to carry out new activities, including Incident Management training in partnership with Aviva;
- We launched 'Be Safe', an operational behavioural safety programme, where all Patrol Team Managers (PTMs) and Patrol Regional Leaders (PRLs) received training to understand the programme concept and adopt a new approach.
- We carried out a survey of our Patrol workforce to understand how they feel about Health & Safety. As a result, we have improved our communication on Health and Safety changes and a new field communication approach has been launched with more frequent alerts to patrols, including established, simplified, visual communications, using an increased amount of video media.
- We have also reviewed and streamlined our Health & Safety policies and processes to simplify and reduce the number of risk assessments and Safe Systems of Work, making it easier for our colleagues to find and understand the documents they need.
- A new manual handling training partnership with external company, Pristine Condition, has been established to help reduce manual handling injuries.
- Our focus on training and safe working practices saw a reduction in accidents per working hours reported.
- A new Roadside audit observation process commenced in January 2021. This enabled CCTV footage of Patrols to be viewed and audited by the HSEQ team, improving our ability to deliver targeted training and guidance to continue improving safety practices at roadside.

Chris, patrol since 2010, North West


#DataHeroes
Meet the #DataHeroes
Say hello to the heroes who keep our data safe within the RAC
Each with their own superpower, they're here to defend, protect us and our information and spot breaches.
YOU too can be a #DataHero by treating data with care. Get in touch at email@rac.co.uk to find out more.

Our 2022 initiatives will include:

- Continuing to promote the behavioural safety principles of 'Be Safe' through visible leadership plus targeted coaching and training;
- Expanding our roadside inspections and observations, both through CCTV and face to face observations by HSEQ and Operations, to enable more frequent interventions with our frontline colleagues, and;
- Continuing engagement with colleagues through quarterly surveys, encouragement of accident and near miss reporting as well as improved root cause analysis of incidents as a result of more thorough investigations.

Customers

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

Our company policies and reward practices support the delivery of a culture that places positive customer outcomes at the heart of everything we do. The reward structure for all colleagues eligible to participate in the company's discretionary bonus plan, has embedded compliance and service components and objectives to reflect our focus on meeting our regulatory obligations and doing the right thing for customers. Our front-line sales colleagues are similarly rewarded to put customers first through a rigorous quality assurance framework that is linked to their incentive schemes. Also, under our Code of Conduct, every colleague of the company is tasked with safeguarding assets and resources entrusted to our care, including customer information, from loss, theft or misuse. Colleagues are requested to confirm their adherence to our Code of Conduct and renew their promise on an annual basis.

We take the privacy of our members seriously, underpinning the fundamental right of our members to the protection of their personal data. Good governance and colleague training play a vital part in upholding these rights. During 2021, we continued with our #DataHeroes campaign in which the Data Protection Team and Information Security Team joined forces to give our colleagues the knowledge and tools to become #DataHeroes and protect all the valuable information we hold – from sensitive commercial information to information about people. As part of this in 2021, we also set up a Data Ethics Framework and Committee to ensure that our use of data is right and fair.

We are committed to meeting the changes in consumer demand and as part of our #No1 for EVs strategy we will continue to grow our EV products and services, directly and with partners, to remain at the leading edge of this growing market opportunity.

Suppliers

We work closely with our supply chain to ensure that all of our suppliers are operating in line with our ethical standards, including commitments to the protection of customers and company data, abolishing modern slavery and anti-corruption and bribery measures and human rights. In 2021 we took steps to further strengthen our approach through the introduction of the new Supplier Code of Conduct and Sustainability Policy, ensuring that our suppliers are operating as responsible businesses, and are taking steps to reduce their environmental impact.

Community

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

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

Sustainability, Corporate & Social Responsibility Report

For the year ended 31 December 2021

Nikki, Business Roadside since 2015

Bike4Life

RAC is the main sponsor of the Bike4Life event: a ride-out and festival organised by the Midlands Air Ambulance Charity with support from West Mercia Police. Together we raise awareness of biker safety, and donations to fund future lifesaving air ambulance missions. While the 2021 event was a virtual event, we supported the full event in April 2022.

The Prince's Trust

We have a strong partnership with The Prince's Trust to support its 'Get Into' program, which aims to give young people aged 16 to 25, who are work-ready but do not have vocational skills, a mixture of practical training and experience that will enable them to get a job. It also provides them with the opportunity to meet potential employers. Due to Covid restrictions, last Autumn we attended a series of virtual sessions where we showcased roles and promoted vacancies for young people. and face to face sessions resumed in 2022.

Apprenticeship Levy – Supporting local

- We are supporting local SMEs by sponsoring STEM based apprenticeships helping to develop local talent and sustainable skills in the West Midlands.
- We are investing over £275k of our Apprenticeship levy supporting 25 young people between the ages of 19-30 in motor engineering and digital apprenticeships.

Governance

We are proud of what we have achieved in the last 12 months and look forward to developing further in our approach to ESG to ensure the long-term sustainability of the business...

The primary responsibility of the Board is to promote the long-term success of the Company, creating and delivering sustainable shareholder value as well as contributing to society (please see our Governance Report).

The implementation of the ESG committee in 2021 demonstrates the Board's commitment to promoting the long-term success of the Company, and we have a clear ownership structure in place to ensure ESG is fully embedded throughout the Group and progress communicated regularly to all stakeholders.

In 2022, as well as setting up our own taskforce to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) we will be implementing key metrics/indicators for progress against our ESG principles and objectives. This will give us a true benchmark as to where we sit across these measures, enabling clear goals and targets to be set in 2023 and beyond.

Director's Report

For the year ended 31 December 2021

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and independent auditor's report for the year ended 31 December 2021. Under the terms of the Companies Act 2006, the Directors' report is required to contain certain statutory, regulatory and other information.
The Directors have incorporated the business review, employee participation & diversity by cross-reference to the Corporate Social Responsibility report, as permitted by the Companies Act 2006.

Directors

The names of the current Directors are set out on page 1. Those who have served in office during the year and until the date of signing of this report have been as follows:

J Baker

M Boughton (resigned 14 March 2022)

S Fox

P Gale

T Gallico

J Galore (appointed 14 March 2022)

D Hobday

P Hooper

A Levy (resigned 14 March 2022)

H C Ormond

S I Patterson (appointed 14 March 2022)

R Templeman

G M Wood

Chris, patrol since 2010, North West

Director's Report

For the year ended 31 December 2021

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

Results and dividends: The results of the Group for the year ended 31 December 2021 are set out on page 95 and discussed in the Strategic Report on pages 8 – 27.

The Group paid interim dividends of £nil during the year (2020: £44 million, amounting to 13.11 pence per share). No final dividend was paid (2020: £nil).

There are no final dividends proposed.

Capital structure: As at 31 December 2021, CVC Funds and GIC had equal control of the Group by virtue of their indirect shareholding in the Company.

Political donations: The Group did not make any political donations during the year (2020: £nil).

Financial risk management: Details of the Group's use of financial instruments, together with information on risk objectives and policies and exposure to market, credit, liquidity and interest rate risks, can be found on pages 37 – 38 of the Strategic report.

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

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

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

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

The reporting scope includes the following energy sources:

- Electricity used for RAC Group (Holdings) Limited operations at RAC occupied buildings (scope 2, see row 1 in table below)
- Gas used to heat RAC Group (Holdings) Limited operations at RAC occupied buildings (scope 1, see row 2 in table below)
- Transport fuel used for RAC Group (Holdings) Limited operations under RAC operational control (scope 1, see row 3 in table below), which includes purchased diesel for roadside fleet and fuel purchased on fuel cards
- Transport fuel used for RAC Group (Holdings) Limited operations under RAC operational control (scope 3, see row 4 in table below), which includes business mileage in personal vehicles, and business mileage in contractor vehicles
- Water used for RAC Group (Holdings) Limited operations at RAC occupied buildings (scope 3, see row 5 in table below)
- Waste generated at RAC Group (Holdings) Limited occupied buildings (scope 3, see row 6 in table below)
- Vehicle waste generated from RAC Group (Holdings) Limited operations (scope 3, see row 7 in table below)

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

The reporting scope covers energy used over the reporting period from 1st January 2021 – 31st December 2021, in line with the financial year. Energy and carbon use for the 2020 year are also shown below, in order to allow year on year comparisons. 2019 will be used as a baseline for our energy reduction targets up to 2030.

GHG emissions and energy use data for period 1 January 2020 to 31 December 2021

	2020		2021	
	Energy (kWh)	Emissions (tCO_2e)	Energy (kWh)	Emissions (tCO_2e)
Electricity[1]	4,861,746	1,133.5	4,395,746	933.35
Gas[2]	3,750,428	692.1	4,455,056	821.42
Transport fuel[3] Purchased diesel for roadside fleet and fuel purchased on fuel cards.	49,345,250	11,873.8	50,697,253	12,199.07
Transport fuel[4] Business mileage in personal vehicles, and business mileage in contractor vehicles	60,636,413	15,468.0	59,611,479	15,115.09
Total	**118,593,837**	**29,167.4**	**119,159,535**	**29,068.93**
Intensity ratio: kWh and tCO2e / Total jobs handled	41.26	0.01015	55.16	0.01346

RAC Group (Holdings) Limited

	2020		2021	
	Unit	Emissions (tCO_2e)	Unit	Emissions (tCO_2e)
Water[5]	17,664m^3	18.0	13,406m^3	6.1
Office Waste[6]	136.8t	1.0	114t	0.7
Vehicle Waste[7]	12.8t	0.3	4.2t	0.09
Total	-	**19.2**	-	**6.9**

Director's Report

For the year ended 31 December 2021

In 2021 overall energy consumption from electricity, gas and transport fuel increased by less than 1% compared with 2020, despite the increase in breakdown volumes from the abnormally low levels seen in 2020. Although overall kWh consumption increased the associated carbon emissions decreased compared with 2020. Consequently Diesel used by the roadside fleet has increased against 2020, but is still lower than the 2019 baseline. Against 2020 there was a reduction in electricity usage and a slight increase in gas usage overall. The increase in gas usage can mostly be attributed to a large increase at the Stretford site in 2021 compared with 2020. This was due to a metering equipment issue that impacted upon the 2020 data, which led to usage in 2020 being under-estimated. Over 2021 there has been continued progress on reducing overall water consumption and quantities of waste generated. In fact water, office waste and vehicle waste have all decreased compared with 2020.

Our roadside fleet is fully compliant with the strictest Euro 6 emissions standard. Our vans are fitted with Telematics and CCTV cameras and recording systems, which helps us to review driving behaviours, provide support, and target training and coaching towards those who are in the at-risk groups. The scope & use of our telematics data is being increased with a project due to launch H1 2022, whereby drivers will be coached through interactive learning packages. This will not only improve driver behaviour but reduce road risk, accident frequency and fuel consumption.

We also continue with our ongoing program of informing and training our colleagues in initiatives and CBT programs such as, 'Safe and fuel-efficient driver training' and 'Environmental management at the roadside' which for example, provide guidance to colleagues on how to deal with roadside generated waste and environmental incidents such as spillages.

We constantly review our vehicles and equipment to adopt new technologies. This is done via our established Vehicle Tools and Equipment Group (VTEG). During 2021, new aerodynamic reduced weight beacon bars that use LED lighting continued to be fitted to all new roadside vehicles. We also launched our 'Fix Local' initiative, our new strategy that converted 80% of our 150-200 daily phone calls from patrols to successful repairs

In 2018, RAC developed the all wheels up trailer, which supports our ambition to reduce the number of jobs where we have historically had to send a second resource to tow a casualty vehicle; the all wheels up trailer allows us to either repair or tow over 90% of our customers' vehicles. Our new vehicles also have an on board EV charger, which we initiated in 2019 - 8% of the patrol van fleet have now been fitted with this system. These vehicles can charge a customer EV vehicle to the extent that it will allow them to reach the nearest charge point, therefore reducing the requirement for a tow vehicle and reducing carbon emissions in these cases significantly. By the end of 2022 1 in 5 vans will have the ability to provide a mobile boost.

During 2021, we have also been working with our motoring partners to explore, develop, trial, and test the use and viability of electricity as a fuel for our patrol and recovery vehicles, this has resulted in us ordering a full Renault Zoe EV van that went on trial with patrols in Q1 2022. Although the van has reduced capability and is unable to tow, it will allow us to assess issues related to charging and range in a working environment.

Also, a key focus for us has been supporting the transition to EVs for our colleagues and customers. We have continued to update our company car fleet to electric and hybrid, with 50% of our company car

fleet now being hybrid or electric with plans for this to increase to 70% during 2022. We also offer our colleagues a salary sacrifice scheme and, as part of the greener salary sacrifice scheme, we now offer only Hybrid and EV vehicles for our colleagues.

We have regularly monitored the electricity and gas consumption across the sites via the Building Management System (BMS). Data is analysed monthly to identify any anomalies or opportunities for savings, assuring the optimisation of the BMS system. The reduction of numbers of persons on site has supported the reduction in electricity consumption. Gas usage has increased in 2021, but this is attributable to a metering issue with the 2020 gas consumption at Stretford. In 2021 RAC has invested in upgrading the Heating, Ventilation and Air Conditioning (HVAC) system at our Birmingham site, which has seen a decrease in gas consumption in recent months. Further investment in our main electrical plant equipment will continue to support the reduction in electricity consumption and with energy prices at an all-time high we are accelerating our investment programme to drive further efficiencies.

Going concern: The Directors have assessed the financial position and the future prospects and funding requirements of the RAC Group (Holdings) Limited Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 17 and 22 to the Consolidated Financial Statements. The RAC Group (Holdings) Limited Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 27 to the Consolidated Financial Statements.

The Directors' 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.

The RAC Group (Holdings) Limited Group's and Company's business activities, together with their strategy for future growth and assessment of key risks are set out in the Strategic Report on pages 28 to 33 and the Risk Management section on pages 34 to 47. The Directors also considered what mitigating actions the RAC Group (Holdings) Limited Group could take to limit any adverse consequences.

The RAC Group (Holdings) Limited Group has net liabilities of £834 million and net current assets of £244 million. The Group's net liabilities position largely reflects the value of separately identifiable intangible assets, offset by book value of issued bonds of £1,245 million and bank borrowings of £431 million. Having undertaken this assessment, the Directors have a reasonable expectation that the Company and the RAC Group (Holdings) Limited Group have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2021 Company and Consolidated Financial Statements to be prepared on a going concern basis.

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

Director's Report

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

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

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

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

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

Events since the Statement of financial position date: Subsequent to the Statement of Financial Position date, regulatory approval in respect of the Silver Lake transaction was received and the transaction was completed on 11 March 2022. The transaction resulted in the release of the £345 million of proceeds from the Class B2 Notes issuance which were held in escrow, and therefore considered restricted cash, as at 31 December 2021. The transaction included a restructuring of the Company's share capital, resulting in 17,336,552 ordinary 'A' shares, 185,863 ordinary 'B' shares, 291,869 ordinary 'C1' shares, 442,321 ordinary 'C2'shares and 2,028,512 ordinary 'D' shares, all of which have a nominal value of £0.0000839 and redemption of the related party preference share debt and associated accrued dividends. The transaction did not have a material impact on the Company's or Group's financial position as at 31 December 2021.

Approved by the Board on 30 June 2022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ELECTRIC VEHICLES ONLY

Financial Statements

For the year ended 31 December 2021

Marc, patrol since 2007, Yorkshire & Humber

Financial Statements

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

1. Opinion

In our opinion:

- the financial statements of RAC Group (Holdings) Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flows;
- the accounting policies; and
- the related notes 1 to 29 of the consolidated financial statements and 1 to 9 of the parent company financial statements.

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

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the carrying value of goodwill and other indefinite life intangible assets. Within this report, key audit matter is identified as follows: Similar level of risk
Materiality	The materiality that we used for the group financial statements was £7.6m which was determined based on 3% of earnings before interest, taxation, depreciation and amortisation (EBITDA) adjusted for exceptional items.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team. The statutory audit for RAC Group (Holdings) Limited and its subsidiaries was performed by a single audit engagement team at the same time. Over 99% of the group revenue, net assets and EBITDA adjusted for exceptional items was audited to full or specific scope audit procedures.
Significant changes in our approach	There have been no significant changes in our approach.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- Enquiring of senior management in relation to their going concern assessment including impacts of Covid-19, Brexit and climate change, and the steps they will take in the event that economic and other factors deteriorate;
- Challenging group management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows, considering their consistency with other available information, historical performance of the group against previous forecasts and our understanding of the group businesses. This included assessing management's stress and scenario testing including reverse stress tests;
- Evaluating whether future forecasts and assumptions were used consistently between the group's going concern evaluation, goodwill impairment assessment and assessment of the recoverability of the intercompany debtors of the company;
- Assessing the group's operational resilience, business continuity plans, and compliance with regulations and maintain appropriate internal controls as this relates to ability to continue as a going concern;
- Assessing compliance with financial covenants on the listed debt and the Senior Term Facility; and
- Evaluating the appropriateness of disclosures in the 2021 financial statements relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Carrying value of goodwill and indefinite life intangible assets

Key audit matter description	The group holds goodwill of £878m (2020: £878m) and indefinite life intangible assets including £864m (2020: £864m) in relation to the value of the RAC brand as at 31 December 2021. The RAC brand has an indefinite estimated useful life and therefore, like goodwill, is subject to an annual impairment test. Management's assessment of the carrying value of goodwill and indefinite life intangible assets involves management's estimation concerning the future cash flows of each cash generating unit ('CGU'). Management applies judgement in determining the associated discount rate and cash flows that reflect their view of future business prospects. The two CGUs are 'membership services' and 'insurance' as shown in note 5 to the financial statements. The most sensitive judgements in the determination of the carrying value of goodwill and other indefinite life intangible assets are the future cash flow forecasts and the rate applied in discounting the cash flows. Inappropriate use of these assumptions either due to fraud or error could give rise to a material misstatement. During the course of the year end audit, management's initial value-in-use (VIU) model was based on discount and growth rates that were subsequently updated following input from their external expert. Further details of the key judgements involved and sources of estimation are detailed in accounting policies F and U, which relate to note 11 to the financial statements for goodwill and intangible assets.
How the scope of our audit responded to the key audit matter	We obtained an understanding of management's process and of the relevant controls identified around the impairment assessment for goodwill and other indefinite useful life intangible assets. We considered the method/model, assumptions and data used in the impairment assessment as part of our risk assessment. We performed sensitivity analysis on the inputs to management's forecasts to identify the most sensitive assumptions adopted in the impairment review and focused our testing on the discount rate and future cash flow forecasts accordingly. We also performed reverse stress testing to identify the circumstances in which an impairment, of either CGUs, would be required and assessed if these circumstances are reasonably plausible. We inspected and challenged management's impairment review accounting paper including the revised approach and assessed whether the key judgements made were reasonable. We gained an understanding of the budget process that underpins the cash flow forecasts including the impact of Covid-19, climate change and assessed the 5-year cash flow forecast for reasonableness. We also evaluated whether management's value in use (VIU) calculations were prepared in accordance with the requirements of IAS 36. We involved our valuation specialists in assessing the methodology used to determine the discount rate for compliance with IAS 36 and market practice and independently determine a reasonable range for the discount rate and the growth rate. Given the inherent susceptibility to misstatements in estimates, we considered indicators of management bias in our assessment including comparing the group's historical growth rates to that of comparable peer groups of similar size and risk profile.

How the scope of our audit responded to the key audit matter (cont)	We evaluated the historical accuracy of forecasts made by management by comparing them to actual results over the past 5 years and challenged the reasonableness of the growth assumptions built into the forecasts. We also challenged whether the future forecasts and assumptions were used consistently across the preparation of the financial statements, including the evaluation of the going concern assumption for the RAC trading group. We also assessed the sensitivity analysis performed by management and assessed the reasonably possible changes in key assumptions determined by management to be reasonable, and assessed whether the disclosures in relation to the impairment of goodwill and indefinite useful life intangible assets were adequate. We increased our focus on the evaluation of the audit evidence obtained regarding the key assumptions adopted by management, including both corroborative and contradictory audit evidence. We also performed a 'stand back test' and used our internally generated discount rates to determine an independent range compared to that of management for the VIU per CGU.
Key observations	We determined the revised approach fell within our independently determined reasonable ranges for discount and growth rates. We concluded the cash flows used in the model were reasonable, and that the overall carrying value of goodwill and other indefinite life intangible assets at the year end and the related disclosures in the financial statements are appropriate.

Chris, patrol since 2003, West Midlands

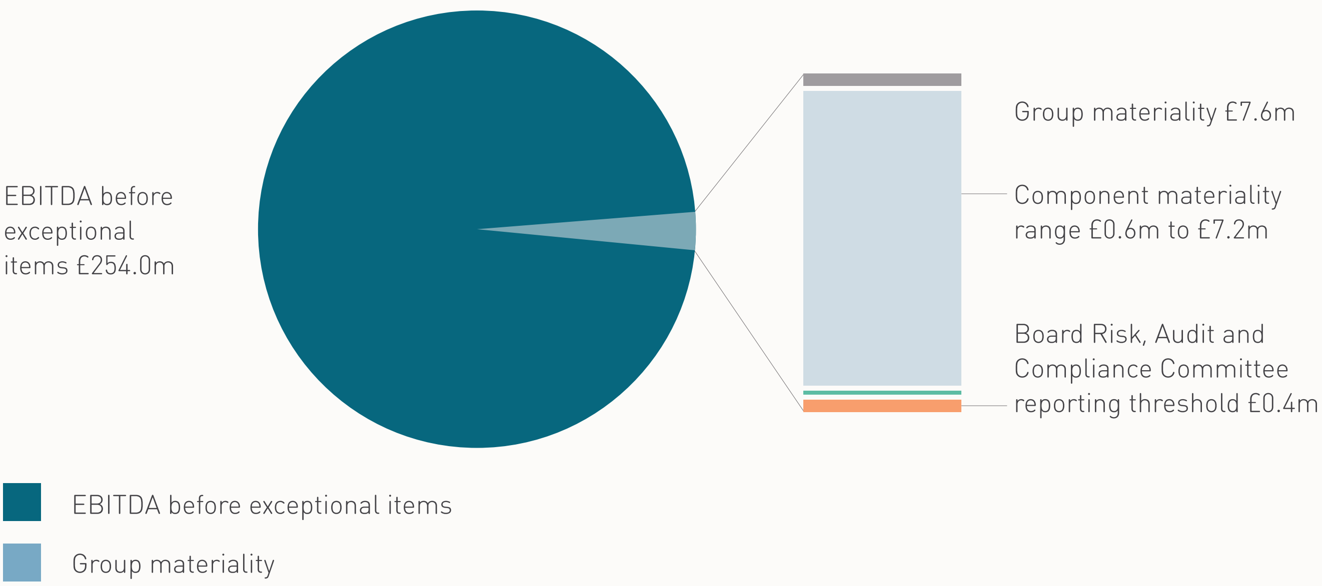
6. Our application of materiality

6.1 Materiality

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

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

	Group Financial Statements	Parent company Financial Statements
Materiality	£7.6m (2020: £7.2m)	£5.3m (2020: £6.8m)
Basis for determining materiality	3.0% (2020: 3.0%) of EBITDA before exceptional items	When determining materiality, as the parent company is part of RAC Group (Holdings) Limited group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into that group's results. We revised our materiality cap for the parent company downwards resulting in a decline in the parent company's materiality for 2021. Our determined materiality equates to 1.0% (2020: 1.3%) of the carrying value of investments held by the parent company.
Rationale for the benchmark applied	We determined materiality based on EBITDA before exceptional items as we considered this the most appropriate measure to assess the performance of the group, as it is a key measure used by stakeholders to assess and report performance of the business.	As the company is a holding company for the group, we determined the carrying value of investments to be the most appropriate benchmark in determining materiality.



6.2 Performance materiality

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

	Group Financial Statements	Parent company Financial Statements
Performance materiality	70% (2020: 65%) of group materiality	70% (2020: 65%) of parent company materiality
Basis and rationale for determining performance materiality	We determined performance materiality with reference to factors such as our understanding of the group, the entity's complexity and purpose within the group, the centralised finance function, the quality of the control environment and the low extent of material misstatements applicable to the group and parent company in previous audits. We adopted a lower performance materiality at 65% in the prior year in light of Covid 19 remote working arrangements and the impact these may have on the control environment. We considered it appropriate to increase the performance materiality to 70% in the current year given the adoption of formalised hybrid working arrangements and normalisation of remote working.	

6.3 Error reporting threshold

We agreed with the Board Risk, Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £0.4m (2020: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Risk, Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, our group audit scope focused on all entities within the group and covered all of the material balances in the Income Statement and Statement of Financial position of the group.

We have performed a full scope audit on all entities within the group with the exception of Risk Telematics UK Limited, RAC Cars Limited, RACMS Ireland, RAC Employee Benefits Trust, RAC Group Limited, RAC Midco Limited, RAC Midco II Limited and RAC Motoring Services (Holdings) Limited which are exempt from statutory audit requirements and immaterial to the group. We performed analytical procedures at the group level for these entities.

All full scope audits were performed directly by the group audit team and executed at levels of materiality applicable to each individual entity that were lower than group materiality and ranged from £0.6m to £7.2m (2020: £0.5m to £6.8m). These account for over 99% (2020: 99%) of the group's revenue, net assets and EBITDA before exceptional items. At the company level, we have also performed testing over the consolidation process of group entities.

7.2 Our consideration of the control environment

We have not taken reliance over automated IT controls in the current year which is consistent with the prior year. We have involved our IT audit specialists in obtaining an understanding of general IT controls in the period. We did not take a controls reliance approach.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Board Risk, Audit and Compliance Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement and relevant internal specialists, including tax, actuaries, valuations, pensions, IT, conduct risk and financial instruments regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: carrying value of goodwill and other indefinite life intangible assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Irish Stock Exchange Listing Rules, Companies Act 2006, pension and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the Prudential Risk Authority (PRA) regulations, the Financial Conduct Authority (FCA) regulations, money laundering regulations, The Data Protection Act 2018 and the Bribery Act 2010.

11.2 Audit response to risks identified

assets as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board, Risk, Audit and Compliance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the PRA and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

- Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Board Risk, Audit and Compliance Committee, we were appointed by Board of Directors on 31 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years, covering the years ending 31 December 2014 to 31 December 2021.

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

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

15. Use of our report

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

Kieren Cooper, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
30 June 2022

Glen, patrol since 2018, Wales

Stuart, patrol since 2007, South West

Consolidated Financial Statements

Consolidated Income Statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Revenue	1	653	624
Cost of sales		(301)	(295)
Gross profit		**352**	**329**
Administrative expenses		(217)	(203)
Operating profit	**2**	**135**	**126**
EBITDA before exceptional items		254	241
Depreciation of owned tangible assets	12	(7)	(7)
Depreciation of right of use assets	13	(12)	(12)
Amortisation of customer acquisition intangibles	10	(8)	(9)
Amortisation of contract costs	11	(17)	(16)
Amortisation of non-customer acquisition intangible assets	10	(70)	(70)
Exceptional items	3	(5)	(1)
Operating profit		**135**	**126**
Net finance expenses	5	(196)	(190)
Loss before tax		**(61)**	**(64)**
Tax charge	9	(61)	(32)
Loss for the year		**(122)**	**(96)**

All activities relate to continuing operations.
The accounting policies and notes on pages 100 to 139 are an integral part of these Financial Statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Loss for the year		(122)	(96)
Other comprehensive income			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Gain on shares and loan notes held by EBT		–	(1)
Net movement on cash flow hedges		9	(3)
Aggregate tax effect	9(c)	(2)	1
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods		7	(3)
Other comprehensive expense, net of tax		7	(3)
Total comprehensive expense for the year		**(115)**	**(99)**

The accounting policies and notes on pages 100 to 139 are an integral part of these Financial Statements.

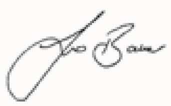
Consolidated Financial Statements

Consolidated Statement of Financial Position as at 31 December 2021

	Note	2021 £m	2020 £m
ASSETS			
Non-current assets			
Goodwill and intangible assets	10	1,860	1,914
Contract costs	11	32	32
Property, plant and equipment	12	35	34
Right of use assets	13	56	61
Deferred tax asset	18	10	12
		1,993	2,053
Current assets			
Inventories	15	3	4
Trade and other receivables	16	49	40
Cash and cash equivalents	17	459	107
		511	151
LIABILITIES			
Current liabilities			
Borrowings	22(a)	(10)	(8)
Provisions	19	(1)	(1)
Trade and other payables	20	(226)	(227)
Current tax payable	18	(30)	(24)
		(267)	(260)
Net current assets /(liabilities)		244	(109)
Non-current liabilities			
Borrowings	22(a)	(2,793)	(2,411)
Employee benefit liability	26(c)(iv)	(4)	(5)
Trade and other payables	20	(60)	(60)
Deferred tax liability	18	(219)	(182)
Derivative financial instruments	21	5	(5)
		(3,071)	(2,663)
Net liabilities		**(834)**	**(719)**
EQUITY			
Ordinary share capital	23	–	–
Share premium		10	10
Own shares	24	–	–
Hedging instruments reserve		4	(3)
Retained earnings		(848)	(726)
Total equity deficit		**(834)**	**(719)**

The accounting policies and notes on pages 100 to 139 are an integral part of these Financial Statements.

Approved by the Board on 30 June 2022.



J Baker
Chief Financial Officer

Consolidated Statement of Changes in Equity

	Note	Ordinary share capital £m	Share premium £m	Own shares £m	Hedging instruments reserve £m	Retained earnings £m	Total equity deficit £m
Balance at 1 January 2020		**–**	**10**	**–**	**(1)**	**(629)**	**(620)**
Loss for the year		–	–	–	–	(96)	(96)
Other comprehensive expense		–	–	–	(2)	(1)	(3)
Total comprehensive expense		–	–	–	–	(97)	(99)
Balance at 31 December 2020		**–**	**10**	**–**	**(3)**	**(726)**	**(719)**
Loss for the year		–	–	–	–	(122)	(122)
Other comprehensive expense		–	–	–	7	–	7
Total comprehensive expense		–	–	–	7	(122)	(115)
Balance at 31 December 2021		**–**	**10**	**–**	**4**	**(848)**	**(834)**

The accounting policies and notes on pages 100 to 139 are an integral part of these Financial Statements.

Paul, patrol since 1996, East

Consolidated Financial Statements

Consolidated Statement of Cash Flows for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Operating activities			
Loss before tax		(61)	(64)
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of owned tangible assets	12	7	7
Depreciation of right of use assets	13	12	12
Amortisation		95	95
Net finance expenses	5	196	190
Exceptional items	3	5	–
Working capital adjustments:			
Decrease/(Increase) in inventories	15	1	(2)
(Increase)/Decrease in trade and other receivables		(9)	8
Increase in trade and other payables		(1)	5
Payment to employment benefit schemes		(1)	–
Taxation paid		(18)	(26)
Net cash flows from operating activities		**226**	**225**
Investing activities			
Purchase of property, plant and equipment	12	(8)	(16)
Purchase of intangible assets	10, 11	(41)	(38)
Net cash used in investing activities		**(49)**	**(54)**
Financing activities			
Proceeds from bank debt	22(b)	265	300
Repayment of obligations under leases	20	(14)	(14)
Repayment of bank debt	22(b)	(139)	(262)
Repurchase of bonds	22(c)	(210)	(65)
Proceeds from bond issuance		345	–
Repayment of preference shares		–	(7)
Repayment of loan notes	22(d)	–	(16)
Transaction costs		(4)	(3)
Interest paid		(68)	(95)
Net cash flows from / (used in) financing activities		**175**	**(162)**
Net increase in cash and cash equivalents		**352**	**9**
Cash and cash equivalents brought forward		107	98
Cash and cash equivalents carried forward	**17**	**459**	**107**

The accounting policies and notes on pages 100 to 139 are an integral part of these Financial Statements.

James, patrol since 2017, East Midlands

Accounting Policies

A. Corporate information

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

Information on the Group's structure is provided in note 14. Information on the Group's related party relationships is provided in note 28.

The Group and Parent company Financial Statements of RAC Group (Holdings) Limited for the year ended 31 December 2021 were approved for issue by the Board on 30 June 2022

B. Basis of preparation and basis of consolidation

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

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

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

The separate Financial Statements of the Company are set out from page 140. On publishing the Company Financial Statements here together with the Group Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income statement. The Company's loss for the year ended 31 December 2021 was £123 million (2020: £98 million).

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

- Amendments to 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]

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

Going concern: The Directors have assessed the financial position and the future funding requirements of the Group and the Company and compared them to the level of available committed borrowing facilities. Details of cash and borrowing facilities are set out in notes 17 and 22 respectively to the Consolidated Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk are set out in note 27 to the Consolidated Financial Statements.

The Directors' 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 scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its borrowings.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 2 to 29. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group has net liabilities of £834 million and net current assets of £244 million. The Directors do not consider there to be a liquidity risk as a result of the net liabilities position as this is due to borrowings which is not a current liability that will require cash settlement in the next 12 months. The Groups' net liabilities position largely reflects the value of separately identifiable intangibles assets, offset by book value of issued bonds of £1,245 million and bank borrowings of £431 million. The Group's third party borrowings have an average time to maturity of five years.

Having undertaken this assessment, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2021 Group and Company Financial Statements to be prepared on a going concern basis.

Basis of consolidation: The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31 December 2021. Subsidiaries are those entities in which the Group, directly or indirectly, has power to exercise control. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

Profit or loss of each component of other comprehensive income is attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the Financial Statements of the subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent or deferred consideration that do not qualify as measurement period adjustments depends on how the contingent or deferred consideration is classified. Contingent or deferred consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent or deferred consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

C. Revenue recognition

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

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

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

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

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

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

D. Exceptional items

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

E. Contract costs

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

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

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

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

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

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

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

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

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

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

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

Impairment testing: For impairment testing, goodwill has been allocated to the two cash generating units ("CGUs") that exist as these represent the lowest level within the Group which generates independent cash inflows. The carrying amount of goodwill and intangibles with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support their carrying amount. Details of the testing performed and carrying values of goodwill and intangibles is shown in note 10.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G. Property, plant and equipment

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

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

All other items classified as property, plant and equipment within the Consolidated Statement of financial position are carried at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

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

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

H. Inventories

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

I. Impairment of non-financial assets

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

J. Trade receivables

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

K. Cash and cash equivalents

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

L. 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.

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

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

M. Derivative financial instruments

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

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

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

N. Cash flow hedges

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

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

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

O. Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

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

P. Income taxes

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

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

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

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

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

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

Q. Leases

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

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

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

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

R. Employee benefits

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

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

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

Remeasurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest) are recognised immediately in the Consolidated Statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

R. Employee benefits (continued)

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

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

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

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

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

S. Share capital and dividends

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

i. there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

ii. the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

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

T. Critical accounting judgements and key sources of estimation uncertainty

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

i. Critical judgements in applying the Group's accounting policies: The Directors do not consider there to be any critical accounting judgements at the Statement of Financial Position date.

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

Impairment of goodwill and indefinite lived intangible assets: Determining whether goodwill and brand are impaired requires an estimation of the value in use of the cash– generating units to which goodwill and brand has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash–generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and the brand as at 31 December 2021 and 31 December 2020 was £878 million and £864 million respectively

The Group performs impairment testing annually in October and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU. The recoverable amount of each unit is determined based on a value–in–use calculation using cash flow projections from the Group's budget and management's forecast up to 2026. The growth rate used to extrapolate future cash flows beyond the Group's forecasts for both CGUs is 2%, based on the expected average long term growth rate of the UK economy.

The pre–tax discount rate of 10% applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of assets.

This assessment was based on management's forecasts and cash flow assumptions. The key assumptions in this assessment are future cash flows growth rate beyond 2026 and pre–tax discount rate. If the terminal future growth rate were to reduce from 2% to 1%, the effect on the Group for this reduction would be to decrease headroom by £54 million. If the pre–tax discount rate were to increase by 1%, the effect on the Group would be to decrease headroom by £594 million. If the short term growth rate were to reduce to 5%, the effect on the Group would be to decrease headroom by £1,666 million. If all three of these sensitivities were to occur simultaneously, the effect on the Group would be to decrease headroom by £2,256 million. None of the sensitivities noted above lead to an impairment.

Stuart, patrol since 2007, South West

Notes to the Consolidated Financial Statements

1. Revenue

	2021 £m	2020 £m
Sale of products	35	39
Sale of services	618	585
Total revenue	**653**	**624**

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

2. Operating items

	Note	2021 £m	2020 £m
The following items have been charged/(credited) to operating profit:			
Depreciation of owned tangible assets	12	7	7
Depreciation of right of use assets	13	12	12
Amortisation of customer acquisition intangible assets	10	8	9
Amortisation of non-customer acquisition intangible assets	10	70	70
Amortisation of contract costs	11	17	16
Government assistance		(2)	(2)
Employee costs	7	166	166

3. Exceptional items

	2021 £m	2020 £m
Restructuring	2	1
Transaction costs	3	–
	5	**1**

During 2021 Silver Lake entered into an agreement to become a co-shareholder in the RAC. As part of this transaction, £3 million of associated costs were incurred. In addition £2 million of costs were incurred in relation to subsequent restructuring.

4. Operating segments

The Group is primarily UK based and is a consumer services subscription business providing a differentiated range of driving and mobility related services, principally breakdown assistance, for consumer and business customers, and retail motor and telematics insurance products underwritten by a panel of leading insurers. Management has determined the operating segments based on the management accounts reviewed by the Board of Directors, which are used to assess the performance of the business. The Board of Directors has been identified by management to reflect the chief operating decision maker in accordance with the requirements of IFRS 8 Operating Segments. The two operating and reportable segments of the Group are described below.

During 2021, the Group re-aligned the financial services business. This was previously reported within the "Insurance & Financial Services" segment. This business is now included within the "Membership Services" segment, resulting in the "Insurance & Financial Services" segment being renamed as "Insurance". All comparative prior year information has been restated to reflect this change.

Membership services: Membership services is the largest operating segment of the business, offering breakdown cover and related products to Individual Members, SME and Corporate Partners. In addition this segment includes the other products and services such as recall and inspections, accident management services, branded customer services, telematics devices, retail online, garage services, legal advisory services and RAC Cars.

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

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

	2021 £m	2020 £m
Revenue of products		
Membership services	35	39
Revenue of services		
Membership services – Insurance related	401	393
Membership services – Non-insurance related	123	89
Insurance and financial services	94	103
Group Revenue	**653**	**624**
Segment EBITDA before exceptional items and head office costs		
Breakdown services	252	239
Insurance and financial services	46	45
Group EBITDA before exceptional items and head office costs	**298**	**284**
Head office costs*	(44)	(43)
Group EBITDA before exceptional items	**254**	**241**
Amortisation of intangible assets	(95)	(95)
Depreciation	(19)	(19)
Exceptional items*	(5)	(1)
Operating profit	**135**	**126**
Finance expenses	(196)	(191)
Investment income	–	1
Loss before tax from continuing operations	**(61)**	**(64)**

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

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

5. Net finance expenses

	2021 £m	2020 £m
Interest payable – related parties	121	113
Interest payable – third parties	67	69
Interest payable – lease liabilities	3	3
Amortisation of capitalised finance costs	3	3
Write off of capitalised finance costs	2	3
Investment income	–	(1)
	196	**190**

All of the finance expenses except investment income relate to financial liabilities held at amortised cost.

6. Auditor remuneration

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

	2021 £000	2020 £000
Audit services		
Audit of Financial Statements	87	69
Audit of subsidiaries	440	347
	527	**416**
Other services		
Other non-audit services	–	–
Total remuneration payable to Deloitte LLP	**527**	**416**

7. Employee information

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

	2021 Number	2020 Number
The monthly average number of persons employed during the year was:		
Membership Services	3,401	3,297
Insurance and financial services	76	82
Support	354	366
	3,831	**3,745**

	2021 £m	2020 £m
Total staff costs were:		
Wages and salaries	141	141
Social security costs	16	16
Pension costs	9	9
Termination benefits	–	–
	166	**166**

	2021 £m	2020 £m
These costs were charged within:		
Cost of sales	123	122
Administrative expenses	43	44
	166	**166**

8. Directors

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

	2021 £000	2020 £000
Fees and benefits	2,140	2,544
Termination benefits	–	–
Contributions paid into money purchase pension schemes	–	–
	2,140	**2,544**
Emoluments of the highest paid Director:		
Fees and benefits	1,025	1,303
Contributions paid into money purchase pension schemes	–	–
	1,025	**1,303**

Fees and benefits include relevant Directors' bonuses. Retirement benefits are accruing to one Director (2020: 1) under a money purchase scheme. During the year no Directors (2020: none) were awarded shares under long–term incentive schemes.

9. Tax

(a) Tax charged to the Consolidated Income statement

	2021 £m	2020 £m
The total tax charge comprises:		
Current tax:		
For the year	22	21
Adjustment in respect of prior years	–	(1)
Total current tax	**22**	**20**
Deferred tax:		
Origination and reversal of temporary differences	(10)	(11)
Adjustment in respect of prior years	–	4
Effect of change in tax rate	49	19
Total deferred tax (see note 18)	39	12
Total tax charged to the Consolidated Income statement	**61**	**32**

(b) Tax reconciliation

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

	2021 £m	2020 £m
Loss before tax	(61)	(64)
Tax calculated at standard UK corporation tax rate of 19% (2020: 19%)	(12)	(12)
Disallowable expenses	–	–
Effect of tax rate change	49	19
Preference dividends payable	24	22
Adjustment in respect of prior years	–	3
Total tax charged to the Consolidated Income statement (note 9(a))	**61**	**32**

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

Under IAS 12, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the Consolidated Statement of financial position date.

Therefore, deferred tax balances from the substantively enacted date of 24 May 2021 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

(c) Tax charged/credited to other comprehensive income: Tax charged directly to other comprehensive income in the year amounted to £2 million in respect of tax on movements in hedging instrument fair values (2020: £1 million credit).

10. Goodwill and intangible assets

	Goodwill £m	Brand £m	Acquired value-inforce £m	Customer list £m	Other £m	Non customer acquisition intangibles subtotal £m	Customer acquisition intangibles £m	Total £m
Cost:								
At 1 January 2020	878	864	89	536	110	2,477	51	2,528
Additions	–	–	–	–	14	14	5	19
Disposal	–	–	–	–	(60)	(60)	–	(60)
At 31 December 2020	**878**	**864**	**89**	**536**	**64**	**2,431**	**56**	**2,487**
Additions	–	–	–	–	17	17	7	24
Disposal	–	–	–	–	–	–	–	–
At 31 December 2021	**878**	**864**	**89**	**536**	**81**	**2,448**	**63**	**2,511**
Amortisation:								
At 1 January 2020	–	–	89	365	74	528	26	554
Charge for the year	–	–	–	58	12	70	9	79
Disposal	–	–	–	–	(60)	(60)	–	(60)
At 31 December 2020	**–**	**–**	**89**	**423**	**26**	**538**	**35**	**573**
Charge for the year	–	–	–	58	12	70	8	78
Disposal	–	–	–	–	–	–	–	–
At 31 December 2021	**–**	**–**	**89**	**481**	**38**	**608**	**43**	**651**
Net book value:								
At 31 December 2021	**878**	**864**	**–**	**55**	**43**	**1,840**	**20**	**1,860**
At 31 December 2020	878	864	–	113	38	1,893	21	1,914

Goodwill and brand are held at cost and tested at least annually for impairment. All other intangible assets are stated at cost less accumulated amortisation. Amortisation is included within Administrative expenses in the Consolidated Income statement. An impairment of £nil (2020: £nil) has been charged against the carrying value of capitalised development costs for which the expected benefits no longer support the carrying value of these costs. Other intangible assets comprise the value of customer relationships and IT development. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred through the Consolidated Income statement.

Impairment testing of goodwill and intangible assets with indefinite lives: Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the two cash generating units ("CGU") further details of which are given in note 4. The carrying value of the goodwill and indefinite lived intangible assets allocated across the two CGUs is £878 million and £864 million respectively.

	2021		2020	
	Goodwill £m	Indefinite-lived intangibles £m	Goodwill £m	Indefinite-lived intangibles £m
Breakdown services	748	719	748	719
Insurance and financial services	130	145	130	145
	878	**864**	**878**	**864**

The Group performs impairment testing annually in October and whenever a loss event occurs. The impairment test compares the recoverable amount of the CGU to the carrying value of goodwill and intangibles allocated to the CGU. The recoverable amount of each unit is determined based on a value-in- use calculation using cash flow projections from the Group's budget and management's forecast up to 2026. The growth rate used to extrapolate future cash flows beyond the Group's forecasts for all CGUs is 3%, based on the expected average long term growth rate of the UK economy. The pre-tax discount rate of 10% (2020: 9%) applied to the cash flow projections is based on the Group's Weighted Average Cost of Capital ("WACC") which has been risk adjusted to reflect current market factors not already captured within the cash flows. The discount rate has also been further risk adjusted to reflect an independent capital structure as stipulated by IAS 36 Impairment of assets.

Key inputs used in managements cash flow forecasts include:

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

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

11. Contract costs

	Costs to obtain contracts £m	Total £m
Costs:		
At 1 January 2020	87	87
Additions	19	19
At 31 December 2020	**106**	**106**
Additions	17	17
Disposals	(6)	(6)
At 31 December 2021	**117**	**117**
Amortisation		
At 1 January 2020	58	58
Charge for the year	16	16
At 31 December 2020	**74**	**74**
Charge for the year	17	17
Disposals	(6)	(6)
At 31 December 2021	**85**	**85**
Net book value:		
At 31 December 2021	**32**	**32**
At 31 December 2020	32	32

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

12. Property, plant and equipment

	Owner-occupied property £m	Fixtures, fittings and other equipment £m	Computer equipment £m	Total £m
Cost or valuation:				
At 1 January 2020	3	42	6	51
Additions	–	9	7	16
At 31 December 2020	**3**	**51**	**13**	**67**
Additions	–	8	–	8
At 31 December 2021	**3**	**59**	**13**	**75**
Depreciation:				
At 1 January 2020	–	20	6	26
Charge for the year	–	7	–	7
At 31 December 2020	**–**	**27**	**6**	**33**
Charge for the year	–	7	–	7
At 31 December 2021	**–**	**34**	**6**	**40**
Net book value:				
At 31 December 2021	**3**	**25**	**7**	**35**
At 31 December 2020	3	24	7	34

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

In line with the Group's accounting policy, the owner-occupied property was revalued in November 2021 by Colliers International, an accredited independent valuer. There was no material change in the fair value of the property at the balance sheet date. If owner-occupied property was measured using the cost model, the carrying amount at both 31 December 2021 and 31 December 2020 would be £3 million.

Ben, patrol since 2016, South West

13. Right of Use assets

	Property £m	Vehicles £m	Total £m
Cost or valuation:			
At 1 January 2020	45	40	85
Additions	–	6	6
Disposals	–	(1)	(1)
At 31 December 2020	**45**	**45**	**90**
Additions	–	7	7
At 31 December 2021	**45**	**52**	**97**
Depreciation:			
At 1 January 2020	4	14	18
Charge for the year	2	10	12
Disposals	–	(1)	(1)
At 31 December 2020	**6**	**23**	**29**
Charge for the year	2	10	12
At 31 December 2021	**8**	**33**	**41**
Net book value:			
At 31 December 2021	**37**	**19**	**56**
At 31 December 2020	39	22	61

14. Group information

a. Information about subsidiaries: The Consolidated Financial Statements of the Group include the following subsidiaries:

Company	Type of business	Class of share	Proportion held
Directly held:			
RAC Midco Limited	Holding company	Ordinary	100%
Indirectly held:			
RAC Midco II Limited	Holding company	Ordinary	100%
RAC Bidco Limited	Holding company	Ordinary	100%
RAC Bond Co PLC	Funding vehicle	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services	Roadside assistance	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC 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 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.

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

RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited (Company No. 08370931) and Risk Telematics UK Limited (Company No. 08580115) are exempt from audit by virtue of s479a of the Companies Act 2006 and have both been provided with a statutory guarantee by RAC Bidco Limited, as required by s479c of the Companies Act 2006. RAC Midco Limited (Company No. 09229698) and RAC Midco II Limited (Company No. 09229775) are exempt from audit by virtue of s479a of the Companies Act 2006 and have both been provided with a statutory guarantee by RAC Group (Holdings) Limited, as required by s479c of the Companies Act 2006. As a consequence, RAC Midco Limited, RAC Midco II Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Cars Limited and Risk Telematics UK Limited have all taken advantage of the available exemption for audit.

b. The holding company: There is no single immediate controlling entity of the Group.

15. Inventories

	2021 £m	2020 £m
Finished goods	3	4

All inventories are classified as finished goods.

The cost of inventories recognised as an expense and included within Cost of sales in December 2020 amounted to £16 million (2020: £22 million).

16. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	26	14
Prepayments and accrued income	17	26
Other receivables	6	–
Total	**49**	**40**
Expected to be recoverable within one year	49	40

All receivables and other financial assets other than prepayments are carried at amortised cost.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Receivables of £49 million (2020: £40 million) 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).

17. Cash and cash equivalents

	2021 £m	2020 £m
Cash and cash equivalents comprise:		
Unrestricted cash at bank and in hand	106	99
Restricted cash at bank	353	8
Total	**459**	**107**

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

18. Tax assets and liabilities

	2021 £m	2020 £m
Current tax payable	(30)	(24)
Deferred tax asset	10	12
Deferred tax liability	(219)	(182)
	(239)	**(194)**

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019 and clarifies the accounting for uncertainties in income taxes. IFRIC 23 has been considered in regard to all uncertain tax positions for the RAC group of companies. A provision for 100% of the potential corporation tax (being £26 million (2020: £24 million)) has been made as measured in accordance with the standard. This is the same position adopted in the prior year statutory accounts of RAC Group Limited and the consolidated accounts of RAC Bidco Limited & RAC Group (Holdings) Limited. There are no further uncertain tax positions identified that would require measurement under IFRIC 23.

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

Deferred tax	Property, plant & equipment £m	Intangible assets & Contract costs £m	Retirement benefit obligations £m	Revaluation of financial assets £m	Other temporary differences £m	Total £m
At 1 January 2020	2	(176)	1	1	13	(159)
Credit to Income statement	–	(3)	–	(1)	(8)	(12)
Charge to other comprehensive income	–	–	–	1	–	1
At 31 December 2020	**2**	**(179)**	**1**	**1**	**5**	**(170)**
Charge to Income statement	–	(40)	–	–	1	(39)
Charge to other comprehensive income	–	–	–	–	–	–
At 31 December 2021	**2**	**(219)**	**1**	**1**	**6**	**(209)**

	2021 £m	2020 £m
The movement in the net deferred tax liability was as follows:		
Net deferred tax liability brought forward	(170)	(158)
Deferred tax charged to the Consolidated Income statement	(39)	(12)
Deferred tax (charged)/credited to other comprehensive income	–	1
Net deferred tax liability carried forward	**(209)**	**(170)**

The Group has unrecognised capital losses of £146 million to carry forward indefinitely against future capital gains (2020: £146 million). No asset has been recognised as there are no capital gains expected in the foreseeable future. The Group has an unrecognised deferred tax asset of £nil (2020: £nil) in respect of interest disallowed under the corporate interest restriction rules.

19. Provisions

	Other £m	Total £m
At 1 January 2021 and 31 December 2021	1	1

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

20. Trade and other payables

	2021 £m	2020 £m
Trade payables and accruals	43	52
Deferred income	129	118
Other payables	114	117
Total	**286**	**287**
Expected to be payable within one year	226	227
Expected to be payable in more than one year	60	60
Total	**286**	**287**

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

Included within other payables is £64 million (2020: £67 million) in relation to lease liabilities recognised as a result of the Group adopting IFRS 16. The contractual maturity dates of lease liabilities are:

	2021 £m	2020 £m
Within 1 year	9	10
1 to 5 years	15	16
5 to 10 years	40	41
	64	**67**

Lease Commitments: As at 31 December 2021 the company had committed to aggregated undiscounted future lease payments of £3 million payable over a period up to 5 years (2020: £2 million payable over a period up to 5 years).

Short-term and low-value leases expensed to the Income Statement in the year amounts to £nil (2020: £nil). Lease commitments for short-term and low-value leases at the balance sheet date amounted to £nil (2020: £nil).

21. Derivative financial instruments

	2021 £m	2020 £m
Cash flow hedge assets / (liabilities)	5	(5)

a. Hedging: The Group uses financial instruments, including over-the-counter instruments, in line with the Group's overall risk management strategy (see note 27).

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

b. Cash flow hedges: The Group has used interest rate swap agreements in order to hedge the variability of cash flows associated with its variable rate borrowings. The notional value and fair value of these are as follows:

	2021 £m	2020 £m
Contract/notional value	275	275
Total fair value of asset /(liability)	**5**	**(5)**

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.

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.

Subsequent to the Statement of Financial Position, the Group transitioned its remaining LIBOR based debt to be SONIA based, with the hedge instruments also transitioning. No other changes were made to either the hedging item or instrument and therefore hedge accounting is able to continue.

22. Borrowings

a. Analysis of borrowing

	Bonds				Bank Debt			Related party debt	
	Class A1 Notes	Class A2 Notes	Class B1 Notes	Class B2 Notes	Senior Term Facility	Senior Term Facility	Senior Term Facility	Preference shares	Total
Interest rate	4.565%	4.870%	5.000%	5.250%	LIBOR + 2.500%	SONIA + 1.800%	SONIA + 2.500%	12%	
At 31 December 2021									
Fair value (£m)	319	719	–	444	172	180	109	1,133	**3,076**
Amounts due within one year (£m)	2	5	–	3	–	–	–	–	**10**
Amounts due in more than one year (£m)	299	596	–	345	159	168	93	1,133	**2,793**
Book value (£m)	301	601	–	348	159	168	93	1,133	**2,803**
At 31 December 2020									
Fair value (£m)	302	605	212	–	300	–	–	1,011	**2,429**
Amounts due within one year (£m)	2	4	2	–	–	–	–	–	**8**
Amounts due in more than one year (£m)	299	596	208	–	297	–	–	1,011	**2,411**
Book value (£m)	301	600	210	–	297	–	–	1,011	**2,419**

b. Bank debt: On 31 January 2020, the Senior Term Facility was re-financed for an amount of £300 million (and an additional £80 million accordion facility) at a floating rate of 2.500% plus LIBOR, incorporating a LIBOR floor and matures on 31 January 2025.

On 31 July 2021, the Group drew down on a new £265 million Senior Term Facility, of which £170 million has a floating rate of 1.800% plus SONIA and matures on 30 July 2025, and £95 million has a floating rate of 2.500% plus SONIA and matures on 30 July 2028. The Group also prepaid £139 million of the existing £300 million 2020 Senior Term Facility on 30 July 2021.

The Group has also entered into agreements for an Initial Working Capital Facility of £50 million and an Initial Liquidity Facility of £90 million. As at 31 December 2021, £6 million of the Working Capital Facility was utilised (2020: £2 million). The Initial Working Capital Facility was subject to interest of LIBOR plus 2.750% prior to 31 January 2020 and

is subject to interest of LIBOR plus 2.500% from 31 January 2020, this facility matures on 31 January 2025. The Initial Liquidity Facility is subject to interest of LIBOR plus 2.250% and is subject to annual renewal. 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

Interest rate risk arising under the Initial Senior Term Facility is hedged using an interest rate swap exchanging variable rate interest for fixed rate interest. This is detailed further in note 21 and an analysis of the contractual undiscounted cash flows for these borrowings is shown in note 27(a)(iii).

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

d. Shareholder loan notes: The 12% shareholder loan notes were repayable on 17 December 2024 or were redeemable on a sale or listing. Interest accrued at 12%, was compounded annually and was repayable on redemption. The shareholder loan notes are redeemable at the principal amount of the loan note plus any accrued and unpaid interest. The shareholder loan notes can also be redeemed by the Group with the written consent of the majority of the loan note holders. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IFRS 9 Financial Instruments. The fair value of the debt is £nil (2020: £nil) following full repayment of £16 million of principal and £15 million of accrued interest on 10 December 2020.

e. Preference shares: The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Group's residual assets. Dividends accrue at 12% and unpaid dividends are compounded annually. The preference shares are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1), plus any accrued and unpaid dividends. The conditions attached to the preference shares result in the preference shares being treated as debt, rather than equity, for accounting purposes. The fees relating to these facilities have been capitalised and will be amortised over the remaining life of the loans to which they relate, in accordance with IFRS 9 Financial Instruments. The fair value of the debt is £1,133 million (2020: £1,011 million).

f. Security, covenants and fees: The Class A Notes and Initial Senior Term Facility (together "Class A debt") are secured by way of first ranking security in respect of the undertakings and assets of RAC Bidco Limited and its subsidiaries, excluding RAC Insurance Limited and RACMS (Ireland) Limited.

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

The Initial Senior Term Facility, Class A1 Notes and Class A2 Notes (together "Class A Debt") are subject to one financial covenant, being the ratio of free cash flow to Class A Debt service charges. The Class B1 Notes ("Class B Debt") are also subject to one financial covenant, being the ratio of free cash flow to the aggregate of Class A Debt service charges and Class B Debt service charges. The Group has complied with these financial covenants throughout the periods since issue of the Class A Debt and Class B Debt.

23. Ordinary share capital

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

Allotted, called-up and fully paid:	2021 £000	2020 £000
6,724,095 (2020: 6,724,095) ordinary 'A' shares of £0.01 each	67	67
2,175,905 (2020: 2,175,905) ordinary 'B' shares of £0.01 each	22	22
1,100,000 ordinary (2020: 1,100,000) 'C' shares of £0.01 each	11	11
	100	**100**

As at 31 December 2021, the total number of 'B' and 'C' ordinary shares held by the Employee Benefit Trust was 227,310 (2020: 138,673) (see note 24).

The 'A', 'B' and 'C' ordinary shares have the same rights except that the 'A' ordinary shares are the only shares which carry a right to vote. The 'B' and 'C' ordinary shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

Share awards are granted to senior management and other key employees with each award being approved by the Board of Directors. The share awards vest upon the occurrence of certain corporate transactions such as an initial public offering ('IPO') which are uncertain as at 31 December 2021.

Additionally, the Company has authorised, issued and fully paid £519 million redeemable cumulative preference shares of £1 each classified as liabilities (2020: £519 million). These shares do not carry voting rights. Further details are provided in note 22(e).

24. Own shares

	Own shares £m
Balance at 1 January 2021 and 31 December 2021	–

The own shares reserve represents the cost of shares in the Company held by the Employee Benefit Trust to satisfy awards under any future share award schemes. The total number of 'B' and 'C' ordinary shares held by the EBT at 31 December 2021 was 227,310 (2020: 138,673).

25. Reconciliation of financial liabilities

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

	2021 £m	2020 £m
As at 1 January	2,424	2,384
Financing cash flows	(84)	(50)
Other finance expense (note 5)	3	3
Bond proceeds held in Escow account	345	-
Interest expense (note 5)	188	182
Interest paid	(68)	(95)
Movement in fair value of hedge liabilities (note 21)	(10)	-
At 31 December	**2,798**	**2,424**

26. Employee benefit obligations

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

a. Introduction: The Group operates a number of employee benefit schemes as follows:

RAC Group Personal Pension Plan ("RAC GPP Plan")
The RAC GPP Plan is a defined contribution pension plan open to all RAC employees.

Unfunded Unapproved Pension Scheme ("UUP Scheme") An UUP Scheme is provided on a discretionary basis for certain employees who receive benefits on a defined benefit basis (generally related to final salary). The number of pensioners entitled to this benefit at 31 December 2021 was 7 (2020: 7).

Post-Retirement Medical Benefits Scheme ("PRMB Scheme") Under the PRMB Scheme the Group provides medical benefits on a discretionary basis for certain pensioners and their dependants in the UK. The number of pensioners entitled to this benefit at 31 December 2021 was 94 (2020: 94).

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

b. Charges to the Consolidated Income statement:
During the year, £9 million (2020: £9 million) was charged to the Group's Consolidated Income statement in respect of the employee defined contribution schemes and £62 thousand (2020: £89 thousand) in respect of employee defined benefit schemes.

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

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

Valuations and assumptions: The valuation used for accounting under IAS 19 Employee Benefits has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Schemes at 31 December 2021. This update was made by the Schemes' actuaries. The Schemes' assets are stated at their fair values as at 31 December 2021.

26. Employee benefit obligations (continued)

c. Employee benefit scheme assumptions and disclosures (continued)

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

	2021 %	2020 %
Inflation rate	3.50	2.90
Pension increases	3.50	2.90
Deferred pension increases	3.50	2.90
Discount rate	1.80	1.40

The inflation rate is the assumption that has the largest impact on the value of the liabilities. The effect of a 1% increase in the inflation rate would increase liabilities and service costs by £406 thousand and £nil respectively (2020: 1% increase in inflation rate would increase liabilities and service costs by £429 thousand and £nil respectively).

i. Assumptions for the liabilities of the Schemes (continued) Mortality assumptions of the Schemes: Mortality assumptions are significant in measuring the Group's obligations under the defined benefit schemes, particularly given the maturity of these obligations in these Schemes. The mortality tables and average life expectancy used at 31 December 2021 for Scheme members are as follows:

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS S1 tables, including allowances	65.0	88.1	89.7	89.6	91.1
for future improvements		(23.1)	(24.7)	(24.7)	(26.2)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. The assumptions above include an allowance for future mortality improvements, based on the actuarial profession's medium cohort projection table. The effect on the Scheme of assuming life expectancy was one year higher would increase the Schemes' liabilities by £375 thousand (2020: £257 thousand).

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

ii. Employee defined benefit expense: During the year the total employee defined benefit expense for the Schemes comprised £62 thousand (2020: £89 thousand) in respect of net interest expense recognised in the Consolidated Income statement and £150 thousand (2020: £464 thousand) recognised in other comprehensive income.

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

	2021 £m	2020 £m
Fair value of the Scheme's assets at the end of the year	–	–
Present value of the Schemes' liabilities at the end of the year	(4)	(5)
Net deficit in the Schemes	**(4)**	**(5)**

Estimated employer contributions for the year ended 31 December 2021 are £423 thousand in respect of the defined benefit schemes and £9 million in respect of the defined contribution scheme.

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

	2021 £m	2020 £m
Total fair value of assets	–	–
Present value of defined benefit obligations	(4)	(5)
Net deficit in the Schemes	**(4)**	**(5)**

Amounts recognised in the Consolidated Statement of financial position:

	2021 £m	2020 £m
Surplus included in non-current assets	–	–
Deficits included in non-current liabilities	(4)	(5)
Net deficit in the Schemes	**(4)**	**(5)**

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

v. Movement in the Scheme deficits and surplus comprise:

	2021		2020	
	Scheme liabilities £m	Net deficit £m	Scheme liabilities £m	Net deficit £m
Balance at 1 January	(5)	(5)	(4)	(4)
Benefits paid	1	1	–	–
Remeasurement losses				
Actuarial loss arising from change in assumptions	–	–	(1)	(1)
Balance at 31 December	(4)	(4)	(5)	(5)

27. Risk management

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

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

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

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

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

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

a. Treasury: The Group Treasury department's main responsibilities are to:

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Group's current borrowing facilities are disclosed in note 22.

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

The Group is exposed to interest rate risk arising primarily on external borrowings. The Group's policy aims to manage its interest cost within the constraint of its business plan and its financial covenants. The risk is managed through the use of interest rate swap agreements to hedge the variability of cash flows associated with the borrowings. If the borrowings were to be left unhedged and market interest rates were to increase or decrease by 1%, the impact on the profit before tax would be a decrease/increase of £2 million (2020: £3 million). The impact on shareholders' equity would be a decrease/increase of £1 million (2020: £2 million).

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

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

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

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

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

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

	2021 £m	2020 £m
Trade and other receivables (note 16)	26	14
Cash and cash equivalents (note 17)	459	107
	485	**121**

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

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

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

The Group is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the reported periods were held with institutions who are A rated. The RAC Group (Holdings) Limited Group's largest cash and cash equivalent counterparty is Deutsche Bank (2020: HSBC). At 31 December 2021 the balance with that counterparty was £19 million (2020: £20 million).

27. Risk management (continued)

a. Treasury (continued)

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

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The Group maintains significant committed borrowing facilities to mitigate this risk further (see note 22).

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

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

	2021 £m	2020 £m
Bonds		
Less than 1 month	4	5
1 to 3 months	7	9
3 months to 1 year	32	40
1 to 5 years	1,347	719
5 to 10 years	–	610
Total bonds	**1,390**	**1,383**
External bank debt		
Less than 1 month	2	2
1 to 3 months	4	3
3 months to 1 year	18	15
1 to 5 years	384	349
5 to 10 years	102	–
Total external bank debt	**510**	**369**
Related party debt		
1 to 5 years	–	–
5 to 10 years	3,199	2,856
Total related party debt	**3,199**	**2,856**
Total borrowings	**5,099**	**4,608**

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 31 December 2031 (2020: redeemable on 31 December 2030). The terms require redemption of the shares and related accrued dividends on a sale or listing (see note 22(e)).

b. Strategic and operational risk: The strategy (including operational risks) for the Group and the Company is determined by the Directors of the Company and disclosed in the Strategic report as set out on pages 2 to 29.

c. Capital risk management: The Group's capital structure consists of borrowings amounting to £1,670 million (2020: £1,418 million) of gross third party borrowings and £1,011 million (2020: £1,011 million) of related party borrowings at 31 December 2021.

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

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

In managing its capital, the Group seeks to:

i. match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;

ii. maintain financial strength to support new business growth and satisfy the requirements of its members and regulators;

iii. retain financial flexibility by maintaining strong liquidity; and

iv. allocate capital efficiently to support growth and repatriate excess capital where appropriate.

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

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

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

28. Related party transactions

a. The Group had the following transactions with related parties in 2021 and 2020:

i. Transactions with related parties

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

	2021 £m	2020 £m
Cumulative accrued dividends on preference shares	634	502
Cumulative accrued interest on loan notes	–	–
	634	**502**

ii. Amounts due to related parties

	2021 £m	2020 £m
Preference shares	1,133	1,011
Loan notes	–	–
	1,133	**1,011**

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

	2021 £000	2020 £000
Fees and benefits	4,194	5,432
Contributions to defined contribution pension scheme	89	101
	4,283	**5,533**

Fees and benefits include key management bonuses. During the year, payments of £187 thousand (2020: £237 thousand) were made to key management for loss of office.

c. Key management interests: A total of 9 key management personnel held preference shares, shareholder loan notes and equity stakes in the business at 31 December 2021 (2020: 10).

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

d. Immediate and ultimate controlling entity: There is no single immediate or ultimate controlling entity of the Group.

29. Fair value of financial assets and liabilities

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

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

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

Financial asset/liability	Fair value as at 31 December 2021 £m	Fair value movement £m	Fair value as at 31 December 2020 £m	Fair value hierarchy
Owner occupied property (note 12)	3	–	3	Level 2

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

Cash flow hedge liability (note 21)	5	–	(5)	Level 3

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

30. Events after the Reporting Period

Subsequent to the Statement of Financial Position date, regulatory approval in respect of the Silver Lake transaction was received and the transaction was completed on 11 March 2022. The transaction resulted in the release of the £345 million of proceeds from the Class B2 Notes issuance which were held in escrow, and therefore considered restricted cash, as at 31 December 2021. The transaction included a restructuring of the Company's share capital, resulting in 17,336,552 ordinary 'A' shares, 185,863 ordinary 'B' shares, 291,869 ordinary 'C1' shares, 442,321 ordinary 'C2'shares and 2,028,512 ordinary 'D' shares, all of which have a nominal value of £0.0000839 and redemption of the related party preference share debt and associated accrued dividends. The transaction did not have a material impact on the Company's or Group's financial position as at 31 December 2021.

Company Financial Statements

The accounting policies on pages 100 to 111 also form an integral part of these Financial Statements.

Stuart, patrol since 2007, South West

Company Financial Statements

Company Statement of financial position as at 31 December 2021

	Note	2021 £m	2020 £m
ASSETS			
Non-current assets			
Investments in subsidiaries and associates	4	535	535
		535	535
Current Assets			
Cash and cash equivalents		1	1
		1	1
LIABILITIES			
Current liabilities			
Other payables	5	(1)	(1)
Net-current liabilities		**–**	**–**
Non-current liabilities			
Borrowings	6	(1,153)	(1,030)
		(1,153)	(1,030)
Net liabilities		**(618)**	**(495)**
EQUITY			
Ordinary share capital	7	–	–
Share premium		10	10
Retained earnings		(628)	(505)
Shareholders' deficit		**(618)**	**(495)**

The accounting policies on pages 100 to 111 and the notes on pages 143 to 147 are an integral part of these Financial Statements.

The Company's loss for the year was £123 million (2020: £98 million).

Approved by the Board on 23 February 2021.

J Baker
Chief Financial Officer

Company Statement of changes in equity

For the year ended 31 December 2021

	Ordinary share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 January 2020	**–**	**10**	**(407)**	**(397)**
Loss for the year	–	–	(98)	(98)
Other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**(98)**	**(98)**
Balance at 31 December 2020	**–**	**10**	**(505)**	**(495)**
Loss for the year	–	–	(123)	(123)
Other comprehensive income	–	–	–	–
Total comprehensive expense	**–**	**–**	**(123)**	**(123)**
Balance at 31 December 2021	**–**	**10**	**(628)**	**(618)**

The accounting policies on pages 100 to 111 and the notes on pages 143 to 147 are an integral part of these Financial Statements.

Company Statement of cash flows as at 31 December 2021

	2021 £m	2020 £m
Operating activities		
Loss before tax	(123)	(98)
Adjustments to reconcile loss before tax to net cash flows:		
Dividends received	–	(14)
Interest expense on borrowings	123	112
Net cash flows from operating activities	**–**	**–**
Financing activities		
Dividends received	–	14
Repayment of preference shares	–	(7)
Preference share dividends paid	–	(6)
Net cash flows generated from financing activities	**–**	**1**
Net increase in cash and cash equivalents	**–**	**1**
Cash and cash equivalents brought forward	**1**	**–**
Cash and cash equivalents carried forward	**1**	**1**

The accounting policies on pages 100 to 111 and the notes on pages 143 to 147 are an integral part of these Financial Statements.

Notes to the Company Financial Statements

1. Auditor's remuneration

Audit fees are borne and paid by RAC Motoring Services, a fellow Group company. Disclosures relating to Auditor's remuneration may be found in note 6 of the Consolidated Financial Statements.

2. Employee information

The Company has no employees. All employees are employed by and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in note 7 of the Consolidated Financial Statements.

3. Directors

Executive directors of the Company are remunerated as employees by RAC Motoring Services. It is not deemed practical to recharge this remuneration across the operating divisions of the Group. Disclosures relating to Directors' remuneration may be found in the note 8 of the Consolidated Financial Statements.

4. Investments in subsidiaries

a. Movements in the Company's investments in subsidiaries

	2021 £m	2020 £m
Cost		
At 1 January and 31 December	535	535

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 Midco Limited	Holding company	Ordinary	100%
Indirectly held:			
RAC Midco II Limited	Holding company	Ordinary	100%
RAC Bidco Limited	Holding company	Ordinary	100%
RAC Bond Co PLC	Funding vehicle	Ordinary	100%
RAC Limited	Holding company	Ordinary	100%
RAC Group Limited	Holding company	Ordinary	100%
RAC Motoring Services	Roadside assistance	Ordinary	100%
RACMS (Ireland) Limited (incorporated in Ireland)	Dormant	Ordinary	100%
RAC Financial Services Limited	Insurance intermediary	Ordinary	100%
RAC Insurance Limited	General Insurance business	Ordinary	100%
RAC Motoring Services (Holdings) Limited	Holding company	Ordinary	100%
RAC Brand Enterprises LLP	Licensing and management of intangible assets	Members' capital	100%
RAC Cars Limited (formerly Net 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.

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

RAC Group Limited (Company No. 00229121), RAC Motoring Services (Holdings) Limited (Company No. 08168190), RAC Cars Limited (Company No. 08370931) and Risk Telematics UK Limited (Company No. 08580115) are exempt from audit by virtue of s479a of the Companies Act 2006 and have both been provided with a statutory guarantee by RAC Bidco Limited, as required by s479c of the Companies Act 2006. RAC Midco Limited (Company No. 09229698) and RAC Midco II Limited (Company No. 09229775) are exempt from audit by virtue of s479a of the Companies Act 2006 and have both been provided with a statutory guarantee by RAC Group (Holdings) Limited, as required by s479c of the Companies Act 2006. As a consequence, RAC Midco Limited, RAC Midco II Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Cars Limited and Risk Telematics UK Limited have all taken advantage of the available exemption for audit.

5. Other payables

	2021 £m	2020 £m
Amounts due to related parties	1	1
Total	**1**	**1**
Expected to be payable within one year	1	1

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

6. Borrowings

	2021 £m	2020 £m
12% Preference Shares		
Book value	1,153	1,030
Fair value	1,154	1,031

The redeemable preference shares do not carry the right to vote and, in the event of a liquidation or return of capital, rank above other shares with regard to the Company's residual assets. Dividends accrue at 12% and unpaid dividends are compounded annually. The preference shares are redeemable on sale or listing. Early redemption may be made in certain circumstances. The preference shares are redeemable at issue price (£1), plus any accrued and unpaid dividends. The conditions attached to the preference shares result in the preference shares being treated as debt, rather than equity for accounting purposes. The fees relating to these facilities have been capitalised and are amortised over the remaining life of the loans to which they relate, in accordance with IFRS 9 Financial Instruments. The fair value of the debt is £1,154 million (2020: £1,031 million).

The preference shares and accrued dividends have no fixed redemption date and have been reflected as redeemable on 31 December 2031 (2020: redeemable on 31 December 2030). The terms require redemption of the shares and related accrued dividends on a sale or listing.

7. Ordinary share capital

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

	2021 £000	2020 £000
Allotted, called–up and fully paid:		
6,724,095 (2020: 6,724,095) ordinary 'A' shares of £0.01 each	67	67
2,175,905 (2020: 2,175,905) ordinary 'B' shares of £0.01 each	22	22
1,100,000 ordinary (2020: 1,100,000) 'C' shares of £0.01 each	11	11
	100	**100**

Of the total number of 'B' and 'C' ordinary shares, 227,310 shares were held by the Employee Benefit Trust at 31 December 2021 (2020: 138,673).

The 'A', 'B' and 'C' ordinary shares have the same rights except that the 'A' ordinary shares are the only shares which carry a right to vote. The 'B' and 'C' ordinary shares held by management are subject to compulsory transfer in certain circumstances if they cease to be employed by the Group.

Share awards are granted to senior management and other key employees with each award being approved by the Board of Directors. The share awards vest upon the occurrence of certain corporate transactions such as an initial public offering ('IPO').

Additionally, the Company has authorised, issued and fully paid £519 million redeemable cumulative preference shares of £1 each classified as liabilities (2020: £519 million). These shares do not carry voting rights. Further details are provided in note 6.

8. Related party transactions

a. The Company had the following transactions with related parties in 2021 and 2020:

i. The Company had the following amounts due to related parties	2021 £m	2020 £m
Preference shares and accrued dividends (see note 6)	1,153	1,030
Other Group companies - current account (see note 5)	1	1
	1,154	**1,031**

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

Transactions included within the Income statement that have taken place during the reported periods are as follows:

	2021 £m	2020 £m
Accrued dividends on preference shares	123	112
	123	**112**

b. Key management compensation: The Directors and key management of the Company are considered to be the same as for the Group. Information on key management compensation may be found in the note 28(b) of the Consolidated Financial Statements.

c. Key management interests: A total of 9 key management personnel held preference shares, shareholder loan notes and equity stakes in the business at 31 December 2021 (2020: 10).

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

d. Immediate and ultimate controlling entity: There is no single immediate or ultimate controlling entity of the Company.

The lowest level at which Consolidated IFRS Financial Statements are prepared is RAC Group (Holdings) Limited.

9. Critical accounting judgements and key sources of estimation uncertainty

There are no critical accounting judgements and key sources of estimation uncertainty for RAC Group (Holdings) Limited Company.

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