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**AA INTERMEDIATE CO LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JANUARY 2022**

THURSDAY



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23/06/2022  
COMPANIES HOUSE

**Company registration number: 05148845**

## Strategic Report

The business has performed well and delivered for customers despite the continued pressures of COVID-19 and a challenging external environment. This is in no small part down to the hard work of our colleagues who pride themselves on going above and beyond for our members. The AA is an iconic brand which has a proud history and the best is yet to come.

### Delivering unrivalled service for our members

Like 2020, 2021 was another year when we had to manage challenges presented by the pandemic and the business has overcome the obstacles this has presented admirably. There is no stronger evidence for this than being granted Which? Recommended Provider for the fourth consecutive year, with neither of our direct competitors being awarded this accolade once over that period. The 5 stars awarded for the 'knowledge and courtesy' of our patrols once again demonstrates the strength of our offering. At the heart of this lies our focus on service excellence delivered through our people at unrivalled scale in the UK market.

We are the leading national provider of roadside assistance services with c.40% market share of the UK consumer market and c.50% of the business-to-business market. We have around 2,500 dedicated patrols, more than any other competitor, and attend c.8,000 breakdowns per day with an industry leading average arrival time of 50 mins.

### A year of strong performance under new ownership

Alongside a strong operational performance, the first year of new ownership has been focused on restoring the business to growth and laying the foundation for the future. We are proud to have delivered growth in membership, revenue and Trading EBITDA across the Group, demonstrating highly resilient and recurring revenues, and the strong operating cash flow generation that are core characteristics of our business. See note 3 for the definition of Trading EBITDA and the reconciliation of Trading EBITDA to operating profit.

### Return to growth in Roadside

In our Roadside business, we delivered growth in both revenue and Trading EBITDA, with margin remaining strong and growth in both business and individual membership. This performance was achieved despite a fundamental shift in driving patterns caused by the pandemic, with reduced commuting and increased longer drives for domestic staycations. Our business proved responsive to these changes and managed to secure important new business-to-business contract wins, now amounting to a c.62% market share of bank business-to-business-to-consumer (B2B2C) and 53% of Original Equipment Manufacturer (OEM) new car volumes.

The platform from which we build is a strong one. We have a brand which is synonymous with excellent service and a loyal customer base who appreciate the differentiated service we offer, which is demonstrated in our Roadside retention rate increasing to 81% under the new basis of calculation for paid personal membership.

### A year of change in Insurance

Continuing the trends outlined at the half year, the wider insurance environment has remained fluid, with the effects of the pandemic and the new General Insurance Pricing Practices (GIPP) creating a unique combination of challenges. Having delivered strong growth in the first half of the year, we evolved our stance in the second half of the year by balancing growth and profitability in light of a particularly competitive pricing environment. During this period, we have also facilitated a smooth transition to meet the GIPP requirements by January 2022, have further strengthened our direct to consumer and cross selling activities. The introduction of GIPP is one of the most significant changes to pricing within the UK insurance industry and has resulted in a challenging trading environment, which has been widely reported on. As we look ahead, and notwithstanding the near-term disruption, we remain confident in the quality of our insurance business.

## Strategic Report (continued)

### A strong foundation from which to build

In March 2021 we entered into new ownership with the acquisition of the AA by Warburg Pincus and TowerBrook Capital Partners. The change in ownership resulted in a significant equity injection of £361m of which a portion was used to pay down debt and allowed us to refinance other tranches of our remaining debt at a more attractive and sustainable level.

This has allowed us both to increase our investment in the future of the AA whilst at the same time continuing on a deleveraging trajectory: investment of £77m capital expenditure has gone into core re-platforming, new digital propositions and upgrades to our data and operational infrastructure. It was pleasing to see further growth in usage of our app, which enables our customers to access a range of services from the AA whilst delivering an enhanced customer experience.

The Group continues to generate strong operating cashflows and coupled with lower interest costs going forwards following the significant repayment of debt noted above we expect to see stronger net cash flows going forwards. After the impact of the acquisition and refinancings in the current year, our net debt decreased from £2,697m to £2,303m.

In addition, new ownership and leadership, combined with the strength of the brand and strategic vision, have allowed us to attract top talent from the market across a number of disciplines with more than 20 senior external and internal appointments to our senior management team in the year. Our team is highly motivated, and we have a clear plan to ensure the AA delivers on its significant potential, which is outlined below.

### A clear strategy for the future

Whilst we already offer a market-leading proposition to our members, we are acutely aware of the need for continued evolution and modernisation of the AA to ensure that our offering meets the changing needs of our members. The AA has a strong track record of demonstrating its agility and adaptability and as we look ahead under our new ownership, we have outlined three strategy horizons.

- Horizon 1: Optimising the core, modernising the AA to drive growth and profitability in the core business.
- Horizon 2: Extending the business to develop new propositions and services to future proof the business.
- Horizon 3: Monetising innovation to develop new revenue streams in the emerging automotive value chain.

#### Horizon 1: Optimising the core

The current Horizon 1 activity focuses on the most critical 2–3-year value levers to deliver membership and revenue growth and better efficiency. Our digital investment is targeted at continuously improving customer journeys, app usage and customer engagement, with some marked improvements in sales journey conversion rates and online breakdown reporting already evident.

In the rapidly evolving electrification arena, we already support electric vehicle (EV) drivers through a variety of innovative approaches such as Smart Care which offers service, maintenance and repair for EVs, EV specific driver training via AA Driving School and Drivetech, and new EV leasing propositions via Smart Lease. We have the largest EV trained patrol workforce in Europe with innovations such as our award-winning Freewheeling Hub. We insure EVs including their cables and are the first UK breakdown organisation to target marketing specifically at EV drivers. In our B2B business we offer customer support to seven leading Charge Post Operators.

## Strategic Report (continued)

### A clear strategy for the future (continued)

Our multi-year investment in new core platforms in both Roadside and Insurance will allow us to broaden our product and propositions, provide improved agility and support customer retention and customer value management.

In parallel and in the face of growing inflationary cost pressures we will improve efficiency and productivity through operational improvements, operating model changes, more focused cost control and a far-reaching digitisation of customer and other business processes. Beyond this we are investing in data and analytical capability to further create value from the unrivalled ecosystem of AA propositions, spanning Roadside and Insurance, our Driving Schools, accident management solutions, service, maintenance and repair (SMR) services and a wide range of financial services and car purchasing solutions.

### Horizon 2: Extending the business

Our Horizon 2 strategy, which we are now beginning to embark on, will develop targeted new propositions for the rapidly approaching era of EV, and capture opportunities arising from increasingly connected vehicles and data-based propositions derived from it and modernise the core of the Roadside business model for the future. Our strong and growing data assets from more than 30,000 connected vehicles, combined with the unique proprietary knowledge and insights derived from decades of patrol knowledge and customer proximity gives us some unrivalled advantages in this important and fast-moving mobility ecosystem.

In addition to the connected car agenda, increasing expertise and capability in the electrification arena plays an important role in our Horizon 2 strategy. Key priorities include further equipping and training our patrols to deal with EV specific issues and investment in mobile charging and other solutions to address 'range anxiety'. Beyond this we will continue to enhance the wider AA EV offering significantly to ensure the AA remains the go-to provider for future drivers. In short, ensuring that the EV drivers' needs, and indeed all drivers' needs, can be entirely met by the AA.

Our impact matters, and our Environmental, Social and Governance (ESG) activities are an important part of our business. We have included in our reporting our key environmental, social and corporate governance updates. However, this is just a small part of what we do and we will be launching a separate ESG report in the coming months to talk about our ESG activities to date, and our commitments for the future.

### Horizon 3: Monetising innovation

As we move to Horizon 3, we will capitalise on new opportunities in the automotive value chain, extend our leadership in electrification and develop wider ecosystem propositions. The unique combination of an iconic, trusted brand, scale in terms of customer reach and data and the breadth of the AA's propositional offer gives rise to unrivalled opportunities for new and more integrated customer propositions. Over the next 18-24 months we will develop more detailed strategies, business models and further partnerships to modernise the AA and develop new revenue streams and future growth.

We will measure our success through the strategic priorities outlined above.

## Strategic Report (continued)

### Pensions

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The AAUK pension scheme was in surplus as at 31 January 2022. The significant movement since 31 January 2021 was mainly due to an increase in corporate bond yields over the period, which drive the discount rate and an increase in assets due to higher-than-expected asset returns, partially offset by an increase in future inflation expectations. It also incorporates a £13m gain resulting from the incorporation of the inter-valuation experience for the AAPMP, as well as a £26m impact of Barber equalisation for the UK Scheme which has been recognised as a one-off past service cost.

In February 2020, the triennial actuarial review was completed for the AAUK pension scheme as at 31 March 2019. The agreed recovery plan with the pension trustees aims to eliminate the technical provisions deficit by July 2025. The Group has committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025.

Following closure of the CARE section of the AAUK pension scheme in March 2020, transitional arrangements were agreed with all employees costing c.£11m over three years starting from 1 April 2020. Following closure of the AAUK scheme to future accrual, the ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. The impact of COVID-19 and ongoing global events on the global financial markets, including inflation and bond yields, has meant higher fluctuation of the funding level in the AAUK scheme, albeit partially mitigated by the de-risked investment strategy and high levels of hedging. Therefore, the contributions required from the Group could increase following completion of the 2022 triennial valuation.

### Financing arrangements and refinancing

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As part of our commitment to proactively manage our debt and with the support of our new owners, following the acquisition of the Group in March 2021, the proceeds of the £280m Class B3 Notes issued in January 2021 were released from escrow and combined with an equity contribution of £261m from AA Midco Limited (following the acquisition of AA Limited by BidCo Limited) in order to prepay and redeem the Class B2 Notes. In addition, £29m aggregate principal amount of Class B2 Notes which were held by AA Limited were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing. The Group also entered into a new £150m Senior Term Facility which it drew down immediately and used, in combination with £50m of cash, to refinance its existing £200m Senior Term Facility. Alongside this, the Group agreed a new £160m Liquidity Facility which remains undrawn and cancelled its existing Liquidity Facility of £165m.

Subsequently, on 21 July 2021 the Group issued £270m of Class A9 Notes at an interest rate of 3.25%. The proceeds of this issue were used on 1 November 2021, along with a further equity contribution of £100m from AA Midco Limited, to repay the £372m of outstanding Class A5 Notes.

The pricing for both the Class B3 and Class A9 Notes was at a substantially lower rate than our previous expectation prior to the acquisition of the Group and gives us the confidence that we can accelerate our plans for growth and continue reducing our leverage.

On 20 July 2021, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B3 Notes at B+.

### Streamlined Energy & Carbon Reporting (SECR)

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Climate change represents one of the greatest challenges facing our planet. At the AA, we are committed to supporting the transition to a low-carbon economy to meet the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC). Our emissions are generated across the AA's operations, including at sites, by vehicles and through colleague travel. For full details on the SECR of the Group please refer to pages 37 – 40 in the AA Limited Annual Report and Accounts 2022. There is no difference between the emissions reported at AA Limited Group and AA Intermediate Co Limited Group.

## Strategic Report (continued)

### s172 statement

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#### Directors' duties: s. 172 statement

Section 172 of the Companies Act 2006 (Section 172) requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Board's aim is to ensure that its decisions follow a consistent process by considering the Company's strategic priorities, while balancing the interests of various stakeholders when making decisions. This Section 172 statement sets out how the directors discharged their Section 172 responsibilities during the 2022 financial year.

The Board considers the need to act fairly between stakeholders and continue to maintain high standards of business conduct. Nevertheless, the Board acknowledges that stakeholder interests may conflict with each other and that not every decision can result in a positive outcome for all stakeholders.

The Company is part of the AA Limited group, the ultimate parent of which was Basing ConsortiumCo Limited during the 2022 financial year. Decisions, policies and procedures that may affect stakeholders were implemented at a Basing ConsortiumCo Limited group level during the year and the Board oversees the application of these to the Company. The Board recognises that the Company's stakeholders include those that interact with the Company directly, in addition to those with indirect relationships in the context of the wider Basing ConsortiumCo Limited group.

#### Key stakeholders

The Board keeps the Company's key stakeholders under review to ensure due consideration is given to all relevant stakeholders in the context of principal decisions. During the year, the following key stakeholders were identified: employees, investors, customers, suppliers, and regulators.

#### Board considerations

The Board considered how the Company currently engages with each of the key stakeholders listed above, as well as its future engagement strategy. This will ensure that due consideration is given to stakeholder views and interests, to the extent that they are relevant to any particular decision.

More information about how the Board engages with each of the stakeholders above, within the context of the wider AA Limited group, can be found in AA Limited's Annual Report and Accounts 2022.

#### Summary of business relationships

This Section 172 statement also satisfies the requirement in Part 4, Schedule 7 of the Large and Medium-sized Companies Regulations 2008 for certain large companies to disclose, either in their Directors' Report or in their Strategic Report, a statement of the company's engagement with suppliers, customers and other relevant parties.

#### Statement of employee engagement

The Company is part of the Basing ConsortiumCo Limited group, the ultimate parent of which is Basing ConsortiumCo Limited. Decisions, policies and procedures that affect employees were implemented at the Basing ConsortiumCo Limited group level during the year and the Board oversaw the application of these to the Company.

## Strategic Report (continued)

### Business performance review

The Directors present the consolidated financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 January 2022. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

### ROADSIDE

Roadside includes Business-to-consumer (B2C), Business-to-business (B2B) and Roadside Other. Roadside performance is driven by our personal membership base and supported by our business customer (B2B) base, underpinning the scale of our operations which is critical to our success. Each provide approximately half the jobs for the patrol force.

We have two franchised driving schools, the AA and BSM, providing driving lessons for learners each year. Driveteck is the market leader in driver education including Driver Awareness courses which are offered by police forces.

	2022	2021
Revenue (£m)	822	799
Trading EBITDA (£m)	290	282
Trading EBITDA margin (%)	35.3	35.3
Personal Members excluding free Memberships ('000s) <sup>1</sup>	3,177	3,111
Average income per personal Members excluding free Memberships (£) <sup>1</sup>	169	167
Business customers ('000s)	8,842	8,702
Average income per Business customer (£)	23	23
Number of breakdowns ('000s)	3,072	3,014

<sup>1</sup> During the year the basis of the paid personal membership holding has been revised to exclude ancillary holdings. This has also resulted in a change to the average income per member.

Our core Roadside business continues to deliver a solid performance, recovering well from the challenges of COVID-19. Overall revenue in the roadside segment increased by 3% in the year to £822m, reflecting the impact of the pandemic on our developing roadside businesses.

Trading EBITDA increased 3% to £290m and the Trading EBITDA margin was stable at 35.3%, reflecting the operational strength of our core Roadside business.

## Strategic Report (continued)

### Business performance review (continued)

#### Roadside (continued)

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##### Business-to-consumer

During the year, we revised the basis of the paid personal membership holding to exclude ancillary holdings. Under this new basis, the paid membership holding increased by 2.1% to 3.177m (2021: 3.111m). Under the old basis, paid membership increased by 2.7% to 3.253m (2021: 3.168m). Given the impact of the pandemic over the last two years, we were very pleased to see the paid personal membership base increase under both measures. The revised basis has been used in our measure of retention which increased to 81% (2021: 80%) on the new basis compared to 80% (2021: 78%) on the old basis. This improvement in our performance was supported by our market-leading service at the roadside and through our contact centres.

As lockdowns were relifted at the start of the year, the paid membership base increased by 1.5% in H1 underpinned by the 'Tukker' above the line marketing campaign, which ran for a number of months. In H2, membership continued to grow by a further 0.6% reflecting the unwinding of the impact of COVID-19 on new business volumes seen in the prior year.

Average income per paid personal member has also been recalculated using the new paid membership basis and increased in the year by £2 to £169 (2021: £167) reflecting the impact of inflation partly offset by strong new business growth but at lower-than-average transaction values. On the old basis income per member increased by £2 to £165 (2021: £163).

##### Business-to-business

We successfully retained or extended all our major core roadside contracts this year, including JLR, Lotus, VWG, Ford, Suzuki, Arval, Rivus, LeasePlan, Hertz, Zenith, DAS and Admiral. In addition, we acquired new breakdown assistance business from Smart, Innovation Automotive, Bugatti, GKL Leasing and Scottish Water via new contract wins, as well as several new insurance contracts with Tempcover, Marshmallow, Kudo and Riverside.

Total business customers rose to 8.8m (2021: 8.7m) following our successful new business wins in the year. In addition, we continued to see growth in our holdings from our insurance partnerships offset with a continued and anticipated decline in the number of AVAs with our banking partners. Overall income for B2B grew slightly reflecting the benefit of higher pay-for-use income from the breakdowns we serviced and the additional services that we provided in supporting our motor manufacturing partners.

The sea change in EV adoption across the UK was a catalyst for the expansion of our EV Charge Post Operator (CPO) customer service operation, bringing support to new partners including Liberty Charge, EB Charging and Instavolt, and taking our total portfolio of CPOs to nine, with implementation of more new contracts scheduled for 2022. On the customer service front we were also appointed to provide contact centre and retention services for Toyota GB from March 2022 for their extended roadside programme.

In March 2021, we announced the award of a new five-year contract with Nationwide through which we will provide Nationwide's FlexPlus customers with our award-winning roadside assistance services, which they will be able to access fully through digital channels, including the AA app.



## Strategic Report (continued)

### Business performance review (continued)

#### Roadside (continued)

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Recognising the desire amongst small business customers for increased online access to our services, we have enhanced our digital platform for SMEs and have seen very strong growth over the year. We also expanded our portfolio of SME trade partnerships, bringing four new buying groups on board over the course of the year.

Externally, our market-leading approach to EV and alternative fuels was strengthened by our participation in the COP26 EV Rally of Scotland, and our partnership with the EV Café. We also collaborated on thought leadership with a number of key B2B influencers in the EV space. The success of our game-changing Free Wheeling Hub, allowing electric vehicles to be towed safely, was recognised by industry innovation awards from Fleet-News and Green-Fleet and we were also recognised with awards for Fleet Partnership and exceptional Customer Service within the Fleet and Leasing sector.

#### Customer service and operations

Which? have reported that manufacturer programmes provided by the AA occupy the top 9 slots for serving motor manufacturers' customers, with Lexus, Toyota and Honda all gaining 'Recommended Provider' status. We have also continued to drive a successful programme on recalls supporting Toyota, Honda, Hyundai and JLR. The mobile appointment-based service is going from strength to strength, and we have now completed over 30,000 airbag replacements for customers driving an exceptional level of customer satisfaction.

Total breakdowns increased by 2% in the year to 3.07m (2021: 3.01m) as drivers returned to Britain's roads. As a result of this volume increase, overall pay-for-use income was up compared to last year. Ancillary sales including battery sales were lower than last year following the spike in members and customers experiencing flat batteries in the prior year due to their cars not being driven during the initial lockdown.

We have continued to improve our customer journey through a focused effort on making digital breakdown frictionless so that more of our personal membership breakdowns can be reported online.

#### Developing businesses

FY22 saw encouraging recovery from the impact of COVID-19 in the prior year.

Smart Care volumes grew strongly over prior year as we continued with a programme of web-based marketing offers, enhancements to the digital journey and further developing the links with the wider AA, increasing the volume of jobs being passed to the garage network from patrols.

Our B2B segment saw SMR volume growth with retention of existing key accounts and four new accounts added in year giving us visibility of further B2B growth in the year ahead.

We have also continued to make good progress with our product development plans across our markets, including supporting our AA Cars business with the fulfilment of Service Plan SMR work and further development of our B2B downtime management proposition.

Our Driving Schools and Drivetech businesses were significantly impacted by COVID-19 last year and we saw a strong recovery in FY22.

Driving Schools benefitted from pent up demand for driving lessons following the easing of lockdown restrictions. Our BSM VR product won Best Product at the Intelligent Instructor Awards and the Driving School fleet has also been nominated for most improved fleet, by the Fleet Awards.

In response to COVID-19 last year, Drivetech was the first to provide comprehensive online speed awareness courses as an alternative to class-based learning. As more people took to the road in the current year, police referral volumes for courses grew.

## Strategic Report (continued)

### Business performance review (continued)

#### INSURANCE

Insurance includes Insurance Services, comprising our Insurance Broker and our Financial Services partnership with Bank of Ireland and our AA Cars proposition.

The Insurance division faced a tough economic environment with significant market premium deflation in FY22 resulting in a highly competitive new business market. Market volatility was also heightened by the implementation of the FCA's new General Insurance Pricing Practices (GIPP) rules which we successfully implemented on 1 January 2022. Overall insurance revenue decreased to £118m (FY21: £128m). Revenue growth was achieved in Accident Assist and AA Cars businesses but was offset by lower motor new business commissions as seen across the sector.

Our financial services partnership with the Bank of Ireland, launched in July 2015, builds on a long past history of AA financial services and enables us to enhance our membership proposition.

	2022	2021
Revenue (£m)	118	128
Trading EBITDA (£m)	34	40
Trading EBITDA margin (%)	28.8	31.3
Total Motor and Home policy numbers in force (000s)	1,923	1,941
Average income per policy (Motor and Home) (£)	47	59
Total Motor policies (000s)	1,027	1,052
Total Home policies (000s)	896	889

#### Insurance

Revenue decreased principally due to the impact of lower motor new business commissions despite an improved trading environment for AA Cars following the impact of COVID-19 in the prior year.

The motor policy book reduced slightly by 2% to 1,027,000 policies (2021: 1,052,000) and the home book grew by 1% to 896,000 (2021: 889,000), a resilient performance in an uncertain market reflecting the strength of our brand. During the year we continued to make improvements in our customer journey which helped to deliver consistent and healthy cross-sell conversions into our Roadside business. The continued investment in our brand and improvements to our digital journeys have also received external recognition. AA topped the Insurance category in the Savanta Top 100 Most Loved Financial Services Brands 2021 and our motor insurance product was voted winner in the 2022 Consumer Intelligence awards for Customer Trust and Recommendation by Customers.

In January 2022 we were awarded the Feefo Platinum Trusted Service award for the second year in a row. Feefo gives Platinum Trusted Service awards to businesses that have achieved the Feefo Gold standard for three consecutive years or more. It is a highly valued badge of approval, as it is based purely on genuine, verified, customer feedback about excellent service.

Throughout the year ending 31 January 2022, AA Insurance has been investing in improving outcomes for customers in conjunction with preparation for the requirements of the FCA's GIPP rules and whilst continuing to drive new business volumes in a highly price competitive motor market. With retail motor insurance rates at the lowest point for many years, we have invested in commission reductions on both new and renewing business to support our volume aspirations. This combined with supporting our customers through the COVID-19 pandemic with a reduction in administrative and processing fees led to the average income per motor and home policy for our broker falling to £47 (2021: £59).

## Strategic Report (continued)

### Business performance review (continued)

#### Insurance (continued)

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Renewal rates have increased with volume and value being optimised through targeted commission reductions.

Accident Assist, our in-house claims management proposition launched in FY21, is performing well from a volume and margin perspective. Accident Assist services are actively marketed to our B2C membership base with improving take-up as awareness increases.

We continue to have a strong relationship with our partner Bank of Ireland UK, however growth of our Financial Services business has been curtailed by our competitors aggressively chasing lend volume.

AA Cars, our online used cars and vans platform, recovered well following the significantly low demand and discounting required in the prior year as a result of COVID-19. Volumes of vehicle inspections and car finance applications and conversions increased in the period as a result.

## Strategic Report (continued)

### Risk Management

Effective risk management remains key to the delivery of the AA's strategic objectives.

### AA Risk Management Framework

#### Overall Responsibility

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The Board of Basing Topco Limited, the AA investment company controlled by Warburg Pincus and TowerBrook Capital Partners, is responsible for determining the level of risk that the AA is prepared to take, or that it is willing to accept, in order to achieve its strategic objectives. The levels of risk are articulated through a series of risk appetite statements, and we monitor ourselves closely against the statements through our risk governance and our risk management framework. Further information about the corporate governance arrangements for the AA is set out in the Chair's Statement on page 4 and the Directors' Report on page 52-57 of the AA Limited's Annual Report and Accounts 2022.

#### Risk Governance

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The AA operates a three lines of defence model to ensure that its risks and opportunities are identified, assessed, monitored and managed in line with its stated risk appetite.

The three lines of defence model can be summarised as follows:

- First line of defence: the business units that run the business, they are accountable for the day to day management of the AA, which includes identifying and managing their risks;
- Second line of defence: the AA's Group Risk and Compliance function, they are accountable for providing oversight, challenge and advice to the first line; and
- Third line of defence: the AA's Internal Audit function, they are accountable for providing assurance to the business by performing independent reviews of the first and second lines of defence.

#### Risk management framework

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The AA's risk management framework aims to ensure that:

- risks are made visible;
- risks are discussed and understood;
- risks are owned and managed;
- appropriate action is taken;
- risks are used for opportunities; and
- we learn from our risk-taking.

## Strategic Report (continued)

### Risk Management (continued)

The risk management framework is comprised of the five pillars set out below.

Risk culture and governance	The processes and structures to demonstrate to the Topco Board that effective risk management, oversight and assurance is being undertaken for all key risks faced by the AA.
Strategy and objectives	The processes that set the AA's approach to risk management, including the direction it sets for taking and avoiding risks.
Risk identification and prioritisation	A set of key risk categories to identify where the AA has, or is likely to have, material risk exposures and the activities we perform to prioritise our actions.
Risk management and controls	A set of processes to review and assess the risk and control environment. Risks are assessed on an inherent (no controls), residual (with controls) and target basis to help senior management understand and manage their risk exposures. The AA will be undertaking a comprehensive review of its controls in 2022 as part of its continuous improvement of the risk management framework.
Risk reporting and communication	The information and reporting in place to support senior management in discharging their risk management accountabilities effectively and to help them make informed, risk-based decisions.

### Principal Risk and Opportunities

Principal risks and opportunities are defined as the risks and opportunities that are likely to have a material impact on the AA's business strategy.

The principal risks faced by the AA over the last year are summarised in the table below. We monitor and assess these risks very closely to ensure they are managed appropriately and effectively.

## Strategic Report (continued)

### Risk Management (continued)

<p><b>Principal risk:</b> <b>Customer Risk</b></p> <p><b>Risk trend:</b> Stable</p>	<p><b>Description</b> The risk that the AA fails to constantly monitor, manage and develop the interaction between our agents and customers to ensure fair treatment and good outcomes.</p> <p><b>Mitigation</b> The AA has a robust product governance framework in place to ensure that it continually reviews and adapts the products and services it offers to ensure customers receive fair treatment and good outcomes.</p>	<p><b>Impact, likelihood and trend</b> Financial services products and services are continually evolving in the market and as customer needs are changing, there is a risk that products do not perform as customers expect and that they no longer deliver appropriate customer outcomes.</p>
<p><b>Principal risk:</b> <b>Regulatory Risk</b></p> <p><b>Risk trend:</b> Stable</p>	<p><b>Description</b> The risk of failing to comply with regulatory changes, obtain the required authorisations / licencing and meet reporting requirements imposed by relevant regulatory authorities.</p> <p><b>Mitigation</b> The AA has effective processes in place to proactively identify incoming regulatory change and in doing so, it was able to mobilise a programme to prepare for the required changes and ensure its systems and processes were updated ahead of the pricing practices rules coming into force.</p> <p>We have also started to look ahead to a new set of proposals coming into force in 2023 (Consumer Duty) that require a fundamental shift in mindsets across the financial services industry. We will be mobilising a programme of work from early 2022 to ensure we remain well-positioned to support changes that will drive the highest standards of behaviour and support for retail consumers. We are also working to implement a financial reporting standard (IFRS 17) which we need to apply for our FY24 reporting and that requires accounting, system and operational changes.</p> <p>We manage risks around conflict, and execution of regulatory change programmes through our transformation governance processes.</p>	<p><b>Impact, likelihood and trend</b> 2021 was a period of substantial regulatory change as general insurance firms prepared themselves for complying with the package of remedies set out under the FCA's General Insurance Pricing Practices rules, and note that there are a number of other significant regulatory changes on the horizon. Transformation linked to Regulatory change, alongside our strategic transformation ambitions presents a heightened risks around ability to implement change effectively and inline with regulatory requirements.</p>

## Strategic Report (continued)

### Risk Management (continued)

<b>Principal risk:</b> <b>Health and safety</b>	<b>Description</b> The risk we are unable to maintain the safety of our workforce and customers.	<b>Impact, likelihood and trend</b> Vehicles breaking down at the roadside is inherently dangerous and it is absolutely vital that we continue to maintain a safe environment for our members and for our workforce.
<b>Risk trend:</b> Stable	<p><b>Mitigation</b> The AA has a robust and externally audited integrated health, safety and environmental (HS&amp;E) management system, as well as local arrangements where appropriate. We regularly review all our HS&amp;E risks to ensure that our control environment remains strong and effective.</p> <p>We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health – we deploy best practice internally and externally.</p> <p>Monitoring and oversight of the management of our HSE risks is strong, with performance reviewed at our executive risk committee and group Board meetings.</p> <p>We are an active member of SURVIVE, the industry group working towards improving safety for those working at the roadside and we have an external expert chair of our core Health and Safety Committee, to ensure good governance and independent scrutiny.</p>	
<b>Principal risk:</b> <b>Financial risk</b>	<b>Description</b> The risk that the company has insufficient liquid funds required for the business to operate, is unable to refinance its maturing debt, or unable to do this at affordable cost.	<b>Impact, likelihood and trend</b> The ability to finance the AA is critical to the ongoing existence and operation of the Group. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. The position has become more favourable since the change of ownership, although financing costs are expected to increase as a result of rising interest rates as the economy sees higher levels of inflation.
<b>Risk trend:</b> Decreasing	<p><b>Mitigation</b> Since the change of ownership, shareholders have injected £361m of new equity for the purpose of reducing debt. This has reduced refinancing costs for the debt that remains so that the AA has a sustainable financing structure. This has also supported the credit rating profile. The AA continues to monitor financial markets and pricing and cultivates relationships with credit rating agencies and bond investors. It seeks to refinance bonds well ahead of their maturity dates. The AA also has good levels of available cash as well as a Working Capital Facility of £56m, of which £46m is available for cash drawings.</p>	The £250m of A6 Notes are due to mature on 31 July 2023, the Group will seek to refinance these within good time of maturity.

## Strategic Report (continued)

### Risk Management (continued)

<b>Principal risk: Cyber security</b>	<b>Description</b> The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise business critical data.	<b>Impact, likelihood and trend</b> Cyber-attacks are becoming more and more sophisticated and businesses are becoming increasingly vulnerable to cyber threats due to their reliance on IT infrastructure.
<b>Risk trend: Increasing</b>	<b>Mitigation</b> The AA has a clearly defined cyber security strategy and it invests significant resources in controls that enable it to prevent, identify, detect and correct potential cyber-related issues. In addition, the AA benchmarks its security controls against the Standard for Information Security (ISO27001) and an annual review of the effectiveness of these controls is performed by an independent third party.	
<b>Principal risk: Operational resilience</b>	<b>Description</b> The risk of failure to adequately prepare, respond and recover from disruptive events or stress scenarios leading to disruptions to internal and external services provided by the AA.	<b>Impact, likelihood and trend</b> Disruptive events can have a severe impact on our ability to deliver the products and services we offer to our customers. 2021 saw a continuation of home working and intermittent disruption to businesses following the effects of the global pandemic. In addition, supply chain disruption impacted the availability of HGV drivers and fuel.
<b>Risk trend: Increasing</b>	<b>Mitigation</b> The AA has an effective homeworking infrastructure in place to mitigate the disruption of the global pandemic for office-based services. To address driver shortages, we adapted our recruitment and retention strategy, which included the introduction of training and apprenticeship initiatives. We also have processes in place to continually assess external events that may affect our operational resilience.	



## Strategic Report (continued)

### Risk Management (continued)

#### Emerging Risks

In addition to monitoring the risks currently faced by the AA, we identify risks and opportunities on the horizon i.e. the risks and opportunities that could have a material impact on the AA in the future but where the timescale and/or impact due to the nature of the risks remains uncertain.

The monitoring and management of emerging risks is a key part of the AA's strategic risk management process since the risks and opportunities can lead to changes in business strategy or operational ways of working that support the AA in it delivering long-term value to members, customers, employees and sponsors.

Emerging risks are identified using a PESTLE analysis, which categorises the risks into six high level themes.

Risk Type	Examples
Political	<ul style="list-style-type: none"> <li>• Current tax policy or future tax policy</li> <li>• Monetary policy</li> <li>• Stability of Government</li> </ul>
Economic	<ul style="list-style-type: none"> <li>• Economic growth</li> <li>• Interest rates or exchange rates</li> <li>• Inflation</li> </ul>
Social	<ul style="list-style-type: none"> <li>• Health and safety consciousness</li> <li>• Consumer behaviour</li> <li>• Brand and image</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Competing technology development</li> <li>• Vehicle automation</li> <li>• Artificial intelligence</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Regulatory change</li> <li>• Consumer laws</li> <li>• Advertising laws</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Governance</li> <li>• Energy available and cost</li> </ul>

We report on our emerging risks to our executive risk committee and relevant Group company Boards.

The most notable emerging risks and opportunities for the AA are summarised below.

#### Global financial instability

- Economic uncertainty is expected to remain high as a result of the global pandemic and geopolitical risks arising from the Russian war on Ukraine and we will continue to monitor the situation closely.
- The International Monetary Fund (IMF) has indicated the UK can expect lower growth than originally forecast for 2022 and higher inflation, as a result of COVID-19, labour shortages and high energy prices.
- The IMF's revised down growth rate was the smallest among the group of seven (G7) large, advanced economies, with the exception of Japan. In addition, it has raised its estimate for growth in 2023.
- As this is a macroeconomic risk, the AA will continue to monitor financial markets and the external environment.

## Strategic Report (continued)

### Management discussion and analysis

A detailed review of the consolidated income statement, segmental analysis (see note 2) and Consolidated Statement of Cash Flows is discussed below.

### Management discussion and analysis – Consolidated income statement for the year ended 31 January 2022

**Revenue:** Group revenue increased by £13m or 1.4% from £927m in the year ended 31 January 2021 to £940m in the year ended 31 January 2022. The increase in revenue was driven principally from the recovery of the impact of COVID-19.

*Roadside:* Roadside revenue increased in the year ended 31 January 2022 by £23m or 2.9% to £822m (2021: £799m). This was largely due to the recovery of the roadside business as more users returned to the roads following the lifting of COVID-19 restrictions. This is reflected in the personal members under the new basis increasing to 3,177k (2021: 3,111k). Increases in revenue were also seen in the developing Roadside businesses such as Driving Schools and Drivetech. Further increases were due to the growth in business-to-business (B2B) income, driven by the increase in customers to 8,842k (2021: 8,702k).

*Insurance:* Insurance revenue decreased by £10m or 7.8% from £128m for the year ended 31 January 2021 to £118m in the year ended 31 January 2022. This was due to the impact of lower new motor business commissions despite an improved trading environment for AA cars following the impact of COVID-19 in the prior year.

**Cost of sales:** Cost of sales increased by £21m or 6.0% from £352m in the year ended 31 January 2021 to £373m in the year ended 31 January 2022 reflecting the increased workload following the easing of COVID-19 restrictions.

**Administrative and marketing expenses:** Administrative and marketing expenses increased by £91m or 25.4% from £358m in the year ended 31 January 2021 to £449m in the year ended 31 January 2022. The increase in administrative and marketing expenses was driven by the £69m increase in adjusting operating items to £73m (2021: £4m) (see note 5) and a one-off pension past service cost of £26m (see note 26).

**Operating profit:** Operating profit decreased by £109m or 50.2% from £217m in the year ended 31 January 2021 to £108m in the year ended 31 January 2022. The decrease in operating profit was driven by the increases in adjusting operating items to £73m (2021: £4m) and the one-off pension past service cost of £26m.

**Finance costs:** Finance costs decreased from £171m in the year ended 31 January 2021 to £143m in the year ended 31 January 2022 as a result of the refinancing of the £570m Class B2 Notes at an interest rate of 6.5% in March 2021, which were repaid using the £280m proceeds from the Class B3 Notes issues in January 2021 and £261m equity contribution. There was also no repetition of one-off early repayment fees and lower fee write offs.

**Finance income:** Finance income increased by £27m from £3m in the year ended 31 January 2021 to £30m in the year ended 31 January 2022 largely due to a gain of £29m, as AA Limited surrendered for cancellation £29m of Class B2 Notes (see note 7).

## Strategic Report (continued)

### Management discussion and analysis (continued)

**Taxation:** Taxation reduced by £8m from £9m in the year ended 31 January 2021 to £1m in the year ended 31 January 2022. The reduction in tax expense largely reflects the lower profitability. The tax charge consisted of a current tax charge of £12m (2021: £11m) and a deferred tax credit of £11m (2021: credit of £2m).

### Trading EBITDA

Trading EBITDA is a non-IFRS measure and is not a substitute for any International Financial Reporting Standards measure. Trading EBITDA is defined in Note 3. Note 3 also reconciles Trading EBITDA to operating profit.

Trading EBITDA increased by £2m or 0.6% from £322m in the year ended 31 January 2021 to £324m in the year ended 31 January 2022. This reflected a strong recovery following the impact of COVID-19 last year and was despite the tough economic environment seen in Insurance.

*Roadside:* Trading EBITDA increased by £8m from £282m in the year ended 31 January 2021 to £290m in the year ended 31 January 2022 reflecting the recovery of the roadside business following the easing of COVID-19 restrictions, with more individuals returning to the roads.

*Insurance:* Insurance Trading EBITDA reduced by £6m from £40m in the year ended 31 January 2021 to £34m in the year ended 31 January 2022, due to the lower motor new business commissions.

### Management discussion and analysis – Consolidated statement of cash flows

**Net cash flow from operating activities before tax:** £252m in the year ended 31 January 2022 compared to £277m in the year ended 31 January 2021. The decrease is due to higher adjusting operating items described in the Statement of Cash Flows, partly offset by an improved working capital position.

**Tax paid:** Cash outflow from tax paid was £10m in the year ended 31 January 2022 and £14m in the year ended 31 January 2021.

**Investing activities:** Cash flows used in investing activities were an outflow of £76m in the year ended 31 January 2022 compared to an outflow of £64m in the year ended 31 January 2021. The increase was due to higher capex spend as projects delayed in FY21 due to COVID-19 were able to gain momentum in FY22. Investment has gone into core re-platforming, new digital propositions and upgrades to our data and operational infrastructure.

**Refinancing transactions:** Cash outflow from refinancing transactions was £68m in the year ended 31 January 2022 compared to £14m in the year ended 31 January 2021. On 10 March 2021, the proceeds of the £280m Class B3 Notes issued in January 2021 were released from escrow and combined with an equity contribution of £261m from AA Midco Limited in order to prepay and redeem the Class B2 Notes. In addition, £29m aggregate principal amount of Class B2 Notes which were held by AA Limited were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing. The Group also refinanced its Senior Term Facility on 10 March 2021. The new £150m Senior Term Facility was drawn down immediately and used, in combination with £50m of cash, to refinance the existing £200m Senior Term Facility. On 21 July 2021, the Group issued £270m of Class A9 Notes at an interest rate of 3.25%, along with a further £100m equity contribution from AA Midco Limited, to refinance the £372m of A5 Notes.

**Interest paid on borrowings:** Cash outflow from the interest paid on borrowings was £123m in the year ended 31 January 2022 compared to £138m in the year ended 31 January 2021 reflecting reduction in debt and the lower cost of borrowing following the refinancing of the Class B2 Notes in March 2021.

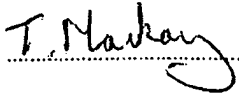
## Strategic Report (continued)

### Management discussion and analysis (continued)

**Payment of lease capital and interest:** Cash outflow from the payment of lease capital and interest was £27m in the year ended 31 January 2022 compared to £30m in the year ended 31 January 2021.

**Cash and cash equivalents:** Cash and cash equivalents during the year ended 31 January 2022 decreased by £52m to £67m from £119m during the year ended 31 January 2021. The significant outflow was predominantly due to the one-off transaction fees and expenses incurred following the acquisition and deleveraging of the Group and the increased cash outflows related to the refinancing transactions.

On behalf of the Board



T O Mackay  
Director  
31 May 2022

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA  
Registered number: 5148845

## Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited and its subsidiary undertakings for the year ended 31 January 2022.

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Marianne Neville, Director  
Kevin Dangerfield, Director (resigned 12/11/2021)  
Nadia Hoosen, Company Secretary (resigned 31/05/2021)  
Tom Mackay, Chief Financial Officer (appointed 15/11/2021)  
James Cox, Company Secretary (appointed 01/10/2021)

AA Intermediate Co Limited is a private company limited by shares, registered and domiciled in England and Wales, UK, whose registered address is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

### Directors' indemnities

The Company maintains appropriate directors' and officers' liability insurance cover. The Company also grants indemnities to each of its Directors to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Act) were in force during the year ended 31 January 2022 and remain in force, in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors, of the Group.

### Employee engagement

We remain committed to employee engagement throughout the business. Employees are kept updated on the AA's strategy and progress through regular communication emails and updates on the AA's intranet page. Further details of our workforce engagement and our people can be found on page 42 of the AA Limited's Annual Report and Accounts 2022. There are clear and transparent policies in place for employees to raise concerns about misconduct and unethical practices at the AA, which include but are not limited to: Whistleblowing Policy, Conflicts of Interest Policy, and Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy.

The Board believes that a shared vision and organisational culture across the organisation inform the management's decision making. This is supported by regular employee engagement surveys, which address and monitor how well the organisational culture and values between senior management and their colleagues are aligned.

The latest employee engagement survey, held in November 2021, had a response rate of 81% and an employee engagement score of 61%. Read more about how the Board has engaged with our people in the stakeholder engagement summary on page 44 of the AA Limited's Annual Report and Accounts 2022.

### Employees with disabilities

The AA is proud of our policy that people with any disability should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria and we endeavour to retain employees in the workforce if they become disabled during employment.

## **Directors' report (continued)**

### **Statement of Directors' responsibilities in respect of the financial statements**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### **Directors' confirmations**

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

## Directors' report (continued)

### Going concern

The Group's and the Company's business activities, future developments and its exposure to financial risks are described in the "Business performance review" and "Risk management framework" sections on pages 6 to 16.

The Group and the Company has adequate financial resources due to the Group's net current asset position and the Company's net asset position. AA Intermediate Co Limited is a wholly owned subsidiary of the AA Limited Group, hence the going concern status of the Group is linked to the wider AA Limited Group. As a result, the Group and the Company Directors have reviewed projected cash flows of the AA Limited Group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited Directors, that the Group and the Company have sufficient funds to continue trading during this period and the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In July 2021, the AA Limited Group completed a highly successful refinancing of its outstanding A5 notes, issuing £270,000k of A9 notes at a coupon of 3.25% with a 7x oversubscribed order book. The AA Limited Group will continue to seek to refinance its maturities within good time of their scheduled maturities, including the refinancing of £250,000k of A6 notes which are due to mature on 31 July 2023. It is expected that market conditions in the coming months will be more challenging than in the past with significant macroeconomic concerns around interest rates and inflation as well as substantial geopolitical risk. However, despite these concerns, the AA Limited Group still expects to be able to access markets at a suitable time and refinance its debt at affordable prices.

The Group and the Company Directors have confirmed with the AA Limited Group Directors these points along with the projected cash flows, for a period of at least one year from the date of approval of these financial statements and have concluded that they have confidence that the AA Limited Group will have sufficient funds to continue trading during this period and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 71 of the AA Limited Group's Annual Report. For the AA Limited Group's longer-term viability, it remains a key assumption of its Directors that the AA Limited Group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. However, as noted above, the refinancing of the Class A6 Notes, due on 31 July 2023, is not committed at the date of issue of these financial statements. In the event the refinancing is not successful, the Group and the Company would not be able to continue as a going concern. Further to this, the Group and the Company has intercompany receivables from and payables to other members of the AA Intermediate Co Limited Group, for which settlement is dependent on successful refinancing. This has been reviewed by the Directors of the Company in the context of its status as an obligor of the AA Intermediate Co Limited Group's borrowings. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of these financial statements.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern. See also note 1.1 of the Company financial statements.

### Financial risk management

Our financial risk management objectives and policies can be found in note 29.

### Future developments

The Directors' comments on the future developments of the Company and Group are set out in the Strategic Report.

### Dividend

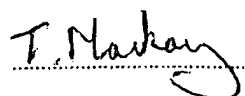
The Group did not pay a dividend (2021: £nil) during the year.

## Directors' report (continued)

### Events after the reporting period

Details of events after the reporting period can be found in note 39.

On behalf of the Board



T O Mackay  
Chief Financial Officer  
31 May 2022

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA  
Registered number: 5148845



# Independent auditors' report to the members of AA Intermediate Co Limited

## Report on the audit of the financial statements

### Opinion

In our opinion:

- AA Intermediate Co Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 January 2022 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 January 2022; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. The Company is an obligor of the AA Intermediate Co Limited Group's borrowings and forms part of the corresponding debt security Group for which the refinancing of the Class A6 Notes, due on 31 July 2023, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a 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 responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## Our audit approach

### Context

The AA Intermediate Co Limited and subsidiaries ("AA Intermediate Group") is a debt security group. AA Bond Co Limited, which is part of the AA Intermediate Group holds loan notes which are listed on the Irish Stock Exchange. The listed loan notes, therefore, form part of these consolidated financial statements.

### Overview

#### Audit scope

- We conducted audit testing over six components.
- Four components were subject to an audit of their complete financial information.
- Specific audit procedures were performed on certain balances and transactions in respect of a further two components.
- We obtained coverage of 91% of revenue.

#### Key audit matters

- Material uncertainty related to going concern (Company and Group)
- Recognition of revenue in respect of the personal roadside business (Group)
- Valuation of post-retirement benefit obligations (Group)
- Goodwill impairment assessment (Group)
- Investment in subsidiaries impairment assessment (Company)

#### Materiality

- Overall Group materiality: £8.0m (2021: £8.5m) based on approximately 2.5% of adjusted Trading EBITDA (2021: approximately 4% of Operating Profit).
- Overall Company materiality: £21.4m (2021: £20.9m) based on 1% (2021: 1%) of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3.0m.
- Performance materiality: £6.0m (2021: £6.3m) (Group) and £16.0m (2021: £15.7m) (Company).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Investment in subsidiaries impairment assessment (Company) is a new key audit matter this year. COVID-19 (Group and Company), which was a key audit matter last year, is no longer included because of the reduced risk of material misstatement of the financial statements as a consequence of COVID-19. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of revenue in respect of the personal roadside business (Group)</p> <p>Refer to Note 1.3(l) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 2 to the financial statements. The Group has recognised revenue of £480m in respect of the insured personal roadside business. There are known issues with the underlying policy management systems used in the insured personal roadside business and the way in which they account for revenue. A set of manual corrections are made each month, along with a series of standing provisions and other adjustments, to appropriately account for revenue. We focused on whether revenue from these policies was correctly recognised, and whether the corrections and standing provisions and other adjustments made are complete. Given the known issues, there is an increased completeness risk that there are undetected errors in the policy management system calculations. There is also an increased risk of error where manual corrections are made.</p>	<p>We evaluated the relevant IT systems and related internal controls; however, we concluded that we would not rely on the controls over financial reporting and we performed only substantive procedures in this area.</p> <p>For a sample of insured personal roadside contracts, we performed detailed testing of revenue transactions including agreeing to the underlying contracts, recalculating the revenue and deferred revenue recognised based on transactional data and contractual terms, and agreement to cash receipt. We performed detailed testing of the deferred revenue balances at period end to underlying contracts and recalculated the deferred revenue balance.</p> <p>We reviewed management's reconciliations of the revenue to be recognised as generated by the policy management systems to the revenue actually recognised in the general ledger, and tested a sample of the specific manual corrections, standing provisions and other adjustments posted by management to correct the known system errors as well as obtaining a full understanding of each of these.</p> <p>We performed substantive testing procedures over the completeness of the monthly corrections, standing provisions and other adjustments through the following procedures: sample testing policies and tracing through any identified differences to the corresponding correction, provision or other adjustment made, obtaining an understanding of all policy types and ways of policy set up and the corresponding accounting entries for each of these, and understood the nature of complaints through review of the complaints log to understand whether these could be indicative of further unidentified issues.</p> <p>We found no material misstatements from our testing.</p>
<p>Valuation of post-retirement benefit obligations (Group)</p> <p>Refer to Notes 1.3(k) and 1.3(u) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 26</p> <p>The Group operates three defined benefit pension schemes, the most significant of which is the AA UK Pension Scheme (AA UK), which combined have a total net defined benefit pension surplus of £130m, comprising gross assets of £2,666m and gross liabilities of £2,536m.</p> <p>Valuation of the liabilities requires significant levels of judgement and technical expertise in determining the appropriate assumptions to measure it. Changes in assumptions (including discount rate, mortality, inflation and pension increases) can have a material impact on the calculation of the liabilities either individually or in combination. The Directors used independent actuaries to prepare the year end valuation under International Accounting Standard 19, Employee benefits' ("IAS 19").</p> <p>Valuation of the scheme assets requires judgement, due to the nature of certain complex and illiquid assets held, for which there are no quoted prices available. Of the total asset value held, the majority do not have a quoted price available. Prices are obtained directly from the relevant investment managers who apply judgement in valuing those assets. In addition, the bulk annuity policies held are valued using actuarial assumptions.</p> <p>The recognition of the surplus this year involves judgement surrounding the criteria of IAS 19. We focused on the reasonableness of the assumptions used in the calculation of the AAUK defined benefit liability, the valuation of assets held by the AAUK scheme, the disclosure of post-retirement benefit scheme obligations and the surplus recognition criteria.</p>	<p>We involved our specialists in our assessment of the reasonableness of actuarial assumptions and the overall pension liability calculations by comparing the assumptions, including the discount rate and inflation rate, mortality and pension increases, to benchmark ranges, performing sensitivity analysis, checking whether methods have been consistently applied and are reasonable and assessing the impact of the assumptions in combination with one another. We agreed that the judgements taken by the Directors were reasonable.</p> <p>We obtained external confirmations to test the existence of pension assets as at 31 January 2022. In order to test the valuation of the complex assets, we obtained a range of supporting evidence as available, including recent transaction prices, audited fund financial statements and fund controls reports, to assess whether the net asset value provided was reliable and appropriate. In respect of the bulk annuity policies held, we utilised our actuarial specialists to test the valuation of the assets and performed testing of the insured members to data provided by both the scheme actuary and the administrator.</p> <p>We reviewed the disclosure of post-retirement scheme obligations and the criteria for recognition of the pension surplus against the requirements of IAS 19. We were satisfied with the nature and extent of the disclosures provided and that the conditions for recognition of the surplus were appropriate against the criteria in IAS 19.</p> <p>We found no material misstatements from our testing.</p>

<p><b>Goodwill impairment assessment (Group)</b></p> <p>Refer to Notes 1.3(h) and 1.3(u) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Notes 11 and 27. The goodwill balance of £1,170m is subject to an annual impairment review. The Directors analyse discounted cash flows at the cash generating unit (CGU) level to calculate the value in use for each CGU. Cash flow forecasts are an area of particular focus given the judgements relating to future growth and discount rate assumptions. No impairment charge has been recorded by the Directors against the goodwill balance in the current financial year. The risk that we focused on in the audit is that the goodwill balance may have been impaired in value and this has not been recognised.</p>	<p>For all CGUs, we checked the cash flow forecasts used by the Directors in the assessment of goodwill impairment were consistent with the approved five year plans, and considered the reasonableness of assumptions in relation to recent trading, including roadside membership rates and the number of motor and home insurance policies sold. We also challenged the extent to which climate change considerations had been reflected, as appropriate, in the cash flow forecasts. We focused additional work upon the AA Cars and DriveTech CGU's (with reasonable but more limited headroom). For certain key assumptions which underpinned their forecast performance, including the speed of recovery of the used vehicles sales market and the resumption of police speed awareness courses, we assessed these for reasonableness against market data, if available, and other internal management data where appropriate. We also evaluated the historical accuracy of the cash flow forecasts for these businesses.</p> <p>We found that the forecasts have been completed on a basis consistent with prior years and were an appropriate basis upon which the Directors could base their conclusions. We tested the Directors' assumptions in the forecasts for long term growth rates (by comparing them to economic forecasts); and the discount rate (by engaging our valuation experts to assess the cost of capital for the Company and comparable organisations). We found the assumptions to be consistent and in line with our expectations based on industry benchmarks. We obtained and tested the Directors' sensitivity calculations over all their CGUs and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment or to enhanced disclosure.</p>
<p><b>Investment in subsidiaries impairment assessment (Company)</b></p> <p>Refer to Notes 1.3(b), 1.3(d) and 2 to the Company financial statements. The Company holds investments in subsidiaries of £1,661m representing the AA Acquisition Co Limited Group (which owns the rest of the Group). The Directors having identified a trigger for impairment have leveraged the enterprise value forecasts used for the goodwill impairment assessment to derive an equity investment valuation, which takes account of adjusting the implied enterprise value for net debt. The cash-flows supporting the valuation were discounted at a pre-tax rate and are an area of particular focus given the judgements relating to future growth. Having referred to the requirements of International Accounting Standard 36, 'Impairment of Assets' ("IAS 36"), the Directors have concluded no impairment charge is required in the current year. The risk that we focused on in the audit is that the investment in subsidiaries may have been impaired in value and this has not been recognised.</p>	<p>We evaluated the Directors' impairment assessment of the investment in subsidiaries' carrying value by agreeing amounts to supporting documentation and checking calculations, including net debt adjustments. This leveraged the Directors' calculations for the Group goodwill impairment assessment referred to above. With the support of our valuation experts, we evaluated the Directors' determination of the discount rate and found this to be reasonable. We considered the requirements of IAS 36 and agreed with the Directors' determination that no impairment be recognised in the current year. We obtained and tested the Directors' sensitivity calculations and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment or to enhanced disclosure.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

AA Intermediate Co Limited has two operating segments. Within these segments there are around 49 reporting units, of which the following are considered financially significant: Automobile Association Developments Limited and Automobile Association Insurance Services Limited. Two further reporting units were subject to an audit of their complete financial information due to their nature: AA Intermediate Co Limited and AA Bond Co Limited. In addition, two reporting units were in scope for specific audit procedures, being AA Corporation Limited, and AA Senior Co Limited. These two components were selected based on the contribution of each to specific financial statement line items, including intangible assets, operating and accrued expenses, staff costs and prepayments; and borrowings and external interest expense respectively. These, together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances and asset impairment assessments, gave us the evidence we needed for our opinion on the financial statements as a whole. Having undertaken certain procedures to understand the accounting processes and controls at the Group, we determined it was appropriate to perform a wholly substantive audit for the reporting units in scope. All audit procedures were performed by the Group engagement team, with no component auditors involved. Due to restrictions imposed by the COVID-19 pandemic, the audit was predominantly performed remotely and, although we met face-to-face

with management where possible, we also communicated via regular telephone and video calls. The Company is principally a holding Company and there are no branches or other locations to be considered when scoping the audit.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements - Group	Financial statements - Company
<i>Overall materiality</i>	£8.0m (2021: £8.5m).	£21.4m (2021: £20.9m).
<i>How we determined it</i>	Approximately 2.5% of adjusted Trading EBITDA (2021: approximately 4% of Operating Profit)	1% (2021: 1%) of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3m
<i>Rationale for benchmark applied</i>	EBITDA, which is a common performance measure for PE backed companies, reflects the fact that this is typically the most relevant measure of profitability. Based on the benchmarks used in the Annual Report, Trading EBITDA is the primary measure used by the shareholders and other users of the financial statements in assessing the performance of the Group, and that by adjusting this to exclude certain items (such as the pension service charge adjustment, the share-based payments charge and the impairment of investments in joint ventures), it provides a clearer view of the performance of the underlying business.	We believe that total assets is the appropriate measure as the Company is a non-profit oriented entity. In the current year, overall materiality has been reduced to £3.0m, for the purposes of the audit of the Group financial statements, to ensure the Company did not have a higher materiality than the overall Group materiality allocation.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £3.0m to £7.6m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £6.0m (2021: £6.30m) for the Group financial statements and £16.0m (2021: £15.7m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.4m (Group audit) (2021: £0.5m) and £1.1m (Company audit) (2021: £1.0m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **Strategic Report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 January 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

## **Responsibilities for the financial statements and the audit**

### **Responsibilities of the Directors for the financial statements**

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

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

### **Auditors' 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 auditors' 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.

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.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory requirements, such as those governed by the Financial Conduct Authority ("FCA"), and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profit and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, internal compliance, internal legal counsel and enquiries of the Group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Reviewing correspondence between the Group and the FCA in relation to compliance with laws and regulations, and considering the matters identified in light of our understanding of the sector.
- Challenging significant accounting assumptions and judgements individually and collectively for indications of management bias, in particular in relation to the valuation of post-retirement benefit obligations, subsidiary investment and goodwill impairment assessments, as described further in the Key audit matters above.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any).
- Incorporating elements of unpredictability into the audit procedures performed.
- Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements, for example within the Directors' Report.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

#### **Use of this report**

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

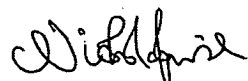
## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Nicholas Smith (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
31 May 2022

## Consolidated income statement

for the year ended 31 January

	Note	2022 £m	2021 £m
Revenue	2	940	927
Cost of sales		(373)	(352)
<b>Gross profit</b>		<b>567</b>	<b>575</b>
Administrative & marketing expenses		(449)	(358)
Impairment of property, plant and equipment	13	(11)	-
Other income		1	-
<b>Operating profit</b>	4	<b>108</b>	<b>217</b>
Finance costs	6	(143)	(171)
Finance income	7	30	3
<b>(Loss)/profit before tax</b>		<b>(5)</b>	<b>49</b>
Tax expense	10	(1)	(9)
<b>(Loss)/profit for the year</b>		<b>(6)</b>	<b>40</b>

The accompanying notes are an integral part of this consolidated income statement.



## Consolidated statement of comprehensive income

for the year ended 31 January			
	Note	2022 £m	2021 £m
<b>(Loss)/profit for the year</b>		<b>(6)</b>	<b>40</b>
<b>Other comprehensive income on items that may be reclassified to the income statement in subsequent years</b>			
Effective portion of changes in fair value of cash flow hedges		7	1
Tax effect		(2)	-
		<b>5</b>	<b>1</b>
<b>Other comprehensive income/(expense) on items that will not be reclassified to the income statement in subsequent years</b>			
Remeasurement gains/(losses) on defined benefit schemes	26	<b>322</b>	(50)
Tax effect	10	(80)	10
		<b>242</b>	<b>(40)</b>
<b>Total other comprehensive income/(loss)</b>		<b>247</b>	<b>(39)</b>
<b>Total comprehensive income for the year</b>		<b>241</b>	<b>1</b>

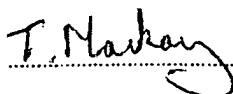
The accompanying notes are an integral part of this consolidated statement of comprehensive income.

## Consolidated statement of financial position

		as at 31 January	
	Note	2022 £m	2021 £m
<b>Non-current assets</b>			
Goodwill and other intangible assets	11	1,346	1,348
Property, plant and equipment	13	36	52
Right-of-use assets	14	49	52
Investments in joint ventures and associates	15	5	5
Derivative financial instruments	23	6	-
Financial assets at amortised cost	28	4	4
Deferred tax assets	10	-	17
Defined benefit pension scheme assets	26	130	-
		<b>1,576</b>	<b>1,478</b>
<b>Current assets</b>			
Inventories	16	4	4
Trade and other receivables	17	209	213
Proceeds of Class B3 Notes issuance held in escrow	21	-	280
Amounts owed by parent undertakings	19	1,208	1,233
Cash and cash equivalents	18	67	119
		<b>1,488</b>	<b>1,849</b>
Assets classified as held for sale	38	8	-
<b>Total assets</b>		<b>3,072</b>	<b>3,327</b>
<b>Current liabilities</b>			
Trade and other payables	20	(430)	(444)
Amounts due to parent undertakings	19	(73)	(71)
Current tax payable		(2)	-
Borrowings and loans	21	-	(637)
Derivative financial instruments	23	-	(1)
Lease liabilities	30	(15)	(18)
Provisions	24	(4)	(5)
		<b>(524)</b>	<b>(1,176)</b>
<b>Non-current liabilities</b>			
Borrowings and loans	21	(2,306)	(2,383)
Derivative financial instruments	23	-	(1)
Lease liabilities	30	(30)	(31)
Defined benefit pension scheme liabilities	26	-	(188)
Deferred tax liability	10	(54)	-
Provisions	24	(10)	(7)
		<b>(2,400)</b>	<b>(2,610)</b>
<b>Total liabilities</b>		<b>(2,924)</b>	<b>(3,786)</b>
<b>Net assets/(liabilities)</b>		<b>148</b>	<b>(459)</b>
<b>Equity</b>			
Share capital	25	361	-
Cash flow hedge reserve		4	(1)
Retained earnings		(217)	(458)
<b>Total equity</b>		<b>148</b>	<b>(459)</b>

The financial statements were approved by the Board of Directors on 31 May 2022 and signed on its behalf by:

T O Mackay, Chief Financial Officer



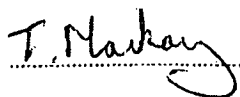
The accompanying notes are an integral part of this consolidated statement of financial position.

## Company statement of financial position as at 31 January

	Notes	2022 £m	2021 £m
<b>Non-current assets</b>			
Investments in subsidiaries	2	1,661	1,661
<b>Current assets</b>			
Amounts owed by subsidiary undertakings	3	476	115
<b>Total assets</b>		<b>2,137</b>	<b>1,776</b>
<b>Current liabilities</b>			
Amounts due to parent undertakings	4	(1,756)	(1,756)
<b>Total liabilities</b>		<b>(1,756)</b>	<b>(1,756)</b>
<b>Net assets</b>		<b>381</b>	<b>20</b>
<b>Equity</b>			
Called up share capital	5	361	-
Retained earnings		20	20
<b>Total equity</b>		<b>381</b>	<b>20</b>

The result for the financial year of the Company is £nil (2021: £nil).

Signed for and on behalf of the Board on 31 May 2022 by:



T O Mackay  
Chief Financial Officer

The accompanying notes are an integral part of this company statement of financial position.

## Company statement of changes in equity

	Share capital £m	Retained earnings £m	Total equity £m
At 1 February 2020	-	20	20
Result for the year	-	-	-
<b>At 31 January 2021</b>	<b>-</b>	<b>20</b>	<b>20</b>
Result for the year	-	-	-
Issue of share capital	361	-	<b>361</b>
<b>At 31 January 2022</b>	<b>361</b>	<b>20</b>	<b>381</b>

The accompanying notes are an integral part of this company statement of changes in equity.

## Consolidated statement of changes in equity

	Attributable to the equity holders of the parent			
	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 February 2020	-	(2)	(461)	(463)
Profit for the year	-	-	40	40
Other comprehensive income/(expense)	-	1	(40)	(39)
Total comprehensive income	-	1	-	1
Equity-settled share-based payments (see note 35)	-	-	3	3
<b>At 31 January 2021</b>	<b>-</b>	<b>(1)</b>	<b>(458)</b>	<b>(459)</b>
Loss for the year	-	-	(6)	(6)
Other comprehensive income	-	5	242	247
Total comprehensive income	-	5	236	241
Issue of share capital	361	-	-	361
Equity-settled share-based payments (see note 35)	-	-	5	5
<b>At 31 January 2022</b>	<b>361</b>	<b>4</b>	<b>(217)</b>	<b>148</b>

### Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The accompanying notes are an integral part of this consolidated statement of changes in equity.

## Consolidated statement of cash flows

		for the year ended 31 January	
	Note	2022 £m	2021 £m
<b>Operating activities</b>			
(Loss)/profit before tax		(5)	49
Amortisation, depreciation and impairment	11,13,14	108	92
Net finance costs	6,7	113	168
Difference between pension charge and cash contributions		(24)	(19)
Other adjustments to (loss)/profit before tax		40	5
Working capital and provisions:			
Decrease/(increase) in trade and other receivables		6	(31)
Increase in trade and other payables		12	12
Increase in provisions		2	1
Total working capital and provisions adjustments		20	(18)
<b>Net cash flows from operating activities before tax</b>		<b>252</b>	<b>277</b>
Tax paid		(10)	(14)
<b>Net cash flows from operating activities</b>		<b>242</b>	<b>263</b>
<b>Investing activities</b>			
Capital expenditure		(77)	(62)
Proceeds from sale of fixed assets		2	1
Payment for acquisition of subsidiary, net of cash acquired		-	(1)
Investment in joint venture		(1)	(1)
Proceeds from sale of subsidiaries, net of cash sold		-	(1)
<b>Net cash flows used in investing activities</b>		<b>(76)</b>	<b>(64)</b>
<b>Financing activities</b>			
Proceeds from borrowings		699	525
Issue costs on borrowings		(15)	(8)
Debt repayment premium and penalties		-	(6)
Equity contribution via issue of shares		361	-
Repayment of borrowings		(1,113)	(525)
Refinancing transactions		(68)	(14)
Interest paid on borrowings		(123)	(138)
Payment of lease capital		(25)	(27)
Payment of lease interest		(2)	(3)
<b>Net cash flows used in financing activities</b>		<b>(218)</b>	<b>(182)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(52)</b>	<b>17</b>
Cash and cash equivalents at 1 February	18	119	102
<b>Cash and cash equivalents at 31 January</b>	<b>18</b>	<b>67</b>	<b>119</b>

## Consolidated statement of cash flows (continued)

The cash flows from operating activities are stated net of cash outflows relating to adjusting operating items of £68m (2021: £4m). These items comprised £5m related to the closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme (2021: £5m), transaction fees related to the acquisition of £50m (2021: £nil), costs of strategic initiatives of £12m (2021: £2m) and legal claims of £1m (2021: £nil). The prior year also included £4m related to emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic offset by £7m related to government furlough support in respect of COVID-19, both of which were nil in 2022.

Other adjustments to (loss)/profit before tax inflow of £40m (2021: inflow of £5m) include pension past service cost £26m (2021: £nil) equity-settled share-based payment charge of £5m (2021: £3m), a £10m waiver of an intercompany loan (2021: £nil), impairment of investment in joint ventures of £1m (2021: £nil) offset by a profit on sale of fixed assets of £2m (2021 loss: £2m).

Non-cash investing activities include the acquisition of right-of-use assets (see note 14).

The accompanying notes are an integral part of this consolidated statement of cash flows.

## Notes to the consolidated financial statements

### 1 Basis of preparation and accounting policies

#### 1.1 General information

The consolidated financial statements for the year ended 31 January 2022 comprise the financial statements of AA Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a private company limited by shares, incorporated and domiciled in England and Wales, UK.

These statements and the prior year comparatives have been presented to the nearest £million.

#### 1.2 Basis of preparation

The Group has prepared these statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to the Regulations of the Companies Act, which requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. The reason for this departure is that the goodwill has been deemed to have an indefinite useful life, in accordance with IAS 38, and has consequently been treated in accordance with the requirements of IAS 38 and instead of being amortised over the useful life is tested for impairment annually. The effect of this treatment is that the carrying value of goodwill is higher than if it had been subject to amortisation.

These consolidated financial statements have been prepared under the historic cost convention as modified by the measurement of derivatives and liabilities for contingent consideration in business combinations at fair value.

##### a) Going concern

The Group's and the Company's business activities, future developments and its exposure to financial risks are described in the "Business performance review" and "Risk management framework" sections on pages 6 to 16.

The Group and the Company has adequate financial resources due to the Group's net current asset position and the Company's net asset position. AA Intermediate Co Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Group is linked to the wider AA Limited group. As a result, the Group and the Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Group and the Company have sufficient funds to continue trading during this period and the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In July 2021, the AA Limited group completed a highly successful refinancing of its outstanding A5 notes, issuing £270,000k of A9 notes at a coupon of 3.25% with a 7x oversubscribed order book. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities, including the refinancing of £250,000k of A6 notes which are due to mature on 31 July 2023. It is expected that market conditions in the coming months will be more challenging than in the past with significant macroeconomic concerns around interest rates and inflation as well as substantial geopolitical risk. However, despite these concerns, the AA Limited group still expects to be able to access markets at a suitable time and refinance its debt at affordable prices.

The Group and the Company Directors have confirmed with the AA Limited group directors these points along with the projected cash flows, for a period of at least one year from the date of approval of these financial statements and have concluded that they have confidence that the AA Limited group will have sufficient funds to continue trading during this period and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 71 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. However, as noted above, the refinancing of the Class A6 Notes, due on 31 July 2023, is not committed at the date of issue of these financial statements. In the event the refinancing is not successful, the Group and the Company would not be able to continue as a going concern.



## **1 Basis of preparation and accounting policies (continued)**

### **1.2 Basis of preparation (continued)**

#### **a) Going concern (continued)**

Further to this, the Group and the Company has intercompany receivables from and payables to other members of the AA Intermediate Co Limited group, for which settlement is dependent on successful refinancing. This has been reviewed by the Directors of the Company in the context of its status as an obligor of the AA Intermediate Co Limited Group's borrowings. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of these financial statements.

The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern. See also note 1.1 of the Company financial statements.

#### **b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has rights to variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### **1.3 Accounting policies**

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

#### **a) Interests in joint ventures and associates**

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participating in the financial and operating policy decisions of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The results, assets and liabilities of joint ventures and associates are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures and associates are carried in the Group statement of financial position at cost, including direct acquisition costs, as adjusted by post-acquisition changes in the Group's share of the net assets less any impairment losses.

#### **b) Foreign currencies**

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates.

Transactions in currencies other than the functional currency of each consolidated undertaking are recorded at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at rates of exchange ruling at the statement of financial position date. Gains and losses arising on the translation of assets and liabilities are taken to the income statement.

#### **c) Business combinations and goodwill**

All business combinations are accounted for by applying the acquisition method.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill arising on consolidation represents the excess of the consideration paid over the Group's interest in the fair value of the identified assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset at cost less accumulated impairment losses.

Any contingent consideration payable is recognised at fair value at the acquisition date, and subsequent changes to the fair value of the contingent consideration are taken to the income statement.

## **1 Basis of preparation and accounting policies (continued)**

### **1.3 Accounting policies (continued)**

#### **d) Intangible assets**

Intangible assets other than goodwill which are acquired separately are stated at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful economic lives. The only intangible assets with finite lives held by the Group are customer relationships, software and development costs. Customer relationships are amortised over 10 years and software and development costs over 5 years.

#### **Software and development costs**

Software development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied. The asset is carried at cost less any accumulated amortisation and impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised on a straight-line basis over its useful life of three to five years.

Software-as-a-Service arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses. Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to existing systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

#### **e) Property, plant and equipment**

Land and buildings held for use in the production of goods and the provision of services or for administrative purposes are stated in the statement of financial position at cost or fair value for assets acquired in a business combination less any subsequent accumulated depreciation and impairment losses. If relevant conditions are met, borrowing costs are capitalised.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of property, plant and equipment less their expected residual value is depreciated in equal instalments over their useful economic lives. In assessing residual values and asset lives consideration have been given to the impact of climate change. These lives are as follows:

Buildings	50 years
Related fittings	3 – 20 years
Leasehold properties	over the period of the lease
Plant, vehicles and other equipment	3 – 10 years

Property, plant and equipment shall be classified as held-for-sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. Assets meeting the criteria of held-for-sale are transferred to held-for-sale at the lower of carrying value or fair value less costs to sell at the point at which the criteria are met.

#### **f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

## 1 Basis of preparation and accounting policies (continued)

### 1.3 Accounting policies (continued)

#### g) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Group recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

##### *Trade receivables*

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised at fair value and are subsequently held at amortised cost. The Group applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade receivables.

##### *Trade payables*

Trade payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with an original maturity less than three months.

##### *Debt instruments*

Debt is initially recognised in the statement of financial position at fair value less transaction costs incurred directly in connection with the issue of the instrument. Debt issue fees in respect of the instrument, including premiums and discounts on issue, are capitalised at inception and charged to the income statement over the term of the instrument using the effective interest method. Remaining issue costs on debt are written off to the income statement when the debt is extinguished.

An exchange with an existing lender of debt instruments with substantially different terms, or a substantial modification of the terms of an existing financial liability or a part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

##### *Equity instruments (share capital issued by the Group)*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments are recognised at the fair value of proceeds received less direct issue costs.

##### *Derivative financial instruments*

The Group's capital structure exposes it to the financial risk of changes in interest rates and fuel prices. The Group uses interest rate and fuel swap contracts to hedge these exposures.

Derivative financial instruments are recorded in the statement of financial position at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments. The gain or loss on remeasurement to fair value is recognised immediately in the income statement unless they qualify for hedge accounting as described below.

##### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

**1 Basis of preparation and accounting policies (continued)**

**1.3 Accounting policies (continued)**

**g) Financial instruments (continued)**

In the same period or periods during which the hedged expected future cash flows affects profit or loss, the associated cumulative gain or loss on the hedged forecast transaction is removed from equity and recognised in the income statement.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

**h) Impairment of assets**

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, goodwill and intangible assets not yet available for use are tested for impairment annually.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating units or 'CGUs'). The goodwill acquired in a business combination is allocated to CGUs so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any allocated goodwill and then to reduce the carrying amounts of the other assets on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**i) Leases**

**Lease liabilities**

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

**Measurement of right-of-use assets**

The associated right-of-use assets for leases are initially measured at cost, being the initial lease liability plus any direct initial costs and an estimate of end-of-life costs, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position.

Subsequently the right-of-use assets are depreciated over their lease terms. Useful economic lives of leased assets are reviewed for appropriateness on a continuous basis including in relation to climate change impacts such as electric vehicles.

For property leases, where a decision has been made prior to the year end to permanently vacate the property, the right-of-use asset is impaired to the extent that the value cannot be recovered through rental or other income expected to be received up to the estimated date of final disposal.

**j) Provisions and contingent liabilities**

A provision is required when the Group has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

**1 Basis of preparation and accounting policies (continued)**

**1.3 Accounting policies (continued)**

**j) Provisions and contingent liabilities (continued)**

Provisions are discounted where the impact is material. Material contingent liabilities are disclosed unless the likelihood of transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

**k) Retirement benefit obligation**

The Group's position in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, with maturity dates approximating the terms of the Group's obligations, and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in administrative and marketing expenses in the income statement.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the income statement when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

For defined contribution schemes, the amounts recognised in the income statement are the contributions payable in the year.

**l) Revenue recognition**

Revenue is measured at the fair value of the consideration receivable less any discounts and excluding value added tax and other sales related taxes.

Roadside membership subscriptions are apportioned on a time basis over the period where the Group is liable for risk cover as the relevant performance obligations are settled over time with the Group acting as principal. The unrecognised element of subscriptions and premiums receivable, relating to future periods, is held within liabilities as deferred income.

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis, with the Group acting as agent in this relationship.

Where customers choose to pay by instalments, the Group charges interest based on the principal outstanding and disclosed interest rate and recognises this income over the course of the loan.

Fees receivable on franchise agreements with driving instructors are recognised as revenue over time across the term of the franchise agreements. This includes fees receivable under the franchise agreement in respect of provision of tuition vehicles, which is not considered to be a sub-lease arrangement. The Group acts as principal in this relationship.

Commission income receivable from the sale and related marketing and administrative services of financial products, such as that earned through the partnership with the Bank of Ireland, is recognised on a point in time basis at the point of the provision of the service, with the Group acting as agent in this relationship.

**1 Basis of preparation and accounting policies (continued)**

**1.3 Accounting policies (continued)**

**l) Revenue recognition (continued)**

Fixed income, fixed rebates and profit share relating to the provision of these services are recognised in revenue over time in line with the profile of expected lending over the contract term. For all other revenue, this income is recognised on a point in time basis at the point of delivery of goods or on the provision of service, or over time where the service is provided over more than one day. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

**m) Insurance contracts**

An insurance contract is a contract under which insurance risk is transferred to the issuer of the contract by another party. In the roadside segment, the Group accepts insurance risk from its customers under roadside recovery service contracts by agreeing to provide services whose frequency and cost is uncertain. Claims and expenses arising from these contracts are recognised in profit or loss as incurred.

At the statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current estimates of future cash outflows arising under insurance contracts are considered and compared with the carrying amount of deferred income and other insurance contract liabilities. Any deficiency is immediately recognised in the income statement and an additional liability is established.

The estimation of the ultimate liability from claims made under insurance contracts for breakdown recovery is not considered to be one of the Group's most critical accounting estimates. This is because there is a very short period of time between the receipt of a claim, e.g. a breakdown, and the settling of that claim. Consequently, there are no significant provisions for unsettled claims costs in respect of the roadside assistance services.

**n) Insurance aggregator fees**

Insurance aggregator fees are the costs related to the acquisition of customers from insurance comparison websites. These costs are expensed to the income statement in full at the commencement of the insurance policy except where the risk is underwritten by the Group in which case aggregator fees are initially deferred then expensed over the duration of the policy. These costs are presented in the income statement within administrative and marketing expenses.

**o) Adjusting operating items**

Adjusting operating items are events or transactions that fall within the operating activities of the Group and which, by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

In addition, occasionally there are events or transactions that fall below operating profit that are one-off in nature and items within operating profit that relate to transactions that do not form part of the ongoing segment performance and which, by virtue of their size or incidence have been separately disclosed in the financial statements.

**p) Finance income and costs**

Finance costs comprise interest payable, finance charges on leases recognised in profit or loss using the effective interest method, amortisation of debt issue fees, unwinding of the discount on provisions (including the net defined benefit obligations) and unwinding of the discount on contingent consideration payable.

Finance income comprises net finance income from defined benefit pension schemes and movement in interest rate swaps.

**q) Taxation**

Tax on the profit or loss for the year comprises current and deferred tax.

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

**1 Basis of preparation and accounting policies (continued)**

**1.3 Accounting policies (continued)**

**q) Taxation (continued)**

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**r) Segmental analysis**

The Group reports its operations using the segments that are reported for management purposes. Segments are based on business operations because this is where Group risk and return is focused.

**s) Share-based payments**

The Group operates equity-settled and cash-settled share-based payment compensation plans for employees.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using a valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market vested and non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes. On change of control, if vesting date is brought forward, the share based payment charge and increase in equity for the remainder of the vesting term will be accelerated and recognised as at that date (see note 35).

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each statement of financial position date and at settlement date. Any changes in the fair value of the liability are recognised as an employee cost in the income statement.

**t) Discontinued operations and disposals**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group, and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

**1 Basis of preparation and accounting policies (continued)**

**1.3 Accounting policies (continued)**

**u) Critical accounting estimates and judgements**

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group

makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management has exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an ongoing basis and include the selection of assumptions in relation to the retirement benefit obligation.

The principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Retirement benefit obligation*

The Group's retirement benefit obligation, which is actuarially assessed each period, is based on key assumptions including return on plan assets, discount rates, mortality rates, inflation, future salary and pension costs. These assumptions may be different to the actual outcome (see note 26 for sensitivity analysis).

In the current year, the AAUK defined benefit pension scheme is in a surplus position. There is judgement around the recognition of a surplus which has been considered by management. The defined benefit pension scheme surplus has been recognised as the Group has an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

*Intangibles*

The Group has significant software development programmes and there is judgement in relation to which programmes and costs to capitalise under IAS 38. Additionally, there is an estimate in respect of the future usage period of software on which the Group bases the useful economic life of related assets. A reduction in the useful economic life of Customer relationships and Software of 1 year would result in an increase in the amortisation charge by 10% and 25% respectively (see note 11).

*Intercompany receivables*

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. Formal intercompany loan balances are reviewed on a case-by-case basis for impairment.

The following are other principal estimates and assumptions made by the Group, but which management believes do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

*Goodwill*

The Group tests goodwill for impairment annually. The recoverable amounts of CGUs have been determined based on value in use calculations which require the use of estimates (see note 27). Management has prepared discounted cash flows based on the latest strategic plan. The value in use calculation is most sensitive to assumptions in growth and discount rate, and cash flows incorporate the latest business-led assumptions including contract wins, sales volumes and investment requirements including an assessment of the impact of climate change.

*Share-based payments*

The Group has issued a number of share-based payment awards to employees which are measured at fair value. Calculating the share-based payment charge for the year involves estimating the number of awards expected to vest, which in turn involves estimating the number of expected leavers over the vesting period and the extent to which non-market-based performance conditions will be met. Determining the fair value of an award with a market-based performance condition also involves factoring in the impact of the expected volatility of the share price.



**1 Basis of preparation and accounting policies (continued)**

**1.3 Accounting policies (continued)**

**u) Critical accounting estimates and judgements (continued)**

*Leases*

The Group recognises lease liabilities in relation to leases, measured at the present value of the minimum lease payments, discounted using the discount rate implicit in the lease, or, where this is not available, the corresponding incremental borrowing rate at the date of inception of the lease. Management's approach to determining the incremental borrowing rate for a right-of-use asset involves using data provided by the Group's external advisers on the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the relevant right-of use asset.

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**2 Segmental information and revenue disaggregation**

The Group has two key segments – Roadside and Insurance. These segments are consistent with the way in which information is presented to the chief operating decision maker. Head Office costs have been allocated to these two key segments as these costs principally directly support the operations of these segments. Head Office costs are predominately allocated on a percentage of revenue basis.

The two reportable operating segments are as follows:

- *Roadside:* This segment is the largest part of the AA business. The AA provides a nationwide service, sending patrols out to members stranded at the side of the road, repairing their vehicles where possible and getting them back on their way quickly and safely. In addition, this segment includes the AA and BSM driving schools, Drivetech which provides driver training and educative programmes, and our Prestige business which provides service, maintenance and repair services.
- *Insurance:* This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers and its intermediary financial services business. This segment also includes AA Cars which sells used vehicles.

**2 Segmental information and revenue disaggregation (continued)**

	2022 £m	2021 £m
<b>Revenue</b>		
Roadside	822	799
Insurance	118	128
<b>Revenue</b>	<b>940</b>	<b>927</b>
<b>Trading EBITDA</b>		
Roadside	290	282
Insurance	34	40
<b>Trading EBITDA</b>	<b>324</b>	<b>322</b>
Share-based payments (see note 35)	(5)	(4)
Pension service charge adjustment (see note 3)	(4)	(5)
Amortisation and depreciation (see notes 11, 13, 14)	(97)	(92)
Impairment of property, plant and equipment (see note 13)	(11)	-
Pension past service cost (see note 26)	(26)	-
<b>Operating profit before adjusting operating items</b>	<b>181</b>	<b>221</b>
Adjusting operating items (see note 5)	(73)	(4)
<b>Operating profit</b>	<b>108</b>	<b>217</b>
Net finance costs (see notes 6 and 7)	(113)	(168)
<b>(Loss)/Profit before tax</b>	<b>(5)</b>	<b>49</b>

All segments operate principally in the UK. Revenue by destination is not materially different from revenue by origin.

Segment performance is primarily evaluated using the Group's key performance measures of Revenue and Trading EBITDA as well as operating profit before adjusting operating items.

Adjusting operating items, net finance costs and tax expense are not allocated to individual segments as they are managed on a Group basis.

Segmental information is not presented for items in the statement of financial position as management does not view this information on a segmental basis.

Insurance revenue includes £24m (FY21: £23m) which is recognised under the effective interest method. Please see corresponding accounting policy in note 1.3(l) for further details.

**2 Segmental information and revenue disaggregation (continued)**

Reconciliation of Trading EBITDA to operating profit before adjusting operating items	Roadside		Insurance	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Trading EBITDA</b>	<b>290</b>	<b>282</b>	<b>34</b>	<b>40</b>
Share-based payments	(4)	(3)	(1)	(1)
Pension service charge adjustment	(3)	(4)	(1)	(1)
Amortisation and depreciation	(85)	(81)	(12)	(11)
Impairment of property, plant and equipment	(7)	-	(4)	-
Pension past service cost	(23)	-	(3)	-
<b>Operating profit before adjusting operating items</b>	<b>168</b>	<b>194</b>	<b>13</b>	<b>27</b>

**Disaggregation of revenue:**

	2022 £m	2021 £m
<b>Roadside:</b>		
<b>Consumer (B2C)</b>		
Insured contracts	480	470
Pay for use contracts <sup>1</sup>	47	48
<b>Business services (B2B)</b>		
Insured contracts	31	32
Pay for use contracts <sup>1</sup>	178	176
<b>Roadside other<sup>2</sup></b>	<b>86</b>	<b>73</b>
<b>Total Roadside</b>	<b>822</b>	<b>799</b>
<b>Insurance:</b>		
Brokering activities	100	113
Insurance other <sup>2</sup>	18	15
<b>Total Insurance</b>	<b>118</b>	<b>128</b>
<b>Revenue</b>	<b>940</b>	<b>927</b>

<sup>1</sup> Pay for use contracts relate to contracts that take into account the number of breakdowns.

<sup>2</sup> Roadside other comprises the Group's Driving Schools, Drivetech and Prestige businesses as well as a number of other smaller operations. Insurance other comprises the Group's AA Cars and Financial Services businesses.

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions. The majority of brokering activities revenue relates to commission income from insurers external to the Group. For further detail on the Group's revenue streams see the 'Financial Review' section of the AA Limited Annual Report on pages 21-23, and the 'Risk Management report' section of the Annual Report on pages 32-35 for the associated risks.

### 3 Adjusted performance measures

These financial statements report results and performance both on a statutory and non-GAAP (non-statutory) basis. The Group's adjusted performance measures are non-GAAP (non-statutory) financial measures and are included in these financial statements as they are key financial measures used by management to evaluate performance of business segments. The measures enable stakeholders to more easily and consistently track the underlying operational performance of the Group and its business segments. Some of the measures are also required under our debt documents for debt covenant calculations.

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, adjusting operating items, share-based payments, pension service charge adjustments, pension past service costs, impairment of property, plant and equipment, net finance costs and tax expense.

The pension service charge adjustment relates to the difference between the cash contributions to the pension-scheme for ongoing contributions and the calculated annual-service-costs:

#### Reconciliation of Trading EBITDA to operating profit

Trading EBITDA is calculated as operating profit before adjustments as shown in the table below:

		for the year ended 31 January	
	Note	2022 £m	2021 £m
<b>Trading EBITDA</b>	2	<b>324</b>	322
Share-based payments	35	(5)	(4)
Pension service charge adjustment		(4)	(5)
Amortisation and depreciation	11,13,14	(97)	(92)
Impairment of property, plant and equipment	13	(11)	-
Pension past service cost	26	(26)	-
Adjusting operating items	5	(73)	(4)
<b>Operating profit</b>	4	<b>108</b>	217

Trading EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, legal costs and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of share-based payments, defined benefit pension service charge adjustments, pension past service costs, amortisation and depreciation.

These specific adjustments are made between the GAAP measure of operating profit and the non-GAAP measure of Trading EBITDA because Trading EBITDA is a performance measure required and clearly defined under the terms of our debt documents and is used for calculating our debt covenants. Given the significance of the Group debt, Trading EBITDA is a key measure for our bondholders and therefore management. In addition, the Group shows Trading EBITDA to enable investors and management to more easily and consistently track the underlying operational performance of the Group and its business segments.

#### 4 Operating profit

Operating profit is stated after charging:

	2022 £m	2021 £m
Amortisation of owned intangible assets (see note 11)	60	54
Depreciation of owned tangible fixed assets (see note 13)	14	12
Depreciation of right-of-use assets (see note 14)	23	26

#### 5 Adjusting operating items

	2022 £m	2021 £m
Transaction fees related to the acquisition and debt financing arrangements	46	-
Strategic review projects	13	2
Closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme	5	5
Emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic	-	4
Government furlough support in respect of COVID-19	-	(7)
Intercompany loan waiver	10	-
Other adjusting operating items	(1)	-
<b>Total adjusting operating items</b>	<b>73</b>	<b>4</b>

In the current year, other adjusting operating items comprised a £1m impairment of investments in joint ventures offset by a £2m gain relating to the sale of property, plant and equipment. The intercompany loan waiver reflects the forgiveness of a loan between AA Limited and Automobile Association Developments Limited following the closure of the Employee Benefit Trust on acquisition of the AA Limited group in March 2021.

In the prior year, other adjusting operating items comprised a £1m loss on disposal of subsidiaries (see note 12), £1m of additional property dilapidations costs and a £1m impairment of investments in joint ventures offset by a £2m release of a provision for conduct and regulatory costs and a £1m profit on disposal of non-current assets.

## 6 Finance costs

	2022 £m	2021 £m
Interest on external borrowings	125	138
Finance charges payable on lease liabilities	2	3
<b>Total ongoing cash finance costs</b>	<b>127</b>	<b>141</b>
Ongoing amortisation of debt issue fees	9	9
Fair value movement on interest rate swaps	-	1
Net finance expense on defined benefit pension schemes	2	-
<b>Total ongoing non-cash finance costs</b>	<b>11</b>	<b>10</b>
Debt repayment premium	-	6
Debt issue fees immediately written off following repayment of borrowings	-	5
Debt issue fees immediately written off following refinancing of banking facilities (see note 22)	1	-
<b>Total adjusting cash finance costs</b>	<b>1</b>	<b>11</b>
Unamortised debt issue fees written off following repayment of borrowings (see note 22)	4	9
<b>Total adjusting non-cash finance costs</b>	<b>4</b>	<b>9</b>
<b>Total finance costs</b>	<b>143</b>	<b>171</b>

During the current year, the Group issued £270m of Class A9 Notes, repaid £372m of Class A5 Notes and refinanced the £570m outstanding Class B2 Notes, £200m Senior Term Facility (STF), £60m Working Capital Facility (WCF) and £165m Liquidity Facility (LF) (see note 22).

The issue of the class A9 Notes was not a modification of any existing debt and the associated issue fees were capitalised. £1m of facility arrangement fees were also capitalised for the Senior Term Facility (see note 22).

The Group incurred adjusting finance costs of £5m consisting of £1m of debt issue fees immediately written off on refinancing of the WCF and LF, a £1m write-off of unamortised issue fees associated with the Class A5 Notes and a £3m write-off of unamortised issue fees associated with the Class B2 Notes.

## 7 Finance income

	2022 £m	2021 £m
Gain from release of Class 2 B Notes	29	-
<b>Total ongoing cash finance income</b>	<b>29</b>	<b>-</b>
Net finance income on defined benefit pension schemes	-	3
Fair value movement on interest rate swap	1	-
<b>Total ongoing non-cash finance income</b>	<b>1</b>	<b>3</b>
<b>Total finance income</b>	<b>30</b>	<b>3</b>

During the period, AA Limited surrendered for cancellation £29m of Class B2 notes resulting in a gain of £29m in the Group. This cancellation, along with the £261m equity contribution and issue of £280m Class B3 Notes enabled the redemption in full of the Class B2 Notes (see note 22). The Company also made a £1m gain on fair value movement on interest swaps.

## 8 Employee costs

	2022 £m	2021 £m
Wages and salaries	245	239
Social security costs	26	24
Other pension costs	30	31
Share-based payments expense (see note 35)	5	4
	<b>306</b>	<b>298</b>

The average monthly number of persons employed under contracts of service during the year was:

	2022	2021
Operational	5,629	5,931
Management and administration	1,291	1,130
	<b>6,920</b>	<b>7,061</b>

## 9 Directors' remuneration

	2022 £m	2021 £m
Directors' remuneration	1	1
Aggregate remuneration in respect of qualifying services	1	1
Members of defined benefit pension schemes (number)	1	1
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	1	1

During the year ended 31 January 2022, the highest paid director received nil shares in respect of qualifying services under a long-term incentive scheme. No other emoluments under long-term incentive schemes were received by the highest paid director.

No director has received shares in respect of qualifying services under long-term incentive schemes in the current year (2021: nil).

One director exercised share options in the current year (2021: nil).

The accrued pension of the highest paid director was £nil at 31 January 2022 (2021: £nil). The highest paid director had no contributions to a money purchase pension plan (2021: £23,667).

## 10 Tax Expense

The major components of the income tax expense are:

	2022 £m	2021 £m
<b>Consolidated income statement</b>		
<b>Current income tax</b>		
Current income tax charge	13	11
Adjustment in respect of prior years	(1)	-
	12	11
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4)	(1)
Effect of rate change on opening balances	(7)	(1)
	(11)	(2)
<b>Tax expense in the income statement</b>	1	9

	2022 £m	2021 £m
<b>Consolidated statement of comprehensive income</b>		
Current tax on remeasurements of defined benefit pension liability	-	(4)
Deferred tax on changes in fair value of cash flow hedges	2	-
Deferred tax on remeasurements of defined benefit pension liability	80	(6)
<b>Income tax charged/(credited) directly to other comprehensive income</b>	82	(10)

### Reconciliation of tax expense to (loss)/profit before tax multiplied by the UK's corporation tax rate

	2022 £m	2021 £m
(Loss)/profit before tax	(5)	49
Tax at rate of 19.0% (2021: 19.0%)	(1)	9
Adjustments in respect of prior years	(1)	-
Rate change adjustment on temporary differences	(7)	(1)
Expenses not deductible/(chargeable) for tax purposes:		
- Corporate Interest Restriction disallowance	9	-
- Costs relating to sale of the group	4	-
- Non-taxable forgiveness of inter-company creditor	(4)	-
- Other non-deductible expenses/non-taxed income	1	1
<b>Income tax expense reported in the consolidated income statement at effective rate of (20.0%) (2021: 18.4%)</b>	1	9



## 10 Tax Expense (continued)

### Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2022 £m	2021 £m	2022 £m	2021 £m
Accelerated depreciation for tax purposes	16	9	(7)	(2)
Revaluations of land and buildings to fair value	-	(1)	(1)	-
Rollover relief	(2)	(2)	-	-
Pension	(78)	-	(2)	-
Revaluation of cash flow hedges	(1)	-	(1)	-
Short-term temporary differences	9	7	(2)	(2)
Losses available for offsetting against future taxable income	2	4	2	2
<b>Deferred tax credit</b>			<b>(11)</b>	<b>(2)</b>
<b>Net deferred tax (liabilities)/assets</b>	<b>(54)</b>	<b>17</b>		

### Reconciliation of net deferred tax assets/(liabilities)

	2022 £m	2021 £m
<b>At 1 February</b>	<b>17</b>	<b>9</b>
Tax credit recognised in the income statement	11	2
Tax (expense)/credit recognised in other comprehensive income	(82)	6
<b>At 31 January</b>	<b>(54)</b>	<b>17</b>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The March 2021 budget announced that the main corporation tax rate will increase from 19% to 25% in April 2023. This increase was substantively enacted in May 2021 and has therefore been reflected in the measurement of deferred tax as at 31 January 2022. The effect of the tax rate increase has been a deferred tax credit of £7m during the year consisting of a £4m restatement of opening balances and £3m on movements during the year. Deferred tax balances have been measured according to the substantively enacted rates applicable to the periods in which they are scheduled to reverse.

The Group has carried forward tax losses which arose in the UK of £12m (deferred tax equivalent £2m) (2021: £22m tax losses, deferred tax equivalent £4m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of these losses and the majority of these are expected to reverse within 12 months. A further £1m (2021: £1m) deferred tax asset relating to other tax losses has not been recognised due to the uncertainty of the availability of suitable future profits to enable recovery. The group has carried forward interest expenses of £58m (deferred tax equivalent £14m, 2021: £10m, deferred tax equivalent £2m). This potential deferred tax asset has not been recognised due to uncertainty over whether the group will be able to access these amounts in future periods. Due to the requirements of the UK's Corporate Interest Restriction rules, the existence of deferred tax liabilities within the group do not support the recognition of this asset.

The effective tax rate differs from the standard rate of corporation tax. This rate is as a result of the benefit of the rate change differences and non-taxable debt forgiveness being more than offset by the impact of one-off disallowable costs incurred in respect of the acquisition of the Group's shares and the impact of the carried forward interest expenses.

**11 Goodwill and other intangible assets**

	Goodwill £m	Customer relationships £m	Software £m	Total £m
<b>Cost</b>				
At 1 February 2020	1,197	11	296	1,504
Additions	-	-	55	55
Reclassification	-	-	(1)	(1)
Disposals	-	-	(47)	(47)
<b>At 31 January 2021</b>	<b>1,197</b>	<b>11</b>	<b>303</b>	<b>1,511</b>
Additions	-	-	59	59
Disposals	-	-	(20)	(20)
<b>At 31 January 2022</b>	<b>1,197</b>	<b>11</b>	<b>342</b>	<b>1,550</b>
<b>Amortisation and impairment</b>				
At 1 February 2020	27	1	126	154
Amortisation	-	1	53	54
Disposals	-	-	(45)	(45)
<b>At 31 January 2021</b>	<b>27</b>	<b>2</b>	<b>134</b>	<b>163</b>
Amortisation	-	1	59	60
Disposals	-	-	(19)	(19)
<b>At 31 January 2022</b>	<b>27</b>	<b>3</b>	<b>174</b>	<b>204</b>
<b>Net book value</b>				
<b>At 31 January 2022</b>	<b>1,170</b>	<b>8</b>	<b>168</b>	<b>1,346</b>
At 31 January 2021	1,170	9	169	1,348

Within software, £22m (2021: £17m) relates to assets under construction which are not amortised.

Software additions comprise £16m (2021: £12m) in relation to internally developed assets and £43m (2021: £43m) in relation to separately acquired assets.

Amortisation costs are included within administrative and marketing expenses in the income statement.

An annual impairment review has been performed over the goodwill balance, see note 27 for details.

## **12 Business combinations**

### **Acquisitions during the year ended 31 January 2022**

There were no acquisitions during the year ended 31 January 2022.

### **Acquisitions during the year ended 31 January 2021**

There were no acquisitions during the year ended 31 January 2021.

### **Disposals during the year ended 31 January 2022**

There were no disposals during the year ended 31 January 2022.

### **Disposals during the year ended 31 January 2021**

On 21 May 2020, the Group completed the sale of the entire share capital of AA Underwriting Limited and Automobile Association Underwriting Services Limited for cash consideration of £5m. The combined net book value of net assets disposed of was £6m, which resulted in a £1m loss on disposal being recognised. The net outflow of cash to dispose of these subsidiaries was £1m.

### 13 Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Vehicles £m	Plant & equipment £m	Total £m
<b>Cost</b>					
At 1 February 2020	24	7	4	80	115
Additions	-	-	-	11	11
Reclassifications	-	-	-	1	1
Disposals	-	-	(4)	(18)	(22)
<b>At 31 January 2021</b>	<b>24</b>	<b>7</b>	<b>-</b>	<b>74</b>	<b>105</b>
Additions	-	-	-	17	17
Disposals	-	-	-	(9)	(9)
Transferred to Held for Sale (see note 38)	(24)	-	-	(6)	(30)
<b>At 31 January 2022</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>76</b>	<b>83</b>
<b>Depreciation and impairment</b>					
At 1 February 2020	9	4	4	46	63
Charge for the year	1	-	-	11	12
Disposals	-	-	(4)	(18)	(22)
<b>At 31 January 2021</b>	<b>10</b>	<b>4</b>	<b>-</b>	<b>39</b>	<b>53</b>
Charge for the year	1	1	-	12	14
Impairment	5	2	-	4	11
Disposals	-	-	-	(9)	(9)
Transferred to Held for Sale (see Note 38)	(16)	-	-	(6)	(22)
<b>At 31 January 2022</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>40</b>	<b>47</b>
<b>Net book value</b>					
<b>At 31 January 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>36</b>
At 31 January 2021	14	3	-	35	52

Within plant and equipment, £1m (2021: £1m) relates to assets under construction which are not depreciated.

During the year, there was an impairment charge of £11m (2021: £nil) against property, plant and equipment, of which £9m relates to two properties that have been transferred to held for sale (see note 38). The impairment reduced the values of the properties to the lower of carrying amount and fair value less cost to sell.

#### 14 Right-of-use assets

This note provides information for leases where the Group is a lessee. Under IFRS 16, right-of-use assets are recognised in the statement of financial position in respect of leased assets.

	Property £m	Vehicles & equipment £m	Total £m
<b>Cost</b>			
At 1 February 2020	23	81	104
Additions	-	13	13
Disposals	(1)	(19)	(20)
<b>At 31 January 2021</b>	<b>22</b>	<b>75</b>	<b>97</b>
Additions	6	16	22
Disposals	-	(23)	(23)
<b>At 31 January 2022</b>	<b>28</b>	<b>68</b>	<b>96</b>
<b>Accumulated depreciation and impairment</b>			
At 1 February 2020	3	36	39
Charge for the year	3	23	26
Disposals	(2)	(18)	(20)
<b>At 31 January 2021</b>	<b>4</b>	<b>41</b>	<b>45</b>
Charge for the year	2	21	23
Disposals	-	(21)	(21)
<b>At 31 January 2022</b>	<b>6</b>	<b>41</b>	<b>47</b>
<b>Net book value</b>			
<b>At 31 January 2022</b>	<b>22</b>	<b>27</b>	<b>49</b>
At 31 January 2021	18	34	52

## 15 Investments in joint ventures and associates

	2022			2021		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At 1 February	1	4	5	1	4	5
Additions	1	-	1	1	-	1
Impairment	(1)	-	(1)	(1)	-	(1)
<b>At 31 January</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>4</b>	<b>5</b>

The joint ventures of the Group which are indirectly held are detailed below. Except where otherwise stated, the share capital of each joint venture consists of only ordinary shares.

Company	Country of registration	Nature of business
AA Law Limited (49% interest held) <sup>1</sup>	England and Wales, UK	Insurance services
Drvn Solutions Limited (48% interest held) <sup>2</sup>	England and Wales, UK	Roadside services
AA Media Limited (49% interest held) <sup>3</sup>	England and Wales, UK	Publishing

<sup>1</sup> The Group exercises joint control over AA Law Limited through its equal representation on the Board. AA Law Limited has A and B ordinary shares.

<sup>2</sup> The Group exercises joint control over Drvn Solutions Limited through its joint influence over key decision-making. Drvn Solutions Limited has A and B ordinary shares.

<sup>3</sup> The Group exercises joint control over AA Media Limited through its equal representation on the Board. AA Media Limited has A ordinary shares.

The associates of the Group are listed below. Except where otherwise stated, the share capital of each associate consists of only ordinary shares.

Company	Country of registration	Nature of business
ARC Europe SA (20% interest held)	Belgium	Roadside services

## 16 Inventories

	2022 £m	2021 £m
Finished goods	4	4
	4	4

**17 Trade and other receivables**

	2022 £m	2021 £m
<b>Current</b>		
Trade receivables	158	162
Prepayments	25	27
Contract assets	21	15
Other receivables	5	9
	<b>209</b>	<b>213</b>

Trade receivables include £99m (2021: £106m) relating to amounts due from insurance broking customers.

**18 Cash and cash equivalents**

	2022 £m	2021 £m
Cash at bank and in hand – available	67	119
	<b>67</b>	<b>119</b>

**19 Amounts owed by/due to parent undertakings**

Amounts owed by/due to parent undertakings are unsecured, have no repayment terms and bear no interest.

**20 Trade and other payables**

	2022 £m	2021 £m
<b>Current</b>		
Trade payables	111	109
Other taxes and social security costs	24	21
Accruals	56	74
Deferred income	222	217
Other payables	17	23
	<b>430</b>	<b>444</b>

Trade payables include £67m (2021: £77m) relating to amounts due to underwriters in respect of insurance broking activities.

Deferred income primarily relates to roadside subscriptions deferred on a time apportionment basis. Of the revenue recognised in the year, £214m (2021: £219m) was included within deferred income at the beginning of the year.

Included in deferred income is £11m (2021: £11m) which will be released over a period more than 12 months from the statement of financial position date.

## 21 Borrowings and loans

	2022 £m	2021 £m
<b>Current liabilities</b>		
Borrowings (see note 22)	-	637
<b>Non-current liabilities</b>		
Borrowings (see note 22)	2,306	2,383
	<b>2,306</b>	<b>3,020</b>

At 31 January 2022 there are no current borrowings.

At 31 January 2021, the current borrowing of £637m comprised:

- £367m carrying value of £372m Class A5 Notes for which the expected maturity date was 31 January 2022
- £270m carrying value of £280m Class B3 Notes

At 31 January 2021, the £280m Class B3 Notes were contingent on the completion of the acquisition and as such were presented as a current liability at the year end. This matched the presentation as a current asset of the £280m proceeds of Class B3 Notes issuance held in escrow (see below). On 10 March 2021 these funds were released from escrow and combined with an equity contribution of £261m from Basing BidCo Limited in order to prepay and redeem the Class B2 Notes.

The class A5 notes were redeemed on 1 November 2021 (see note 22).

	2022 £m	2021 £m
<b>Current assets</b>		
Proceeds of Class B3 Notes issuance held in escrow	-	280



## 22 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total as at 31 January 2022 £m	Total as at 31 January 2021 £m
Senior Term Facility	31 July 2023	2.72%	-	-	-	-	200
Senior Term Facility 2021	10 March 2026	3.31%	150	(1)	-	149	-
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	500	500
Class A5 Notes	31 January 2022	2.88%	-	-	-	-	367
Class A6 Notes	31 July 2023	2.75%	250	(4)	3	249	248
Class A7 Notes	31 July 2024	4.88%	550	(8)	5	547	545
Class A8 Notes	31 July 2027	5.50%	325	(3)	1	323	322
Class A9 Notes	31 July 2028	3.25%	270	(4)	-	266	-
Class B2 Notes	31 July 2022	5.50%	-	-	-	-	568
Class B3 Notes	31 January 2026	6.50%	280	(10)	2	272	270
		<b>4.94%</b>	<b>2,325</b>	<b>(31)</b>	<b>12</b>	<b>2,306</b>	<b>3,020</b>

At 31 January 2022, the Senior Term Facility was subject to a variable interest rate of LIBOR plus a margin of 2.75% per annum. This converted to a rate of SONIA plus a credit adjustment spread of 0.28% and a margin of 2.75% from March 2022. However, the Group has an interest rate swap in place which exchanges SONIA for a fixed interest rate of 0.46% thereby fixing the Senior Term Facility's interest rate at 3.49% through to 10 March 2026.

At 31 January 2022, all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.94% has been calculated using the interest rate and principal values on 31 January 2022.

On 29 January 2021, AA Bond Co Limited issued £280m of Class B3 Notes. The gross proceeds of the issuance of the Class B3 Notes were held in escrow for the benefit of the Class B3 Noteholders until the completion of the acquisition. On 10 March 2021, these funds were released from escrow and combined with an equity contribution of £261m from Basing BidCo Limited, the acquiring company, in order to prepay and redeem the Class B2 Notes. In addition, £29m aggregate principal amount of Class B2 Notes which were held by AA Limited were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing and following the extinguishment £3m was written off.

On 10 March 2021, the Group refinanced its Senior Term Facility. The new £150m Senior Term Facility was drawn down immediately and used, in combination with £50m of cash, to refinance the existing £200m Senior Term Facility. £1m of facility arrangement fees were capitalised for the Senior Term Facility. The Group also agreed a new £56m Working Capital Facility, of which £46m is available for cash drawings and remains undrawn, and cancelled its existing Working Capital Facility of £60m. In addition, the Group agreed a new £160m Liquidity Facility which remains undrawn, and cancelled its existing Liquidity Facility of £165m. As a result of refinancing these facilities, £1m of issue fees were written off.

In accordance with the terms of the acquisition of the AA Limited group, Basing BidCo Limited stated its intention to provide an additional £100m of funds to be used, together with an issue by the Group of £270m in new Class A9 Notes, to redeem in full the £372m of Class A5 Notes. On 21 July 2021, the Group issued £270m of Class A9 Notes at an interest rate of 3.25%. £4m of new issue premium associated with the issue of the Class A9 Notes was capitalised. The proceeds of these notes were held in escrow until 1 November 2021 when they were released and used, along with the further equity injection of £100m, to redeem the £372m of outstanding Class A5 Notes.

## **22 Borrowings (continued)**

Following the extinguishment of the Class A5 Notes, £1m of associated unamortised fees were written off.

In order to show the Group net borrowings, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings. Interest rate swaps are recognised in the statement of financial position at fair value at the year end.

All of the Class A Notes are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B3 Notes. The Class B3 Notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain Net Debt to Trading EBITDA and cash flow criteria are met.

Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to expected maturity date, except the Class A6, Class A7, Class A8, and Class A9 Notes which can be settled without penalty within, two months, three months, six months and six months respectively of the expected maturity date. The Class B3 Notes would attract a make-whole payment if they were to be redeemed before 31 January 2023, thereafter any voluntary repayment would be made at a fixed premium until 31 January 2025 after which there would be no premium to pay on redemption.

All of the Group loan notes are listed on the Irish Stock Exchange.

In order to comply with the requirements of the Class A Notes, the Group is required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2022 was 3.1x (2021: 2.5x). Following redemption of the Group's Class B2 Notes on 10 March 2021, the Group no longer has to comply with any Class B free cash flow to debt service ratio requirements.

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The actual Senior Leverage ratio as at 31 January 2022 was 6.2x (2021: 6.5x). The Class B Notes restrictions only permit the release of cash providing the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income. The actual Fixed Charge Coverage ratio as at 31 January 2022 was 2.7x (2021: 2.4x).

The Class A and Class B Notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

On 20 July 2021, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B2 Notes at B+.

## 23 Derivative financial instruments

	2022 £m	2021 £m
<b>Current</b>		
Interest rate swap	-	(1)
<b>Non-current</b>		
Forward fuel contracts	1	(1)
Interest rate swap	5	-
	<b>6</b>	<b>(2)</b>

The forward fuel contract is shown and settled on a net basis. On a gross basis, the asset is £1m (2021: £nil) and the liability is £nil (2021: £1m).

In the current year, the net position of the forward fuel contract and the interest rate swap has moved to a net asset position. This is due to increases in fuel prices and interest rates respectively.

## 24 Provisions

	Property leases £m	Other £m	Total £m
At 1 February 2020	3	8	11
Utilised during the year	-	(5)	(5)
Released during the year	-	(2)	(2)
Charge for the year	1	7	8
<b>At 31 January 2021</b>	<b>4</b>	<b>8</b>	<b>12</b>
Utilised during the year	-	(5)	(5)
Released during the year	-	(2)	(2)
Charge for the year	-	9	9
<b>At 31 January 2022</b>	<b>4</b>	<b>10</b>	<b>14</b>
<b>Current</b>	<b>-</b>	<b>4</b>	<b>4</b>
<b>Non-current</b>	<b>4</b>	<b>6</b>	<b>10</b>
<b>At 31 January 2022</b>	<b>4</b>	<b>10</b>	<b>14</b>
Current	1	4	5
Non-current	3	4	7
At 31 January 2021	4	8	12

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 9 years; however, it will take 34 years to fully pay out all amounts provided for. The provision has been calculated at a risk free rate.

Other provisions include a £2m provision (2021: £nil) in relation to a warranty for vehicle part replacements and £8m (2021: £7m) relating to self-funded insurance liabilities, where the Group provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims. These sums are mainly expected to be paid out over the next 5 years; however, it can take up to 30 years for employer liability claims to pay out in full.

In the prior year other provisions also included £1m for anticipated redress costs. The Group identified that there had been limited instances whereby consumer renewal pricing needed to realign with regulatory requirements. The Group has subsequently released this provision.

## 24 Provisions (continued)

### Contingent Liabilities

#### Litigation – update on Mr Mackenzie's claim

As reported previously, the former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, had on 6 March 2018 issued a claim for substantial damages against AA Limited, its subsidiary (Automobile Association Developments Limited) (together, 'the Companies') and personally against a number of their former directors and the former Company Secretary.

In November 2018, Mr Mackenzie's claim against all the directors and a former Company Secretary was dismissed in full and he was ordered to pay their costs to be assessed by the Court if not agreed. The majority of Mr Mackenzie's claim arises from his exclusion from a share option scheme which, in any event, lapsed for all participants without any payment in June 2019. However, Mr Mackenzie has now issued an amended claim which includes a new claim for personal injury allegedly suffered as a result of stress arising from his role as CEO and Chairman. The Companies have filed a full defence in relation to Mr Mackenzie's amended claim. After further discussion with external counsel the Companies decided to apply for a strike-out application in relation to the entirety of Mr Mackenzie's claims against them. This application was filed in May 2020 and the strike out hearing was held in March 2021. The strike out application was successful on all counts and all of Mr Mackenzie's claims, bar his wrongful dismissal claim which was not part of the strike-out application, were dismissed. Mr Mackenzie subsequently applied directly to the Court of Appeal and the hearing commenced on 4 May 2022 but was adjourned due to illness of one of the judges. The remainder of the hearing is being relisted and is expected to be heard in June 2022. The Board assumes for the purpose of these financial statements that should Mr Mackenzie be successful in appealing the strike-out application decision then he will proceed with the claim against the Companies but maintains that it is not necessary for the Group to make a financial provision as it expects the defence will prevail.

From time to time the Group is subject to other claims and potential litigation. At the time of these financial statements, the Directors do not consider any such claims and litigation to have anything other than a remote risk of resulting in any material liability to the Group.

## 25 Share capital

	2022 £	2021 £
<b>Allotted, called up and fully paid</b>		
360,893,049 (2021: 20) ordinary shares of £1 each	360,893,049	20
	<b>360,893,049</b>	<b>20</b>

On 3 March 2021 and 27 October 2021, the Company issued 260,893,029 and 100,000,000 shares, respectively, of £1 each to its parent entity, AA Midco Limited.

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

## 26 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has a closed final salary section and a Career Average Revalued Earnings (CARE) section which itself was closed on 31 March 2020 following consultation with affected employees. All future pensions build-up from 1 April 2020 in the UK is now on a defined contribution basis. The CARE section provided for benefits to accrue on an average salary basis. During the 2017 financial year and following the sale of the Irish business by the Group, AA Corporation Limited, a UK subsidiary of the Group, became the sponsor of the AAI scheme. The Group also operates an unfunded post-retirement Private Medical Plan (AAPMP), which is treated as a defined benefit scheme and is not open to new entrants.

The AAUK scheme is governed by a corporate trustee whose board is currently composed of member-nominated and Company-nominated directors. The AAI scheme is governed by a corporate trustee whose board is currently composed of Company-nominated directors of which some are also members of the scheme. For both pension schemes the Company-nominated directors include an independent director whom the trustee board directors have nominated as Chairman. The trustee of each scheme is responsible for paying members' benefits and for investing scheme assets, which are legally separate from the Group.

The AAUK and AAI schemes are subject to full actuarial valuations every three years using assumptions agreed between the trustee of each scheme and the Group. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet the future payment of benefits to scheme members.

The valuation of liabilities for funding purposes differs from the valuation for accounting purposes, mainly due to the different assumptions used and changes in market conditions between different valuation dates. For funding valuation purposes, the assumptions used to value the liabilities are agreed between the trustee and the Group with the discount rate, for example, being based on a bond yield plus a margin based on the assumed rate of return on scheme assets. For accounting valuation purposes, the assumptions used to value the liabilities are determined in accordance with IAS 19, with the discount rate, for example, being based on high-quality (AA rated) corporate bonds.

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2022 by independent qualified actuaries.

The amounts recognised in the statement of financial position are as follows:

	As at 31 January 2022			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,453)	(51)	(32)	(2,536)
Fair value of plan assets	2,617	49	-	2,666
<b>Surplus/(deficit)</b>	<b>164</b>	<b>(2)</b>	<b>(32)</b>	<b>130</b>

	As at 31 January 2021			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,713)	(60)	(46)	(2,819)
Fair value of plan assets	2,580	51	-	2,631
<b>Deficit</b>	<b>(133)</b>	<b>(9)</b>	<b>(46)</b>	<b>(188)</b>

## 26 Pensions (continued)

The overall deficit of £188m as at 31 January 2021 has moved to a surplus of £130m as at 31 January 2022, which represents a change of £318m over the year. This is largely the result of an increase in corporate bond yields over the period, which drive the discount rate, and an increase in assets due to higher-than-expected asset returns, partially offset by an increase in future inflation expectations. It also incorporates a £13m gain resulting from the incorporation of the inter-valuation experience for the AAPMP, as well as the impact of Barber equalisation for the UK Scheme.

The Group recognised a one-off past service cost of £26m as a result of a legal review of the method of 'Barber' equalisation implemented for the AAUK scheme.

Leading counsel was engaged jointly by the Group and AAUK scheme Trustee to provide a legal opinion in respect of the method of equalisation used to date. Following receipt of that opinion on 26 November 2021 the Group and the AAUK scheme Trustee agreed to administer the AAUK scheme as per the opinion, crystallising the recognition of the one-off past service cost. These facts and circumstances were not present at the previous year end and so no liability was recognised in the prior year.

In November 2013, the Group implemented an asset-backed funding scheme which remains in place. The asset-backed funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution of £14m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands.

In February 2020, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m. Under the previous 2016 valuation, the recovery plan extended through to 2038 in respect of the Asset-Backed Funding element and to 2026 in respect of the Additional Funding element. A new recovery plan was put in place and agreed with the Trustee which assumes that the scheme's technical deficit will be fully repaid by July 2025, which is one year earlier than previously planned in terms of the Additional Funding element and 13 years earlier in terms of the Asset-Backed Funding element. To do this, the Group has committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. From 1 February 2020, the trustee has also met its own costs of running the scheme.

Consultation on the closure of the CARE section of the AAUK pension scheme commenced on 18 January 2020 through employee representatives and concluded on 18 March 2020. The Group had proposed that, from 1 April 2020, all future pension accrual would be on a defined contribution basis. Following a review of the feedback received during consultation, the Group confirmed on 27 March 2020 that the proposals were going to be implemented on a modified basis and future pension accrual would be on a defined contribution basis for all UK employees with transitional arrangements which will cost c. £11m over three years starting from 1 April 2020. Closure of the scheme has curtailed the ongoing build-up of defined benefit risk for the Group.

The agreed transitional arrangements provide a valuable enhanced Group pension contribution over a three-year period commencing 1 April 2020 available to all members who make a contribution of at least 4% of pensionable salary per year. Further enhancements to the Group pension contribution are also available during the transitional period to members willing to make higher contributions.

Following agreement of the 31 March 2019 triennial valuation in February 2020, as well as conclusion of the consultation on closure of the AAUK scheme to future accrual, the Group gained much clearer visibility over short-term pension costs lasting at least to the end of FY23 (where finalisation of the 31 March 2022 triennial valuation would reasonably be expected). The ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. The impact of COVID-19 and other events on the global financial markets has meant higher fluctuation of the funding level in the AAUK scheme, albeit mitigated by the de-risked investment strategy and high levels of hedging. Therefore, there is a risk that the contributions required from the Group could increase following the 2022 triennial valuation.

Using an inflation assumption of 3.6% and a discount rate assumption of 2.3%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such a time as another recovery plan is put in place, despite the IAS19 surplus position shown as at 31 January 2022. The Group notes that it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

## 26 Pensions (continued)

The actuarial triennial review as at 31 December 2019 for the AAI pension scheme was completed during September 2020. This resulted in a reduction to the funding deficit of 50% from c. £8m as at 31 December 2016 to c. £4m as at 31 December 2019. The Group made deficit reduction contributions of £1m in the year ended 31 January 2022 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2024 (an extension of one year over the previous agreement) or until an alternative agreement is signed with the AAI scheme trustee.

In total, the Group paid £27m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2022.

In January 2022, the Group completed a full accounting valuation of the AAPMP with a valuation date of 31 January 2021. This updated the previous full accounting valuation of the AAPMP that was performed as at 31 January 2017 and was projected forward to relevant reporting dates.

The 31 January 2021 full accounting valuation of the AAPMP revealed a reduction in reported deficit as a result of the actual level of medical premium inflation experienced being lower than that assumed over the period between full valuations and the impact of the latest longevity expectations.

The Group recognised a charge in the income statement of £27m in respect of defined contribution pension scheme costs in the year (2021: £24m).

## 26 Pensions (continued)

### Total Group schemes

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2020	2,519	(2,681)	-	-
Current service cost	-	(4)	(4)	-
Past service cost	-	(1)	(1)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	52	(49)	3	-
<b>Amounts recognised in the income statement</b>	<b>48</b>	<b>(54)</b>	<b>(6)</b>	<b>-</b>
Effect of changes in financial assumptions	-	(170)	-	(170)
Effect of changes in demographic assumptions	-	(8)	-	(8)
Effect of experience adjustment	-	17	-	17
Return on plan assets excluding interest income	111	-	-	111
<b>Amounts recognised in the statement of comprehensive income</b>	<b>111</b>	<b>(161)</b>	<b>-</b>	<b>(50)</b>
<b>Foreign exchange gain/(loss)</b>	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>-</b>
Benefits paid from scheme assets	(80)	80	-	-
Ongoing employer contributions	5	-	-	-
Deficit reduction employer contributions	25	-	-	-
<b>Movements through cash</b>	<b>(50)</b>	<b>80</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2021</b>	<b>2,631</b>	<b>(2,819)</b>	<b>-</b>	<b>-</b>
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(42)	(2)	-
<b>Amounts recognised in the income statement</b>	<b>36</b>	<b>(68)</b>	<b>(32)</b>	<b>-</b>
Effect of changes in financial assumptions	-	211	-	211
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	47	-	47
Return on plan assets excluding interest income	53	-	-	53
<b>Amounts recognised in the statement of comprehensive income</b>	<b>53</b>	<b>269</b>	<b>-</b>	<b>322</b>
<b>Foreign exchange (loss)/gain</b>	<b>(3)</b>	<b>3</b>	<b>-</b>	<b>-</b>
Benefits paid from scheme assets	(79)	79	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	27	-	-	-
<b>Movements through cash</b>	<b>(51)</b>	<b>79</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2022</b>	<b>2,666</b>	<b>(2,536)</b>	<b>-</b>	<b>-</b>



26 Pensions (continued)

AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensiv e income £m
Balance at 1 February 2020	2,472	(2,576)	-	-
Current service cost	-	(4)	(4)	-
Past service cost	-	(1)	(1)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	51	(48)	3	-
<b>Amounts recognised in the income statement</b>	<b>47</b>	<b>(53)</b>	<b>(6)</b>	<b>-</b>
Effect of changes in financial assumptions	-	(166)	-	(166)
Effect of changes in demographic assumptions	-	(8)	-	(8)
Effect of experience adjustment	-	13	-	13
Return on plan assets excluding interest income	110	-	-	110
<b>Amounts recognised in the statement of comprehensive income</b>	<b>110</b>	<b>(161)</b>	<b>-</b>	<b>(51)</b>
Benefits paid from scheme assets	(77)	77	-	-
Ongoing employer contributions	4	-	-	-
Deficit reduction employer contributions	24	-	-	-
<b>Movements through cash</b>	<b>(49)</b>	<b>77</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2021</b>	<b>2,580</b>	<b>(2,713)</b>	<b>-</b>	<b>-</b>
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(41)	(1)	-
<b>Amounts recognised in the income statement</b>	<b>36</b>	<b>(67)</b>	<b>(31)</b>	<b>-</b>
Effect of changes in financial assumptions	-	206	-	206
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	34	-	34
Return on plan assets excluding interest income	51	-	-	51
<b>Amounts recognised in the statement of comprehensive income</b>	<b>51</b>	<b>251</b>	<b>-</b>	<b>302</b>
Benefits paid from scheme assets	(76)	76	-	-
Deficit reduction employer contributions	26	-	-	-
<b>Movements through cash</b>	<b>(50)</b>	<b>76</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2022</b>	<b>2,617</b>	<b>(2,453)</b>	<b>-</b>	<b>-</b>

26 Pensions (continued)

AAI scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2020	47	(61)	-	-
Interest on defined benefit scheme assets/(liabilities)	1	-	1	-
<b>Amounts recognised in the income statement</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>
Effect of changes in financial assumptions	-	(2)	-	(2)
Effect of experience adjustment	-	4	-	4
Return on plan assets excluding interest income	1	-	-	1
<b>Amounts recognised in the statement of comprehensive income</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>3</b>
<b>Foreign exchange gain/(loss)</b>	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>-</b>
Benefits paid from scheme assets	(2)	2	-	-
Deficit reduction employer contributions	1	-	-	-
<b>Movements through cash</b>	<b>(1)</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2021</b>	<b>51</b>	<b>(60)</b>	<b>-</b>	<b>-</b>
<b>Amounts recognised in the income statement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Effect of changes in financial assumptions	-	4	-	4
Return on plan assets excluding interest income	2	-	-	2
<b>Amounts recognised in the statement of comprehensive income</b>	<b>2</b>	<b>4</b>	<b>-</b>	<b>6</b>
<b>Foreign exchange (loss)/gain</b>	<b>(3)</b>	<b>3</b>	<b>-</b>	<b>-</b>
Benefits paid from scheme assets	(2)	2	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	1	-	-	-
<b>Movements through cash</b>	<b>(1)</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 January 2022</b>	<b>49</b>	<b>(51)</b>	<b>-</b>	<b>-</b>

26 Pensions (continued)

AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2020	-	(44)	-	-
Interest on defined benefit scheme liabilities	-	(1)	(1)	-
<b>Amounts recognised in the income statement</b>	-	<b>(1)</b>	<b>(1)</b>	-
Effect of changes in financial assumptions	-	(2)	-	(2)
<b>Amounts recognised in the statement of comprehensive income</b>	-	<b>(2)</b>	-	<b>(2)</b>
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
<b>Movements through cash</b>	-	<b>1</b>	-	-
<b>Balance at 31 January 2021</b>	-	<b>(46)</b>	-	-
Interest on defined benefit scheme liabilities	-	(1)	(1)	-
<b>Amounts recognised in the income statement</b>	-	<b>(1)</b>	<b>(1)</b>	-
Effect of changes in financial assumptions	-	1	-	1
Effect of experience adjustment	-	13	-	13
<b>Amounts recognised in the statement of comprehensive income</b>	-	<b>14</b>	-	<b>14</b>
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
<b>Movements through cash</b>	-	<b>1</b>	-	-
<b>Balance at 31 January 2022</b>	-	<b>(32)</b>	-	-

## 26 Pensions (continued)

### Fair value of plan assets

The tables below show the AAUK and AAI scheme assets split between those that have a quoted market price and those that are unquoted.

The fair value of the AAUK scheme assets and the return on those assets were as follows:

	2022		2021	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	-	439	-	360
Bonds/gilts	322	667	439	562
Property	15	300	31	239
Hedge funds	-	194	29	287
Private equity	-	110	-	69
Cash/net current assets	19	66	26	12
Annuity policies	-	485	-	526
<b>Total AAUK scheme assets</b>	<b>356</b>	<b>2,261</b>	<b>525</b>	<b>2,055</b>
<b>Actual return on AAUK plan assets</b>		<b>91</b>		<b>161</b>

The above table displays the quoted and unquoted splits of the underlying investments.

The AAUK scheme assets are largely invested in pooled funds, with the market values provided by the scheme's custodian, Bank of New York Mellon Corporation (BNYM). Some of the pooled funds themselves are not listed on any publicly traded exchange and are therefore described as unquoted except where we are aware of a specific look-through to allow part of the assets within the fund to be described as quoted.

Of the £2,261m assets without a quoted market price at 31 January 2022, £485m is in relation to the buy-in policies held by the scheme. Under IAS 19, the fair value of the insurance policies is deemed to be the present value of the related defined benefit obligations. Hence a key area of judgement is the assumptions used to derive the value of the corresponding obligations.

Approximately £29m of unquoted assets allocated to private equity and £13m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

## 26 Pensions (continued)

The fair value of the AA Ireland scheme assets and the return on those assets were as follows:

	2022		2021	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	8	-	12	-
Bonds/gilts	27	-	25	-
Property	-	6	-	6
Hedge funds	8	-	8	-
<b>Total AA Ireland scheme assets</b>	<b>43</b>	<b>6</b>	<b>45</b>	<b>6</b>
<b>Actual return on AA Ireland plan assets</b>	<b>2</b>		<b>2</b>	

### Investment strategy

The AAUK scheme trustee determines its investment strategy after taking advice from a professional investment adviser. The AAUK scheme's investment strategy has been set following an asset/liability review which considered a wide range of investment opportunities available to the scheme and how they might perform in combination. Other factors were also taken into account such as the strength of the employer covenant, the long-term nature of the liabilities and the funding plan agreed with the employer.

The AAUK scheme trustee aims to achieve the scheme's investment objectives through investing in a diversified portfolio of growth assets which, over the long term, are expected to grow in value by more than low-risk assets like cash and gilts. This is done within a broad liability driven investing framework that also uses such cash and gilts in a capital efficient way. In combination, this efficiently captures the trustee risk tolerances and return objectives relative to the scheme's liabilities. A number of investment managers are appointed to promote diversification by assets, organisation and investment style.

To diversify sources of return and risk, the AAUK scheme invests in many asset classes and strategies, including equities, bonds and property funds which primarily rely on the upward direction of the underlying markets for returns, and also hedge funds which also invest in asset classes like equities, bonds and currencies, but in such a way that relies more on the skill of the investment manager to add returns while hedging against downward market moves.

The AAUK scheme trustee's investment advisers carry out detailed ongoing due diligence on funds in all asset classes from both operational and investment capability standpoints, and any funds which are not expected to achieve their investment performance targets are replaced where possible.

## 26 Pensions (continued)

### Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2022 %	2021 %	2022 %	2021 %	2022 %	2021 %
Pensioner discount rate	2.3	1.5	1.1	0.4	2.3	1.5
Non-pensioner discount rate	2.3	1.6	1.4	0.7	2.3	1.5
Pensioner RPI	3.6	3.0	-	-	3.6	3.0
Non-pensioner RPI	3.3	2.8	-	-	3.6	3.0
Pensioner CPI	3.0	2.2	1.9	1.3	3.0	2.2
Non-pensioner CPI	2.7	2.3	1.9	1.3	3.0	2.2
Rate of increase of pensions in payment (final salary sections) – pensioner	3.5	2.9	-	-	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	3.2	2.8	-	-	-	-
Rate of increase of pensions in payment (CARE section) – pensioner	2.2	1.8	-	-	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	2.0	1.9	-	-	-	-
Pension increase for deferred benefits	2.7	2.3	1.9	1.3	-	-
Medical premium inflation rate	-	-	-	-	7.6	7.0

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2022, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2021 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI\_2020 model with a 1.25% long-term rate of improvement and a 2020 experience weighting of 10% (2021 – CMI\_2019 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 25 years (2021: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2021: 28 years).

## 26 Pensions (continued)

### Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liability by the amounts shown below:

	For the year ended 31 January 2022		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	117	2	1
Increase of 0.25% in RPI and CPI	(91)	(1)	-
Increase of 0.25% in CPI only	(37)	(1)	-
Increase of 1% in medical claims inflation	-	-	(4)
Increase of one year of life expectancy	(95)	(2)	-

An equivalent decrease in the assumptions at 31 January 2022 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant. The amounts shown above are the effects of changing the assumptions on the gross defined benefit liability, rather than on the net deficit. The de-risked investment strategy, the two insured annuity policies and high levels of hedging reduce the sensitivities of changing these assumptions on the net surplus considerably.

The weighted average duration of the defined benefit obligation at 31 January 2022 is around 20 years.

### Pension scheme risks

The AAUK and AAI schemes have exposure to a number of risks because of the investments they make in following their investment strategy. Investment objectives and risk limits are implemented through the investment management agreements in place with the schemes' investment managers and monitored by the trustees of each scheme through regular reviews of the investment portfolios. In addition, under guidance from their investment advisers, the trustees of each scheme monitor estimates of key risks on an ongoing basis such as those shown below. A number of measures are taken to mitigate these risks where possible.

**Credit risk** - This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk mainly relates to the schemes' bonds and is mitigated by carrying out due diligence and investing only in bond funds which are well diversified in terms of credit instrument, region, credit rating and issuer of the underlying bond assets. To reduce risk further, the underlying bond assets within a fund are ring-fenced, and the scheme diversifies across a number of bond funds.

**Currency risk** - The scheme is subject to currency risk because some of the scheme's investments are in overseas markets. The trustee hedges some of this currency risk by investing in investment funds which hold currency derivatives to protect against adverse fluctuations in the relative value of its portfolio positions as a result of changes in currency exchange rates.

**Market price risk** - This is the risk that the fair value or future cash flows of a financial asset such as equities will fluctuate because of changes in market prices (other than those arising from interest rate, inflation or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and investment managers.

## 26 Pensions (continued)

### Pension scheme risks (continued)

Financial derivatives risk – The AAUK scheme does not directly hold any financial derivatives but instead invests in investment funds which hold the derivatives required to hedge the scheme's interest rate, inflation and currency risks. The scheme also permits some of the investment managers to use derivative instruments if these are being used to contribute to a reduction of risks or facilitate efficient portfolio management of their funds. The main risks associated with financial derivatives include: losses may exceed the initial margin; counterparty risk where the other party defaults on the contract; and liquidity risk where it may be difficult to close out a contract prior to expiry. These risks are managed by monitoring of investment managers to ensure that they use reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a daily basis with secure cash or gilts collateral.

The AAUK scheme aims to hedge the majority of both the interest rate risk and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure) as part of a policy to reduce financial risks. As at 31 January 2022, the scheme had hedged around 80% of interest rate and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure). Hedging levels fluctuate regularly as market conditions evolve and the scheme trustees, along with their advisers, closely monitor these fluctuations. Where changes are needed to the level of hedging, the scheme trustees effect this, in consultation with the Group, with consideration to prevailing pricing and risk appetite.

### Bulk annuity policies

The AAUK scheme holds two bulk annuity policies with a total fair value of £485m as at 31 January 2022. The bulk annuity policy purchased in August 2018 insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members, while the bulk annuity policy purchased in September 2019 insured all the benefits payable under the scheme in respect of a further 1,790 pensioner and dependant members.

The Trustee has invested in such policies as the scheme will see all financial and demographic risks exactly matched for the covered members. The annuity policies were purchased in the name of the trustee and therefore remain assets of the AAUK scheme. Under IAS 19, these policies are considered to be qualifying insurance policies which exactly match the amount and timing of certain benefits payable under the scheme. The fair value of the insurance policies is therefore deemed to be the present value of the related defined benefit obligations.

The bulk annuity policies mean that the AAUK scheme has hedged the associated longevity risks on c.20% of the scheme's IAS 19 liabilities.

While risks remain, the hedging strategy noted above, including the bulk annuity purchases, is important in controlling the Group's exposure to future increases in the deficit.



## 27 Impairment of intangible assets

Goodwill acquired through business combinations has been allocated to cash-generating units (CGUs) on initial recognition and for subsequent impairment testing. CGUs represent the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

The carrying value of goodwill by CGU is as follows:

	2022 £m	2021 £m
Roadside Assistance	874	874
Insurance Services	240	240
AA Cars	25	25
Drivetech	31	31
	<b>1,170</b>	<b>1,170</b>

The Group has performed impairment testing at 31 January 2022 and 31 January 2021. The impairment test compares the recoverable amount of the CGU with its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's five-year plan up to 31 January 2026, and a 2% growth expectation in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 2% growth assumption (2021: 2%). Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 10.2% (2021: 7.7%). The equivalent post-tax rate was 7.7% (2021: 7.0%).

The cash flow projections are forecast using historical trends overlaid with business-led assumptions such as contract wins, sales volumes, prices and capex investment requirements including climate change considerations, together with operational KPIs such as number of personal members, number of business customers, insurance policies in force, renewal rates and average repair times. These allow the business to forecast profits, working capital and capital expenditure requirements.

The value in use calculation used is most sensitive to the assumptions used for growth and the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to further inform the consideration of whether any impairment is evident. From the results of this stress testing it was concluded that no reasonably foreseeable change in the key assumptions would result in the recoverable amount being less than the carrying amount for any of the CGUs.

Goodwill was not impaired for any of the above CGUs in either the current or prior financial year.

## 28 Financial assets and financial liabilities

The carrying amount of all financial assets and financial liabilities by class are as follows:

### Financial assets

	2022 £m	2021 £m
<b>Financial assets at fair value through other comprehensive income</b>		
Derivative financial instruments (see note 23)	6	-
<b>Financial assets at amortised cost</b>		
Loans to related parties	4	4
Cash and cash equivalents (see note 18)	67	119
Trade receivables (see note 17)	158	162
Proceeds of Class B3 Notes issuance held in escrow (see note 21)	-	280
Contract assets and other receivables (see note 17)	26	24
Amounts owed by parent undertakings (see note 19)	1,208	1,233
<b>Total financial assets</b>	<b>1,469</b>	<b>1,822</b>

Loans to related parties comprise £4m of 5% fixed rate loan notes issued from AA Media Limited to the Group, redeemable at par on 29 March 2024. The Group has recognised this receivable from a related party as a financial asset at amortised cost.

### Financial liabilities

	2022 £m	2021 £m
<b>Financial liabilities at fair value through other comprehensive income</b>		
Derivative financial instruments (see note 23)	-	1
<b>Financial liabilities at fair value through profit or loss</b>		
Derivative financial instruments (see note 23)	-	1
<b>Financial liabilities at amortised cost</b>		
Trade payables (see note 20)	111	109
Other payables and accruals (see note 20)	73	97
Amounts due to parent undertakings (see note 19)	73	71
Lease liabilities (see note 30)	45	49
Borrowings (see note 21)	2,306	3,020
<b>Total financial liabilities</b>	<b>2,608</b>	<b>3,348</b>

## 28 Financial assets and financial liabilities (continued)

### Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include interest rates.

The objective of using valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at each year end at which the asset or liability would have been exchanged by market participants acting at arm's length.

Observable inputs are those that have been seen either from counterparties or from market pricing sources and are publicly available. The use of these depends upon the liquidity of the relevant market. When measuring the fair value of an asset or a liability, the Group uses observable inputs as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation as follows:

**Level 1** - Quoted market prices in an actively traded market for identical assets or liabilities. These are the most reliable.

**Level 2** - Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including interest rate curves and forward rate curves of the underlying instrument.

**Level 3** - Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair values of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level as the lowest input that is significant to the entire measurements.

The fair values are periodically reviewed by the Group Treasury function. The following tables provide the quantitative fair value hierarchy of the Group's fuel and interest rate swaps and loan notes.

The carrying values of all other financial assets and liabilities (including the Senior Term Facility) are approximate to their fair values:

#### At 31 January 2022:

		Fair value measurement using		
	Carrying value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	£m	£m	£m	£m
<b>Financial assets measured at fair value</b>				
Forward fuel contracts (note 23)	1	1	-	-
Interest rate swap derivatives (note 23)	5	5	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 22)	2,157	2,274	-	-

## 28 Financial assets and financial liabilities (continued)

At 31 January 2021:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial liabilities measured at fair value</b>				
Forward fuel contracts (note 23)	1	1	-	-
Interest rate swap derivatives (note 23)	1	1	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 22)	2,820	3,007	-	-

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2022.

## 29 Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include deposits with financial institutions, money market funds and trade receivables.

The Group is exposed to market risk, credit risk, liquidity risk and insurance risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group Treasury function. It is the Group's policy not to trade in derivatives for speculative purposes.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in prices set by the market. The key market risk that the Group is exposed to is interest rate risk. The Group has policies and limits approved by the Board for managing the interest rate risk exposure. The Group's policy is to fully hedge all of its exposure to variable interest rates. The Group therefore takes out interest rate swaps to the value of its variable rate instruments.

The Group seeks to manage the impact of variable fuel prices through managing its procurement contracts with suppliers and by hedging the indexed element of diesel costs using Contracts for Difference. The Group has currently hedged 100% of forecast diesel usage for the year ended 31 January 2023 and c.50% of forecast usage for the year ended 31 January 2024.

## 29 Financial risk management objectives and policies (continued)

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	2022 £m	2021 £m
<b>Fixed rate instruments</b>		
Financial assets	4	284
Financial liabilities	(2,201)	(2,869)
<b>Net exposure to fixed rate instruments</b>	<b>(2,197)</b>	<b>(2,585)</b>
<b>Variable rate instruments</b>		
Financial liabilities	(150)	(200)
<b>Net exposure to variable rate instruments</b>	<b>(150)</b>	<b>(200)</b>

### Sensitivity of fixed-rate instruments

The Group does not account for any fixed-rate financial assets and financial liabilities at fair value through profit or loss and does not use derivative instruments in fair value hedges. Consequently, having regard to fixed rate instruments, a change in market interest rates at the reporting date would not affect profit or loss.

### Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2022 would have increased equity by £nil (2021: £nil) and would have had no impact on profit or cash because the variable rate on the Senior Term Facility, which was drawn during the current year, is hedged by an interest rate swap.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

The credit risk for the Group is limited as payment from customers is generally required before services are provided.

Credit risk in relation to deposits and derivative counterparties is managed by the Group Treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The Group's maximum exposure to credit risk for the components of the statement of financial position at each reporting date is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted under liquidity risk.

## 29 Financial risk management objectives and policies (continued)

The ageing analysis of trade receivables is as follows:

	Total £m	Current £m	< 30 days £m	30 - 60 days £m	60+ days £m
<b>2022</b>	<b>158</b>	<b>142</b>	<b>9</b>	<b>6</b>	<b>1</b>
2021	162	144	6	5	7

The movements in the provision for the collective impairment of receivables are as follows:

	<b>2022</b> <b>£m</b>	2021 £m
At 1 February	<b>4</b>	2
Charge for the year	<b>2</b>	3
Utilised	<b>(2)</b>	(1)
<b>At 31 January</b>	<b>4</b>	4

### Liquidity risk

Liquidity risk is the risk that the Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and headroom on its working capital facilities.

The table below analyses the maturity of the Group's financial liabilities on a contractual undiscounted cash flow basis and includes any associated debt service costs. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date.

#### At 31 January 2022:

	Less than 1 year £m	1 - 2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	115	354	1,618	617	<b>2,704</b>
Lease liabilities	17	8	12	23	<b>60</b>
Other payables and accruals	73	-	-	-	<b>73</b>
Trade payables	111	-	-	-	<b>111</b>
	<b>316</b>	<b>362</b>	<b>1,630</b>	<b>640</b>	<b>2,948</b>

#### At 31 January 2021:

	Less than 1 year £m	1 - 2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	522	690	2,012	352	<b>3,576</b>
Derivative financial instruments	1	1	-	-	<b>2</b>
Lease liabilities	20	13	9	20	<b>62</b>
Other payables and accruals	97	-	-	-	<b>97</b>
Trade payables	109	-	-	-	<b>109</b>
	<b>749</b>	<b>704</b>	<b>2,021</b>	<b>372</b>	<b>3,846</b>

## 29 Financial risk management objectives and policies (continued)

### Capital management

The Group considers its capital to be a combination of Net Debt and equity.

The capital structure can be summarised as below:

Total net debt	<b>2,303</b>
Share capital	<b>361</b>
<b>Total capital</b>	<b>2,664</b>

The Group's objectives when managing capital have been:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to put service, innovation and data at the heart of the AA;
- to deliver targeted and strategic investment in our people, our products, our systems and operations;
- to reduce Group borrowings and associated interest costs.

The Group monitors capital using Net Debt to Trading EBITDA ratios. The key ratios are Senior Secured Debt to Trading EBITDA, and Net Debt to Trading EBITDA as calculated below:

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Senior Term Facility	<b>150</b>	200
Class A Notes	<b>1,895</b>	1,997
Less: cash and cash equivalents	<b>(67)</b>	(119)
Net Senior Secured Debt <sup>1</sup>	<b>1,978</b>	2,078
Class B Notes	<b>280</b>	850
Less: proceeds of Class B3 Notes issuance held in escrow	<b>-</b>	(280)
Lease obligations for covenant reporting <sup>9</sup>	<b>20</b>	27
Net Whole Business Securitisation (WBS) Debt <sup>2</sup>	<b>2,278</b>	2,675
IFRS 16 lease adjustment for lease obligations <sup>3</sup>	<b>25</b>	22
<b>Net Debt</b>	<b>2,303</b>	2,697
Trading EBITDA	<b>324</b>	322
Trading EBITDA for covenant reporting <sup>4</sup>	<b>321</b>	319
	<b>Covenant</b>	
Net Debt ratio <sup>5</sup>	<b>7.1x</b>	8.4x
Class B leverage ratio <sup>6</sup>	<b>7.1x</b>	8.4x
Senior Leverage ratio <sup>7</sup>	<b>6.2x</b>	6.5x
Class A Free Cash Flow: Debt Service <sup>8</sup>	<b>&gt;1.35x</b>	2.5x

<sup>1</sup> Principal amounts of the Senior Term Facility and Class A Notes less cash and cash equivalents.

<sup>2</sup> Net WBS Debt represents the borrowings and cash balances within the WBS structure headed by AA Intermediate Co Limited. This includes the principal amounts of the Senior Term Facility, Class A Notes, Class B2 Notes, Class B3 Notes and lease obligations for covenant reporting less AA Intermediate Co Limited group cash and cash equivalents and proceeds of Class B3 Notes issuance held in escrow.

<sup>3</sup> Difference between lease obligations for covenant reporting based on frozen GAAP and the lease liabilities value shown in the statement of financial position having adopted IFRS 16 from 1 February 2019.

<sup>4</sup> Trading EBITDA including discontinued operations as required by the debt documents based on frozen GAAP.

<sup>5</sup> Ratio of Net Debt to Trading EBITDA.

<sup>6</sup> Ratio of Net WBS Debt<sup>2</sup> to Trading EBITDA for covenant reporting<sup>4</sup>.

<sup>7</sup> Ratio of Net Senior Secured Debt<sup>1</sup> to Trading EBITDA for covenant reporting<sup>4</sup>.

<sup>8</sup> Ratio of free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.

<sup>9</sup> The lease obligations for covenant reporting value is presented based on frozen GAAP pre-IFRS 16, as required by the debt documents. The figure above is therefore different to the lease liabilities value shown in the statement of financial position.

## **29 Financial risk management objectives and policies (continued)**

The cash within the ring-fenced group headed by AA Mid Co Limited (the parent company of AA Intermediate Co Limited) is part of the whole business securitisation (WBS). A dividend cannot be paid from the ring-fenced group until a number of criteria have been met and therefore the Group's policy is to pay dividends from the AA Mid Co Limited group in accordance with the terms of the debt covenants as outlined below.

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B3 Note restrictions generally only permit the release of cash providing the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

The Class A and Class B3 Notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay dividends and undertake those other finance activities which are not restricted.

### **Key Cash Release Metrics**

	<b>2022</b>	<b>2021</b>
Senior Leverage ratio <sup>1</sup>	<b>6.2x</b>	6.5x
Excess cash flow <sup>2</sup>	<b>£228m</b>	£228m
Fixed Charge Coverage ratio <sup>3</sup>	<b>2.7x</b>	2.4x
Consolidated net income <sup>4</sup>	<b>£401m</b>	£352m

1 Ratio of Net Senior Secured Debt to Trading EBITDA for covenant reporting.

2 Cumulative free cash flow since 1 February 2013, reduced by dividends and adjusted for items required by the financing documents.

3 Ratio of fixed finance charges to Trading EBITDA for covenant reporting.

4 Cumulative profit after tax since 1 May 2013 adjusted for items required by the financing documents and reduced by dividends.



### 30 Commitments and contingencies

#### Lease commitments

The Group has lease contracts for property, plant, equipment and vehicles. Future minimum lease payments under lease contracts together with the present value of the net minimum lease payments are as follows:

	2022		2021	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	15	17	18	20
Between one and five years	16	20	20	22
After five years	14	23	11	20
Total minimum lease payments	45	60	49	62
Less amounts representing finance charge	-	(15)	-	(13)
Present value of minimum lease payments	45	45	49	49

Where a property is no longer used by the Group for operational purposes, tenants are sought to reduce the Group's exposure to lease payments. Where the future minimum lease payments are in excess of any expected rental income due, the corresponding right-of-use asset is impaired by this excess.

#### Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £7m (2021: £4m).

### 31 Subsidiary undertakings

The subsidiary undertakings of the Company, all of which are wholly owned except where stated, are listed in note 8 of the Company financial statements.

### 32 Auditors' remuneration

	2022 £m	2021 £m
<b>Amounts receivable by the Company's auditors and their associates in respect of:</b>		
Audit of financial statements of subsidiaries of the Company	1	1

The fee for the audit of these financial statements was £40,000 (2021: £38,000).

In addition, fees for non-audit services provided by the Company's auditors were £0.1m (2021: £0.5m), relating to audit-related assurance services.

### 33 Related party transactions

#### Transactions with key management personnel:

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. A loan amounting of £0.2m was made to a director of one of the group companies in the current year at an interest rate of 1.3% per annum from Automobile Association Developments Limited in relation to the Management Equity Plan.

The following tables provide the total value of transactions that have been entered into with associates and joint ventures during each financial year:

#### Transactions with associates:

Associate	Nature of transaction	2022 £m	2021 £m
ARC Europe SA	Registration and call handling fees	2	2

At 31 January 2022, the Group had an outstanding balance payable to ARC Europe SA of £1m (2021: £nil) comprising trade payables in respect of the above transactions.

#### Transactions with joint ventures:

Joint venture	Nature of transaction	2022 £m	2021 £m
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	1	3

At 31 January 2022, the Group had an outstanding balance receivable from AA Media Limited of £4m (2021: £4m) comprising fixed rate loan notes.

The outstanding balances with other Basing ConsortiumCo Limited group companies are as follows:

Entity	Relationship	2022 £m	2021 £m
AA Mid Co Limited	Immediate parent	1,205	1,205
AA Limited	Indirect parent	-	26
AA Technical Services Limited	Fellow subsidiary	1	1
Longacre Claims Limited	Fellow subsidiary	1	1
AA Underwriting Insurance Company Limited	Fellow subsidiary	(73)	(71)
Basing BidCo Limited	Indirect parent	1	-
		<b>1,135</b>	<b>1,162</b>

#### Cross-company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2022, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325m (2021: £2,767m).

The Group has an interest in a partnership, AA Pension Funding LP, which is fully consolidated in the Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to the Group financial statements. Separate financial statements for the partnership are not required to be, and have not been, filed at Companies House.

### **34 Compensation of key management personnel of the Group**

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Key management personnel consist of the Chief Executive Officer, Chief Financial Officer and the Executive Committee.

The amounts recognised as an expense during the financial year in respect of key management personnel were as follows:

	2022 £m	2021 £m
Short-term employee benefits	6	5
Share-based payments (see note 35)	1	1
Compensation for loss of office	1	-
<b>Total compensation paid to key management personnel</b>	<b>8</b>	<b>6</b>

### **35 Share-based payments**

	2022 £m	2021 £m
Equity-settled share-based payments:		
Share-based payments – Employee Share Incentive Plan	3	2
Share-based payments – Performance Share Plan	2	1
<b>Total equity-settled share-based payments</b>	<b>5</b>	<b>3</b>
Cash-settled share-based payments:		
Share-based payments – Insurance LTBP	-	1
<b>Total cash-settled share-based payments</b>	<b>-</b>	<b>1</b>
<b>Total share-based payments expense</b>	<b>5</b>	<b>4</b>

Following the acquisition of AA Limited (an indirect parent of AA Intermediate Co Limited) both the ESIP and PSP schemes vested on 8 March 2021. Charges of £4m relating to the full vesting period of these schemes were accelerated and recognised in the year ending 31 January 2022.

#### **Employee Share Incentive Plans**

Prior to the acquisition of AA Limited, the Group had an all-Employee Share Incentive Plan (ESIP). Under the ESIP, employees were able to buy Partnership shares by making weekly or monthly payments into the ESIP. In addition, for every Partnership share an employee purchased the AA Limited would match this on a 1:1 basis (Matching shares).

The ESIP share-based payments were equity-settled. ESIP Matching shares were issued on the 11<sup>th</sup> day of each month with a vesting period of 36 months from the date they were issued.

As at 31 January 2021, there were 11,567,837 outstanding matching shares relating to the FY19, FY20 and FY21 schemes. On 8 March 21, when the schemes vested, there were 11,796,212 outstanding matching shares. The underlying shares were subsequently purchased by Basing BidCo Limited at 35p per share as part of the acquisition.

#### **Performance Share Plans (PSP)**

During the 2018, 2019 and 2020 financial years, awards were granted under the PSP scheme to the CEO and other members of Senior Management, with vesting conditions linked to the performance of the Group and its share price.

### 35 Share-based payments (continued)

The plans that were due to vest in financial year 2022 or later were the 2018 CEO/CFO and 2018 Award plan, and the 2019 CEO and 2019 award plan. The 2017 CEO and 2017 Award plans were due to vest in October 2020 but this was delayed until the acquisition of AA Limited in March 2021. As a result of the acquisition of AA Limited that took place on 9 March 2021, the PSP schemes vested on 8 March 2021 and the underlying shares were subsequently purchased by Basing BidCo Limited at 35p per share.

		2021			2022
	Award Date	No. of shares outstanding	Lapsed	Vested	No. of shares outstanding
<b>2017 CEO Award</b>	27 October 2017	1,148,606	(1,124,327)	(24,279)	-
<b>2017 Award</b>	11 December 2017	1,920,058	(1,877,557)	(42,501)	-
<b>2018 CEO/CFO</b>	7 November 2018	1,355,371	(1,355,371)	-	-
<b>2018 Award</b>	7/14 November 2018	3,542,026	(3,495,643)	(46,383)	-
<b>2019 CEO</b>	30 October 2019	2,200,000	(220,000)	(1,980,000)	-
<b>2019 Award</b>	30 October 2019	8,731,136	(872,745)	(7,858,391)	-
<b>Total</b>		<b>18,897,197</b>	<b>(8,945,643)</b>	<b>(9,951,554)</b>	<b>-</b>

#### Insurance Long Term Bonus Plan (Insurance LTBP)

During the 2019 financial year, awards were granted under the Insurance LTBP to certain key members of senior management of the Group's Insurance businesses. These awards vest to specified threshold pound sterling values. The vesting conditions for each threshold are linked to the performance of the Group's Insurance businesses. The award date for this scheme was 23 January 2019.

The first settlement under this scheme was paid out in shares in respect of awards vesting over the period from 23 January 2019 to 31 July 2020. These were accounted for as equity-settled share-based payments.

Awards under this scheme with vesting periods from 23 January 2019 to 31 July 2021, 2022 and 2023 are expected to be settled in cash. As the terms of this award permit settlement in cash or shares, these awards are accounted for as cash-settled share-based payments.

The total expected value of shares to be awarded under this scheme is £nil as at 31 January 2022. The vesting charge for the current year is £nil and is presented in the cash-settled share-based payments expense (2021: £1m).

#### Management Incentive Plan (MEP)

During the current financial year, Basing TopCo Limited (an indirect parent company of Basing BidCo Limited, the acquiring company of the AA Limited Group) issued shares to senior management with vesting conditions linked to their continued employment. This plan has been accounted for as an equity settled share-based payment, and where the participants directly benefit the AA Intermediate Co Group, the share based payment charge has been accounted for within the Group. The charge for the year ended 31 January 2022 was £nil.

At 31 January 2022, 30,089,992 shares had been issued under this plan with a fair value of 5.3p each.

### 35 Share-based payments (continued)

The fair value of the shares were calculated using a Monte Carlo simulation model. Key inputs to the model were as follows:

- Equity value – Based on Basing TopCo Limited equity value of £601m
- Expected term – Vesting date of March 2026 has been assumed
- Exercise price – Based on equity value of Basing TopCo Limited taking into account the ratchet mechanism inbuilt to the plan
- Volatility – 30% has been used following the review of a broad set of quoted comparators
- Risk free rate – 0.59% based on UK Government bond rates for 5 year period as at first grantdate.

### **Shares held in trust**

The Employee-Benefit-Trust held certain deferred shares in relation to a defunct incentive scheme. Following the acquisition of AA Limited and during the course of the year, the legal title to the deferred shares was transferred to AA Corporation Limited with the beneficial entitlement held on trust respectively: (i) as to 20 million deferred shares, for AA Limited's ex-Chairman Bob Mackenzie pending the outcome of his litigation against AA Limited and (ii) as to the remaining 40 million deferred shares, for Basing BidCo Limited, the purchaser and immediate parent undertaking of AA Limited.

As at 31 January 2022, the following shares were held on trust by AA Corporation Limited:

	<b>Deferred shares</b>
Total shares held on trust	60,000,000

### **36 Ultimate parent undertaking and controlling party**

The Group is a wholly owned subsidiary of AA Mid Co Limited, a company registered in England and Wales, UK whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA.

At 31 January 2022, the ultimate parent undertaking and controlling party is Basing ConsortiumCo Limited, whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey.

Copies of the consolidated AA Limited financial statements are available from the website [www.theaacorporate.com/investors](http://www.theaacorporate.com/investors).

### **37 Accounting standards, amendments and interpretations**

#### **New accounting standards, amendments and interpretations adopted in the year**

The Group did not identify any new accounting standards coming into effect in the current year with an impact on the financial statements.

#### **New accounting standards, amendments and interpretations not yet adopted**

A number of new standards, amendments and interpretations have been issued and will be effective for financial years beginning after 1 February 2022 but have not been applied by the Group in these financial statements. These are set out below (effective dates are UK effective dates).

- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1 January 2022)
- Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities (effective date to be confirmed)
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective date 1 January 2023)
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- IFRS 17, 'Insurance contracts' as amended in December 2021 (effective date 1 January 2023)

### **37 Accounting standards, amendments and interpretations (continued)**

IFRS 17 replaces IFRS 4 Insurance contracts, providing consistent principles for all aspects of accounting for insurance contracts, impacting recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

The Group is currently undergoing an impact assessment with regard to IFRS 17, with implementation due for the year ending 31 January 2024. This is expected to have a material impact on the Group and comparative figures will be restated.

The Group did not identify any new accounting standards coming into effect in the financial year ending 31 January 2023 with an expected material impact on the financial statements.

### **38 Assets classified as held for sale**

During the year, the directors agreed the sale of two properties. Purchasers for both properties have been identified and legal terms are being negotiated. The sales are expected to complete within 10 months of the year end. The assets have been remeasured to the lower of carrying amount and fair value less cost to sell which has resulted in an impairment of £9m included within administrative expenses in the income statement.

The assets classified as held for sale were:

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Property, plant and equipment – property 1	<b>5</b>	-
Property, plant and equipment – property 2	<b>3</b>	-
	<b>8</b>	-

### **39 Events after the reporting period**

#### **Renewal of Liquidity Facility**

On 25 January 2022, the Group renewed, under the same terms, the £160m Liquidity Facility. This was effective 9 March 2022.

#### **Contract with Nationwide Building Society**

In March 2021, the Group announced the award of a new five-year contract with Nationwide through which it will offer Nationwide's FlexPlus customers the Group's award-winning roadside assistance services, which they will be able to access fully through the Group's digital channels including the AA app. The service went live from 1 March 2022.

## Notes to the Company financial statements

### 1 Presentation of financial statements and Company accounting policies

#### 1.1 Presentation of financial statements

AA Intermediate Co Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in England and Wales, UK. The address of the Company's registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. The financial statements are prepared under the historical cost convention and on a going concern basis. See also note 1.2(a) of the consolidated financial statements.

No income statement is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2022. The financial statements are prepared in sterling and are rounded to the nearest million pounds (£m).

#### 1.2 Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraph 10(d) (statement of cash flows)
- IAS 1 paragraph 16 (statement of compliance with all IFRS)
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements)
- IAS 1 paragraph 111 (cash flow statement information)
- IAS 1 paragraphs 134-136 (capital management disclosures)
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment'
- IAS 7, 'Statement of cash flows'
- IAS 8 paragraphs 30 and 31
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group
- IFRS 7, 'Financial Instruments: Disclosures'

The Company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2023 with an expected material impact on the financial statements.

#### 1.3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

##### a) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date or if appropriate at the forward contract rate. All differences are taken to the income statement.

## Notes to the Company financial statements (continued)

### 1.3 Accounting policies (continued)

#### b) Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless they arise on a previously revalued fixed asset.

The recoverable amount of fixed assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the rate of return expected on an investment of equal risk. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

#### c) Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Company recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

#### d) Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are principal estimates and assumptions made by the Company

Management has exercised judgement in applying the Group's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an ongoing basis and include the assumptions for future growth of cash flows to support the value in use calculations for the investment impairment review.

##### *Investments*

The Group tests the investment balances for impairment triggers annually and where a trigger is noted, a full quantitative assessment is performed. The recoverable amounts of the investments have been determined based on value in use calculations which require the use of estimates. Management has prepared discounted cash flow forecasts based on the latest strategic plan.

In performing its impairment testing on its investment in subsidiaries, the Company prepared a traditional value in use model as described in IAS 36 which was also used in prior years. This comprises an enterprise value model which deducts net debt as at 31 January 2022 and discounts estimates of future cash flows at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. IAS 36 considers that the appropriate discount rate for a value in use calculation should take into account weighted average cost of capital, incremental borrowing rate and other market borrowing rates in making such an estimate and the Company uses a discount rate calculated on this basis. Estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments as these are already taken into account in the discount rate.



## Notes to the Company financial statements (continued)

### 1.3 Accounting policies (continued)

#### d) Critical accounting estimates and judgements (continued)

This differs from the AA Limited company financial statements in which it was considered that using an alternative 'dividend distribution model' would best reflect an investor's assessment of the return required given the short period of time between the acquisition and year end. In that alternative value in use model, estimates of future cash flows included cash outflows relating to taxation and financing activities, reflecting an assessment of future refinancing and interest costs that the Group expects to arise as its existing debt is refinanced over the next 5 years. The use of this alternative value in use model was a departure from the traditional value in use model described in IAS 36 which was used by AA Limited in prior years.

As the Company is a holding company within the WBS ringfence, it and its subsidiary investments will continue operating as a group in the event that there was a failure to refinance the Group's class B notes. However, companies above the level of AA Mid Co Limited could face a significantly higher level of risk in those circumstances. The alternative value in use valuation approach used at an AA Limited level is therefore not considered to be an appropriate valuation methodology for the Company to use in its own investment impairment testing.

On this basis, the Company has made the critical accounting judgement to continue to perform impairment testing of its investment in subsidiaries using the traditional enterprise value model which deducts net debt, as outlined above.

Management has performed sensitivity analysis as part of its impairment assessment on the Company's investments in subsidiaries (see note 2 for details).

## 2 Investments in subsidiaries

	2022 £m	2020 £m
Investment in subsidiary at cost		
At 1 February and 31 January	1,661	1,661

The Company has performed impairment testing at 31 January 2022 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was principally performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Acquisition Co Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 2022, the Company used the five-year plan, adjusted for expected changes, covering the four years up to 31 January 2026 and a 2.0% expectation of growth in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 2.0% (2021: 2.0%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

Using an enterprise value model which deducts net debt as at 31 January 2022, cash flows were discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This was determined as a pre-tax rate of 10.2% (2021: 7.7%). The equivalent post-tax rate was 7.7% (2021: 7.0%). The use of this value in use calculation and the determination of its inputs were consistent with the impairment test performed in the prior year. The result of this impairment test was that there was a significant amount of headroom and therefore no indicators of impairment in the value of investments in subsidiaries were identified (2021: no indicators of impairment).

The value in use calculation used is the most sensitive to the assumptions used for growth and to the discount rate. Changes to these assumptions would impact the value of the headroom calculated. However, neither a 1% increase in the discount rate in the current year nor a 1% reduction in the terminal value growth rate would result in an impairment in the current year. In any case, management believes that neither of these scenarios reflect the most likely true outcome and accordingly, no impairment has been recognised in the current year.

## Notes to the Company financial statements (continued)

### 3 Amounts owed by subsidiary undertakings

	2022 £m	2021 £m
Amounts owed by subsidiary undertakings	476	115
	<b>476</b>	<b>115</b>

The amounts owed by parent and subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

### 4 Amounts due to parent undertakings

	2022 £m	2021 £m
Amounts owed to parent undertakings	1,756	1,756
	<b>1,756</b>	<b>1,756</b>

The amounts owed to parent and subsidiary undertakings are unsecured, have no repayment terms and bear no interest.

### 5 Called up share capital

	2022 £	2021 £
<b>Allotted, called up and fully paid</b>		
360,893,049 (2021: 20) ordinary shares of £1 each	360,893,049	20
	<b>360,893,049</b>	<b>20</b>

On 3 March 2021 and 27 October 2021, the Company issued 260,893,029 and 100,000,000 shares, respectively, of £1 each to its parent entity, AA Midco Limited.

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

During the year, the company did not pay a dividend (2021: £nil).

### 6 Auditors' remuneration

The fee for the audit of these financial statements was £40k (2021: £38k).

### 7 Employee costs

The Company had no employees or employee costs in the current or prior year.

## Notes to the Company financial statements (continued)

### 8 Subsidiary undertakings

All subsidiaries are wholly owned (except where stated) and incorporated and registered where stated below.

All subsidiaries are consolidated in the Group financial statements.

The principal subsidiary undertakings of the Company at 31 January 2022 are:

Name	Country of incorporation / registered office key	Class of shares held
AA Acquisition Co Limited <sup>2</sup>	England and Wales, UK / A	Ordinary
AA Bond Co Limited <sup>1,2</sup>	Jersey / B	Ordinary
AA Corporation Limited	England and Wales, UK / A	Ordinary
AA Financial Services Limited	England and Wales, UK / A	Ordinary
AA Senior Co Limited	England and Wales, UK / A	Ordinary
A A The Driving School Agency Limited	England and Wales, UK / A	Ordinary
Automobile Association Developments Limited	England and Wales, UK / A	Ordinary
Automobile Association Insurance Services Limited	England and Wales, UK / A	Ordinary
Drivotech (UK) Limited	England and Wales, UK / A	Ordinary
Prestige Fleet Servicing Limited	England and Wales, UK / A	Ordinary
Used Car Sites Limited	England and Wales, UK / A	Ordinary

The other subsidiary undertakings of the Company at 31 January 2022 are:

Name	Country of incorporation / registered office key	Class of shares held
A.A. Pensions Trustees Limited	England and Wales, UK / A	Ordinary
AA Brand Management Limited	England and Wales, UK / A	Ordinary
AA Garage Services Limited	England and Wales, UK / A	Ordinary
AA Ireland Pension Trustees DAC	Ireland / C	Ordinary
AA Pension Funding GP Limited	Scotland, UK / D	Ordinary
AA Pension Funding LP <sup>3</sup>	Scotland, UK / D	Membership Interest
Automobile Association Holdings Limited	England and Wales, UK / A	Ordinary and Deferred redeemable non-voting special dividend
Automobile Association Insurance Services Holdings Limited	England and Wales, UK / A	Ordinary
Automobile Association Services Limited	England and Wales, UK / A	Limited by guarantee

## Notes to the Company financial statements (continued)

### 8 Subsidiary undertakings (continued)

Name	Country of incorporation / registered office key	Class of shares held
Accident Assistance Services Limited	England and Wales, UK / A	Ordinary
Intelligent Data Systems (UK) Limited	England and Wales, UK / A	Ordinary
Personal Insurance Mortgages and Savings Limited	England and Wales, UK / A	Ordinary
The Automobile Association Limited <sup>1</sup>	Jersey / B	Ordinary

<sup>1</sup> This company also has a UK branch establishment.

<sup>2</sup> Directly owned by the Company; all other subsidiaries are indirectly held.

<sup>3</sup> This partnership is fully consolidated into the Group financial statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate financial statements for this entity.

#### Registered office key

Registered office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
22 Grenville Street, St Helier, Jersey, JE4 8PX	B
6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland	C
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	D