LONGACRE CLAIMS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2022

Registered number: 09564972

LONGACRE CLAIMS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JANUARY 2022

The directors present their Annual Report and audited Financial Statements of Longacre Claims Limited ("the Company") for the year ended 31 January 2022.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS , FUTURE DEVELOPMENTS AND KEY PERFORMANCE INDICATORS

The Company is a subsidiary of AA Insurance Holdings Limited.

The principal activity of the Company is the provision of claims management services. The Company also provides debt collection services on a per case basis for another group company.

Despite the uncertain market following the impact of COVID-19 in the prior year, the Company remains in a resilient position to continue to perform its primary activity and management have assessed that this will continue to be the case.

As shown in the Company's Income Statement, revenue for the year ended 31 January 2022 is £14,512,000 (2021: £8,986,000) and profit before tax increased to £1,128,000 (2021: £396,000). The increase was as a result of greater motor claims and the provision of home claims management services from July 2021. This was partly offset by an increase in employee costs from headcount growth and higher depreciation costs. Profit before tax also includes £459,000, inclusive of interest, for a historical VAT liability relating to claims management income, and a potential VAT penalty provision of £66,000. The provision is the current best estimate as the penalty could be between 0% and 30% of the liability. The HMRC final penalty may therefore be different to the provision.

The Statement of Financial Position shows the Company's financial position at the year end. The Company has net assets of £1,884,000 (2021: £932,000).

For decision making and internal performance management, management's key performance metric is Trading EBITDA which is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, share-based payment, adjusting operating items, net finance costs and tax expense (see note 3). Trading EBITDA increased by 37% to £2,968,000 (2021: £2,173,000) during the current year, primarily due to the increased claims activity in the year as noted above.

There are currently no plans to alter the principal activity of the Company in the future.

The directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006. The Company is part of the AA Limited group, the ultimate parent of which is Basing ConsortiumCo Limited following the acquisition of AA Limited group on 9 March 2021. Decisions, policies and procedures that may affect stakeholders were implemented at an AA Limited group level during the year and the Board oversees the application of these to the Company. For details of how this is accomplished within the AA Limited group, refer to page 46 of AA Limited's Annual Report, with whom the Company shares a common executive management structure.

RISK MANAGEMENT FRAMEWORK

The Company is part of the AA Limited group. The Board of Basing Topco Limited, the AA investment company controlled by Warburg Pincus and TowerBrook Capital Partners, whose ultimate parent undertaking is Basing ConsortiumCo Limited, 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. These controls are monitored by the Risk, Compliance and Internal Audit functions to ensure they are working effectively.

RISK MANAGEMENT FRAMEWORK (continued)

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
- we learn from our risk-taking

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

Risk culture and governance	The processes and structures to demonstrate that effective risk management, oversight and assurance is being undertaken for all key risks faced by the AA.
Strategy and objectives	The process to ensure that risk is considered as part of strategy and objectives, including the direction it sets for taking, avoiding and considering opportunity from risk.
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 financial 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.

The principal risks and uncertainties facing the Company are considered to be:

Underperformance of the underwriter or inability to grow the underwriter business

The group is unable to develop and grow the underwriter business in a way that complements the customer experience and which demonstrates standards and values that underlie the core brand. The AA's brand and its continued success, and, in particular, the loyalty of its customers, relies on delivering outstanding service that is superior to the rest of the market. The performance of the underwriter business is also exposed to the risks of higher than expected claims frequency, higher average cost per claim or catastrophic claims.

There is continuous investment in the underwriter business, including investment in technology, systems, people and processes that mitigate this risk and facilitate the growth of the underwriter business. Underwriting guidelines are used to ensure that claims frequency and costs remain within expected levels. The reinsurance structure using co-insurance and quota share proportionately reduces the AA's risk. Excess of loss and catastrophe reinsurance is also used to protect against costly individual claims and events.

LONGACRE CLAIMS LIMITED

STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 JANUARY 2022

RISK MANAGEMENT FRAMEWORK (continued)

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

Cyber attacks are becoming more and more sophisticated and businesses are becoming increasingly vulnerable to cyber threats due to their reliance on IT infrastructure.

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.

Financial Risk

The group's senior management oversees the management of financial 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.

The viability and financial success of the Company is tied to the viability and financial success of the Group. For more detail see the AA Limited group's Financial Review on pages 27-30 of its Annual Report.

Macroeconomic risks

The risks that the uncertain macroeconomic conditions and impact of increasing inflation may affect the Company's prospects. Economic uncertainty is expected to remain high as a result of the global pandemic and geopolitical risks arising from the Russian war on Ukraine.

The AA continues to monitor financial markets and the external environment.

ON BEHALF OF THE BOARD

G S BARKER
DIRECTOR
29 September 2022

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA
Registered number: 09564972

LONGACRE CLAIMS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2022

DIRECTORS

The directors who held office during the year and up to the date of this report were as follows:

G S Barker
N J Spurrier
C A Staniland (resigned 31 March 2022)

COMPANY SECRETARY

J E Cox (appointed 01 October 2021)
N Hoosen (resigned 31 May 2021)

DIRECTORS' INDEMNITY

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to its directors and officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law. This is a qualifying third-party indemnity provision and was in force throughout the financial year and at the date of approval of the financial statements.

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 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 Company and of the profit or loss of the Company 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 United Kingdom Accounting Standards, comprising FRS 101 have been followed, 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 Company will continue in business.

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

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

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 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 Company's auditors are aware of that information.

GOING CONCERN

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business, future developments and key performance indicators" and "Risk management framework" sections on pages 1 to 3.

Due to the net current liabilities position of the Company, a letter of support has been granted by AA Limited. Longacre Claims Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Company is linked to the wider AA Limited group. 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. In July 2022, the AA Limited group completed a successful refinancing of its outstanding A6 notes, issuing £250,000k of A10 notes at a coupon of 7.38%. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities. The next debt maturity is not until July 2024.

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 Company has sufficient funds to continue in operation during this period and the foreseeable future. This has been reviewed by the directors of the Company in the context of the dependence on the letter of support issued by AA Limited. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

INDEPENDENT AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

EMPLOYEE ENGAGEMENT

We remain committed to employee engagement throughout the business. Employees are kept updated on the Company's strategy and progress through regular communications, including emails and updates on the Company's intranet page. Further details of our workforce engagement and our people can be found in 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.

DIVIDENDS

The Company has not paid a dividend in the year (2021: £nil) and the directors do not propose the payment of a final dividend (2021: £nil).

ON BEHALF OF THE BOARD

G S BARKER
DIRECTOR
29 September 2022

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA
Registered number: 09564972

Independent auditors' report to the members of Longacre Claims Limited

Report on the audit of the financial statements

Opinion

In our opinion, Longacre Claims Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2022 and of its profit for the year then ended;
- 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
- 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 Statement of Financial Position as at 31 January 2022; the Income Statement and the Statement 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 company 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.

Conclusions relating to going concern

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

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

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 company and its 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory requirements 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. 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 reduce expenditure thereby improving the financial performance of the company, and the potential for management bias in accounting estimates such as expected credit losses.. Audit procedures performed by the engagement team included:

- Discussion with management and the AA group's internal audit, internal compliance, and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Challenging significant accounting assumptions and judgements such as the expected credit loss model, both individually and collectively for indications of management bias.
- 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.
- Review of Board minutes and relevant meeting minutes, for matters relating to any instances of non-compliance with laws and regulations and fraud matters.

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.

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

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

HGrainger

Helen Grainger (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
30 September 2022

LONGACRE CLAIMS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2022 £'000	2021 £'000
REVENUE	2.3	14,512	8,986
Cost of sales		(6,412)	(4,521)
GROSS PROFIT		8,100	4,465
Administrative expenses		(6,823)	(3,927)
OPERATING PROFIT	4	1,277	538
Finance costs	6	(149)	(142)
PROFIT BEFORE TAX		1,128	396
Income tax expense	9	(176)	(70)
PROFIT FOR THE YEAR		952	326

There is no income and expenditure other than that passing through the income statement, therefore no separate statement of comprehensive income is presented.

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

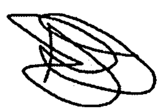
LONGACRE CLAIMS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY

	Note	2022 £'000	2021 £'000
NON-CURRENT ASSETS			
Deferred tax assets	10	243	91
Intangible assets	11	3,489	4,446
Property, plant and equipment	12	330	569
Right-of-use assets	13	2,437	2,762
		6,499	7,868
CURRENT ASSETS			
Other receivables	14	1,873	2,969
Cash and cash equivalents		3,996	1,820
		5,869	4,789
TOTAL ASSETS		12,368	12,657
CURRENT LIABILITIES			
Trade and other payables	15	(7,160)	(8,549)
Current tax payable		(470)	(142)
Lease liabilities	16	(305)	(424)
Provisions	17	(66)	-
		(8,001)	(9,115)
NON-CURRENT LIABILITIES			
Lease liabilities	16	(2,353)	(2,525)
Provisions	17	(130)	(85)
		(2,483)	(2,610)
TOTAL LIABILITIES		(10,484)	(11,725)
NET ASSETS		1,884	932
EQUITY			
Called up share capital	18	1	1
Retained earnings		1,883	931
TOTAL EQUITY		1,884	932

These financial statements were approved by the board of directors and signed on its behalf by:



G S BARKER
DIRECTOR
29 September 2022

Longacre Claims Limited

Registered number: 09564972

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

LONGACRE CLAIMS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 February 2020	1	634	635
Profit for the year	-	326	326
Equity-settled share-based payments (see note 19)	-	(29)	(29)
At 31 January 2021	**1**	**931**	**932**
Profit for the year	-	952	952
At 31 January 2022	**1**	**1,883**	**1,884**

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

LONGACRE CLAIMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 PRESENTATION OF FINANCIAL STATEMENTS

Longacre Claims Limited is a private company limited by shares, incorporated and domiciled in England and Wales, UK.

The financial statements are prepared in Sterling and are rounded to the nearest £1,000.

GOING CONCERN

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business, future developments and key performance indicators" and "Risk management framework" sections on pages 1 to 3.

Due to the net current liabilities position of the Company, a letter of support has been granted by AA Limited. Longacre Claims Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Company is linked to the wider AA Limited group. 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. In July 2022, the AA Limited group completed a successful refinancing of its outstanding A6 notes, issuing £250,000k of A10 notes at a coupon of 7.38%. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities. The next debt maturity is not until July 2024.

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 Company has sufficient funds to continue in operation during this period and the foreseeable future. This has been reviewed by the directors of the Company in the context of the dependence on the letter of support issued by AA Limited. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"). The financial statements are under the historical cost convention and have been prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

- IAS 1 paragraphs 10(d) and 10(f),
- 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),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures',
- IAS 8 paragraphs 30 and 31 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective),
- IFRS 15 disclosure requirements in paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129,
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group and key management compensation.

New standards, amendments and IFRS IC interpretations

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements. A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning after 1 February 2022, however the Company has not identified any with an expected material impact on the financial statements.

2.2 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 Company makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Development expenditure is capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining whether an expense should be capitalised management also makes assumptions regarding the expected future cash generation of the assets and the expected period of benefits.

The Company operated a share-based payment award to certain directors which was measured at fair value at grant date. This involved estimates on the expected achievement of performance criteria, see note 19 for details. There is judgement as to whether arrangements of this nature represent a share-based payment arrangement (providing an equity return) or a cash-based incentive arrangement. Management reached the judgement at the scheme inception, following external advice received, that the most appropriate treatment is as a share-based payment arrangement. This conclusion has been reached due to the performance criteria noted above rewarding certain directors, who are the holders of the B shares, for the increase in value of the claims management business.

Management make estimates for some trading accruals which are evaluated continually based on historical experience and other factors. These estimates may differ to the actual results but are not significant.

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies

a) Revenue

Revenue represents amounts receivable for services provided, excluding value added tax, and trade discounts. Revenue is recognised on a point in time basis when the performance obligation is satisfied. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable. A contract asset is recognised in the statement of financial position where this is the case.

All revenue arises from one class of business, from UK by origination and to Gibraltar by destination.

Revenue is generated from claim handling services rendered during the year and is based on the number of claims. A different fee is charged depending on whether the claim is fault, non-fault or split fault, the fees are subject to periodic review. Revenue is recognised in the month the claim is reported. Claims handing services also include a salvage management fee, recognised following the salvage of a vehicle and on a point in time basis. The fee charged is based on the value of the vehicle.

b) 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.

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.

c) 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.

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 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.

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

d) Share-based payments

The Company operates a share-based payment incentive scheme for certain directors of the Company.

Share-based payment arrangements in which the Company receives goods or services as consideration for the Group's equity instruments are accounted for as equity-settled share-based payment transactions. The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost (see note 19), with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. 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.

Share-based payment transactions in which the Company 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.

e) Intangible assets

Software development expenditures on an individual project are recognised as an intangible asset when the Company 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 over its useful life of five years.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised.

Amortisation expense is recognised within the administrative expenses line on the income statement.

f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on property, plant and equipment at rates calculated to write off the costs, less estimated residual value based on prices prevailing at date of acquisition of each asset evenly over its expected useful life as follows:

IT hardware and equipment	3 - 10 years

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation expense is recognised within the administrative expenses line on the income statement.

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

g) Financial assets and financial liabilities

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.

Amounts owed to group undertakings

Amounts owed to group undertakings are amounts due from customers for goods or services performed in the ordinary course of business. The Company 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.

h) Cash and cash equivalents

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

i) Adjusting operating items

Adjusting operating items are events or transactions that fall within the operating activities of the Company 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.

See notes 3 and 5 for further information on the nature of adjusting operating items.

j) Prepayments

Prepayments are recognised at fair value and are subsequently held at amortised cost.

k) Provisions

A provision is required when the Company 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.

3 ADJUSTED PERFORMANCE MEASURES

Management reviews the Company's results and performance both on a statutory and non-GAAP (non-statutory) basis. The Company's adjusted performance measure of Trading EBITDA is a non-GAAP (non-statutory) financial measure and is included in these financial statements as it is a key financial measure used by management to evaluate performance. The measure enables management to more easily and consistently track the underlying operational performance of the Company.

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, adjusting operating items, share-based payments, finance costs and tax expense.

Reconciliation of Trading EBITDA to operating profit

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

	Notes	**for the year ended 31 January**	
		2022	2021
		£'000	£'000
Trading EBITDA		**2,968**	2,173
Amortisation and depreciation	11, 12, 13	**(1,745)**	(1,582)
Share-based payments	19	**65**	(53)
Adjusting operating item	5	**(11)**	-
Operating profit	4	**1,277**	538

Trading EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as income or costs which are the result of an isolated, non-recurring event. It also excludes the effects of share-based payments, amortisation and depreciation, adjusting operating items, net finance costs and tax expense.

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 the AA Limited group's debt documents and is used for calculating debt covenants.

4 OPERATING PROFIT

Operating profit is stated after charging:

	2022	2021
	£'000	£'000
Amortisation of intangible assets (note 11)	**1,181**	1,097
Depreciation of tangible fixed assets (note 12)	**239**	160
Depreciation of right-of-use assets (note 13)	**325**	325

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2022 amounted to £21,000 (2021: £20,000). The Company's auditors provided no services to the Company other than the annual audit in either the current or prior year.

5 ADJUSTING OPERATING ITEMS

	2022 £'000	2021 £'000
Other adjusting operating items	(11)	-
	(11)	-

Other adjusting operating items relates to closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme.

6 FINANCE COSTS

	2022 £'000	2021 £'000
Finance charges payable on lease liabilities	132	142
Other finance costs	17	-
	149	142

7 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2022 £'000	2021 £'000
Wages and salaries	6,728	3,869
Social security costs	613	317
Share-based payments (note 19)	(65)	53
Other pension costs	538	294
	7,814	4,533

The average number of employees directly employed by the Company during the year is 271 (2021: 148).

8 DIRECTORS' REMUNERATION

	2022 £'000	2021 £'000
Aggregate remuneration in respect of qualifying services	636	708
Money purchase scheme contribution	20	8
Share based payments	47	-
	703	716
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	257	257
Money purchase scheme contribution	12	11
	269	268

C A Staniland was a director of a fellow subsidiary and was remunerated by another company that is part of the Basing ConsortiumCo group. N J Spurrier is a director of a fellow subsidiary but was remunerated by the Company. As the directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of fellow subsidiary companies, their full remuneration has been reflected in the disclosure above.

G S Barker is only a director of the Company and is not a director of any other company within the Basing ConsortiumCo group and as such was remunerated by the Company. His remuneration has been reflected in the disclosure above.

8 DIRECTORS' REMUNERATION (contined)

Retirement benefits are accruing for nil (2021: nil) directors under a defined benefit scheme and 2 (2021: 3) directors under a money purchase scheme.

Two directors exercised share options in the current year (2021: nil). The number of shares exercised was 134,899.

9 INCOME TAX EXPENSE

The major components of the income tax expense are:

	2022 £'000	2021 £'000
Current tax:		
- Current tax charge on profit in the year	**301**	142
- Adjustment in respect of prior years	**27**	(17)
Total current tax charge	**328**	125
Deferred tax:		
- Origination and reversal of temporary differences	**(67)**	(69)
- Adjustment in respect of prior years	**(27)**	18
- Effect of UK corporation tax rate change	**(58)**	(4)
Total deferred tax credit	**(152)**	(55)
Total income tax expense	**176**	70

Reconciliation of income tax expense to profit before tax multiplied by UK's corporation tax rate:

	2022 £'000	2021 £'000
Profit before tax	**1,128**	396
Tax at rate of 19.0% (2021: 19.0%)	**214**	75
Effect of UK corporation tax rate change	**(58)**	(4)
Adjustment in respect of prior years	**-**	1
Other permanent differences	**20**	(2)
Income tax expense reported in the income statement	**176**	70

10 DEFERRED TAX ASSETS

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Fixed asset temporary differences	**197**	52	**(145)**	(18)
Other short term temporary differences	**46**	39	**(7)**	(37)
Deferred tax assets	**243**	91	**(152)**	(55)

	2022	2021
	£'000	£'000
Deferred tax assets as at 1 February	**91**	36
Tax credit recognised in the income statement	**152**	55
Deferred tax assets as at 31 January	**243**	91

The Company 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 19.0% to 25.0% 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 £58k during the year.

On 23 September 2022, The UK Chancellor of the Exchequer announced that the intended increase in the UK corporate tax rate to 25% from April 2023 referred to above will be cancelled. This change has not been substantively enacted as at the date of these accounts, and so is not reflected in the Company's balance sheet. The impact of this change is not expected to be material to these accounts.

Deferred tax balances have been measured according to the substantively enacted rates applicable to the periods in which they are scheduled to reverse.

11 INTANGIBLE ASSETS

	Software £'000
Cost	
At 1 February 2020	3,897
Additions	545
Transferred from another Group company	1,240
Reclassification	47
At 31 January 2021	**5,729**
Additions	224
At 31 January 2022	**5,953**
Accumulated amortisation	
At 1 February 2020	260
Charge for the year	1,097
Reclassification	(74)
At 31 January 2021	**1,283**
Charge for the year	1,181
At 31 January 2022	**2,464**
Net book value	
At 31 January 2022	**3,489**
At 31 January 2021	4,446

12 PROPERTY, PLANT AND EQUIPMENT

	IT hardware £'000	Equipment £'000	Total £'000
Cost			
At 1 February 2020	725	525	1,250
Reclassification	(47)	-	(47)
Additions	14	2	16
At 31 January 2021	**692**	**527**	**1,219**
At 31 January 2022	**692**	**527**	**1,219**
Accumulated depreciation			
At 31 January 2020	346	70	416
Reclassification	74	-	74
Charge for the year	76	84	160
At 31 January 2021	**496**	**154**	**650**
Charge for the year	156	83	239
At 31 January 2022	**652**	**237**	**889**
Net book value			
At 31 January 2022	**40**	**290**	**330**
At 31 January 2021	196	373	569

Within IT hardware £nil (2021: nil) relates to assets under construction which are not depreciated. Within equipment £nil (2021: £nil) relates to assets under construction which are not depreciated. Depreciation expenses of £239,000 are included under administrative expenses (2021: £160,000).

13 RIGHT-OF-USE ASSETS

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

	Property £'000
Cost	
At 31 January 2020	3,309
Additions	6
At 31 January 2021	**3,315**
At 31 January 2022	**3,315**
Accumulated depreciation and impairment	
At 31 January 2020	228
Charge for the year	325
At 31 January 2021	**553**
Charge for the year	325
At 31 January 2022	**878**
Net book value	
At 31 January 2022	**2,437**
At 31 January 2021	2,762

14 OTHER RECEIVABLES

	2022 £'000	2021 £'000
Amounts owed to group undertakings	**992**	2,200
Prepayments and other receivables	**641**	644
Contract assets	**240**	125
	1,873	2,969

Amounts owed by group undertakings are unsecured, have no repayment terms and bear no interest.

15 TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	**73**	473
Amounts owed to group undertakings	**6,309**	7,600
Accruals	**117**	253
Other taxation and social security	**605**	102
Other payables	**56**	121
	7,160	8,549

Amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £18,000 (2021: £18,000).

16 LEASE LIABILITIES

The Company has lease contracts for property. 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 £'000	**Minimum payments £'000**	Present value of payments £'000	Minimum payments £'000
Within one year	**305**	**424**	424	557
Between one and five years	**1,364**	**1,698**	1,173	1,566
After five years	**989**	**1,070**	1,352	1,494
Total minimum lease payments	**2,658**	**3,192**	2,949	3,617
Less amounts representing finance charge	**-**	**(534)**	-	(668)
Present value of minimum lease payments	**2,658**	**2,658**	2,949	2,949

Where a property is no longer used by the Company for operational purposes, tenants are sought to reduce the Company'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.

17 PROVISIONS

	Property leases £'000	**Other £'000**	**Total £'000**
At 1 February 2020	-	-	-
Charge for the year	85	-	85
At 31 January 2021	**85**	-	**85**
Charge for the year	45	66	111
At 31 January 2022	**130**	**66**	**196**
Current	-	66	66
Non-current	130	-	130
At 31 January 2022	**130**	**66**	**196**
Current	-	-	-
Non-current	85	-	85
At 31 January 2021	**85**	-	**85**

The property lease provisions relates to dilapidations. The sums are expected to be paid out within the next 8 years.
Other provisions relates to a potential VAT penalty on a historical VAT liability. The provision is the current best estimate as the penalty could be between 0% and 30% of the liability. The HMRC final penalty may therefore be different to the provision.

18 CALLED UP SHARE CAPITAL

Allotted and called up	**2022** **£**	2021 £
1,000 ordinary shares of £1 each	**1,000**	1,000
300 Class B shares of £1 each	**300**	300

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

The Company has in issue 1,000 (2021: 1000) ordinary shares of £1 each and 300 (2021: 300) Class B shares of £1 each.

The directors do not propose the payment of a final dividend in respect of the 2022 financial year (2021: £nil).

19 SHARE-BASED PAYMENTS

	2022 **£'000**	2021 £'000
Equity-settled share-based payments:		
Share-based payments – Insurance LTBP	-	(29)
Total equity-settled share-based payments	-	(29)
Cash-settled share-based payments:		
Share-based payments – Insurance LTBP	**(65)**	82
Total cash-settled share-based payments	**(65)**	82
Total share-based payments (credit)/expense	**(65)**	53

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 AA Limited 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 AA Limited 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 remaining expected value of shares and cash to be awarded under this scheme is £nil as at 31 January 2022.

20 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Insurance Holdings Limited, a Company registered in the England and Wales, UK.

The parent of the smallest and largest group to consolidate these financial statements is AA Limited whose registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

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

Copies of the AA Limited consolidated financial statements are available from the website www.theaacorporate.com/investors.

21 EVENTS AFTER THE REPORTING PERIOD

On 13 July 2022, the AA Limited group completed a refinancing of its outstanding A6 notes, issuing £250m of A10 notes at a coupon of 7.38%.