

AA MID CO LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2023

WEDNESDAY



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12/07/2023
COMPANIES HOUSE

Registered number: 05088289

AA MID CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023
STRATEGIC REPORT

The directors present their annual report and audited financial statements of AA Mid Co Limited ("the Company") for the year ended 31 January 2023.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is a wholly owned subsidiary of AA Limited. The principal activity of the Company is that of a holding company. The Company did not trade during the year and received no equity injection during the year (2022: £361m).

The directors are satisfied with the performance of the Company in the year. There are currently no plans to alter the principal activities of the Company going forward and the Company expects to continue to be a holding company within the AA Limited group ("the Group").

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. For details of how this is accomplished across the AA Limited group, refer to page 40 of AA Limited's Annual Report, with whom the Company shares common directorship and management structure.

RISK MANAGEMENT FRAMEWORK

The Board of AA 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 the Company monitors itself closely against the statements through its risk governance and the risk management framework. Further information about the corporate governance arrangements for the AA is set out in the Directors' Report on pages 46-51.

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.
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.

AA MID CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023
STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

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

Financial risks

The risk that the Group 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.

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 ability to finance 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. In particular, financing costs have increased as a result of rising interest rates as the economy sees higher levels of inflation.

Despite a challenging macroeconomic environment, the Group has completed a successful refinancing of its A6 Notes, issuing £250m of A10 Notes in FY23, as well as a partial refinancing of its £550m A7 Notes in FY24 and continues to seek to refinance bonds well ahead of their maturity dates. The Group is highly cash generative and has good levels of available cash as well as a Working Capital Facility of £56m, of which £46m is available for cash drawings allowing it to withstand such macroeconomic challenges.

Credit risk

The Company is exposed to credit risk in relation to the intercompany balance due from a fellow subsidiary undertaking.

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 AA Limited group monitors the recoverability of intercompany balances to ensure that there are sufficient resources to meet each counterparty's obligation.

Macroeconomic risks

The risk that uncertain macroeconomic conditions may affect the Company's prospects. Economic uncertainty is expected to remain high as a result of the geopolitical risks arising from the Russian war on Ukraine, a potential global banking crisis following the collapse of two U.S lenders, takeover of Credit Suisse and the UK's long term macroeconomic outlook. The AA continues to monitor financial markets and the external environment.

ON BEHALF OF THE BOARD



M NEVILLE

DIRECTOR

29 June 2023

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

AA MID CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023
DIRECTORS' REPORT

DIRECTORS

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

M Neville
T O Mackay

COMPANY SECRETARY

J E Cox

DIRECTORS' INDEMNITY

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 2023 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 Company.

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.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AA MID CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023
DIRECTORS' REPORT (continued)

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 and review of the business" and "Risk management framework" sections on pages 1 to 2.

Due to the net current liabilities position of the Company, a letter of support has been provided by AA Limited, in order to allow the directors to conclude that the Company can meet its liabilities as they fall due. AA Mid Co Limited is a wholly owned subsidiary of the AA Limited group ("Group"), hence the going concern status of the Company is linked to the wider Group. The Company directors have reviewed projected cash flows of the 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 trading during this period and the foreseeable future.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes have already been refinanced. On 23 June 2023 the Group secured £122m of additional financing via a tap on A10 Notes (see note 10). The proceeds of this issue will be combined with existing cash reserves to settle the remaining A7 Notes on 30 June.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future 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 50-51 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. This is important to the Company, which has intercompany receivables from and payables to members of the AA Intermediate Co Limited group, where settlement is dependent on the wider Group's ability to refinance and accordingly the directors of Company have obtained a letter of financial support.

After making appropriate enquiries, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

DIVIDENDS

The Company has not paid a dividend in the year (2022: £nil) and the directors do not propose the payment of a final dividend (2022: £nil). The Company did not receive any dividends from subsidiary undertakings (2022: £nil).

AA MID CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023
DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS

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

The financial statements on pages 9 to 18 were approved by the Board of Directors and signed on its behalf by:



M NEVILLE
DIRECTOR
29 June 2023

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

Independent auditors' report to the members of AA Mid Co Limited

Report on the audit of the financial statements

Opinion

In our opinion, AA Mid Co Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2023 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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: Statement of Financial Position as at 31 January 2023; 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

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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 2023 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 the Companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 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 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 individually and collectively for indications of management bias, in particular in relation to the subsidiary investment impairment assessment.

AA MID CO LIMITED

- Confirming that there were no journals posted within the entity in the year by corroborating this through discussions with management and agreement to the underlying SAP system.
- 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.

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.



Nicholas Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2023

AA MID CO LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 JANUARY

	Note	2023 £m	2022 £m
Administrative expenses		-	-
RESULTS BEFORE TAX		<u>-</u>	<u>-</u>
Income tax expense		-	-
RESULTS FOR THE FINANCIAL YEAR		<u><u>-</u></u>	<u><u>-</u></u>

There is no other comprehensive income other than that recognised in the income statement, therefore no separate statement of comprehensive income is presented.

The accompanying notes are an integral part of these financial statements.

AA MID CO LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY

	Note	2023 £m	2022 £m
FIXED ASSETS			
Investments in subsidiaries	4	2,227	2,227
CURRENT ASSETS			
Trade and other receivables	5	1,778	1,778
TOTAL ASSETS		<u>4,005</u>	<u>4,005</u>
CURRENT LIABILITIES			
Trade and other payables	6	(2,983)	(2,983)
NET ASSETS		<u>1,022</u>	<u>1,022</u>
EQUITY			
Called up share capital	8	55	55
Share premium		326	326
Retained earnings		641	641
TOTAL EQUITY		<u>1,022</u>	<u>1,022</u>

The financial statements on pages 9 to 18 were approved by the Board of Directors and signed on its behalf by:



M NEVILLE
DIRECTOR
29 JUNE 2023
AA Mid Co Limited
Registered number: 05088289

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

AA MID CO LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JANUARY

	Called up share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 February 2021	21	-	641	662
Results for the year	-	-	-	-
Issue of share capital	34	326	-	360
At 31 January 2022	55	326	641	1,022
Results and total comprehensive income for the year	-	-	-	-
At 31 January 2023	55	326	641	1,022

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

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 PRESENTATION OF FINANCIAL STATEMENTS

AA Midco 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 £million.

Going concern

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity and review of the business" and "Risk management framework" sections on pages 1 to 2.

Due to the net current liabilities position of the Company, a letter of support has been provided by AA Limited, in order to allow the directors to conclude that the Company can meet its liabilities as they fall due. AA Mid Co Limited is a wholly owned subsidiary of the AA Limited group ("Group"), hence the going concern status of the Company is linked to the wider Group. The Company directors have reviewed projected cash flows of the 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 trading during this period and the foreseeable future.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes have already been refinanced. On 23 June 2023 the Group secured £122m of additional financing via a tap on A10 Notes (see note 10). The proceeds of this issue will be combined with existing cash reserves to settle the remaining A7 Notes on 30 June.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future 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 50-51 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. This is important to the Company, which has intercompany receivables from and payables to members of the AA Intermediate Co Limited group, where settlement is dependent on the wider Group's ability to refinance and accordingly the directors of Company have obtained a letter of financial support.

After making appropriate enquiries, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 Company takes the exemption under IFRS 10 paragraph 4 and section 400 of the Companies Act 2006 from presenting consolidated financial statements. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2023.

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',
- IAS 8 paragraphs 30 and 31 (accounting policies, changes in accounting estimates and errors),
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).

New standards, amendments and IFRIC 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 on or after 1 February 2023, 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 regularly 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.

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on-going basis.

The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Investments

Fixed asset investments are stated at historical cost. The Company 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.

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

2.2 Critical accounting estimates and judgements (continued)

Investments (continued)

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 2023 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.

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. 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 Company is the parent of the AA Intermediate Co Limited group which holds debt under a Whole Business Securitisation (WBS). The Class B3 Notes within the WBS have first ranking security over the assets of the Company. In the event that there was a failure to refinance the Class B3 Notes, the Company and the AA Intermediate Co Limited group would continue operating as a group. 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 4 for details).

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:

Intercompany receivables

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. There is also estimation uncertainty in respect to the expected credit loss rates applied to such balances, which may differ to the actual outcome.

2.3 Significant accounting policies

a) Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment. Income from investments is recognised in the income statement when it is receivable.

b) 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 and management determines the classification at initial recognition. The Company recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

b) Financial assets and financial liabilities (continued)

Trade and other 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 Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) which uses a lifetime expected loss allowance for all trade receivables.

Trade and other payables

Trade and other payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost using the effective interest method.

The Company has no financial assets or liabilities measured at fair value through other comprehensive income or fair value through profit and loss.

3 AUDITORS' REMUNERATION

Audit fees of £30,000 are paid on the Company's behalf by another group company with no recharge (2022: £30,000). The Company's auditors provided no services to the Company other than the annual audit during either of the years under review. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of AA Limited. The group financial statements are required to comply with the statutory disclosure requirements.

4 INVESTMENTS IN SUBSIDIARIES

	2023 £m
At 1 February 2021	1,866
Additions	361
At 31 January 2022 and 31 January 2023	<u>2,227</u>

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 2023 are:

Name	Country of Incorporation / Registered Office Key	Class of shares held
AA Acquisition Co Limited	England and Wales, UK / A	Ordinary
AA Bond Co Limited ¹	Jersey / B	Ordinary
AA Corporation Limited	England and Wales, UK / A	Ordinary
AA Financial Services Limited	England and Wales, UK / A	Ordinary
AA Intermediate Co Limited ²	England and Wales, UK / A	Ordinary
AA Senior Co Limited	England and Wales, UK / A	Ordinary
AA 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
Drivetech (UK) Limited	England and Wales, UK / A	Ordinary
Used Car Sites Limited	England and Wales, UK / A	Ordinary
Prestige Fleet Servicing Limited	England and Wales, UK / A	Ordinary

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 INVESTMENTS IN SUBSIDIARIES (continued)

The other subsidiary undertakings of the Company at 31 January 2023 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
Accident Assistance Services Limited	England and Wales, UK / A	Ordinary
AA Pension Funding LP ³	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
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 ¹	Jersey / B	Ordinary

¹ This Company also has a UK branch establishment.

² Directly owned by AA Mid Co Limited; all other subsidiaries are indirectly held.

³ This partnership is fully consolidated into the AA Limited group financial statements and the AA Limited 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
3 rd Floor, 44 Esplanade, St Helier, JE4 9WG, Jersey	B
6 th Floor, South Bank House, Barrow Street, Dublin 4, Ireland	C
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	D

The Company has performed impairment testing as at 31 January 2023 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Intermediate Co Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the AA Intermediate Co group's five-year plan. For the year ended 31 January 2023, the Company used the five-year plan covering the four years up to 31 January 2027 and a 1.95% expectation of growth in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 1.95% growth assumption (2022: 2.01%).

Using an enterprise value model which deducts net debt as at 31 January 2023, 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 11.7% (2022: 10.2%). The equivalent post-tax rate was 8.8% (2022: 7.7%). 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 immaterial indicators of impairment in the value of investments in subsidiaries were identified (2022: no indicators of impairment).

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 INVESTMENTS IN SUBSIDIARIES (continued)

The value in use calculation used is sensitive to the underlying future cashflows of the Company's subsidiaries, the assumptions used for growth and the discount rate. There is estimation uncertainty over the next 12 months and in the event these assumptions were to individually change as detailed in the table below, it would lead to a material adjustment of £80m:

Sensitivity	Change
Future cashflows*	-1.6%
Terminal growth rate	-0.2%
Discount rate	+0.2%

*for each of the years in the first 5 years and in terminal value

5 TRADE AND OTHER RECEIVABLES

	2023 £m	2022 £m
Amounts owed by subsidiary undertakings	1,778	1,778

Amounts owed by subsidiary undertakings are unsecured, are repayable on demand and bear no interest.

6 TRADE AND OTHER PAYABLES

	2023 £m	2022 £m
Amounts owed to subsidiary undertakings	2,983	2,983

Amounts owed to group undertakings are unsecured, are repayable on demand and bear no interest.

7 DIRECTORS' REMUNERATION

	2023 £m	2022 £m
Aggregate remuneration in respect of qualifying services		
Remuneration	1	1
	1	1

	2023 £m	2022 £m
The amounts paid in respect of the highest paid director were as follows:		
Remuneration	1	1
	1	1

The directors of the Company are also directors of the ultimate parent undertaking (Basing ConsortiumCo Limited) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the Basing ConsortiumCo Limited group. 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 the ultimate parent undertaking and fellow subsidiary companies, their full remuneration has been reflected in the disclosure above.

Retirement benefits are accruing for 1 (2022: 1) directors under a money purchase scheme.

The Company had no employees throughout the year (2022: nil).

AA MID CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 CALLED UP SHARE CAPITAL

	2023 £m	2022 £m
Allotted and fully paid		
5,538,461,351 (2022: 5,538,461,351) ordinary shares of £0.01 (2022: £0.01) each	<u>55</u>	<u>55</u>

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 (2022: £nil).

9 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Limited, a company registered in 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, RG21 4EA. At 31 January 2023, the ultimate controlling party and parent undertaking was Basing ConsortiumCo Limited whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey.

10 EVENTS AFTER THE REPORTING PERIOD

A11 Loan Note Issue

On 6 February 2023 the AA Limited group issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed.

A10 Loan Note Issue

On 23 June 2023 the AA Limited group issued an additional £135m of Class A10 Notes at an interest rate of 7.38%. This rate is below the prevailing yield at the time of issue of 9.50% and so the Notes were issued below par. The proceeds of the issue were therefore £122m. The proceeds will be used in combination with existing cash held to redeem the outstanding £129m of Class A7 Notes.