AA INTERMEDIATE CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2021

Company registration number: 05148845

Strategic Report

Making Britain's drivers' lives simpler and smarter

We delivered a robust set of results in FY21. This is despite the significant challenges that have arisen due to the COVID-19 pandemic and is testament to the essential nature of our services, resilience of our business model and the commitment of our people to go above and beyond to support our customers and members and keep the country moving.

Our focus from the onset of the pandemic was to protect the health and wellbeing of our colleagues, members, customers and suppliers, by taking the necessary steps to ensure that our operations could run as smoothly and as safely as possible. While this inevitably led to some disruption, in particular for our colleagues, who had to adjust quickly to new ways of working, it is an incredible achievement that we were able to rise to the numerous challenges and deliver the high levels of service that our customers and members expect from us. Nowhere was this more clearly evidenced than the numerous awards for customer service excellence that we achieved this year across our Roadside and Insurance operations.

The completion of the acquisition of AA Limited (the Acquisition), the Group's parent undertaking, by Basing Bidco Limited (Bidco), a newly incorporated company indirectly wholly owned by a consortium of (i) funds advised by TowerBrook Capital Partners (U.K.) LLP or its affiliates; and (ii) private equity funds managed by Warburg Pincus LLC or its affiliates (together, the Consortium) on 9 March 2021 was a key milestone in our history. It has enabled us to significantly reduce leverage and the risk of future refinancing, thereby allowing all our stakeholders to benefit from the positive operational momentum that the business is generating, including ongoing debt reduction.

As we enter FY22, the rollout of the UK COVID-19 vaccination programme promises to return our lives to some level of normality; however, it would be premature to suggest that the experiences of the last year won't shape our personal and business lives for many years to come. We look forward to another year of outstanding customer service delivery and to delight our customers and members with our increasingly broad range of products and services as we maintain our pursuit of making Britain's drivers' lives simpler and smarter.

Steering a course for the future

As we look back over the last three years, it is clear that the AA today is a much more engaged, resilient and dynamic business.

Our Roadside operations are significantly more resilient and able to deliver consistently high levels of customer service. We have stabilised the decline in our paid membership base, which held up remarkably well despite the impact of COVID-19 and is a testament to the value of our premium proposition. In B2B, we are building on our strong customer base and continue to form new strategic partnerships such as Nationwide, which will enable us to generate additional future value.

We have invested significant time and resources over the last few years in stabilising our core IT infrastructure so to enable us to innovate and deliver a range of fantastic products and services through intuitive digital channels.

Finally, the investments we have made in our Insurance business continue to deliver strong rates of policy growth and, with our Accident Assist proposition now fully established, we are well positioned to deliver profitable growth.

Whilst the decision by the AA Limited board to take the business private was difficult, it was clear that, without the support of significant additional equity, the process of refinancing our debt would have remained challenging. An early proof point on the benefits of the decision to take the business private was evidenced in the pricing of our new Class B3 Secured Notes on 29 January 2021, which were priced at 6.5%, below our expectations from last year and which was significantly oversubscribed.

Strategic Report (continued)

Following the completion of the Acquisition of AA Limited on 9 March 2021, we successfully refinanced our Class B2 Secured Notes using £261m of new equity from the Consortium and £280m raised from the issuance of the Class B3 Secured Notes.

With ongoing operational delivery and support from our new investors, we will continue to target further reduction in our debt.

Robust results

We delivered a robust performance in FY21 with revenue falling slightly by 4% to £927m (2020: £965m) and Trading EBITDA down 6% to £322m (2020: £341m). The reduction largely reflects the impact of COVID-19 on our developing roadside businesses, such as Driving Schools and DriveTech partially offset by the savings generated from lower patrol related costs, including third-party garaging. Group Trading EBITDA margin remained steady at 35% (2020: 35%).

Operating profit fell by £36m to £217m, a year-on-year reduction of 14%. This was principally due to the decrease in Trading EBITDA, a £7m increase in amortisation and depreciation charges reflecting the historic and ongoing investments in IT and the one-off contingent consideration remeasurement gain of £9m in the prior year. Profit after tax fell to £40m (2020: £80m).

Our business maintains good levels of liquidity and continues to deliver positive free cash flow. We generated £31m of free cash flow (pre-dividends, bond buybacks and refinancing) compared with £85m in the prior year. The figure this year was lower for several reasons, including the lower Trading EBITDA as outlined above and a working capital and provisions outflow of £18m compared to an inflow of £21m last year. The free cash flow figure was also impacted this year by higher tax payments reflecting the timing of corporation tax payments mandated by HMRC, as well as higher interest paid on borrowing of £138m compared to £130m last year, related to the refinancings in the year.

Proud to keep Britain moving

The AA is a much-loved and trusted British brand and in a time of national crisis, we demonstrated our resolve to go above and beyond through several initiatives to keep the country moving and contribute to the national cause.

Within 10 days of the first lockdown in March, we provided free breakdown assistance to all NHS workers travelling to and from work. Over the three month campaign, we helped more than 8,000 NHS workers at the roadside and reached more than 30m people with our offer of support, receiving overwhelmingly positive feedback from the NHS, the public and politicians alike.

During the first lockdown, we provided several services to the ambulance trusts including breakdown cover, new ambulance commissioning support, logistical support, management infill support and on-site vehicle servicing and maintenance services. Most notably, we directly supported the London Ambulance Service, with more than 200 of our people helping to keep 500 ambulances on the road throughout the lockdown period and beyond.

We were also able to provide a range of additional services and support to our B2B partners to ensure their customers were able to remain operational and on the road. Most motor manufacturers extended their warranty periods through the lockdown giving customers peace of mind. However, with numerous dealerships and garages closed, we were able to step in and work closely with our partners to provide customers with the additional warranty repair support allowing their customers to stay mobile. We also supported Toyota in their initiative to offer free breakdown cover to Toyota and Lexus customers during the lockdown. Additionally, we extended free At Home cover to Lloyds Banking Group customers for the month of June as people started to get back on the road.

Strategic Report (continued)

In our Driving Schools business, we waived franchise fees for a period of 14 weeks during the initial lockdown to support our Driving Instructors. During the second half of the year, we continued to support our instructors through a combination of competitive pricing, discounts and payment holidays.

In our Insurance business, we implemented several actions to support our customers, including prioritisation of key workers in the event of an accident. We provided additional support for customers in financial distress, including waiver of fees and extension of policy terms and conditions.

We remain committed to serving the needs of our customers during these challenging times. With an already established and highly refined homeworking capability in place for our call centre workers, we were able to scale this model at pace to transition most of our colleagues to homeworking within two weeks of the first lockdown and were able to maintain high levels of customer service. We also introduced new digital contact capabilities across our Roadside and Insurance business to ensure we were always there for customers, and we adjusted our policies and processes to support customers facing financial hardship.

As the national lockdown restrictions began to lift at the end of June, and the British public began thinking about local journeys and staycations, we launched a new marketing campaign called 'That Feeling', tapping into the mood of the nation and a universal desire to return to the freedom of driving. The campaign has received an exceptionally positive response and has delivered a strong return on investment, contributing to an increase in new member volumes in the second half.

The resurgence of the pandemic during the second half of the year and the decision by the Government to implement further local and national lockdown measures, including a third national lockdown in January, presented additional challenges. However, our learnings from the first lockdown and the resilient nature of our business model meant that the impact of the additional restrictions during the second half were less profound on our core operations than during the first half. That said, the outlook remains far from certain.

In January 2021, our AA Signs business took swift action in offering immediate support for the nation's COVID-19 vaccination programme by providing free directional road and location signs to help drivers, riders and pedestrians find their way to local vaccination centres. In total, we offered free signage to more than 5,000 temporary COVID-19 community vaccination centres such as sports halls, religious venues and community buildings.

To minimise the impact of COVID-19 on trading in FY21, we executed several operational and financial changes to our business that resulted in the deferral and reduction of a range of operating costs across the Group.

Putting service, innovation and data at the heart of the AA

We made good progress with the delivery of our strategy in FY21 which prioritises investment across our four strategic pillars. Our strategy aims to deliver significant benefits for our customers and members, while creating long-term sustainable value for our stakeholders by:

- Increasing our addressable market: As we expand our product and service offering, we see our addressable market grow to cover all of Britain's drivers
- Expanding the awareness of our products: Our marketing strategy will increasingly span the breadth of our product and service offering, to target a broader set of driver needs
- Keeping customers for longer: Through our user-friendly digital interface, we will be able to engage more regularly and effectively with our customers and members while offering a better overall experience
- Reducing our cost of customer acquisition: As our customers and members buy more products from us, our acquisition costs will go down thereby helping us to deliver significant operational and cost efficiencies
- Optimising the cost to service our customers: End-to-end digital journeys and self-service options will reduce costs for us and deliver better experiences for our customers and members

We will measure our success through our previously outlined strategic priorities: (i) innovate and grow Roadside; (ii) accelerate growth in Insurance; (iii) deliver operational and service excellence; and (iv) nurture a high performance culture.

Strategic Report (continued)

Pensions

The defined benefit pension deficit increased by £26m during the year. This was principally due to the financial markets experiencing a reduction in corporate bond yields which drive the discount rate, in combination with increasing future inflation expectations. This was partially offset by the performance of plan assets being above expectations.

In February 2020, the triennial actuarial review was completed for the AAUK pension scheme as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m. The agreed recovery plan with the pension trustees aims to eliminate the technical provisions deficit by July 2025. The Group has committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. From 1 February 2020, the trustee has also met its own costs of running the scheme. As a result of our actions, we expect to make around £6m in annual cash savings relative to the previous agreement.

On 18 March 2020, we concluded our 60-day pension consultation with around 2,800 members through their union/management representatives in respect of our proposal to close the CARE section of the AAUK defined benefit pension scheme. Closure of the scheme took effect from 31 March 2020 and protects against the ongoing build-up of defined benefit risk for the Group and reduces the pension cash costs by c.£4m per annum.

The consultation has resulted in an enhancement to the defined contribution scheme being agreed for affected employees which will cost £11m over three years starting from 1 April 2020 (see note 27). We recognise the challenges posed by our level of indebtedness and the need to reduce this significantly.

Financing arrangements and refinancing

As part of our commitment to proactively manage our debt this year, in February 2020 we exchanged £325m of Senior Secured A5 Notes into new longer dated Senior Secured A8 Notes at coupon rate of 5.5%. On 31 July 2020, the Group completed the refinancing of the remaining £200m Class A3 Notes through its £200m Senior Term Facility which was drawn down in April 2020. As part of the Senior Term Facility draw down, S&P Global Ratings confirmed the credit rating of the Class A Notes at BBB-.

On 29 January 2021, we completed the pricing of a new Class B3 Secured Notes at an interest rate of 6.5%. The pricing was at a substantially lower rate than our previous expectations and gives us the confidence that we can accelerate our plans for growth and continue reducing our leverage. As part of this process, S&P Global Rating confirmed the credit rating of the Class B Notes at B+.

Strategic Report (continued)

Acquisition of AA Limited

On 9 March 2021, Basing Bidco Limited ('Bidco'), a newly formed joint venture company indirectly owned in equal shares by (i) funds advised by TowerBrook or its affiliates (the 'TowerBrook Funds') and (ii) private equity funds managed by Warburg Pincus or its affiliates (the 'Warburg Pincus Funds', and together with the TowerBrook Funds, the 'Consortium') acquired the entire issued and to be issued ordinary share capital of AA Limited (the 'Acquisition').

Following the Acquisition, the Group refinanced the £570m outstanding Class B2 Notes using £261m cash injected as new equity from the Consortium, the £280m proceeds from the issuance of the Class B3 Notes and the cancellation of £29m Class B2 Notes held directly by AA Limited. In addition, the Group entered into a new £150m Senior Term Facility which it immediately drew down and used, in combination with £50m of cash, to refinance its existing £200m Senior Term Facility. As a result, gross borrowings have reduced by £340m since 31 January 2021. See note 40 for post year end borrowings table and further details of an additional £100m of equity committed by the Consortium to be used towards the refinancing of the Class A5 Notes in FY22.

On 10 March 2021 the Group also refinanced its Working Capital Facility and Liquidity Facility. See note 40 for further details.

The Directors consider the Acquisition to be highly beneficial to the Group due to the significant deleveraging that has occurred, therefore as part of the Acquisition, the Group will incur c.£40m of transaction fees. See note 40 for further details.

Strategic Report (continued)

s172(1) statement

Directors' duties: s. 172 statement

Section 172 of the Companies Act 2006 (Section 172) requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Board's aim is to make sure that its decisions follow a consistent process, by considering the Company's strategic priorities while balancing the interests of various stakeholders when making decisions.

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

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

Key stakeholders

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

Board considerations

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

More information about how the Board engages with each of the stakeholders above, within the context of the wider AA Limited group, can be found in AA Limited's Annual Report and Accounts 2021.

Summary of business relationships

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

Statement of employee engagement

The Company is part of the AA Limited group, the ultimate parent of which was AA Limited during the year. Decisions, policies and procedures that affect employees are implemented at a Group level and the Board oversees the application of these to the Company.

Strategic Report (continued)

Business performance review

The Directors present the consolidated financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 January 2021. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

ROADSIDE

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

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

	2021	2020
Revenue (£m)	**799**	827
Trading EBITDA (£m)	**282**	285
Trading EBITDA margin (%)	**35.3**	34.5
Personal Members excluding free Memberships (000s)	**3,168**	3,215
Average income per personal Members excluding free Memberships (£)	**163**	165
Business customers (000s)	**8,702**	9,049
Average income per Business customer (£)	**23**	22
Number of breakdowns ('000s)	**3,014**	3,423

Our core Roadside business continues to deliver a solid performance, responding well to the challenges of COVID-19. Overall revenue in the roadside segment fell by 3% in the year to £799m, reflecting the impact of the pandemic on our developing roadside businesses.

Trading EBITDA was down 1% to £282m and the Trading EBITDA margin was up 0.8% to 35.3%, in line with our expectations, reflecting the operational resilience of our core Roadside business and our ability to act swiftly to protect profitability.

Strategic Report (continued)

Business performance review (continued)

Roadside (continued)

Business-to-consumer

In line with management expectations, the paid personal membership base fell by 1% during the year to 3,168k (2020: 3,215k) with the retention rate down 3% to 78% (2020: 80%). This was a strong performance considering the 2.0% decline in the paid membership base during the first half of the year due to the national lockdown in March, which limited driving on Britain's roads and led to a decline in new business volumes. Following the gradual lifting of the lockdown restrictions in June, we took swift action to support our existing members and a new above-the-line marketing campaign in July led to progressive improvement in new business volumes and retention rates. During the second half, the paid membership holdings grew by 1%. This is despite the additional continuing lockdown measures and demonstrates the resilience of our award-winning membership proposition.

During the year, we revised the basis of the average income per paid member to reflect the average income earned from the paid membership base over the last 12 months as a proportion of the average paid personal membership holdings as opposed to the closing paid membership holdings on which it was previously calculated. Under the new basis, the average income per paid member fell in the year by £2 to £163 (2020: £165), and under the old basis, the average income per paid member was flat at £164 (2020: £164). The reduction this year under the new basis was principally due to the impact of COVID-19 on new business volumes during the first half of the year, as well as the impact of lower European Breakdown Cover revenues. The average income per paid member was also impacted by the continued strong performance of our cross-sell channels, including our Insurance business, which are typically transacted at a lower average revenue.

Business-to-business

We successfully retained or extended all of our core roadside contracts this year, including VWG, Porsche, Honda, Hyundai, Jaguar Land Rover, MG, Bentley UK, DAS and LeasePlan. Total business customers fell to 8.7m (2020: 9.0m) on account of the significant reduction in new car registrations due to the impact of COVID-19, as well as the anticipated decline in the number of AVAs with our banking partners. This fall in holdings was partially offset by the growth in our insurance partnership with Admiral. Overall income for B2B grew, with the average income per business customer up 5% to £23 (2020: £22) reflecting the benefit of higher pay-for-use income from the breakdowns we serviced and the additional services that we provided during the lockdown in supporting our motor manufacturing partners and the London Ambulance Service. We also made good progress in the year with our vehicle Recall proposition with OEMs, which received a 99.7% customer satisfaction score and delivered over 10,000 repairs despite a pause for COVID-19. We also introduced a new service to deliver managed support to EV chargepost networks, providing help to end customers and the ability to remotely monitor and reset chargeposts.

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

The service will go live from the first quarter of 2022. The partnership builds on our success last year with Admiral. Our partnership with Admiral continues to go from strength to strength and since our launch in September 2019, we have successfully on-boarded over 0.5m customers.

Strategic Report (continued)

Business performance review (continued)

Roadside (continued)

We are also leading the way in developing ground breaking and unique digital services for our customers in B2B, including SPARX which we launched in collaboration with ARC, our European partner. SPARX is an integrated digital network connecting the leading European roadside assistance clubs. This platform enables the real-time transfer of breakdown information between breakdown clubs, meaning customers can track and report a breakdown digitally across the whole of Europe (cross-border). We also launched our digital mobility service which enables a patrol to identify and book a replacement like-for-like (rental) vehicle from an app on their phone, providing a quick and seamless experience for customers in the event that their car cannot be repaired at the roadside. This capability has now been extended beyond B2B to include all members as well. Looking ahead, we will continue to develop and extend our range of managed services for OEMs as well as enhancing our fleet proposition with telematics and full incident management-based services, including B2B accident management.

Customer service and operations

Operationally, FY21 has been dominated by the challenge of COVID-19. Workload has been variable as national lockdowns and restrictions across Britain have changed driver behaviour in terms of when, how and why they use their car. As lockdown measures have been introduced, and then eased, we have also seen short-term spikes in workload. The challenge of COVID-19 has also been to adopt our safe systems of work both for our people, and customers – a challenge we are proud to say we have risen to as a team, maintaining supply of PPE throughout FY21.

The AA continues to deliver best-in-class customer service, and in June 2020, we were awarded top of the table as a 'Which? Recommended Provider' for our third-party breakdown cover for the third year running. We were also the breakdown service provider for the top six manufacturer brands for the second year running. This is a strong validation of our business model and the outstanding customer service delivery we provide to our personal members and business customers.

This year, we also won the UK Business Awards for the Most Customer Centric Organisation, heading off competition from a number of leading industry players across a range of sectors. These awards are an incredible achievement and a testament to the hard work that our patrols, contact centre colleagues and support teams do, to deliver outstanding customer service to our customers.

Total breakdowns fell by 12% in the year to 3,014k (2020: 3,423k) due to the reduced traffic on Britain's roads. This in turn meant that we incurred significantly lower third-party garaging and patrol-related costs compared to last year. Despite overall reduced breakdown volumes, there were a higher number of B2B related breakdowns as a proportion of our total workload. As a result, overall pay-for-use income was up compared to last year.

Ancillary sales including battery sales were also significantly higher than last year as a considerable number of our members and customers experienced flat batteries due to their cars not being driven as frequently.

Despite the operational challenges presented by COVID-19, we were pleased to have delivered outstanding customer service in the year, with overall call-to-arrive times averaging 45.8 minutes in the period, against our target of 45 minutes. We were able to keep all of our call centres open as we transitioned to home working in response to COVID-19 and responded to a majority of calls to our call centre in 20 seconds. Our repair rates and average repair times were also strong and ahead of last year.

Strategic Report (continued)

Business performance review (continued)

Roadside (continued)

Developing businesses

With limited driving on Britain's roads and a number of independent garages closed during the lockdowns this year, the rollout of our consumer SMR proposition (Smart Care) was adversely impacted. Notwithstanding this, we saw steady uptake throughout the year and conversion rates have continued to improve. We have also continued to make good progress with our product development plans for Smart Care which included the launch of a consumer collection and delivery option, digital authorisation for additional work and an enhanced customer journey. In relation to our B2B proposition for SMR, we supported our partners this year in areas where the preferred SMR provider was unavailable and, as a result, successfully signed several new B2B SMR contracts. We can now redirect SMR work for our Driving Schools business through our platform and into our network. Following the national lockdown in August, we reinitiated our web-based marketing offers, and member benefit offers for Smart Care which are available on the AA app and on our website. We are also moving ahead with our plans to expand our network of AA inspected and approved garages.

The performance of our Driving Schools business was significantly impacted this year by COVID-19 and our decision to waive franchise fees for instructors for 14 weeks to support them during the first lockdown. On 4 July, the Government announced that driving lessons could restart again in England which was a welcome relief for thousands of instructors and pupils. However, the introduction of tiered lockdowns across England from October and further restrictions since December have meant we have been unable to offer lessons. Therefore, the trading environment remains challenging despite the continued strong demand for driving lessons, as evidenced through pupil bookings being up year-on-year following the first lockdown and provisional licence applications remaining steady. We continue to support our instructors during these challenging times through a combination of competitive pricing, discounts and payment holidays.

In February 2021, The AA Driving School and BSM's instructor training division received a Feefo Platinum Trusted Service award for 2021. Feefo's Trusted Service awards recognise businesses who deliver outstanding customer service as rated by their customers.

With fewer people driving over the course of the year, the number of police referrals for speeding was down across the country. Coupled with the temporary cessation of courses in March and the cessation of in-vehicle driver training during the lockdown periods, our DriveTech business generated significantly lower revenues in the year. However, DriveTech was the first provider in the market to launch and deliver online speed awareness courses as an alternative to classroom based courses, and also saw a steady increase in police referral volumes during the second half of the year as more people took to the road. In total, DriveTech delivered 411,958 courses in FY21. DriveTech also launched a number of online Certificate of Professional Competence and driver training courses that service the corporate market.

Strategic Report (continued)

Business performance review (continued)

INSURANCE

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

Growth was driven by our insurance broker which has continued to focus on the core products of motor and home insurance and has seen both books continue to grow.

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

	2021	2020
Revenue (£m)	**128**	138
Trading EBITDA (£m)	**40**	56
Trading EBITDA margin (%)	**31.3**	40.6
Total Motor and Home policy numbers in force (000s)	**1,941**	1,713
Average income per policy (Motor and Home) (£)	**59**	68
Total Motor policies (000s)	**1,052**	869
Total Home policies (000s)	**889**	844
Financial Services products ('000s)	**101**	90

Insurance

Revenue decreased by 7% to £128m (2020: £138m) principally due to the anticipated decline in commissions resulting from our ongoing investment in marketing to position the business for long-term growth, our decision to absorb costs to help customers during the year as well as low trading activity in our AA Cars business. The decrease in revenue was partially offset by the strong performance of our new Accident Assist and Financial Services businesses.

The motor policy book grew by 21% to 1,052,000 policies (2020: 869,000) and the home book grew by 5% to 889,000 (2020: 844,000), reflecting the continued strong growth of AA Limited's in-house underwriter, AA Underwriting Insurance Company Limited (AAUICL), as well as the benefit of ongoing investment in pricing systems to enhance the competitiveness of the broker. The strong growth in policies of the in-house underwriter, which currently underwrites more than half of the motor policy book and close to half of the total home policy book, as well as ongoing improvements in our customer journey, are helping to deliver consistent and healthy cross-sell conversions into our Roadside business, with 34% (2020: 33%) of new insurance customers taking Roadside membership. The continued investment in our brand and improvements to our digital journeys have also received external recognition and we were pleased to have been ranked #1 in insurance brand consideration for motor insurance by Ipsos in 2020 and we also won a gold award for best digital customer experience at the Insurance Times Awards 2020.

In January 2021, our home and motor insurance won the Feefo Platinum Trusted Service award. Feefo gives Platinum Trusted Service awards to businesses that have achieved the Feefo Gold standard for three consecutive years or more. It is a highly valued badge of approval, as it's based purely on genuine, verified, customer feedback about excellent service.

The ongoing investment in acquiring new business volumes, which have a lower average commission compared with the rest of the book, and our decision to help our customers during the year through reduction in administrative and processing fees, led the average income per motor and home policy to fall to £59 (2020: £68). Renewal rates have remained steady.

Strategic Report (continued)

Business performance review (continued)

Insurance (continued)

Accident Assist, our recently launched in-house claims management proposition, is performing strongly, and, following the implementation of a new claims handling platform from ICE InsureTech and we continue to see positive momentum building. We successfully completed the rollout of this new capability across our motor insurance panel members ahead of schedule and in December 2020 we were pleased to extend this service to our Roadside members, which is a key differentiator for our roadside business and represents a significant growth opportunity in our ambitious plan to become the natural 'first call' after an accident.

Trading EBITDA fell by 29% to £40m (FY20: £56m), with the Trading EBITDA margin down from 41% to 31%, as we continue to invest in accelerating the growth in policies of the broker, leveraging our strong brand, large distribution platform and proprietary data to deliver future value and Trading EBITDA growth as well as lower trading due to COVID-19 for financial services and AA Cars.

In March 2020, we extended our Financial Services Distribution Agreement with the Bank of Ireland UK by three years to at least 2028. As part of the agreement, our partnership now includes AA branded car finance products to sit alongside savings and loans products.

The loan book continued to grow well despite the significant impact of COVID-19 with the combination of the AA's brand and distribution platform and the Bank of Ireland's expertise in service delivery offering a distinct competitive advantage compared to peers and which, in turn, enabled us to increase the quality of our loan book and increase market share.

By the end of January 2021, we had 101,000 (2020: 90,000) Financial Services products across our personal loans and savings portfolio. This represents a balance sheet size of approximately £1.5bn up from £1.4bn last year across the loans and savings book held on the balance sheet of Bank of Ireland. The AA membership base and brand are also benefiting the business, with 55% (2020: 38%) of the non-ISA savings books held by members and 35% (2020: 38%) of our personal loans being written for vehicles. During the year, we reclassified AA Cars, our online used cars and vans platform with a growing financial service offering, into our Insurance segment. As expected, AA Cars was affected by significantly lower demand during the year, as well as our decision to help dealers through the initial three-month lockdown with proactive discounting. Despite this, the business was able to maintain its base of dealers and the performance through the second half was more encouraging.

A significant highlight of the year was the launch of AA Smart Lease in partnership with LeasePlan in January 2021. AA Smart Lease offers AA members a flexible and hassle-free alternative to traditional vehicle ownership.

For a single monthly price, AA Smart Lease includes an insured car, service and maintenance, and vehicle tax. AA members will be able to choose from a range of exclusive vehicles, including electric and hybrid options, and are able to terminate their lease early if specific life events occur. The combination of our brand with LeasePlan's established presence and distribution platform gives us the confidence that we can meaningfully grow our presence in the lease market.

Strategic Report (continued)

Risk Management

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

AA Risk Management Framework

Governance
The Company operates a 'three lines of defence' model. The model distinguishes between functions that have prime responsibility for identifying, owning and managing risks (first line), oversight and control functions (second line) and functions providing independent assurance (third line). All three lines of defence have specific tasks in the internal control governance framework. To support this model, we have risk policies, risk oversight committees, and clearly documented accountabilities and responsibilities from the business, through to the Board.

Identification and assessment of risks
The AA undertakes a top down and bottom up approach in respect of the identification and assessment of risks. Principal Risks facing the Group are assessed by the AA Limited Risk Committee.

A summary of these risks is detailed below, together with the key mitigating actions/controls, a summary of changes during the year and the primary KPIs.

Our Risk Management Framework Policy requires all areas of the business to maintain a risk register which is reviewed on at least a quarterly basis. Risks from this 'bottom up' risk identification exercise are linked to the main principal risks identified by the AA Limited Board which are documented in this report.

Risks are assessed and scored for probability and impact, both inherently (i.e. without controls) and residually (i.e. with controls).

A target risk score is also set. If the residual risk score is higher than the target score, then either appropriate action is agreed to ensure that the risk exposure is returned to the desired target level, or the increased risk exposure is formally accepted.

Risk appetite
Risk appetite is linked to Principal Risks and is documented and presented to the AA Limited Risk Committee for review and debate and presented to the AA Limited Board for approval. Management information provides regular updates to ensure that the risk exposure remains within the desired tolerance level or is brought to the attention of the relevant management for corrective actions to be taken. A formal risk acceptance process is in place to ensure that any request for material risk acceptance is documented, reviewed and agreed at an appropriate level of authority.

Incidents and near misses
An important part of the Risk Management Framework is the identification and reporting of incidents and near misses including root cause analysis. This helps to inform the assessment of risk and highlights areas for control improvement actions. The AA encourages and fosters a culture of open and honest incident and near miss reporting.

Principal Risks and uncertainties
COVID-19 has within the last year emerged as a new Principal Risk for the Group, with the impact evolving over the last twelve months. The remaining Principal Risks identified are the same as last year. All of the risks below may have an adverse impact on our brand and reputation.

Strategic Report (continued)

Risk Management (continued)

Principal risk: **COVID-19** COVID-19 will materially impact our ability to provide service and/or performance **Risk trend:** New for FY21	**Description** COVID-19 could cause significant disruptions to our operations, impacting our ability to maintain service to an expected level. COVID-19's short, medium and long term economic impact could affect our ability to execute our strategy, and our performance. **Mitigation** During the first half of FY21, our immediate focus was on operational risks, with several changes to working practices implemented, including homeworking to ensure the safety of our employees and customers.	**Change in the year** New for FY21 **Impact, likelihood and trend** The COVID-19 pandemic continues to have a material impact within the UK and internationally, both operationally for the AA, as well as at a macroeconomic level. The resilient nature of our business model has meant that we have been able to continue to serve customers and deliver expected performance. However, although the outlook is improving with the rollout of vaccinations, the long term economic impact of COVID-19 is still unknown.
Principal risk: **Debt leverage** We are unable to manage our debt **Risk trend:** Reducing	**Description** The Group is unable to repay or refinance its debt at an acceptable price. **Mitigation** We have strong recurring cash flows which support the current capital structure, and which will enable us to reduce leverage over the long term in line with our stated strategy. **Change in the year** During the year, we issued £280m of Class B3 Secured Notes as part of the refinancing of our Class B2 Secured Notes which we completed in March 2021 with the Acquisition of AA Limited. The Class B3 Secured Notes were issued at a lower interest rate than our previous expectations.	**Impact, likelihood and trend** Following the issue of £280m Class B3 Notes on 29 January 2021 (see note 22), the completion of the Acquisition of AA Limited on 9 March 2021, and the subsequent refinancing of the Class B2 Notes on 10 March 2021, we have £372m of debt to refinance by 2022. Although our current refinancing enabled us to secure interest rates lower than our previous expectations, the current macro-economic environment could affect this trend and there is a risk that interest rates could increase. In addition, any refinancing will, as with previous refinancings, require cash resources to be allocated to the associated one-off costs of enabling these transactions. Consistent with our approach to proactive debt management and with the backing of our new shareholders, we will continue to regularly take independent advice assessing a range of strategic options. Modelling indicates that, even at higher interest rates, the business remains cash generative and able to meet its financing commitments.
Principal risk: **Regulatory and legal environment** A changing regulatory environment may adversely affect our activities Material litigation against the AA **Risk trend:** Increasing	**Mitigation** The AA has no appetite for deliberately breaching any regulatory or licensing requirements. Close engagement with regulatory objectives is coupled with good governance and strong monitoring processes to ensure that we continue to focus on delivering products and services that result in good customer outcomes. Our regulated Boards continue to actively review pricing practices in line with guidance from the FCA. Regular dialogue is maintained with the FCA and other regulatory bodies. The AA has in-house Legal and Compliance teams and takes external legal advice, where deemed necessary. **Change in the year** The insurance industry has seen significant activity from the FCA in the areas of pricing practices, vulnerable customers and product value considering COVID-19. The AA has worked collaboratively with the FCA in responding to the 'Dear CEO' letters and data	**Change in the year (continued)** requests sent out to intermediaries. The FCA's Pricing Practices Consultation Paper was released on 22 September 2020, outlining proposed remedies to support effective competition and lead to good consumer outcomes. There are several proposals, including requirements to ensure renewal prices offered are no higher than the equivalent new business price as well as requiring firms to assess fair value of the products they sell. The AA welcomes the FCA's proposals and agrees with the importance of delivering good outcomes for customers. **Impact, likelihood and trend** As in previous years, the regulatory environment continues to be dynamic, with a continuing and demanding programme of regulatory initiatives. The FCA's recent pricing practices proposals, if implemented as intended, may have a material impact on the motor and home insurance market in the UK for both insurers and insurance intermediaries, which could lead to a disrupted market. The FCA's final rules are expected to be published in mid-2021.

Strategic Report (continued)

Risk Management (continued)

Principal risk: **Outstanding service** We are unable to maintain an outstanding service **Risk trend:** Same as last year	**Description** 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. Inadequate investment in technology, systems, people and processes would place this objective at increasing risk. **Mitigation** The AA continues to invest to ensure that we have the optimal patrol and call centre headcount to meet demand, together with training and support to make sure we are well placed to provide a premium service to our customers throughout the year. We carry out ongoing monitoring of complaints, press reports and social media through structured processes, including first line business assurance.	**Change in the year** We have continued to maintain favourable call to arrive times, partly driven by lower levels of traffic during COVID-19 lockdowns. Our call to arrive time, repair rate, single-task-completion and under-bonnet times are improved since last year. Our continued investment has increased the flexibility of the patrol force and improved our forecasting in the areas of planning and delays, to ensure that we are better placed to respond to extreme weather events and the impacts of COVID-19. **Impact, likelihood and trend** Delivering outstanding service remains fundamental to our future and our brand. The impact of failure to deliver the best service in the market would be very high. The actions we have taken to increase the flexibility of the patrol force, increase contact centre capability and improve our forecasting will reduce the probability of this risk crystallising.
Principal risk: **Roadside market share and margin** We are unable to maintain our market share and an ability to command a price premium on our roadside services **Risk trend:** Same as last year	**Description** Competitors that provide roadside services at a lower price or have a different business model, together with changes in car technology, threaten our market share. If we charge a price premium that is above what our service can sustain, we will not grow our member or business-to-business (B2B) customer base and, in the long term, sustainably grow profits. **Mitigation** We are continuing to improve our Roadside membership proposition by strengthening our product offerings and engaging more members in additional benefits. We have improved our communications with both new and existing members, engaging members in their existing services and benefits to drive loyalty. We have robust pricing and product governance processes in place to ensure that our pricing models are in line with regulatory expectations and deliver value to customers.	**Change in the year** Personal paid membership fell slightly due to the impact of recurring COVID-19 lockdown restrictions since March 2020. We retained or extended all core B2B contracts in the year. There is still uncertainty in respect of the long-term COVID-19 impact on the business, especially should there be a prolonged period of recurring waves. **Impact, likelihood and trend** In the long term, the AA will continue to find it challenging to grow profit sustainably if its membership is declining. Therefore, the impact of membership growth is critical in the long term, as is maintaining key business relationships and other B2B contracts, including with major car manufacturers. The business is focused on realising a sustainably growing membership and recognises the need for a more distinctive and differentiated offering to mitigate competitive pressures.

Strategic Report (continued)

Risk Management (continued)

Principal risk: **Insurance broking** We are unable to achieve desired margin, remain competitive and achieve our growth and profitability objectives **Risk trend:** Same as last year	**Description** Consumers' ongoing use of price comparison websites (PCWs) may continue to transfer value away from our insurance broking business. The FCA's proposed pricing remedies could inhibit growth and the ability to remain competitive. **Mitigation** We continue to use our strengths in the brand, channels and data to mitigate this risk, to extend our panel of insurers and to engage with regulators in a collaborative way.	**Change in the year** The insurance business remains on track to deliver forecast growth in customer numbers. By maintaining a competitive panel of insurers and innovating through developments such as insurer hosted pricing, analytics support and fraud detection, we continue to increase our motor and home policy numbers. We continue to look to innovate and expand our offerings, and we launched our Young Driver proposition to broaden our footprint and support growth within motor insurance. **Impact, likelihood and trend** The competitive threat from PCWs remains unchanged. However, the success of our panel model in the broker and the adoption of insurer hosted pricing enables us to better respond to this threat. The FCA's recent pricing practices proposals, if implemented as intended, may have a material impact on the motor and home insurance market in the UK for both insurers and insurance intermediaries, which could lead to a disrupted market. However, we are in a good position to be able to implement these requirements and be able to continue to meet growth and profitability objectives.
Principal risk: **Change management & IT transformation** We are unable to successfully complete essential business transformation **Risk trend:** Same as last year	**Description** We must continue to transform the AA to achieve the required efficient customer-centric services and to develop the business. **Mitigation** There is an ongoing delivery capability and technology improvement programme in place with progress tracked at regular Management Business Reviews. A rigorous approach is taken in implementing changes to achieve satisfactory control, with ongoing monitoring and reporting. We have a talent management model in place, where skills gaps are identified, and development and/or recruitment initiatives are actioned.	**Change in the year** We have continued to improve our technology, data and digital capabilities to drive sustained benefits in customer and employee experience. We are executing against a disciplined programme of capex investment and will continue to review timelines and priorities as part of the execution of our declared strategy. **Impact, likelihood and trend** Change management and IT transformation is central to execution of the AA Group's strategy. Failure to implement within budget and/or timeframes could have a significant impact; therefore, we continue to invest in this area to ensure that delivery is met in line with plans.

Strategic Report (continued)

Risk Management (continued)

Principal risk: Information security/Cyber crime/Data breach We are unable to protect ourselves from a significant data breach or cyber security incident **Risk trend:** Increasing	**Description** The integrity of critical information is corrupted, resulting in it not being available where and when it is needed, or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure or a serious data breach occurs. **Mitigation** The AA has an ongoing programme of security improvements to maintain an appropriate level of security against the increasingly sophisticated global cyber threats. Controls include information security awareness training, preventative and detective security, and a specialist information security team with a much improved 24/7 security operations capability, with a focus on incident response and data breach readiness. 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.	**Change in the year** The AA's information security programme has delivered significant improvements in technology, data, colleague and third-party supplier risks, and we continue to invest in this area to further strengthen controls. We have increased our proactive detection capabilities, minimising the time between discovery and remediation to decrease the risk and the opportunities for any security event to be exploited by cyber criminals. Visibility of system and user behaviour remains key to improving our ability to orient our security posture to the real-world risks, and improving our visibility has been a key focus for this year. **Impact, likelihood and trend** Cyber crime continues to present a significant risk to the AA. While our ability to detect and respond to security events and data breaches continues to improve, there is a commensurate increase in cyber crime-related security events and data breaches globally, affecting multiple organisations, in multiple industry verticals. A high level of focus will continue in order to reduce the risk and the AA continues to use external parties to independently verify its ability to manage and reduce this risk, adjusting our strategy to meet any change to the threat landscape.
Principal risk: Health and safety We are unable to maintain the safety of our workforce and customers **Risk trend:** Stable	**Description** We must continue to effectively manage the risks to our workforce's and customers' safety and ensure that effective controls are deployed to achieve this. Accountability to take action is essential in this as is oversight, review and embracing continual improvement. **Mitigation** We have a robust and externally audited integrated health, safety and environmental (HS&E) management system as well as local arrangements where appropriate. We regularly review all our HS&E risks and controls to ensure that they remain fit for purpose. We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health. We deploy best practice, both that seen internally as well as externally. We are an active member of SURVIVE, the industry group working towards improving safety for those working at the roadside, and we have an external expert chair of our core Health and Safety Committee, to ensure good governance and independent scrutiny.	**Change in the year** The AA continues to strive to maintain a safe environment for employees and members. As part of our COVID-19 response the AA continues to follow government guidance in our operations, both internally for our staff as well as externally to our members to minimise risk to all parties. As a result of our response, we have and will continue to incur additional costs (such as PPE and additional resources within offices) to maintain safe systems of work in line with government guidance. **Impact, likelihood and trend** The impact of failure to look after our employees' and customers' safety could be very high and could result in not only an increase in civil claims, but also in enforcement action against the Company and/or its Directors. AA working practices are designed to reduce the probability of accidents to a minimum, although given the environment in which we provide Roadside service, it is not possible to eliminate this risk.

Strategic Report (continued)

Risk Management (continued)

Principal risk:	Description	Change in the year
Pensions We are unable to meet our pension liabilities **Risk trend:** Stable	The Group has a large defined benefit (DB) pension scheme, currently in deficit, whose assets and obligations are subject to future variation from investment returns, longevity and other similar factors. **Mitigation** The UK pension scheme is supported by a company covenant and the assets and obligations of the scheme are kept under review. The DB scheme is now closed to new entrants and future accrual.	We continue to execute the recovery plan agreed with the trustees in February 2020 and continue to assume that the deficit will be fully repaid by July 2025. The CARE section of the AAUK scheme has now been closed, and from April 2020 pension accrual is now on a defined contribution basis with transitional arrangements for affected employees over a 3-year period from 1 April 2020. **Impact, likelihood and trend** While potential continuing volatility in the markets and global economic uncertainty can still impact the deficit, the changes noted above mean that the ongoing build-up of defined benefit risk is curtailed.

Further information on the financial risks and management objectives and policies, including market, credit and liquidity risks, is included in note 30 of the financial statements.

Strategic Report (continued)

Management discussion and analysis

A detailed review of the consolidated income statement, segmental analysis (see note 2) and consolidated statement of cash flows is discussed below.

Management discussion and analysis – Consolidated income statement for the year ended 31 January 2021

Revenue: Group revenue decreased by £38m or 3.9% from £965m in the year ended 31 January 2020 to £927m in the year ended 31 January 2021. The decrease in revenue was driven principally by the impact of COVID-19.

Roadside: Roadside revenue decreased in the year ended 31 January 2021 by £28m or 3.4% to £799m (2020: £827m). This was largely due to the impact of the initial lockdown restrictions in the first half of the year which led to lower business-to-consumer (B2C) income, as well as reduced income from our developing Roadside businesses such as Driving Schools and DriveTech. While some of this was offset by growth in business-to-business (B2B) income, the implementation of additional tiered lockdown measures during the second half meant that overall Roadside revenue was down compared to last year.

Insurance: Insurance revenue decreased by £10m or 7.2% from £138m for the year ended 31 January 2020 to £128m in the year ended 31 January 2021. This was due to the anticipated decline in commissions received by the broker, due to our ongoing investment in marketing to accelerate the growth in motor and home policies as well as low trading activity in our AA cars business. The decrease in revenue was partially offset by the strong performance of our Accident Assist and Financial Services businesses.

Cost of sales: Cost of sales decreased by £28m or 7.4% from £380m in the year ended 31 January 2020 to £352m in the year ended 31 January 2021 reflecting the lower workload due to COVID-19 which reduced third-party garaging and patrol related costs.

Administrative and marketing expenses: Administrative and marketing expenses increased by £26m or 7.8% from £332m in the year ended 31 January 2020 to £358m in the year ended 31 January 2021. The increase in administrative and marketing expenses was driven by the ongoing investment in marketing to accelerate the growth of insurance policies as well as a one-off contingent consideration gain of £9m in the prior year and increase in amortisation and depreciation reflecting the Group's continuing investment in IT development.

Operating profit: Operating profit decreased by £36m or 14.2% from £253m in the year ended 31 January 2020 to £217m in the year ended 31 January 2021. The decrease in operating profit was driven by the COVID-19 impact on Trading EBITDA as well as a one-off contingent consideration gain of £9m in the prior year and increase in amortisation and depreciation reflecting the Group's continuing investment in IT development.

Finance costs: Finance costs increased from £155m in the year ended 31 January 2020 to £171m in the year ended 31 January 2021 largely due to £20m relating to the cost of refinancings in February 2020 partially offset by a reduction in ongoing amortisation of debt issue fees. There were no refinancings during the year ended 31 January 2020.

Finance income: Finance income increased by £2m from £1m in the year ended 31 January 2020 to £3m in the year ended 31 January 2021 due to the net finance income on defined benefit schemes of £3m. In the year ended 31 January 2020 this was a net finance expense of £5m.

Strategic Report (continued)

Management discussion and analysis (continued)

Taxation: Taxation reduced by £10m from £19m in the year ended 31 January 2020 to £9m in the year ended 31 January 2021. The reduction in tax expense largely reflects the lower profitability. The tax charge consisted of a current tax charge of £11m (2020: £15m) and a deferred tax credit of £2m (2020: charge of £4m). The effective tax rate was slightly lower at 18.4% (2020: 19.2%), broadly in line with the UK statutory tax rate.

Trading EBITDA

Trading EBITDA is a non-IFRS measure and is not a substitute for any International Financial Reporting Standards measure.

Trading EBITDA reduced by £19m or 5.6% from £341m in the year ended 31 January 2020 to £322m in the year ended 31 January 2021. The decrease in Trading EBITDA was primarily driven by the impact of COVID-19 and the associated lockdown restrictions.

Roadside: Trading EBITDA decreased by £3m from £285m in the year ended 31 January 2020 to £282m in the year ended 31 January 2021 reflecting the impact of COVID-19 on our developing roadside businesses offset partly by the benefit of reduced workload to third-party garaging and patrol related costs.

Insurance: Insurance Trading EBITDA reduced by £16m from £56m in the year ended 31 January 2020 to £40m in the year ended 31 January 2021, reflecting the ongoing investment in marketing to accelerate the growth in policies of the broker offset partly by strong performance of our Accident Assist business.

Management discussion and analysis – Consolidated statement of cash flows

Net cash flow from operating activities before tax: £277m in the year ended 31 January 2021 compared to £327m in the year ended 31 January 2020. The decrease was predominately due to the reduction in operating profit and negative working capital and provisions movements compared to positive working capital and provisions movements in the prior year. The working capital outflow this year was caused by the impact of COVID-19 on cash receipts and also included a payment made in respect of the extension of our Financial Services Distribution Agreement with Bank of Ireland. This compared to a working capital inflow last year which included a cash receipt from HMRC following settlement of historic partial exemption claims.

Tax paid: Cash outflow from tax paid was £10m in the year ended 31 January 2020 and £14m in the year ended 31 January 2021. The increase reflects the change to the timing of corporation tax payments mandated by HMRC.

Investing activities: Cash flows used in investing activities were an outflow of £67m in the year ended 31 January 2020 compared to an outflow of £64m in the year ended 31 January 2021. The decrease was due to slightly lower capex spend in the year due to COVID-19 and lower spend on acquisitions with the final consideration payment of £1m on AA Cars in the current year compared to £8m on the acquisition of Prestige in the prior year.

Refinancing transactions: Cash outflow from refinancing transactions was £3m in the year ended 31 January 2020 compared to £14m in the year ended 31 January 2021. In February 2020, the Group issued £325m of Class A8 Notes in exchange for £325m of Class A5 Notes and incurred £6m of exchange premium, £5m of transaction fees and £3m of new issue premium associated with the issue of the Class A8 Notes. In the prior year, the Group successfully completed the buyback of £3m of Class A5 Notes for £3m cash.

Interest paid on borrowings: Cash outflow from the interest paid on borrowings was £138m in the year ended 31 January 2021 compared to £130m in the year ended 31 January 2020 reflecting the higher cost of borrowing following the refinancing of part of the Class A5 Notes in February 2020.

Strategic Report (continued)

Management discussion and analysis (continued)

Payment of lease capital and interest: Cash outflow from the payment of lease capital and interest was £35m in the year ended 31 January 2020 compared to £30m in the year ended 31 January 2021. The decrease in cash outflows from payment of lease capital and interest was primarily driven by lower vehicle numbers and payment timing differences.

On behalf of the Board

K. Dell

K Dangerfield
Director
20 May 2021

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

Directors' report

The Directors present their report and audited consolidated financial statements of AA Intermediate Co Limited and its subsidiary undertakings for the year ended 31 January 2021.

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

Marianne Neville, Director
Kevin Dangerfield, Director
Nadia Hoosen, Company Secretary

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

Directors' indemnities

The Company maintains appropriate Directors' and officers' liability insurance cover. The Company has also granted indemnities to each of its Directors and the Company Secretary 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 2021 and remain in force, in relation to certain losses and liabilities which the Directors or Company Secretary may incur to third parties in the course of acting as Directors, Company Secretary or employees of the Group.

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 2021.

Employees with disabilities

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

Directors' confirmations

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

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

It is the Group's policy to maintain indemnity insurance for Directors and officers.

Directors' report (continued)

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

The Group has also prepared financial statements in accordance with and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

Going concern

The Group has £372m of Class A5 Notes due within 12 months of approval of these financial statements. The Directors propose a refinancing of the Class A5 Notes in advance of their maturity on 31 January 2022 and alongside AA Limited drawing upon the remaining £100m of committed new equity from the Consortium (see note 40 for further details). Given the significant deleveraging of the debt at both A Notes and B Notes level following the acquisition of the Group's parent undertaking, AA Limited, the current pricing of A Notes in the secondary debt markets and the existing Investment Grade rating of BBB- of the A Notes to be issued, the Directors are, on this basis, confident that this refinancing will be successful. At the date of approval of these financial statements, the Class B3 Notes that were issued on 29 January 2021 are no longer contingent on the completion of the acquisition of the Group's parent undertaking, AA Limited (see note 40) and considering each of these points, along with the projected cash flows for a period of one year from the date of approval of these financial statements, the Directors have concluded that they have confidence that the Group will have sufficient funds to continue trading for this period and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. Notwithstanding the above, the refinancing of the Class A5 Notes, due on 31 January 2022 is not committed at the date of issue of these financial statements. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of these financial statements.

Directors' report (continued)

Financial risk management

Our financial risk management objectives and policies can be found in note 30.

Future developments

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

Dividend

The Group did not pay a dividend (2020: £nil) during the year.

Events after the reporting period

Details of events after the reporting period can be found in note 40.

On behalf of the Board

K Dangerfield
Director

20 May 2021

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

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

Report on the audit of the financial statements

Opinion

In our opinion:

- AA Intermediate Co Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 January 2021 and of the group's profit, the company's result and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 January 2021; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1.2a to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 33, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.2a to the financial statements concerning the group's and the company's ability to continue as a going concern. The refinancing of the Class A5 Notes, due on 31 January 2022, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1.2a to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

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

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

- We obtained evidence that the takeover by TowerBrook Capital Partners (U.K.) LLP and Warburg Pincus International LLC (together, "the Consortium") was approved by the courts on 8 March 2021 and examined documents in support of the equity contribution to be made by the Consortium and the new debt facilities available to the Group.
- We checked the consistency of the cash flows for the next 12 months used in the going concern assessment, including considering the impact of COVID-19, with trading performance over the last financial year and in the period since. We found the key cash flow assumptions to be consistent with recent trading experience.
- We vouched the cash on hand and available facilities in the Directors' going concern assessment to our year end audit work.
- We examined the potential downside sensitivities that the Directors had applied and considered their likelihood and whether other scenarios, or more severe scenarios, could apply and the associated impact on headroom.
- We evaluated the results of a reverse stress test and assessed the likelihood of a number of scenarios that could erode the headroom.
- We read the basis of preparation note in note 1.2 and the disclosures in the Directors' report and validated they accurately describe the Directors' considerations in this area.

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

Our audit approach

Context

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

Overview

Audit scope

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

Key audit matters

- Material uncertainty related to going concern
- Recognition of revenue in respect of the personal roadside business (group)
- Valuation of post-retirement benefit obligations (group)
- Goodwill impairment assessment (group)
- COVID-19 (group and parent)

Materiality

- Overall group materiality: £8.50m (2020: £8.75m) based on 4% of Operating profit.
- Overall company materiality: £3m (2020: £3m) based on 1% of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3m.
- Performance materiality: £6.30m (group) and £2.25m (company).

The scope of our audit

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Material uncertainty related to going concern, Recognition of revenue in respect of the personal roadside business, Valuation of post-retirement benefit obligations, Goodwill impairment assessment and COVID-19 are new key audit matters this year.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue in respect of the personal roadside business (group)	
Refer to Note 1.3(m) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Notes 2 and 20. The Group has recognised revenue of £470m in respect of the personal roadside business. There are known issues with the underlying policy management systems used in the personal roadside business and the way in which they account for revenue. A set of manual corrections are made each month, along with a series of standing adjustments, to appropriately account for revenue. As a result of additional review procedures implemented in response to these matters, the Directors identified certain misstatements that related to the recording of revenue in the prior years, and concluded that, as the errors were in aggregate material, a prior year adjustment was appropriate (see note 20). We focused on whether revenue from these policies was correctly recognised, and whether the corrections and standing adjustments made are complete. Given the known issues, including further issues identified during the current year, there is an increased risk that there are undetected errors in the policy management system calculations. There is also an increased risk of error where manual corrections are made. We also focused on the completeness and adequacy of the prior year adjustment identified.	We evaluated the relevant IT systems and related internal controls; however, we concluded that we would not rely on the controls over financial reporting and we performed substantive procedures in this area. We reviewed management's reconciliations of the revenue to be recognised as generated by the policy management systems to the revenue actually recognised in the general ledger, and tested a sample of the specific manual corrections and standing adjusting items posted by management to correct the known system errors. For a sample of personal roadside contracts, we performed detailed testing of revenue transactions including agreeing to the underlying contracts, recalculating the revenue and deferred revenue recognised based on transactional data and contractual terms, and agreement to cash receipt. We performed detailed testing of the deferred revenue balances at period end to underlying contracts and recalculated the deferred revenue balance. We understood the nature of the system issues involving the incorrect deferral of revenue in respect of subscriptions received in advance on certain roadside assistance policies which gave rise to the prior year adjustment errors identified. We focused our testing on the timing of revenue recognition by evaluating the different categories of policies sold against their contractual terms and any discounts or other offers applied and considered these in relation to adjustments made to deferred revenue at the year end date. We also considered other revenue streams that could give rise to a similar error and were satisfied there were no other material issues in the context of the revenue adjustments recorded. Given the magnitude of the error identified in respect of revenue recognition in prior years, we agreed with

	management's conclusion that treating it as a prior period adjustment was appropriate. We also evaluated the related disclosures and were satisfied they were appropriate. We found no material misstatements from our testing.
Valuation of post-retirement benefit obligations (group) Refer to Note 1.3(l) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Note 27. The Group operates three defined benefit pension schemes, the most significant of which is the AA UK Pension Scheme (AAUK), which combined have a total net defined benefit pension deficit of £188m, comprising gross assets of £2,631m and gross liabilities of £2,819m. Valuation of the liabilities requires significant levels of judgement and technical expertise in determining the appropriate assumptions to measure it. Changes in key assumptions (including discount rate, mortality, inflation and pension increases) can have a material impact on the calculation of the liabilities either individually or in combination. The Directors used independent actuaries to prepare the year end valuation under International Accounting Standard 19, 'Employee benefits' ("IAS 19"). Valuation of the scheme assets requires judgement, due to the nature of certain complex and illiquid assets held, for which there are no quoted prices available. Of the total asset value held, 78% do not have a quoted price available. Prices are obtained directly from the relevant investment managers who apply judgement in valuing those assets. In addition, the bulk annuity policies held are valued using actuarial assumptions. We focused on the reasonableness of the assumptions used in the calculation of the AAUK defined benefit liability, the valuation of assets held by the AAUK scheme and the disclosure of post-retirement benefit scheme obligations.	We involved our specialists in our assessment of the reasonableness of actuarial assumptions and the overall pension liability calculations by comparing the key assumptions, including the discount rate and inflation rate, mortality and pension increases, to benchmark ranges, performing sensitivity analysis, checking whether methods have been consistently applied and assessing the impact of the assumptions in combination with one another. We agreed that the judgements taken by the Directors were reasonable. We obtained external confirmations to test the existence of pension assets as at 31 January 2021. In order to test the valuation of the complex assets, we obtained a range of supporting evidence as available, including recent transaction prices, audited fund financial statements and fund controls reports, to assess whether the net asset value provided was reliable and appropriate. In respect of the bulk annuity policies held, we utilised our actuarial specialists to test the valuation of the assets and performed testing of the insured members to data provided by both the scheme actuary and the administrator. We reviewed the disclosure of post-retirement scheme obligations against the requirements of IAS 19 and were satisfied with the nature and extent of the disclosures provided. We found no material misstatements from our testing.
Goodwill impairment assessment (group) Refer to Note 1.3(i) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Notes 11 and 28. The goodwill balance of £1,170m is subject to an annual impairment review. The Directors analyse discounted cash flows at the cash generating unit (CGU) level to calculate the value in use for each CGU. Cash flow forecasts are an area of particular focus given the judgements relating to future Trading EBITDA growth and discount rate assumptions. No impairment charge has been recorded by the Directors against the goodwill balance in the current financial year. The risk that we focused on in the audit is that the goodwill balance may have been impaired in value and this has not been recognised.	We compared the implied enterprise value of the Group of £3.2bn, determined using the Consortium's cash offer of £218m (which the Directors considered evidence of the fair value of the Group) and the carrying value of debt at year end of £3.0bn, to the book value of goodwill and noted material headroom in relation to the principal CGUs of Roadside and Insurance. For all CGUs, we checked the cash flow forecasts used by the Directors in the assessment of goodwill impairment were consistent with the approved five year plans, and considered the reasonableness of the key assumptions in relation to recent trading, including roadside membership rates and the number of motor and home insurance policies sold. We focused additional work upon the AA Cars and DriveTech CGU's (with reasonable but more limited headroom). For certain key assumptions which underpinned their forecast performance, including the speed of recovery of the used vehicles sales market and the resumption of police speed awareness courses, we assessed these for reasonableness against market data, if available, and other internal management data where appropriate. We also evaluated the historical accuracy of the cash flow forecasts for these businesses and understood the impacts of COVID-19 on each CGU in the year. We found that the forecasts have been completed on a basis consistent with prior years and were an appropriate basis upon which the Directors could base their conclusions. We tested the Directors' assumptions in the forecasts for long term growth rates (by comparing them to economic forecasts); and the discount rate (by engaging our

	valuation experts to assess the cost of capital for the Company and comparable organisations). We found the assumptions to be consistent and in line with our expectations based on industry benchmarks. We obtained and tested the Directors' sensitivity calculations over all their CGUs and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment or to enhanced disclosure.
COVID-19 (group and parent) Refer to Notes 1.2a, 11 and 28 to the Group financial statements, and Note 2 to the Company financial statements. The key impacts of COVID-19 on the Group and Company financial statements are: -The forecasts supporting the goodwill impairment assessment were updated to reflect the Directors' best estimate of the ongoing impacts of the pandemic, including the outlook for routes out of lockdown. The assumptions applied have been determined internally, but incorporate external market views where relevant. Consideration of the impact on the carrying value of goodwill is described in the related key audit matter above; -Similarly, the Directors' assessment of the carrying value of the Company's investments in subsidiaries required consideration of the impact of COVID-19 on the underlying businesses; -These models and related assumptions also underpin the Directors' going concern assessment. Consideration of the impact on going concern is described in the Material uncertainty related to going concern section above.	We used experience of the Group's trading and cash performance during the year ended 31 January 2021 to inform our assessment of where risks due to the impact of COVID-19 may arise. We found that the areas of the business with greater impacts of COVID-19 were Driving Schools and DriveTech. Our procedures in respect of the goodwill impairment assessment are set out in the respective key audit matters above. With respect to the Directors' going concern assessment, our procedures performed are described in the Material uncertainty related to going concern section above. We evaluated other potential areas of impact on the financial statements with management and ensured the disclosures in the Annual Report in relation to COVID-19 adequately disclose the risk, key assumptions, sensitivities and the impact on the Group.

How we tailored the audit scope

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate. AA Intermediate Co Limited has two operating segments. Within these segments there are around 50 reporting units, of which the following are considered financially significant and were subject to an audit of their complete financial information due to their size: AA Intermediate Co Limited, Automobile Association Developments Limited, Automobile Association Insurance Services Limited and AA Bond Co Limited. In addition, three legal entities were in scope for specific audit procedures, being AA Corporation Limited, AA Senior Co Limited and AA Financial Services Limited. These three components were selected based on the contribution of each to specific financial statement line items, including intangible assets, accrued expenses, borrowings and prepayments. These, together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances and asset impairment assessments, gave us the evidence we needed for our opinion on the financial statements as a whole. All audit procedures were performed by the Group engagement team, with no component auditors involved. Due to restrictions imposed by the COVID-19 pandemic, the audit was predominantly performed remotely, and we met with management via regular telephone and video calls. The Company is principally a holding company and there are no branches or other locations to be considered when scoping the audit.

Materiality

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

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

	Financial statements - group	Financial statements - company
Overall materiality	£8.50m (2020: £8.75m).	£3m (2020: £3m).
How we determined it	4% of Operating profit	1% of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3m.
Rationale for benchmark applied	Operating Profit is the primary statutory performance metric presented in the annual report. This is because the Group is highly geared and has a significant interest charge.	We believe that total assets is the appropriate measure as the Company is a non-profit oriented entity. In the current year, overall materiality has been reduced to £3,000,000 to ensure the Company did not have a higher materiality than the overall Group materiality allocation.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was approximately £3.0m to £8.1m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £6.30m for the group financial statements and £2.25m for the company financial statements.

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

We agreed with the Directors that we would report to them misstatements identified during our audit above £0.5m (group audit) (2020: £0.4m) and £0.5m (company audit) (2020: £0.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 January 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of 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 profit and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Directors, we were appointed by the members on 7 June 2018 to audit the financial statements for the year ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 January 2019 to 31 January 2021.

Stuart Newman

Stuart Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 May 2021

Consolidated income statement

	Note	*for the year ended 31 January* **2021** **£m**	2020* £m
Revenue	2	**927**	965
Cost of sales		**(352)**	(380)
Gross profit		**575**	585
Administrative & marketing expenses		**(358)**	(332)
Operating profit	4	**217**	253
Finance costs	6	**(171)**	(155)
Finance income	7	**3**	1
Profit before tax		**49**	99
Tax expense	10	**(9)**	(19)
Profit for the year		**40**	80

*Revenue, gross profit, operating profit, profit before tax and profit for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

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

Consolidated statement of comprehensive income

	Note	2021 £m	2020* £m
		for the year ended 31 January	
Profit for the year		**40**	80
Other comprehensive income/(expense) on items that may be reclassified to the income statement in subsequent years			
Effective portion of changes in fair value of cash flow hedges		**1**	(2)
		1	(2)
Other comprehensive (expense)/income on items that will not be reclassified to the income statement in subsequent years			
Remeasurement (losses)/gains on defined benefit schemes	27	**(50)**	39
Tax effect	10	**10**	(7)
		(40)	32
Total other comprehensive (loss)/income		**(39)**	30
Total comprehensive income for the year		**1**	110

*Profit for the year ended 31 January 2020 has been restated to correct a prior year error, see note 20.

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

Consolidated statement of financial position

	Note	as at 31 January 2021 £m	2020* £m
Non-current assets			
Goodwill and other intangible assets	11	**1,348**	1,350
Property, plant and equipment	13	**52**	52
Right-of-use assets	14	**52**	65
Investments in joint ventures and associates	15	**5**	5
Financial assets at amortised cost	29	**4**	4
Deferred tax assets	10	**17**	9
		1,478	1,485
Current assets			
Inventories	16	**4**	4
Trade and other receivables	17	**213**	182
Proceeds of Class B3 Notes issuance held in escrow	21	**280**	-
Amounts owed by parent undertakings	19	**1,233**	1,214
Cash and cash equivalents	18	**119**	94
		1,849	1,494
Assets classified as held for sale	39	**-**	8
Total assets		**3,327**	2,987
Current liabilities			
Trade and other payables	20	**(444)**	(423)
Amount due to parent undertakings	19	**(71)**	(48)
Current tax payable		**-**	(6)
Borrowings and loans	21	**(637)**	(200)
Derivative financial instruments	23	**(1)**	-
Lease liabilities	31	**(18)**	(23)
Provisions	24	**(5)**	(5)
		(1,176)	(705)
Non-current liabilities			
Borrowings and loans	21	**(2,383)**	(2,535)
Derivative financial instruments	23	**(1)**	(2)
Lease liabilities	31	**(31)**	(40)
Defined benefit pension scheme liabilities	27	**(188)**	(162)
Provisions	24	**(7)**	(6)
		(2,610)	(2,745)
Total liabilities		**(3,786)**	(3,450)
Net liabilities		**(459)**	(463)
Equity			
Share capital	25	**-**	-
Cash flow hedge reserve	26	**(1)**	(2)
Retained earnings	26	**(458)**	(461)
Total equity		**(459)**	(463)

*Trade and other payables, current tax payable and retained earnings as at 31 January 2020 have been restated to correct a prior year error, see note 20.

The financial statements were approved by the Board of Directors on 20 May 2021 and signed on its behalf by

K. Dell

K Dangerfield, Director

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

Consolidated statement of changes in equity

	Attributable to the equity holders of the parent			
	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 February 2019, as previously reported	-	-	(568)	(568)
Restatement* (see note 20)	-	-	(9)	(9)
At 1 February 2019 (restated*)	-	-	**(577)**	**(577)**
Profit for the year (restated*)	-	-	80	80
Other comprehensive (expense)/income	-	(2)	32	30
Total comprehensive (expense)/income	-	(2)	112	110
Equity-settled share-based payments (see note 36)	-	-	4	4
At 31 January 2020 (restated*)	**-**	**(2)**	**(461)**	**(463)**
Profit for the year	-	-	40	40
Other comprehensive income/(expense)	-	1	(40)	(39)
Total comprehensive income	-	1	-	1
Equity-settled share-based payments (see note 36)	-	-	3	3
At 31 January 2021	**-**	**(1)**	**(458)**	**(459)**

*Retained earnings as at 1 February 2019 and 31 January 2020 and the profit for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

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

Consolidated statement of cash flows

	Note	for the year ended 31 January 2021 £m	2020* £m
Operating activities			
Profit before tax		**49**	99
Amortisation, depreciation and impairment	11,13,14	**92**	85
Net finance costs	6,7	**168**	154
Difference between pension charge and cash contributions		**(19)**	(22)
Other adjustments to profit before tax		**5**	(10)
Working capital and provisions:			
Increase in trade and other receivables		**(31)**	(5)
Increase in trade and other payables		**12**	20
Increase in provisions		**1**	6
Total working capital and provisions adjustments		**(18)**	21
Net cash flows from operating activities before tax		**277**	327
Tax paid		**(14)**	(10)
Net cash flows from operating activities		**263**	317
Investing activities			
Capital expenditure		**(62)**	(65)
Proceeds from sale of fixed assets		**1**	6
Payment for acquisition of subsidiary, net of cash acquired		**(1)**	(8)
Investment in joint venture		**(1)**	-
Proceeds from sale of subsidiaries, net of cash sold		**(1)**	-
Net cash flows used in investing activities		**(64)**	(67)
Financing activities			
Proceeds from borrowings		**525**	15
Issue costs on borrowings		**(8)**	-
Debt repayment premium and penalties		**(6)**	-
Repayment of borrowings		**(525)**	(18)
Refinancing transactions		**(14)**	(3)
Interest paid on borrowings		**(138)**	(130)
Payment of lease capital		**(27)**	(31)
Payment of lease interest		**(3)**	(4)
Net cash flows used in financing activities		**(182)**	(168)
Net increase in cash and cash equivalents		**17**	82
Cash and cash equivalents at 1 February	18	**102**	20
Cash and cash equivalents at 31 January	18	**119**	102

*Profit before tax and increase in trade and other payables for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

Consolidated statement of cash flows (continued)

The cash flows from operating activities are stated net of cash outflows relating to adjusting operating items of £4m (2020: £9m). These items comprised £5m related to the closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme (2020: £nil), costs of strategic initiatives of £2m (2020: £6m), conduct and regulatory costs of £nil (2020: £2m), net cash outflows from property lease provisions of £nil (2020: £1m) and £4m related to emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic (2020: £nil), offset by £7m related to government furlough support in respect of COVID-19 (2020: £nil).

Other adjustments to profit before tax inflow of £5m (2020: outflow of £10m) include equity-settled share-based payment charge of £3m (2020: £4m), loss on sale of fixed assets of £2m (2020 profit: £5m) and credit on remeasurement of contingent consideration of £nil (2020 credit: £9m).

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

Notes to the consolidated financial statements

1 Basis of preparation and accounting policies

1.1 General information

The consolidated financial statements for the year ended 31 January 2021 comprise the financial statements of AA Intermediate Co Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Intermediate Co Limited is a private company limited by shares, incorporated and domiciled in England and Wales, UK.

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

1.2 Basis of preparation

The Group has prepared these statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

a) Going concern

The Group's operations are cash generative with a large proportion of its revenues coming from recurring transactions. The significant customer loyalty demonstrated by high renewal rates and lengthy customer tenure underpins this and, in addition to the cash balances at the reporting date, the Group has agreed undrawn credit facilities.

On 25 November 2020, it was announced that the Company's parent undertaking, AA Limited, had reached agreement with a newly formed joint venture company indirectly owned in equal shares by (i) funds advised by TowerBrook Capital Partners (U.K.) LLP or its affiliates; and (ii) private equity funds managed by Warburg Pincus International LLC or its affiliates (together the "Consortium") on the terms of a recommended cash offer for the entire issued and to be issued ordinary share capital of AA Limited. The acquisition of AA Limited ('the Acquisition' was implemented by way of a court-sanctioned scheme of arrangement ('the Scheme'). The Scheme was approved by shareholders on 14 January 2021 at a court meeting and then at a General Meeting. Regulatory approval was subsequently received and the Scheme was sanctioned by court hearing on 8 March 2021. The effective date of the Scheme was 9 March 2021. The transaction included a commitment from the Consortium for an injection of new equity into the Group of £261m following completion to be used in the refinancing of the Class B2 Notes and a subsequent injection of £100m to be used in the refinancing of the Class A5 Notes, being the Notes with the nearest maturity dates. The equity injection was formalised in an Equity Commitment Letter providing the Directors with the assurance that after completion of the transaction, the leverage of the Group would be significantly reduced.

The Group issued £280m of Class B3 Notes in January 2021 which, alongside the £261m of new equity noted above and the surrender for cancellation of £29m of Class B2 Notes held directly by AA Limited, enabled in March 2021 the repayment in full of the £570m of Class B2 Notes outstanding at 31 January 2021. The Consortium also secured a new £150m Senior Term Facility and £56m Working Capital Facility to replace the Group's existing facilities.

The Directors propose a refinancing of the Class A5 Notes in advance of their maturity on 31 January 2022 and drawing upon the remaining £100m of committed new AA Limited equity referred to above. The Directors understand that the outstanding £1,997m Class A Notes are trading at a price near par with yields of below 4% which indicate that the debt market considers the refinancing risk of the Class A5 Notes to be low. Given the significant deleveraging of the debt at both A Notes and B Notes level, the current pricing of A Notes in the secondary debt markets and the existing Investment Grade rating of BBB- of the A Notes to be issued, the Directors are, on this basis, confident that this refinancing will be successful. At the date of approval of these financial statements, the Class B3 Notes are no longer contingent on the completion of the Acquisition and there is no other debt with a maturity date within 12 months from the issue of these financial statements (see note 22).

Notes to the consolidated financial statements (continued)

1.2 Basis of preparation (continued)

a) Going concern (continued)

The Directors have considered these points along with the projected cash flows, for a period of one year from the date of approval of these consolidated financial statements and have concluded that they have confidence that the Group will have sufficient funds to continue trading for this period and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. However, as noted above, the refinancing of the Class A5 Notes, due on 31 January 2022 is not committed at the date of issue of these financial statements. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of these financial statements.

The financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern.

b) Basis of consolidation

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

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

1.3 Accounting policies

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

a) Interests in joint ventures and associates

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

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

1.3 Accounting policies (continued)

b) Foreign currencies

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

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

c) *Business combinations and goodwill*

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

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

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

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

d) Intangible assets

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

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

e) Software and development costs

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

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

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

1.3 Accounting policies (continued)

f) Property, plant and equipment

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

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

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

g) Inventories

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

h) Financial instruments

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

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Debt instruments

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

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

1.3 Accounting policies (continued)

h) Financial instruments (continued)

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

i) Impairment of assets

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

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

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

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

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

1.3 Accounting policies (continued)

j) 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 the amount equal to the initial lease liability, 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.

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.

k) Provisions and contingent liabilities

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

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

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

l) Retirement benefit obligation

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

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

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

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

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

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

1.3 Accounting policies (continued)

m) Revenue recognition

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

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

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis. Commission income for policies underwritten by the Group is deferred and recognised over the period of risk, with the Group acting as principal in this relationship.

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

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

Commission income receivable from the sale and related marketing and administrative services of financial products, such as that earned through the partnership with the Bank of Ireland, is recognised on a point in time basis at the point of the provision of the service, with the Group acting as agent in this relationship. Fixed income and fixed rebates relating to the provision of these services are recognised in revenue over time in line with the profile of expected commissions over the contract term.

For all other revenue, this income is recognised on a point in time basis at the point of delivery of goods or on the provision of service, or over time where the service is provided over more than one day. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

n) Insurance contracts

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

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

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

o) Insurance aggregator fees

Insurance aggregator fees are the costs related to the acquisition of customers from insurance comparison websites. These costs are expensed to the income statement in full at the commencement of the insurance policy. These costs are presented in the income statement within administrative and marketing expenses.

p) Adjusting operating items

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

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

1.3 Accounting policies (continued)

q) Finance income and costs

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

Finance income comprises interest receivable on funds invested.

r) 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 goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

s) Segmental analysis

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

t) Share-based payments

The Group operates a number of equity-settled and cash-settled share-based payment compensation plans for employees. Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

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

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

1.3 Accounting policies (continued)

u) Discontinued operations and disposals

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

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

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

v) Critical accounting estimates and judgements

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

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

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

Retirement benefit obligation

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

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

Goodwill

The Group tests goodwill for impairment annually. The recoverable amounts of CGUs have been determined based on value in use calculations which require the use of estimates (see note 28). Management has prepared discounted cash flows based on the latest strategic plan.

Intangibles

The Group has significant software development programmes and there is judgement in relation to which programmes and costs to capitalise under IAS 38. Additionally, there is an estimate in respect of the future usage period of software on which the Group bases the useful economic life of related assets.

Share-based payments

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

1.3 Accounting policies (continued)

v) Critical accounting estimates and judgements (continued)

Leases

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

2 Segmental information and revenue disaggregation

The Group has two key segments – Roadside and Insurance. Head Office costs have been allocated to these two key segments as these costs principally directly support the operations of these segments. Head office costs are predominately allocated on a percentage of revenue basis.

The two reportable operating segments are as follows:

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

During the year and reflecting the way that the Group is now managed, the Group has determined that its AA Cars business should be included within the Insurance segment, having previously been included in the Roadside segment. This has been reflected in the below analysis of segmental performance and corresponding comparatives.

	2021 £m	2020* £m
Revenue		
Roadside	**799**	827
Insurance	**128**	138
Revenue	**927**	965
Trading EBITDA		
Roadside	**282**	285
Insurance	**40**	56
Trading EBITDA	**322**	341
Share-based payments (see note 36)	**(4)**	(4)
Contingent consideration remeasurement gain	**-**	9
Pension service charge adjustment (see note 3)	**(5)**	(4)
Amortisation and depreciation (see notes 11, 13, 14)	**(92)**	(85)
Operating profit before adjusting operating items	**221**	257
Adjusting operating items (see note 5)	**(4)**	(4)
Operating profit	**217**	253
Net finance costs (see notes 6 and 7)	**(168)**	(154)
Profit before tax	**49**	99

*The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

2 Segmental information and revenue disaggregation (continued)

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

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

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

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

Operating profit before adjusting operating items	**Roadside**[1]		**Insurance**[1]	
	2021 £m	2020* £m	**2021 £m**	2020* £m
Trading EBITDA	**282**	285	**40**	56
Share-based payments	**(3)**	(2)	**(1)**	(2)
Pension service charge adjustment	**(4)**	(4)	**(1)**	-
Contingent consideration remeasurement gain	**-**	-	**-**	9
Amortisation and depreciation	**(81)**	(79)	**(11)**	(6)
Operating profit before adjusting operating items	**194**	200	**27**	57

*The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

2 Segmental information and revenue disaggregation (continued)

Disaggregation of revenue:

	2021 £m	2020* £m
Roadside:		
Consumer (B2C)		
Insured contracts	**470**	484
Pay for use contracts[2]	**48**	47
Business services (B2B)		
Insured contracts	**32**	33
Pay for use contracts[2]	**176**	171
Roadside other[1]	**73**	92
Total Roadside	**799**	827
Insurance:		
Brokering activities[1]	**113**	120
Insurance other[1]	**15**	18
Total Insurance	**128**	138
Revenue	**927**	965

*The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

[1] Insurance other now comprises the Group's AA Cars and Financial Services businesses, which were previously included in Roadside other and Insurance brokering activities respectively. Roadside other comprises the Group's Driving Schools, DriveTech and Prestige businesses as well as a number of other smaller operations. This better reflects the nature of their products and the way that the Group is now managed. The segmental analysis and revenue disaggregation figures for the year ended January 2020 have been restated to reflect this change.

[2] Pay for use contracts relate to contracts that take into account the number of breakdowns.

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions. Brokering activities revenue relates to commission income from insurers external to the Group. For further detail on the Group's revenue streams see the Strategic Report section.

3 Adjusted performance measures

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

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, adjusting operating items, share-based payments, pension service charge adjustments, net finance costs, contingent consideration remeasurement movements and tax expense.

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

Reconciliation of Trading EBITDA to operating profit

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

	Note	**for the year ended 31 January 2021 £m**	2020* £m
Trading EBITDA	2	**322**	341
Share-based payments	36	**(4)**	(4)
Contingent consideration remeasurement gain	2	**-**	9
Pension service charge adjustment	2	**(5)**	(4)
Amortisation and depreciation	11,13,14	**(92)**	(85)
Adjusting operating items	5	**(4)**	(4)
Operating profit	4	**217**	253

*The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

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

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

4 Operating profit

Operating profit is stated after charging:

	2021 £m	2020 £m
Amortisation of owned intangible assets (see note 11)	**54**	42
Depreciation of owned tangible fixed assets (see note 13)	**12**	14
Depreciation of right-of-use assets (see note 14)	**26**	29

5 Adjusting operating items

	2021 £m	2020 £m
Strategic review projects	**2**	6
Closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme	**5**	-
Emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic	**4**	-
Government furlough support in respect of COVID-19	**(7)**	-
Other adjusting operating items	**-**	(2)
Total adjusting operating items	**4**	4

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

In the prior year, other adjusting operating items comprised £2m related to conduct and regulatory costs and £1m related to legal disputes offset by a £2m gain on the disposal of 51% of AA Media Limited and a £3m profit on disposal of non-current assets.

As noted above, we have separately identified the incremental costs directly attributable to COVID-19 and the credit received from government furlough support, within adjusting operating items. The trading effects from COVID-19 are reflected within Trading EBITDA.

Costs from the current year refinancings in February 2020 and January 2021 were directly attributable to the issue and repayment of loan notes and have therefore been included either in finance costs or in borrowings as debt issue fees (see notes 6 and 22).

6 Finance costs

	2021 £m	2020 £m
Interest on external borrowings	**138**	129
Finance charges payable on lease liabilities	**3**	5
Total ongoing cash finance costs	**141**	134
Ongoing amortisation of debt issue fees	**9**	14
Fair value movement on interest rate swaps	**1**	1
Contingent consideration movements	**-**	1
Net finance expense on defined benefit pension schemes	**-**	5
Total ongoing non-cash finance costs	**10**	21
Debt repayment premium (see note 22)	**6**	-
Debt issue fees immediately written off following repayment of borrowings (see note 22)	**5**	-
Total adjusting cash finance costs	**11**	-
Unamortised debt issue fees written off following repayment of borrowings (see note 22)	**9**	-
Total adjusting non-cash finance costs	**9**	-
Total finance costs	**171**	155

During the current year, the Group issued £325m of Class A8 Notes in exchange for £325m of Class A5 Notes (see note 22). As a result, the Group incurred adjusting finance costs associated with this refinancing of £20m, consisting of £6m of exchange premium, £5m of transaction fees and a £9m write-off of unamortised issue fees associated with the Class A5 Notes.

During the current year, the Group also issued £280m of Class B3 Notes. This was not a modification of any existing debt and so associated issue fees were capitalised (see note 22).

7 Finance income

	2021 £m	2020 £m
Interest receivable from financial assets held for cash management purposes	**-**	1
Total ongoing cash finance income	**-**	1
Net finance income on defined benefit pension schemes	**3**	-
Total ongoing non-cash finance income	**3**	-
Total finance income	**3**	1

8 Employee costs

	2021 £m	2020 £m
Wages and salaries	**239**	250
Social security costs	**24**	25
Other pension costs	**31**	30
Share-based payments expense	**4**	4
	298	309

The above employee costs are presented gross of government furlough support in respect of COVID-19.

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

	2021	2020
Operational	**5,931**	6,313
Management and administration	**1,130**	1,093
	7,061	7,406

9 Directors' remuneration

	2021 £m	2020 £m
Directors' remuneration	**1**	1
Aggregate remuneration in respect of qualifying services	**1**	1
Members of defined benefit pension schemes (number)	**1**	1

The amounts paid in respect of the highest paid director were as follows:

Remuneration	**1**	-

The accrued pension of the highest paid director was £nil at 31 January 2021 (2020: £nil). The highest paid director had contributions to a money purchase pension plan of £23,667 (2020: £9,246).

10 Tax

The major components of the income tax expense are:

	2021 £m	2020* £m
Consolidated income statement		
Current income tax		
Current income tax charge	**11**	15
	11	15
Deferred tax		
Origination and reversal of temporary differences	**(1)**	4
Effect of rate change on opening balances	**(1)**	-
	(2)	4
Tax expense in the income statement	**9**	19

*The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

	2021 £m	2020 £m
Consolidated statement of comprehensive income		
Current tax on remeasurements of defined benefit pension liability	**(4)**	-
Deferred tax on remeasurements of defined benefit pension liability	**(6)**	7
Income tax (credited)/charged directly to other comprehensive income	**(10)**	7

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

	2021 £m	2020* £m
Profit before tax	**49**	99
Tax at rate of 19.0% (2019: 19.0%)	**9**	19
Rate change adjustment on temporary differences	**(1)**	-
Expenses not deductible/(chargeable) for tax purposes:		
- Amounts relating to acquisitions and disposals	**-**	(1)
- Other non-deductible expenses/non-taxed income	**1**	1
Income tax expense reported in the consolidated income statement at effective rate of 18.4% (2020: 19.2%)	**9**	19

*The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

10 Tax (continued)

Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Accelerated depreciation for tax purposes	**9**	7	**(2)**	-
Revaluations of land and buildings to fair value	**(1)**	(1)	**-**	-
Rollover relief	**(2)**	(2)	**-**	-
Pension	**-**	(6)	**-**	2
Short-term temporary differences	**7**	5	**(2)**	(1)
Losses available for offsetting against future taxable income	**4**	6	**2**	3
Deferred tax (credit)/expense			**(2)**	4
Net deferred tax assets	**17**	9		

Reconciliation of net deferred tax assets

	2021 £m	2020 £m
At 1 February	**9**	22
Tax credit/(expense) recognised in the income statement	**2**	(4)
Tax credit/(expense) recognised in other comprehensive income	**6**	(7)
Deferred tax liability on acquisition of subsidiary (see note 12)	**-**	(2)
At 31 January	**17**	9

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

The March 2020 budget announced that the expected reduction in tax rate to 17% would be cancelled and the 19% rate retained after 1 April 2020. The effect of cancelling the tax rate reduction was an increase in the value of the deferred tax asset as at 31 January 2020 by £1m. This £1m rate change has been reflected in the current year deferred tax credit. The March 2021 budget announced that the main corporation tax rate will increase to 25% in April 2023. The increased rate will not impact on the Group's current tax for the year ending 31 January 2022. As this new rate is expected to be enacted later in 2021, an assessment will be made on the carrying value of the Group's deferred tax balance, depending on the expected timing of reversals, for the year ending 31 January 2022.

Deferred tax has been recognised at an overall rate of 19% at 31 January 2021 (2020: 17%). The rate has been adjusted to reflect the expected reversal profile of the Group's temporary differences.

The Group has carried forward tax losses which arose in the UK of £22m (deferred tax equivalent £4m) (2020: £36m tax losses, deferred tax equivalent £6m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of these losses. A further £1m (2020: £1m) deferred tax asset relating to other tax losses has not been recognised due to the uncertainty of the availability of suitable future profits to enable recovery.

11 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
At 1 February 2019	1,197	-	248	1,445
Additions	-	11	55	66
Disposals	-	-	(7)	(7)
At 31 January 2020	**1,197**	**11**	**296**	**1,504**
Additions	-	-	55	55
Reclassification	-	-	(1)	(1)
Disposals	-	-	(47)	(47)
At 31 January 2021	**1,197**	**11**	**303**	**1,511**
Amortisation and impairment				
At 1 February 2019	27	-	92	119
Amortisation	-	1	41	42
Disposals	-	-	(7)	(7)
At 31 January 2020	**27**	**1**	**126**	**154**
Amortisation	-	1	53	54
Disposals	-	-	(45)	(45)
At 31 January 2021	**27**	**2**	**134**	**163**
Net book value				
At 31 January 2021	**1,170**	**9**	**169**	**1,348**
At 31 January 2020	1,170	10	170	1,350

Within software, £17m (2020: £29m) relates to assets under construction which are not amortised.

Software additions comprise £12m (2020: £12m) in relation to internally developed assets and £43m (2020: £43m) in relation to separately acquired assets.

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

An annual impairment review has been performed over the goodwill balance, see note 28 for details.

12 Business combinations

Acquisitions during the year ended 31 January 2021

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

Acquisitions during the year ended 31 January 2020

On 1 February 2019, the Group completed the purchase of the entire share capital of Prestige Motor Care Holdings Limited and its three wholly owned subsidiaries Prestige Fleet Servicing Limited, Prestige Car Servicing Limited and Prestige Motor Care Limited for cash consideration of £11m.

On acquisition, assets and liabilities acquired included £3m cash and £2m trade and other payables. Goodwill of £10m was initially recognised but was subsequently reallocated within the permitted measurement period, comprising additions of £11m to customer relationships, £1m to software and £2m to deferred tax liabilities. At the point of acquisition, the combined fair value of net assets acquired was therefore £11m, which resulted in £nil goodwill being recognised. The net outflow of cash to acquire these subsidiaries was £8m.

Disposals during the year ended 31 January 2021

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

The assets and liabilities disposed of had been presented as held for sale at 31 January 2020.

Disposals during the year ended 31 January 2020

On 29 March 2019, the Group completed the sale of 51% of the share capital of AA Media Limited.

13 Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Vehicles £m	Plant & equipment £m	Total £m
Cost					
At 1 February 2019	24	12	2	78	116
Additions	-	-	2	7	9
Reclassifications	-	(5)	-	5	-
Disposals	-	-	-	(10)	(10)
At 31 January 2020	**24**	**7**	**4**	**80**	**115**
Additions	-	-	-	11	11
Reclassification	-	-	-	1	1
Disposals	-	-	(4)	(18)	(22)
At 31 January 2021	**24**	**7**	**-**	**74**	**105**
Depreciation and impairment					
At 1 February 2019	8	4	2	45	59
Charge for the year	1	-	2	11	14
Disposals	-	-	-	(10)	(10)
At 31 January 2020	**9**	**4**	**4**	**46**	**63**
Charge for the year	1	-	-	11	12
Disposals	-	-	(4)	(18)	(22)
At 31 January 2021	**10**	**4**	**-**	**39**	**53**
Net book value					
At 31 January 2021	**14**	**3**	**-**	**35**	**52**
At 31 January 2020	15	3	-	34	52

Within plant and equipment, £1m (2020: £3m) relates to assets under construction which are not depreciated.

14 Right-of-use assets

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

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2019	22	119	141
Additions	1	33	34
Disposals	-	(71)	(71)
At 31 January 2020	**23**	**81**	**104**
Additions	-	13	13
Disposals	(1)	(19)	(20)
At 31 January 2021	**22**	**75**	**97**
Accumulated depreciation and impairment			
At 1 February 2019	-	53	53
Charge for the year	3	26	29
Disposals	-	(43)	(43)
At 31 January 2020	**3**	**36**	**39**
Charge for the year	3	23	26
Disposals	(2)	(18)	(20)
At 31 January 2021	**4**	**41**	**45**
Net book value			
At 31 January 2021	**18**	**34**	**52**
At 31 January 2020	20	45	65

15 Investments in joint ventures and associates

	2021			2020		
	Joint ventures £m	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
At 1 February	1	4	5	1	4	5
Additions	1	-	1	-	-	-
Impairment	(1)	-	(1)	-	-	-
At 31 January	1	4	5	1	4	5

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

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

[1] The Group exercises joint control over AA Law Limited through its equal representation on the Board. AA Law Limited has A and B ordinary shares.
[2] Intelematics Europe Limited changed its name to Drvn Solutions Limited on 10 June 2020. The Group exercises joint control over Drvn Solutions Limited through its joint influence over key decision-making. Drvn Solutions Limited has A and B ordinary shares. The Group increased its shareholding in Drvn Solutions Limited from 32% to 48% on 29 April 2020.
[3] The Group exercises joint control over AA Media Limited through its equal representation on the Board. AA Media Limited has A ordinary shares.

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

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

16 Inventories

	2021 £m	2020 £m
Finished goods	4	4
	4	4

17 Trade and other receivables

	2021 £m	2020 £m
Current		
Trade receivables	**162**	142
Prepayments	**27**	19
Contract assets	**15**	15
Other receivables	**9**	6
	213	182

Trade receivables include £106m (2020: £90m) relating to amounts due from insurance broking customers.

18 Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand – available	**119**	62
Cash at bank and in hand – restricted	**-**	40
Cash and cash equivalents as presented in consolidated statement of cash flows	**119**	102
Less: presented as assets held for sale (see note 39)	**-**	(8)
Cash and cash equivalents as presented in consolidated statement of financial position	**119**	94

Restricted cash is cash which is subject to contractual or regulatory restrictions. The Group had restricted cash, consisting of £nil (2020: £8m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions and £nil (2020: £32m) held in a separate bank account due to a requirement under the terms of the Group's debt documents. The requirement is to deposit a calculated amount of 'excess cash' at the year end when within an 'accumulation period' (the 12 months before which any borrowings become due). This applied to the Class A3 Notes which were due on 31 July 2020. On 31 July 2020, the Group completed the refinancing of the £200m outstanding Class A3 Notes using the £200m proceeds from drawing down the Senior Term Facility (see note 22). Therefore, as it was no longer required, the excess cash was returned to available cash on 31 July 2020.

19 Amounts owed by/due to parent undertakings

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

20 Trade and other payables

	2021 £m	2020* £m
Current		
Trade payables	**109**	98
Other taxes and social security costs	**21**	25
Accruals	**74**	55
Deferred income	**217**	225
Deferred consideration	**-**	1
Other payables	**23**	19
	444	423

*Deferred income for the year ended 31 January 2020 has been restated to correct an error relating to prior years. Deferred income in respect of certain roadside assistance policies had been understated in the opening and closing statement of financial position for the year ended 31 January 2020.

Trade payables include £77m (2020: £72m) relating to amounts due to underwriters in respect of insurance broking activities.

Deferred income primarily relates to roadside subscriptions deferred on a time apportionment basis. Of the revenue recognised in the year, £219m (2020: £217m) was included within deferred income at the beginning of the year.

Included in deferred income is £11m (2020: £12m) which will be released over a period more than 12 months from the statement of financial position date.

In the prior year, the deferred consideration payable of £1m related to the acquisition of Used Car Sites Limited (AA Cars), which was paid during the current year.

The effect of the restatement referenced above is shown below:

	Financial statements for the year ended					
	31 January 2019			31 January 2020		
	Previously reported £m	Effect of restatement £m	**Restated £m**	Previously reported £m	Effect of restatement £m	**Restated £m**
Consolidated income statement						
Revenue	960	(1)	**959**	967	(2)	**965**
Consolidated statement of financial position						
Retained earnings	(568)	(9)	**(577)**	(450)	(11)	**(461)**
Deferred income	(229)	(10)	**(239)**	(213)	(12)	**(225)**
Current tax payable	(2)	1	**(1)**	(7)	1	**(6)**

21 Borrowings and loans

	2021 £m	2020 £m
Current		
Borrowings (see note 22)	**637**	200
Non-current		
Borrowings (see note 22)	**2,383**	2,535
	3,020	2,735

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

- £367m carrying value of £372m Class A5 Notes for which the expected maturity date is 31 January 2022
- £270m carrying value of £280m Class B3 Notes (see below)

At 31 January 2020, the current borrowing of £200m related to the Class A3 Notes which were repaid on their expected maturity date of 31 July 2020 (see note 22).

At 31 January 2021 the £280m Class B3 Notes were contingent on the completion of the acquisition of AA Limited, the Group's ultimate parent undertaking (see note 22) and as such have been presented as a current liability at the year end. This matches the presentation as a current asset of the £280m proceeds of Class B3 Notes issuance held in escrow (see below). At the date of approval of these financial statements, the acquisition of AA Limited has completed (see note 40) and the Class B3 Notes are therefore no longer contingent on that event.

	2021 £m	2020 £m
Current assets		
Proceeds of Class B3 Notes issuance held in escrow	**280**	-

Proceeds of Class B3 Notes issuance held in escrow of £280m (2020: £nil) relate to the cash proceeds from the issuance of Class B3 Notes on 29 January 2021 (see note 22). At 31 January 2021, these proceeds were held in a secured escrow account on behalf of the Group, its Class B Note Trustee and the Class B3 Noteholders as secured creditors. These funds could only be used for the purposes of redeeming the Group's Class B2 Notes or repaying the Class B3 Noteholders should the Class B2 Notes not have been redeemed. At the date of approval of these financial statements, the proceeds of Class B3 Notes issuance held in escrow have been used to redeem the Class B2 Notes (see note 40).

22 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total as at 31 January 2021 £m**	Total as at 31 January 2020 £m
Senior Term Facility	31 July 2023	2.72%	200	-	-	**200**	-
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	**500**	500
Class A3 Notes	31 July 2020	4.25%	-	-	-	**-**	200
Class A5 Notes	31 January 2022	2.88%	372	(25)	20	**367**	677
Class A6 Notes	31 July 2023	2.75%	250	(4)	2	**248**	248
Class A7 Notes	31 July 2024	4.88%	550	(8)	3	**545**	544
Class A8 Notes	31 July 2027	5.50%	325	(3)	-	**322**	-
Class B2 Notes	31 July 2022	5.50%	570	(16)	14	**568**	566
Class B3 Notes	31 January 2026	6.50%	280	(10)	-	**270**	-
		4.88%	3,047	(67)	40	**3,020**	2,735

At 31 January 2021, the Senior Term Facility was subject to a variable interest rate of LIBOR plus a margin of 1.75% per annum. However, the Group has an interest rate swap in place which exchanges LIBOR for a fixed interest rate of 0.97% thereby fixing the Senior Term Facility's interest rate at 2.72% through to 31 July 2021. Thereafter, the Group had an interest rate cap in place which caps the variable interest rate at 1.00% through to 31 July 2023.

At 31 January 2021, all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.88% has been calculated using the interest rate and principal values on 31 January 2021.

On 5 February 2020, the Group issued £325m of Class A8 Notes at an interest rate of 5.50% in exchange for £325m of Class A5 Notes. £3m of new issue premium associated with the issue of the Class A8 Notes was capitalised. In line with accounting for a substantial modification of a debt instrument under IFRS 9, costs of £20m associated with the issue of the Class A8 Notes and the cancellation of the Class A5 Notes were written off, consisting of £6m of exchange premium, £5m of transaction fees and £9m of unamortised issue costs associated with the Class A5 Notes.

On 23 April 2020, the Group announced that it had drawn down in full its £200m Senior Term Facility. The proceeds were held in escrow and subsequently released to refinance the remaining £200m Class A3 Notes on 31 July 2020.

On 29 January 2021, the Group issued £280m of Class B3 Notes at an interest rate of 6.50%. £10m of issuance fees associated with the issue of the Class B3 Notes were capitalised and will be amortised over the expected maturity of the debt. At 31 January 2021, the cash proceeds were held in a secured escrow account on behalf of the Group, its Class B Note Trustee and the Class B3 Noteholders as secured creditors. These funds could only be used for the purposes of redeeming the Group's Class B2 Notes or repaying the Class B3 Noteholders should the Class B2 Notes not have been redeemed.

On 10 March 2021, the Group refinanced the £570m outstanding Class B2 Notes using £261m cash injected as new equity from the Consortium, the £280m proceeds from the issuance of the Class B3 Notes which were released from escrow and the cancellation of £29m Class B2 Notes held directly by AA Limited. There was no premium paid on repayment of the Class B2 Notes. On 10 March 2021, the Group also refinanced its Senior Term Facility, Working Capital Facility and Liquidity Facility. See note 40 for further detail.

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

22 Borrowings (continued)

All of the Class A Notes are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B2 Notes and Class B3 Notes. The Class B2 Notes and Class B3 Notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain Net Debt to Trading EBITDA and cash flow criteria are met.

Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to expected maturity date, except the Class A5, Class A6, Class A7 and Class A8 Notes which can be settled without penalty within three months, two months, three months and six months respectively of the expected maturity date. The Class B3 Notes would attract a make-whole payment if they were to be redeemed before 31 January 2023, thereafter any voluntary repayment would be made at a fixed premium until 31 January 2025 after which there would be no premium to pay on redemption.

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

In order to comply with the requirements of the Class A Notes, the Group is required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2021 was 2.5x (2020: 3.4x). Following redemption of the Group's Class B2 Notes on 10 March 2021 (see note 40), the Group no longer has to comply with any Class B free cash flow to debt service ratio requirements.

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The actual Senior Leverage ratio as at 31 January 2021 was 6.5x (2020: 6.2x). The Class B Notes restrictions only permit the release of cash providing the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income. The actual Fixed Charge Coverage ratio as at 31 January 2021 was 2.4x (2020: 2.6x).

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

On 5 February 2020, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B2 Notes at B+. On 23 April 2020, as part of the Senior Term Facility drawdown process, the Group announced that S&P confirmed the credit rating on the Class A Notes at BBB-. On 29 January 2021, S&P Global Ratings assigned the credit rating of the Class B3 Notes at B+ and reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B2 Notes at B+.

In addition to the Senior Term Facility, the Group had a working capital facility available of £60m, of which £56m remained undrawn at 31 January 2021.

23 Derivative financial instruments

	2021 £m	2020 £m
Current		
Interest rate swap	**(1)**	-
Non-current		
Forward fuel contracts	**(1)**	(2)
	(2)	(2)

The forward fuel contracts liability is shown on a net basis as the liability is settled on a net basis. On a gross basis, the asset is £nil (2020: £nil) and the liability is £1m (2020: £2m).

24 Provisions

	Property leases £m	Other £m	Total £m
At 1 February 2019	5	2	7
Reclassification	-	6	6
Utilised during the year	(1)	-	(1)
Released during the year	(1)	-	(1)
At 31 January 2020	3	8	11
Utilised during the year	-	(5)	(5)
Released during the year	-	(2)	(2)
Charge for the year	1	7	8
At 31 January 2021	**4**	**8**	**12**

Current	1	4	5
Non-current	3	4	7
At 31 January 2021	**4**	**8**	**12**
Current	-	5	5
Non-current	3	3	6
At 31 January 2020	3	8	11

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 10 years; however, it will take 35 years to fully pay out all amounts provided for. The provision has been calculated on a pre-tax discounted basis.

Other provisions include £1m (2020: £nil) relating to anticipated redress costs. During the current financial year, the Group identified that there had been limited instances whereby consumer renewal pricing needs to realign with regulatory requirements. Consequently the Group has provided for the costs of redress to affected customers, which is expected to be paid out during the next year.

At 31 January 2020, other provisions included £2m relating to anticipated compensation costs for poorly handled complaints. During the current year, an in-depth review was completed and it was determined that this provision was not required, therefore £2m was released from other provisions.

The remaining balance in other provisions of £7m (2020: £6m) relates to self-funded insurance liabilities, where the Group provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims.

24 Provisions (continued)

Litigation – update on Mr Mackenzie's claim

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

In November 2018, Mr Mackenzie's claim against all the directors and the former Company Secretary was dismissed in full and he was ordered to pay their costs to be assessed by the Court if not agreed. The majority of Mr Mackenzie's claim arises from his exclusion from a share option scheme which, in any event, lapsed for all participants without any payment in June 2019. However, Mr Mackenzie subsequently issued an amended claim which included a new claim for personal injury allegedly suffered as a result of stress arising from his role as CEO and Chairman.

The Companies have filed a full defence in relation to Mr Mackenzie's amended claim and, after further discussion with external counsel, the Companies decided to apply for a strike-out application in relation to the entirety of Mr Mackenzie's claims against them. This application was filed in May 2020 and the Companies attended an application hearing in March 2021 in respect of this. The Court reserved its judgement after the strike out application hearing and as of the date of this document the judgement is still awaited. Therefore, the Board assumes for the purpose of these financial statements that Mr Mackenzie will proceed with the claim against the Companies but maintains that it is not necessary for the Group to make a financial provision as it expects the defence will prevail.

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

25 Share capital

	2021	2020
	£	£
Allotted, called up and fully paid		
20 ordinary shares of £1 each	**20**	20
	20	20

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

26 Reserves

	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2019 as previously reported	-	**(568)**	**(568)**
Restatement* (note 20)	-	(9)	(9)
At 1 February 2019 (restated*)		**(577)**	**(577)**
Retained profit for the year (restated*)	-	80	80
Equity-settled share-based payments (note 36)	-	4	4
Other comprehensive income/(expense):			
Remeasurement gains on defined benefit schemes (note 27)	-	39	39
Tax effect of remeasurement gains on defined benefit schemes (note 10)	-	(7)	(7)
Effective portion of changes in fair value of cash flow hedges	(2)	-	(2)
At 31 January 2020 (restated*)	**(2)**	**(461)**	**(463)**
Retained profit for the year	-	40	40
Equity-settled share-based payments (note 36)	-	3	3
Other comprehensive (expense)/income:			
Remeasurement gains on defined benefit schemes (note 27)	-	(50)	(50)
Tax effect of remeasurement gains on defined benefit schemes (note 10)	-	10	10
Effective portion of changes in fair value of cash flow hedges	1	-	1
At 31 January 2021	**(1)**	**(458)**	**(459)**

*Retained earnings as at 1 February 2019 and 31 January 2020 and the profit for the year ended 31 January 2020 have been restated to correct a prior year error, see note 20.

Cash flow hedge reserve

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

Dividends

In the year ended 31 January 2021, no dividends were paid (2020: £nil)

27 Pensions

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

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

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

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

The valuations have been based on a full assessment of the liabilities of the schemes which have been updated where appropriate to 31 January 2021 by independent qualified actuaries.

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

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

	As at 31 January 2020			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,576)	(61)	(44)	(2,681)
Fair value of plan assets	2,472	47	-	2,519
Deficit	**(104)**	**(14)**	**(44)**	**(162)**

27 Pensions (continued)

The increase in the deficit is primarily due to the financial markets experiencing a reduction in corporate bond yields which drive the discount rate, in combination with increasing future inflation expectations. This was partially offset by the performance of plan assets being above expectations.

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

In February 2020, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m. Under the previous 2016 valuation, the recovery plan extended through to 2038 in respect of the Asset-Backed Funding element and to 2026 in respect of the Additional Funding element. A new recovery plan has now been put in place and agreed with the trustee which assumes that the scheme's technical deficit will be fully repaid by July 2025, which is one year earlier than previously planned in terms of the Additional Funding element and 13 years earlier in terms of the Asset-Backed Funding element. To do this, the Group has committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. From 1 February 2020, the trustee has also met its own costs of running the scheme. As a result, annual cash costs for the Group are expected to reduce by around £6m.

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

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

On an ongoing basis, the regular (non-transitional) pension accrual costs for the affected members are expected to be c. £4m per year lower than the previous costs in the AAUK scheme as a result of the closure.

In addition, without scheme closure the Group would have incurred increased pension accrual cash costs in relation to the CARE section of a further c. £5m per annum from 1 April 2020 (under the triennial valuation agreement). Closure also curtails the ongoing build-up of defined benefit risk for the Group.

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

Using an inflation assumption of 3.0% and a discount rate assumption of 1.5%, the present value of the future deficit reduction contributions has been calculated. Based on these assumptions, the Group expects the present value of deficit reduction contributions to exceed the IAS 19 deficit. The Group notes that, in the event that a surplus emerges, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

The actuarial triennial review as at 31 December 2019 for the AAI pension scheme was completed during September 2020. This resulted in a reduction to the funding deficit of 50% from c. £8m as at 31 December 2016 to c. £4m as at 31 December 2019. The Group made deficit reduction contributions of £1m in the year ended 31 January 2021 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2024 (an extension of one year over the previous agreement) or until an alternative agreement is signed with the AAI scheme trustee.

27 Pensions (continued)

In total, the Group paid £4m in ongoing employer contributions until the closure of the AAUK scheme CARE section and paid £25m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2021.

During the year, the Group recognised a one-off past service cost of £1m as a result of the supplementary ruling in the Lloyds Bank Guaranteed Minimum Pensions (GMP) equalisation case with respect to members that transferred out of their scheme prior to the ruling.

The Group has been informed by the trustee of the AAUK scheme of a possible need to review the scheme's approach to 'equalising' certain pension benefits earned before 1 April 1992, so that the benefits earned by male and female members are equal. This requirement, stemming from EU law, is common to most UK defined benefit pension schemes. In simple terms, this requires some pre-1992 pensions to be treated as if payable from a more generous age of 60, rather than the AAUK scheme's normal retirement age of 65. Action was taken in 1992 to put in place a mechanism for equalisation of these benefits, but the trustee has raised questions about the effectiveness of the mechanism used.

This is a highly technical matter that relates only to the benefits of members who joined certain sections of the AAUK scheme before 1 November 1987 and remained in service after 17 May 1990. At this early stage of our analysis, we consider the scope of potentially impacted benefits to be limited to those accrued in the period 17 May 1990 to 31 March 1992. A detailed legal analysis will be needed to determine whether any additional liabilities need to be recognised by the Group or whether the existing methods used by the AAUK scheme trustee to equalise benefits are in fact valid. Without this detailed analysis, as well as obtaining scheme information dating back to the 1990s, making a reliable estimate of the potential impact is extremely difficult due to the range of possible conclusions (including a scenario where no additional liability is recognised). Given the need for this extensive legal analysis and information collation, a reliable estimate is unavailable at this stage.

The Group recognised a charge in the income statement of £24m in respect of defined contribution pension scheme costs in the year (2020: £8m). This increase in the current year is due to pension accrual being fully on a defined contribution basis from 1 April 2020.

27 Pensions (continued)

Total Group schemes

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2019	**2,286**	**(2,504)**	-	-
Current service cost	-	(23)	(23)	-
Interest on defined benefit scheme assets/(liabilities)	59	(64)	(5)	-
Amounts recognised in the income statement	**59**	**(87)**	**(28)**	-
Effect of changes in financial assumptions	-	(452)	-	(452)
Effect of changes in demographic assumptions	-	227	-	227
Effect of experience adjustment	-	52	-	52
Return on plan assets excluding interest income	212	-	-	212
Amounts recognised in the statement of comprehensive income	**212**	**(173)**	-	**39**
Foreign exchange (loss)/gain	**(2)**	**2**	-	-
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(82)	82	-	-
Ongoing employer contributions	19	-	-	-
Deficit reduction employer contributions	26	-	-	-
Movements through cash	**(36)**	**81**	-	-
Balance at 31 January 2020	**2,519**	**(2,681)**	-	-
Current service cost	-	(4)	(4)	-
Past service cost	-	(1)	(1)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	52	(49)	3	-
Amounts recognised in the income statement	**48**	**(54)**	**(6)**	-
Effect of changes in financial assumptions	-	(170)	-	(170)
Effect of changes in demographic assumptions	-	(8)	-	(8)
Effect of experience adjustment	-	17	-	17
Return on plan assets excluding interest income	111	-	-	111
Amounts recognised in the statement of comprehensive income	**111**	**(161)**	-	**(50)**
Foreign exchange gain/(loss)	**3**	**(3)**	-	-
Benefits paid from scheme assets	(80)	80	-	-
Ongoing employer contributions	5	-	-	-
Deficit reduction employer contributions	25	-	-	-
Movements through cash	**(50)**	**80**	-	-
Balance at 31 January 2021	**2,631**	**(2,819)**	-	-

27 Pensions (continued)

AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2019	2,242	(2,409)	-	-
Current service cost	-	(23)	(23)	-
Interest on defined benefit scheme assets/(liabilities)	58	(62)	(4)	-
Amounts recognised in the income statement	**58**	**(85)**	**(27)**	**-**
Effect of changes in financial assumptions	-	(434)	-	(434)
Effect of changes in demographic assumptions	-	222	-	222
Effect of experience adjustment	-	52	-	52
Return on plan assets excluding interest income	207	-	-	207
Amounts recognised in the statement of comprehensive income	**207**	**(160)**	**-**	**47**
Contribution from scheme participants	1	(1)	-	-
Benefits paid from scheme assets	(79)	79	-	-
Ongoing employer contributions	18	-	-	-
Deficit reduction employer contributions	25	-	-	-
Movements through cash	**(35)**	**78**	**-**	**-**
Balance at 31 January 2020	**2,472**	**(2,576)**	**-**	**-**
Current service cost	-	(4)	(4)	-
Past service cost	-	(1)	(1)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	51	(48)	3	-
Amounts recognised in the income statement	**47**	**(53)**	**(6)**	**-**
Effect of changes in financial assumptions	-	(166)	-	(166)
Effect of changes in demographic assumptions	-	(8)	-	(8)
Effect of experience adjustment	-	13	-	13
Return on plan assets excluding interest income	110	-	-	110
Amounts recognised in the statement of comprehensive income	**110**	**(161)**	**-**	**(51)**
Benefits paid from scheme assets	(77)	77	-	-
Ongoing employer contributions	4	-	-	-
Deficit reduction employer contributions	24	-	-	-
Movements through cash	**(49)**	**77**	**-**	**-**
Balance at 31 January 2021	**2,580**	**(2,713)**	**-**	**-**

27 Pensions (continued)

AAI scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2019	44	(50)	-	-
Current service cost	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	1	(1)	-	-
Amounts recognised in the income statement	**1**	**(1)**	**-**	**-**
Effect of changes in financial assumptions	-	(14)	-	(14)
Effect of changes in demographic assumptions	-	-	-	-
Effect of experience adjustment	-	-	-	-
Return on plan assets excluding interest income	5	-	-	5
Amounts recognised in the statement of comprehensive income	**5**	**(14)**	**-**	**(9)**
Foreign exchange (loss)/gain	**(2)**	**2**	**-**	**-**
Contribution from scheme participants	-	-	-	-
Benefits paid from scheme assets	(2)	2	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	1	-	-	-
Movements through cash	**(1)**	**2**	**-**	**-**
Balance at 31 January 2020	**47**	**(61)**	**-**	**-**
Current service cost	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	1	-	1	-
Amounts recognised in the income statement	**1**	**-**	**1**	**-**
Effect of changes in financial assumptions	-	(2)	-	(2)
Effect of changes in demographic assumptions	-	-	-	-
Effect of experience adjustment	-	4	-	4
Return on plan assets excluding interest income	1	-	-	1
Amounts recognised in the statement of comprehensive income	**1**	**2**	**-**	**3**
Foreign exchange gain/(loss)	**3**	**(3)**	**-**	**-**
Benefits paid from scheme assets	(2)	2	-	-
Ongoing employer contributions	-	-	-	-
Deficit reduction employer contributions	1	-	-	-
Movements through cash	**(1)**	**2**	**-**	**-**
Balance at 31 January 2021	**51**	**(60)**	**-**	**-**

27 Pensions (continued)

AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2019	-	**(45)**	-	-
Current service cost	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(1)	(1)	-
Amounts recognised in the income statement	-	**(1)**	**(1)**	-
Effect of changes in financial assumptions	-	(4)	-	(4)
Effect of changes in demographic assumptions	-	5	-	5
Effect of experience adjustment	-	-	-	-
Return on plan assets excluding interest income	-	-	-	-
Amounts recognised in the statement of comprehensive income	-	**1**	-	**1**
Contribution from scheme participants	-	-	-	-
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	-	-	-	-
Movements through cash	-	**1**	-	-
Balance at 31 January 2020	-	**(44)**	-	-
Current service cost	-	-	-	-
Interest on defined benefit scheme assets/(liabilities)	-	(1)	(1)	-
Amounts recognised in the income statement	-	**(1)**	**(1)**	-
Effect of changes in financial assumptions	-	(2)	-	(2)
Effect of changes in demographic assumptions	-	-	-	-
Effect of experience adjustment	-	-	-	-
Return on plan assets excluding interest income	-	-	-	-
Amounts recognised in the statement of comprehensive income	-	**(2)**	-	**(2)**
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	-	-	-	-
Movements through cash	-	**1**	-	-
Balance at 31 January 2021	-	**(46)**	-	-

27 Pensions (continued)

Fair value of plan assets

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

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

	2021		2020	
	Assets with a quoted market price £m	**Assets without a quoted market price £m**	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	**-**	**360**	-	244
Bonds/gilts	**439**	**562**	474	571
Property	**31**	**239**	32	255
Hedge funds	**29**	**287**	1	300
Private equity	**-**	**69**	-	44
Cash/net current assets	**26**	**12**	15	9
Annuity policies	**-**	**526**	-	527
Total AAUK scheme assets	**525**	**2,055**	522	1,950
Actual return on AAUK plan assets	**161**		265	

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

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

Of the £2,055m assets without a quoted market price at 31 January 2021, £526m is in relation to the buy-in policies held by the scheme. Under IAS 19, the fair value of the insurance policies is deemed to be the present value of the related defined benefit obligations. Hence a key area of judgement is the assumptions used to derive the value of the corresponding obligations.

Approximately £36m of unquoted assets allocated to private equity and £9m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

27 Pensions (continued)

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

	2021		2020	
	Assets with a quoted market price £m	**Assets without a quoted market price £m**	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	**12**	**-**	11	-
Bonds/gilts	**25**	**-**	22	-
Property	**-**	**6**	-	5
Hedge funds	**8**	**-**	9	-
Total AA Ireland scheme assets	**45**	**6**	42	5
Actual return on AA Ireland plan assets	**2**		6	

Investment strategy

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

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

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

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

27 Pensions (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK		AAI		AAPMP	
	2021 %	2020 %	**2021 %**	2020 %	**2021 %**	2020 %
Pensioner discount rate	**1.5**	1.6	**0.4**	0.3	**1.5**	1.6
Non-pensioner discount rate	**1.6**	1.8	**0.7**	0.8	**1.5**	1.6
Pensioner RPI	**3.0**	2.9	**-**	-	**3.0**	2.9
Non-pensioner RPI	**2.8**	2.8	**-**	-	**3.0**	2.9
Pensioner CPI	**2.2**	2.0	**1.3**	1.2	**2.2**	2.0
Non-pensioner CPI	**2.3**	2.0	**1.3**	1.2	**2.2**	2.0
Rate of increase of pensions in payment (final salary sections) - pensioner	**2.9**	2.8	**-**	-	**-**	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	**2.8**	2.8	**-**	-	**-**	-
Rate of increase of pensions in payment (CARE section) - pensioner	**1.8**	1.7	**-**	-	**-**	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	**1.9**	1.7	**-**	-	**-**	-
Pension increase for deferred benefits	**2.3**	2.0	**1.3**	1.2	**-**	-
Medical premium inflation rate	**-**	-	**-**	-	**7.0**	6.9

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2021, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2020 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2019 model with a 1.25% long-term rate of improvement (2020 – CMI_2018 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 25 years (2020: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (2020: 28 years).

27 Pensions (continued)

Sensitivity analysis

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

	For the year ended 31 January 2021		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	135	3	2
Increase of 0.25% in RPI and CPI	(110)	(1)	-
Increase of 0.25% in CPI only	(47)	(1)	-
Increase of 1% in medical claims inflation	-	-	(8)
Increase of one year of life expectancy	(111)	(2)	-

An equivalent decrease in the assumptions at 31 January 2021 would have had a broadly equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant. The amounts shown above are the effects of changing the assumptions on the gross defined benefit liability, rather than on the net deficit. The de-risked investment strategy, the two insured annuity policies and high levels of hedging reduce the sensitivities of changing these assumptions on the net deficit considerably.

The weighted average duration of the defined benefit obligation at 31 January 2021 is around 20 years.

Pension scheme risks

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

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

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

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

27 Pensions (continued)

Pension scheme risks (continued)

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

The AAUK scheme aims to hedge the majority of both the interest rate risk and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure) as part of a policy to reduce financial risks. As at 31 January 2021, the scheme had hedged around 70-75% of interest rate and inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure). Hedging levels fluctuate regularly as market conditions evolve and the scheme trustees, along with their advisers, closely monitor these fluctuations. Where changes are needed to the level of hedging, the scheme trustees effect this, in consultation with the Group, with consideration to prevailing pricing and risk appetite.

Bulk annuity policies

The AAUK scheme holds two bulk annuity policies with a total fair value of £526m as at 31 January 2021. The bulk annuity policy purchased in August 2018 insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members, while the bulk annuity policy purchased in September 2019 insured all the benefits payable under the scheme in respect of a further 1,790 pensioner and dependant members.

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

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

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

28 Impairment of intangible assets

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

The carrying value of goodwill by CGU is as follows:

	2021 £m	2020 £m
Roadside Assistance	**874**	874
Insurance Services	**240**	240
AA Cars	**25**	25
DriveTech	**31**	31
	1,170	1,170

The Group has performed impairment testing at 31 January 2021 and 31 January 2020. The impairment test compares the recoverable amount of the CGU with its carrying value.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from the Group's five-year plan up to 31 January 2025, updated to reflect the estimated financial impact of COVID-19, and a 2% growth expectation in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 2% growth assumption (2020: 2%). Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This has been determined as a pre-tax rate of 7.7% (2020: 8.9%). The equivalent post-tax rate was 7.0% (2020: 8.0%).

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

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

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

29 Financial assets and financial liabilities

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

Financial assets

	2021 £m	2020 £m
Financial assets at amortised cost		
Loans to related parties	**4**	4
Cash and cash equivalents (see note 18)	**119**	102
Trade receivables (see note 17)	**162**	142
Proceeds of Class B3 Notes issuance held in escrow (see note 21)	**280**	-
Contract assets and other receivables (see note 17)	**24**	21
Amounts owed by parent undertakings (see note 19)	**1,233**	1,214
Total financial assets	**1,822**	1,483

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

Financial liabilities

	2021 £m	2020 £m
Financial liabilities at fair value through other comprehensive income		
Derivative financial instruments (see note 23)	**1**	2
Financial liabilities at fair value through profit or loss		
Derivative financial instruments (see note 23)	**1**	-
Financial liabilities at amortised cost		
Trade payables (see note 20)	**109**	98
Other payables and accruals (see note 20)	**97**	74
Deferred consideration (see note 20)	**-**	1
Amounts due to parent undertakings (see note 19)	**71**	48
Lease liabilities (see note 31)	**49**	63
Borrowings (see note 21)	**3,020**	2,735
Total financial liabilities	**3,348**	3,021

29 Financial assets and financial liabilities (continued)

Fair values

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

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

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

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

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

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

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

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

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

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

At 31 January 2021:

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

29 Financial assets and financial liabilities (continued)

At 31 January 2020:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Forward fuel contracts (note 23)	2	2	-	-
Liabilities for which fair values are disclosed				
Loan notes (note 22)	2,735	2,772	-	-

There have been no transfers between the levels and no non-recurring fair value measurements of assets and liabilities during the two years to 31 January 2021.

30 Financial risk management objectives and policies

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

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

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

Market risk

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

30 Financial risk management objectives and policies (continued)

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

	2021 £m	2020 £m
Fixed rate instruments		
Financial assets	**284**	4
Financial liabilities	**(2,869)**	(2,798)
Net exposure to fixed rate instruments	**(2,585)**	(2,794)

Variable rate instruments		
Financial liabilities	**(200)**	-
Net exposure to variable rate instruments	**(200)**	-

Sensitivity of fixed-rate instruments

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

Sensitivity of variable rate instruments

An increase of 50 basis points in interest rates at 31 January 2021 would have increased equity by £nil (2020: £nil) and would have had no impact on profit or cash because the variable rate on the Senior Term Facility, which was drawn during the current year, is hedged by an interest rate swap.

Credit risk

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

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

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

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

30 Financial risk management objectives and policies (continued)

The ageing analysis of trade receivables is as follows:

	Total £m	Current £m	< 30 days £m	30 - 60 days £m	60+ days £m
2021	**162**	**144**	**6**	**5**	**7**
2020	142	128	9	2	3

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

	2021 £m	2020 £m
At 1 February	**2**	2
Charge for the year	**3**	1
Utilised	**(1)**	(1)
At 31 January	**4**	2

Liquidity risk

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

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

At 31 January 2021:

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

At 31 January 2020:

	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	324	815	1,558	516	**3,213**
Derivative financial instruments	-	2	-	-	**2**
Lease liabilities	25	15	15	24	**79**
Other payables and accruals	74	-	-	-	**74**
Deferred consideration	1	-	-	-	**1**
Trade payables	98	-	-	-	**98**
	522	832	1,573	540	**3,467**

30 Financial risk management objectives and policies (continued)

Capital management

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

The capital structure can be summarised as below:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	31 July 2023	2.72	200
Class A2 notes	31 July 2025	6.27	500
Class A5 notes	31 January 2022	2.88	372
Class A6 notes	31 July 2023	2.75	250
Class A7 notes	31 July 2024	4.88	550
Class A8 notes	31 July 2027	5.50	325
Class B2 notes	31 July 2022	5.50	570
Class B3 notes	31 January 2026	6.50	280
Total borrowings		**4.88**	**3,047**
Lease obligations			**49**
Less: proceeds of Class B3 Notes issuance held in escrow			**(280)**
Cash and cash equivalents			**(119)**
Total net debt			**2,697**
Share capital			**-**
Total capital			**2,697**

At 31 January 2021 the Senior Term Facility was subject to a variable interest rate of LIBOR plus a margin of 1.75% per annum. However, the Group has an interest rate swap in place which exchanges LIBOR for a fixed interest rate of 0.97% thereby fixing the Senior Term Facility's interest rate at 2.72% through to 31 July 2021. Thereafter, the Group had an interest rate cap in place which caps the variable interest rate at 1.00% through to 31 July 2023. At 31 January 2021 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.88% has been calculated using the interest rate and principal values on 31 January 2021.

The Group's objectives when managing capital have been:

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

As a highly leveraged Group, our intention is to reduce debt through trading cashflows to reduce overall gross borrowings. This is a key medium-term focus for the business while maintaining our competitive advantage through investment in technology. The other strategic objectives are of equally high priority but require lower levels of cash to deliver. Given the strong cash generation of the business over many years we do not have to trade these objectives off against each other.

The Group continues to evaluate the optimal refinancing strategy of its debt maturities and coupon payments, including the Class A Notes, Class B Notes and Senior Term Facility. Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to expected maturity date, except the Class A5, Class A6, Class A7 and Class A8 Notes which can be settled without penalty within three months, two months, three months and six months respectively of the expected maturity date. The Class B3 Notes would attract a make-whole payment if they were to be redeemed before 31 January 2023, thereafter any voluntary repayment would be made at a fixed premium until 31 January 2025 after which there would be no premium to pay on redemption. The cash-generative nature of the business and the strategic priorities outlined for growth mean that we remain confident in our ability to service the interest obligations on our debt for the foreseeable future.

30 Financial risk management objectives and policies (continued)

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

		2021 £m	2020 £m
Senior Term Facility		**200**	-
Class A Notes		**1,997**	2,197
Less: cash and cash equivalents		**(119)**	(102)
Net Senior Secured Debt[1]		**2,078**	2,095
Class B Notes		**850**	570
Less: proceeds of Class B3 Notes issuance held in escrow		**(280)**	-
Lease obligations for covenant reporting[9]		**27**	39
Net Whole Business Securitisation (WBS) Debt[2]		**2,675**	2,704
IFRS 16 lease adjustment for lease obligations[3]		**22**	24
Net Debt		**2,697**	2,728
Trading EBITDA		**322**	341
Trading EBITDA for covenant reporting[4]		**319**	338
	Covenant		
Net Debt ratio[5]		**8.4x**	8.0x
Class B leverage ratio[6]		**8.4x**	8.0x
Senior Leverage ratio[7]		**6.5x**	6.2x
Class A Free Cash Flow: Debt Service[8]	>1.35x	**2.5x**	3.4x

[1] Principal amounts of the Senior Term Facility and Class A Notes less cash and cash equivalents.

[2] Net WBS Debt represents the borrowings and cash balances within the WBS structure. This includes the principal amounts of the Senior Term Facility, Class A Notes, Class B2 Notes, Class B3 Notes and lease obligations for covenant reporting less cash and cash equivalents.

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

[4] Trading EBITDA including discontinued operations as required by the debt documents based on frozen GAAP.

[5] Ratio of Net Debt to Trading EBITDA.

[6] Ratio of Net WBS Debt[2] to Trading EBITDA for covenant reporting[4].

[7] Ratio of Net Senior Secured Debt[1] to Trading EBITDA for covenant reporting[4].

[8] Ratio of free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.

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

In order to comply with the requirements of the Class A Notes, we are required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 January 2021 was 2.5x (2020: 3.4x). Following redemption of the Group's Class B2 Notes on 10 March 2021 (see note 40), the Group no longer has to comply with any Class B free cash flow to debt service ratio requirements.

The Group is required to hold on deposit a calculated amount of 'excess cash' under the terms of its debt documents when within an accumulation period (see note 18).

30 Financial risk management objectives and policies (continued)

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

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The Class B2 Note restrictions generally only permit the release of cash providing the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

The Class A and Class B2 Notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay dividends and undertake those other finance activities which are not restricted.

Key Cash Release Metrics

	2021	2020
Senior Leverage ratio[1]	**6.5x**	6.2x
Excess cash flow[2]	**£228m**	£195m
Fixed Charge Coverage ratio[3]	**2.4x**	2.6x
Consolidated net income[4]	**£352m**	£321m

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

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

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

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

31 Commitments and contingencies

Lease commitments

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

	2021		2020	
	Present value of payments £m	**Minimum payments £m**	Present value of payments £m	Minimum payments £m
Within one year	**18**	**20**	23	25
Between one and five years	**20**	**22**	26	30
After five years	**11**	**20**	14	24
Total minimum lease payments	**49**	**62**	63	79
Less amounts representing finance charge	**-**	**(13)**	-	(16)
Present value of minimum lease payments	**49**	**49**	63	63

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

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £4m (2020: £10m).

32 Subsidiary undertakings

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

33 Auditors' remuneration

	2021 £m	2020 £m
Amounts receivable by the Company's auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**1**	1

The fee for the audit of these financial statements was £38,000 (2020: £35,000).

In addition, fees for non-audit services provided by the Company's auditors were £0.5m (2020: £nil), relating to audit-related assurance services.

34 Related party transactions

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

Transactions with associates:

Associate	Nature of transaction	**2021 £m**	2020 £m
ARC Europe SA	Registration and call handling fees	**2**	5

At 31 January 2021, the Group had an outstanding balance payable to ARC Europe SA of £nil (2020: £1m) comprising trade payables in respect of the above transactions.

Transactions with joint ventures:

Joint venture	Nature of transaction	**2021 £m**	2020 £m
AA Media Limited	Services supplied to AA Media Limited	**-**	1
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	**3**	1

At 31 January 2021, the Group had an outstanding balance receivable from AA Media Limited of £4m (2020: £4m) comprising fixed rate loan notes.

Intelematics Europe Limited changed its name to Drvn Solutions Limited on 10 June 2020. At 31 January 2021, the Group had an outstanding balance payable to Drvn Solutions Limited of £nil (2020: £nil) in respect of the above transactions.

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

Entity	**Relationship**	**2021 £m**	2020 £m
AA Mid Co Limited	Immediate parent	**1,205**	1,205
AA Limited	Indirect parent	**26**	9
AA Technical Services Limited	Fellow subsidiary	**1**	-
Longacre Claims Limited	Fellow subsidiary	**1**	-
AA Underwriting Insurance Company Limited	Fellow subsidiary	**(71)**	(48)
		1,162	1,166

Cross-company guarantees

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2021, the principal outstanding on the AA Intermediate Co Limited group debt was £2,767m (2020: £2,767m).

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

35 Compensation of key management personnel of the Group

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

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

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

	2021 £m	2020 £m
Short-term employee benefits	**5**	4
Share-based payments (see note 36)	**1**	1
Total compensation paid to key management personnel	**6**	5

36 Share-based payments

	2021 £m	2020 £m
Equity-settled share-based payments:		
Share-based payments – Employee Share Incentive Plan	**2**	2
Share-based payments – Performance Share Plan	**1**	1
Share-based payments – Insurance LTBP	**-**	1
Total equity-settled share-based payments	**3**	4
Cash-settled share-based payments:		
Share-based payments – Insurance LTBP	**1**	-
Total cash-settled share-based payments	**1**	-
Total share-based payments expense	**4**	4

Following the acquisition of the Company's parent undertaking, AA Limited (see note 40), both the ESIP and PSP schemes ceased to operate. The settlement of these schemes will be accounted for in the year ending 31 January 2022.

Employee Share Incentive Plans

The AA Limited group had an all-Employee Share Incentive Plan (ESIP). Under the ESIP, employees were able to buy Partnership shares by making weekly or monthly payments into the ESIP. In addition, for every Partnership share an employee purchases AA Limited will match this on a 1:1 basis (Matching shares). The ESIP share-based payments are equity-settled. ESIP Matching shares are issued on the 11th day of each month with a vesting period of 36 months from the date they were issued, unless otherwise determined by the Board. The following table illustrates the weighted fair value at award date and vesting period for each of the ESIPs awarded:

Share type	Award date	Vesting date	No. of shares outstanding 2021[1]	Weighted fair value per share £
FY19 ESIP Matching shares	See above	See above	2,112,491	0.86
FY20 ESIP Matching shares	See above	See above	3,434,333	0.55
FY21 ESIP Matching shares	See above	See above	6,021,013	0.30
Total			**11,567,837**	

[1] The number of shares shown above is the estimated number.

36 Share-based payments (continued)

Performance Share Plan (PSP)

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

A proportion of the PSP Awards are subject to a comparative total shareholder return (TSR) performance condition. This includes 100% of the PSP 2017 Award (due to the presence of a TSR underpin), 50% of the PSP 2018 Award and 50% of the PSP 2019 Award. The fair values of awards were calculated using a Monte Carlo simulation model to take into account the expectation at the grant date that the performance conditions will be met. The expected volatility has been calculated using historical daily data commensurate with the expected term of each award as at each grant date.

The following table illustrates the fair value and vesting period of the PSP schemes:

	Award Date	Vesting Date	**2021 No. of shares outstanding**	2020 No. of shares outstanding	**2021 Weighted fair value per share £**	2020 Weighted fair value per share £
2017 CEO Award	27 October 2017	27 October 2020	**1,148,606**	1,148,606	**0.97**	0.97
2017 Award	11 December 2017	27 October 2020	**1,920,058**	2,286,597	**0.75**	0.75
2018 CEO/CFO	7 November 2018	22 November 2021	**1,355,371**	1,950,412	**0.86**	0.86
2018 Award	7 November 2018	22 May 2021	**3,542,026**	4,387,044	**0.86**	0.86
2019 CEO	30 October 2019	29 October 2022	**2,200,000**	2,200,000	**0.27**	0.27
2019 Award	30 October 2019	29 October 2022	**8,731,136**	9,958,794	**0.31**	0.31
Total			**18,897,197**	21,931,453		

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 expected value of shares to be awarded under this scheme is £2m as at 31 January 2021. The vesting charge for the current year is £1m and is presented in the cash-settled share-based payments expense (2020: £1m in equity-settled share-based payments expense).

37 Ultimate parent undertaking and controlling party

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

At 31 January 2021, the ultimate parent undertaking and controlling party, which is also the parent of the largest group to consolidate these financial statements, was AA Limited (see note 40) whose registered office is at Fanum House, Basing View, Basingstoke, RG21 4EA. Copies of the consolidated AA Limited financial statements are available from the website www.theaacorporate.com/investors.

38 Accounting standards, amendments and interpretations

New accounting standards, amendments and interpretations adopted in the year

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

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations have been issued and will be effective for financial years beginning after 1 February 2021 but have not been applied by the Group in these financial statements. These are set out below (effective dates are UK effective dates).

- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9 (effective 1 January 2023)
- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective date to be confirmed)
- Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities (effective date to be confirmed)
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective date to be confirmed).
- IFRS 17 'Insurance Contracts' (effective 1 January 2023)

The Group did not identify any new accounting standards coming into effect in the financial year ending 31 January 2022 with an expected impact on the financial statements.

39 Assets classified as held for sale

At the prior year end, AA Underwriting Limited and Automobile Association Underwriting Services Limited were held for sale. Each of these subsidiary undertakings were subsequently disposed of during the current year (see note 12) and related to insurance businesses already in run-off.

The assets classified as held for sale were:

	2021 £m	2020 £m
Cash and cash equivalents	-	8
	-	8

40 Events after the reporting period

The acquisition of AA Limited, the Group's ultimate parent undertaking

On 25 November 2020, the board of directors of Basing Bidco Limited, a newly formed joint venture company indirectly owned in equal shares by (i) funds advised by TowerBrook Capital Partners (U.K.) LLP or its affiliates and (ii) private equity funds managed by Warburg Pincus International LLC or its affiliates, agreed with the board of directors of AA Limited, the terms of a recommended cash acquisition pursuant to which Bidco would acquire the entire issued and to be issued ordinary share capital of AA Limited. The Acquisition was completed on 9 March 2021 and AA Limited's ordinary shares were de-listed from the London Stock Exchange on 10 March 2021. AA Limited was re-registered as a private company on 17 March 2021. As part of the Acquisition, the Consortium made an alternative offer to shareholders enabling them to transfer their ownership to the new structure resulting in an interest of 16% in Bidco and the AA Limited group transferring to these shareholders.

Refinancing of the Class B2 Notes

On 29 January 2021, AA Bond Co Limited issued £280m of Class B3 Notes (see note 22). The gross proceeds of the issuance of the Class B3 Notes were held in escrow for the benefit of the Class B3 Noteholders until the completion of the Acquisition. On 10 March 2021, these funds were released from escrow and combined with an equity contribution of £261m from Bidco in order to prepay and redeem the Class B2 Notes. In addition, £29m aggregate principal amount of Class B2 Notes which were held by AA Limited were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing.

40 Events after the reporting period (continued)

Refinancing of Senior Term Facility, Working Capital Facility and Liquidity Facility

On 10 March 2021, the Group also refinanced its Senior Term Facility, Working Capital Facility and Liquidity Facility:

- The Group entered into a new £150m Senior Term Facility which it drew down immediately and used, in combination with £50m of cash, to refinance its existing £200m Senior Term Facility. The new £150m Senior Term Facility is subject to a variable interest rate of LIBOR plus a margin of 2.75% per annum, and the terms of the loan include provisions for the parties to enter into negotiations to replace the LIBOR benchmark with a suitable replacement benchmark expected to be SONIA. The Group has an interest rate swap in place which fixes the variable interest rate at 0.97% until 31 July 2021 and has entered into a new interest rate swap which fixes the variable SONIA interest rate at 0.46% from 1 August 2021 to 10 March 2026.

- The Group agreed a new £56m Working Capital Facility, of which £46m is available for cash drawings and remains undrawn, and cancelled its existing Working Capital Facility of £60m.

- The Group agreed a new £160m Liquidity Facility which remains undrawn, and cancelled its existing Liquidity Facility of £165m.

Summary of borrowings as at 10 March 2021:

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total at 10 March 2021 £m**
Senior Term Facility	10 March 2026	3.72%	150	(1)	-	**149**
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	**500**
Class A5 Notes	31 January 2022	2.88%	372	(25)	20	**367**
Class A6 Notes	31 July 2023	2.75%	250	(4)	2	**248**
Class A7 Notes	31 July 2024	4.88%	550	(8)	3	**545**
Class A8 Notes	31 July 2027	5.50%	325	(3)	-	**322**
Class B3 Notes	31 January 2026	6.50%	280	(10)	-	**270**
		4.84%	**2,427**	**(52)**	**26**	**2,401**

Refinancing of the Class A5 Notes

In accordance with the terms of the Acquisition, Bidco intends to provide an additional £100m of funds to be used, together with an issue by AA Bond Co Limited of at least £272m in new Class A Notes, to redeem in full the £372m of Class A5 Notes. This is planned to take place before the expected maturity date of the Class A5 Notes in January 2022.

40 Events after the reporting period (continued)

Transaction fees and expenses

The Directors consider the Acquisition to be highly beneficial to the Group. The total investment being made by the AA Limited shareholders as part of the Acquisition is £597m of which £361m (60%) is being invested in deleveraging to pay down debt held within the AA Intermediate Co Limited group. The combination of reduced debt requirements and substantially improved market pricing results in significant improvements in interest costs for the Group. The reduced pressure on financing costs will provide it with the operational freedom to drive the business forward, to better serve its customers and capitalise on its considerable strengths. The committed, long-term owners of the AA Limited group are expected to support the growth of the business and to invest in critical areas such as IT transformation which in turn, will generate new and better opportunities for customers.

As part of the Acquisition, both the AA Limited group and Bidco have incurred transaction fees and expenses in an aggregate amount of c.£77m of which £10m were refinancing costs relating to issuance of the Class B3 Notes. These refinancing costs were incurred directly by the Group and have been capitalised as issuance costs as at 31 January 2021. Given the significant ongoing benefit to the Group, the Directors have agreed to meet a substantial proportion of the remaining transactions fees of c.£67m. The Group will incur 60% of these transaction fees reflecting the allocation of the AA Limited shareholders' investment towards debt reduction. Upon completion, the Group will therefore be allocated c.£40m of transaction fees which will be incurred in the year ended 31 January 2022 and will be expensed as adjusting operating items.

Share schemes

In accordance with the terms of the Scheme of Arrangement by which the Acquisition was effected, the Group's ESIP and PSP share schemes (see note 36) vested to differing extents on 8 March 2021 and the relevant underlying share awards were subsequently purchased by Bidco.

Contract with Nationwide Building Society

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

Share issue

On 10 March 2021, the Company allotted and issued 260,893,029 ordinary shares of £1 each which were fully paid by the Companies parent undertaking, AA Mid Co Limited, with payment totalling £261m, reflecting the equity contribution of £261m from Bidco described above.

Company statement of financial position as at 31 January

	Notes	2021 £m	2020 £m
Non-current assets			
Investments in subsidiaries	2	**1,661**	1,661
Current assets			
Trade and other receivables	3	**115**	115
Total assets		**1,776**	1,776
Current liabilities			
Trade and other payables	4	**(1,756)**	(1,756)
Total liabilities		**(1,756)**	(1,756)
Net assets		**20**	20
Equity			
Called up share capital	5	**-**	-
Retained earnings		**20**	20
Total equity		**20**	20

The result for the financial year of the Company is £nil (2020: £nil).

Signed for and on behalf of the Board on 20 May 2021 by:

K. Dell

K Dangerfield
Director

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

Company statement of changes in equity

	Share capital £m	Retained earnings £m	Total equity £m
At 1 February 2019	-	20	20
Result for the year	-	-	-
At 31 January 2020	**-**	**20**	**20**
Result for the year	-	-	-
At 31 January 2021	**-**	**20**	**20**

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

Notes to the Company financial statements

1 Presentation of financial statements and Company accounting policies

1.1 Presentation of financial statements

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

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

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2021. The financial statements are prepared in sterling and are rounded to the nearest million pounds (£m).

1.2 Basis of preparation

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

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

The Company did not identify any new accounting standards coming into effect in the financial year ending 31 January 2022 with an expected impact on the financial statements.

1.3 Accounting policies

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

a) Foreign currencies

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

Notes to the Company financial statements (continued)

b) Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment.

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

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

c) Financial instruments

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

d) Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are principal estimates and assumptions made by the Company, but which management believe do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Investments

The Group tests the investment balances for impairment annually. The recoverable amounts of the investments have been determined based on value in use calculations which require the use of estimates. Management has prepared discounted cash flow forecasts based on the latest strategic plan.

In performing its impairment testing on its investment in subsidiaries, the Company prepared a traditional value in use model as described in IAS 36 which was also used in prior years. This comprises an enterprise value model which deducts net debt as at 31 January 2021 and discounts estimates of future cash flows at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. IAS 36 considers that the appropriate discount rate for a value in use calculation should take into account weighted average cost of capital, incremental borrowing rate and other market borrowing rates in making such an estimate and the Company uses a discount rate calculated on this basis. Estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments as these are already taken into account in the discount rate.

Notes to the Company financial statements (continued)

d) Critical accounting estimates and judgements (continued)

This differs from the AA Limited company financial statements in which it was considered that applying an alternative 'dividend distribution model' to apportion the accepted offer price on its share capital across its investments in subsidiaries would best reflect an investor's assessment of the return required given the specific industry and macroeconomic conditions and risks in existence at the year end and up to the date of approval of the AA Limited financial statements. In that alternative value in use model, estimates of future cash flows included cash outflows relating to taxation and financing activities, reflecting an assessment of future refinancing and interest costs that the Group expects to arise as its existing debt is refinanced over the next 5 years. The use of this alternative value in use model was a departure from the traditional value in use model described in IAS 36 which was used by AA Limited in prior years.

As the Company is a holding company within the WBS ringfence, it and its subsidiary investments do not experience the same risks as experienced at the level of AA Limited's investment in AA Mid Co Limited, in particular the risks of refinancing the Group's Class B2 Notes, for which the Company sits inside the security ringfence. The alternative value in use valuation approach used at an AA Limited level is therefore not considered to be an appropriate valuation methodology for the Company to use in its own investment impairment testing.

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

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

2 Investments in subsidiaries

	2021 **£m**	2020 £m
Investment in subsidiary at cost		
At 1 February and 31 January	**1,661**	1,661

The Company has performed impairment testing at 31 January 2021 to compare the recoverable amount of the investments in subsidiaries to their carrying value.

The impairment test was principally performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Acquisition Co Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 2021, the Company used the five-year plan covering the four years up to 31 January 2025 and a 2.0% expectation of growth in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 2.0% (2020: 2.0%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

Using an enterprise value model which deducts net debt as at 31 January 2021, 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 7.7% (2020: 8.9%). The equivalent post-tax rate was 7.0% (2020: 8.0%). The use of this value in use calculation and the determination of its inputs were consistent with the impairment test performed in the prior year. The result of this impairment test was that there was a significant amount of headroom and therefore no indicators of impairment in the value of investments in subsidiaries were identified (2020: no indicators of impairment).

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

Notes to the Company financial statements (continued)

3 Trade and other receivables

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings	**115**	115
	115	115

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

4 Trade and other payables

	2021 £m	2020 £m
Amounts owed to parent undertakings	**1,756**	1,756
	1,756	1,756

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

5 Called up share capital

	2021 £	2020 £
Allotted, called up and fully paid		
20 ordinary shares of £1 each	**20**	20
	20	20

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 (2020: £nil).

6 Auditors' remuneration

The fee for the audit of these financial statements was £38k (2020: £35k).

7 Employee costs

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

Notes to the Company financial statements (continued)

8 Subsidiary undertakings

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

All subsidiaries are consolidated in the Group financial statements.

The principal subsidiary undertakings of the Company at 31 January 2021 are:

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

The other subsidiary undertakings of the Company at 31 January 2021 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 Newco Limited[5]	England and Wales, UK / A	Ordinary
AA Pension Funding GP Limited	Scotland, UK / D	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

Notes to the Company financial statements (continued)

8 Subsidiary undertakings (continued)

Name	Country of incorporation / registered office key	Class of shares held
Accident Assistance Services Limited	England and Wales, UK / A	Ordinary
Intelligent Data Systems (UK) Limited	England and Wales, UK / A	Ordinary
Personal Insurance Mortgages and Savings Limited	England and Wales, UK / A	Ordinary
Prestige Motor Care Holdings Limited[4]	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 the Company; all other subsidiaries are indirectly held.
[3] This partnership is fully consolidated into the Group financial statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate financial statements for this entity.
[4] The Group has filed an active proposal to strike off this company.
[5] AA Newco Limited was dissolved on 4 May 2021.

Registered office key

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