AA Limited Annual Report and Accounts 2021

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Appointment of new Chairman and Chief Executive Officer

Under new ownership, in March 2021, the AA announced the future appointments of Rick Haythornthwaite as Non-Executive Chairman and Jakob Pfaudler as Chief Executive Officer as the Group gears up for an exciting period of growth and fantastic delivery for its customers and members. Simon Breakwell will continue to support the business in his new role as Deputy Chairman.

"I would like to thank John Leach, my predecessor, and his Board colleagues for their service. I am hugely excited to be joining the AA, which is one of Britain's most iconic companies with a skilled and committed workforce and a proud history of exceptional customer service. Like a number of the companies I have been fortunate enough to lead, the AA has a critical and trusted role in the lives of its many customers up and down the country. We now have an exciting opportunity to unlock the full potential of the business. I have no doubt that the AA will go from strength-to-strength in the years ahead, and I look forward to working closely with the Company's leadership team and stakeholders to achieve our ambitions for this wonderful business."

Rick Haythornthwaite, Non-Executive Chairman

Presentation of financial information UK regulations/APM

Forward-looking statements

This Annual Report contains forward-looking statements. These forward-looking statements are not guarantees of future performance, rather they are based on current views and assumptions as at the date of this Annual Report. These assumptions are made in good faith based on the information available at the time of the approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking statements, and the Board has no obligation to update these statements.

Making Britain's drivers' lives simpler and smarter

This is our guiding purpose, closely aligned with our longstanding and trusted reputation as the UK's leading roadside assistance business. We have always been passionate about driving and the freedom that comes with it. However, the experience of owning and managing a vehicle is increasingly complex as customers demand greater convenience and better access to technology. Recognising these and the emerging trends in the automotive sector, we are looking to build on our leading market position to deliver a range of exciting products and services to support a broad range of driver needs and to make these available to customers through simple, intuitive, digital channels.

Read more on **P4-6**

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Revenue
£967m
2020[2]: £993m

Trading EBITDA[1]
£341m
2020[2]: £348m

Operating profit
£218m
2020[2]: £255m

Profit before tax
£52m
2020[2]: £105m

Adjusted basic EPS[1]
13.6p
2020[2]:13.8p

Free cash flow[1]
£40m
2020: £83m

Personal members and business customers
11.9m
2020: 12.3m

Total motor and home policies
1,941,000
2020: 1,713,000

Total greenhouse gas emissions (tonnes carbon dioxide equivalent)
33,652
2020: 40,615

Diversity across the Group
32%
Female
68%
Male
2020: 31% Female, 69% Male

RECOMMENDED CASH OFFER APPROVED

In recognition of the challenges posed by the Group's level of indebtedness and the need to reduce this significantly, on 25 November 2020, the Board of AA plc recommended to its shareholders a cash offer of 35p per share from 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 14 January 2021, the shareholders approved the acquisition of AA plc (the Acquisition), which successfully completed post year-end on 9 March 2021. Following the completion of the Acquisition, AA plc delisted from the London Stock Exchange and was re-registered as AA Limited on 17 March 2021.

The Acquisition by the Consortium has enabled the Group to significantly reduce leverage, rebalance its capital structure towards long-term sustainable leverage levels and, as a result, has helped to reduce the risk and cost of future refinancing. The expected cash savings that this will generate, in combination with the Consortium's extensive investment and operational expertise, will enable the Group to accelerate its plans for long term growth.

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[1] Non-Generally Accepted Accounting Principles (GAAP) measures explained on P15.

[2] Revenue, Trading EBITDA, operating profit, profit before tax and adjusted basic earnings per share for the year ended 31 January 2020 have been restated. Please see P73 for further details.

We are the leading provider of roadside assistance services in the UK with a fast-growing insurance platform.

Roadside

We are the leading provider of UK roadside assistance, with approximately 2,500 patrols attending an average of around 8,000 breakdowns daily. Our Roadside segment also consists of several developing businesses, including our market-leading driving schools, AA Driving School and BSM, DriveTech, the market leader in driver education including driver awareness courses offered by police forces, and Prestige, our growing service, maintenance and repair (SMR) platform.

Revenue

£799m

2020[1]: £827m

Trading EBITDA margin

35%

2020: 34%

Trading EBITDA

£280m

2020[1]: £285m

Paid personal members

3.168m

2020: 3.215m

Business customers

8.7m

2020: 9.0m

Insurance and Financial Services

Our Insurance Services segment includes our insurance broker business that operates a panel of motor and home policy distribution. It also includes our successful in-house underwriter, which started trading in January 2016 and is a member of this panel. The segment also includes our Financial Services partnership with the Bank of Ireland and our AA Cars business, which operates our online used cars and vans platform.

Revenue

£168m

2020[1]: £166m

Trading EBITDA margin

36%

2020[1]: 38%

Trading EBITDA

£61m

2020[1]: £63m

Insurance policies

1,941,000

2020: 1,713,000

Underwritten policies

1,006,000

2020: 780,000

Financial Services products

101,000

2020: 90,000

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[1] See P65 and 73.

The services we deliver

Breakdown cover

Whether drivers are looking for personal cover, vehicle cover or even European cover, we have a range of breakdown products to ensure they get the cover they need. In addition, through our market-leading Smart Breakdown platform, we can identify 80% of faults in engine-related breakdowns, which means we can identify many faults before the vehicle breaks down. We can then either help our customers fix the fault remotely, send a patrol to repair their vehicle or direct them to our AA approved garage network, Prestige, using our Smart Care platform.

Insurance

Our insurance broking business sells both motor and home insurance. These policies are underwritten by a panel of underwriters including the AA's in-house underwriter. Utilising our proprietary data, we are currently underwriting 57% of the motor broker policies and 46% of the home broker policies. Through our connected services technology, used also for Smart Breakdown, we are progressing with the rollout of our younger driver telematic insurance proposition.

Claims and accident management

If customers have been involved in an accident, our in-house claims and accident management systems for our personal members and customers will aim to deliver a smooth end-to-end experience by ensuring they are taken care of by the AA throughout the process.

Service, maintenance and repair

Smart Care allows customers to access our SMR services online in one simple, smart place. Wherever our customers are, it just takes a few taps to book an MOT, service or repair online. Our Smart Care service is contact-free – customers can book and pay online, with free collection and return across 87% of the UK – so they don't need to leave their home.

Driving school

From learning to drive to finally passing the driving test, our leading driving schools business offers a trusted and reliable platform for pupils and instructors alike. We are enhancing our digital capabilities to deliver a seamless offering that nurtures long-term brand affinity and promotes greater cross-sell opportunities.

DriveTech

Our DriveTech business is a world-leading provider of fleet risk and safety management and driver training, which is available online and on-road in over 95 countries and in 35 languages through over 40 partners. We are the UK's largest provider of driver offender retraining courses.

AA Cars

Our trusted online AA Cars platform enables customers to sell their current car or van and can help them buy their next. We can even help with funding their purchase with our large panel of lenders giving them greater choice and flexibility.

Financial services

Our partnership with the Bank of Ireland includes AA branded car finance products to sit alongside our successful savings and loan products.

Leasing

In partnership with LeasePlan, we launched our AA Smart Lease proposal to our members 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, which will be delivered directly to their home. AA members will also have the peace of mind that if their circumstances change unexpectedly then they will have the option to hand the vehicle back early without penalty.

Our investment case

Trusted brand

The AA is one of the most widely recognised and trusted brands in the UK, building on more than 116 years of service and innovation.

Market leader

The AA is the largest roadside assistance provider with c.40% share of the UK consumer market and c.50% share of the business-to-business (B2B) market. We have a growing Insurance business and are well placed to capture market share through our proprietary data, strength of brand and scale.

Read more in Group performance **P4**

Sustainable and cash-generative

Our purpose is to make Britain's drivers' lives simpler and smarter. We generate value through our high recurring revenue and strong cash-generative business model.

Read more in Group performance **P4**

40m UK drivers

Our addressable market.

Read more in Group performance **P4**

B2B partner of choice

Our operational scale, world class customer service delivery and breadth of innovative customer solutions position us firmly as market leader and the partner of choice for B2B.

Read more in the FY21 review **P9**

Best-in-class service

We are the UK's premium roadside assistance service, delivering best-in-class customer services 24 hours a day, 365 days a year. We have more patrols than our competitors, with excellent training, equipment and technology providing an unparalleled level of service.

We are at the forefront of conversations around the electrification of the UK car parc and are gearing our business towards this positive change (see P7 for further details).

Read more in Our performance **P16**

Significant barriers to entry

Our scale, brand awareness, proprietary deployment system, innovation and high levels of customer service pose significant barriers to entry for new competitors.

Service, innovation and data are at the heart of our strategy to unlock the potential for the AA. Underpinned by operational and service excellence and an engaged high performance culture, our strategy will deliver benefits for our members and customers, while creating sustainable long term value for our stakeholders.

Our Strategy

OPERATIONAL & SERVICE EXCELLENCE

ROADSIDE
Innovate and grow

SERVICE, INNOVATION AND DATA AT THE HEART OF THE AA

INSURANCE
Invest to accelerate growth

HIGH PERFORMANCE CULTURE

1. Growth through innovation in Roadside

2. Accelerated growth in Insurance

3. Operational and service excellence

4. High performance culture

Our business model

Our business relies on critical resources which we manage based on the strategic priorities of the Group. We generate value through our high recurring revenue and cash generative Roadside and Insurance businesses. We aim to proactively manage the material risks to our business, which helps us achieve our priorities and protect our reputation.

Read more in FY21 review on **P9** to **P13**

Our resources

- People
- Brand
- Intellectual property and data
- Technology
- Financial resources

Business areas

- Roadside
- Insurance

Our outcome and impact

For our customers

- Delivering outstanding levels of service
- Awarded top of the table as a 'Which? Recommended Provider' for our third-party breakdown cover for the third year running and we were also the breakdown service provider for the top six manufacturer brands for the second year running
- UK Business Awards for the Most Customer Centric Organisation
- Feefo Platinum Trusted Service award for our AA Driving School and BSM's instructor training division in 2021
- Gold award for best digital customer experience at the Insurance Times Awards 2020
- #1 in insurance brand consideration for motor insurance by Ipsos
- Feefo Platinum Trusted Service award for motor and home insurance
- Increasing products and services to meet the broad range of driver needs to enhance customer experience and promote loyalty to the brand
- Ongoing collaborative relationship with the FCA to promote good customer outcomes

For our people

- Commitment to gender diversity. Currently female 32%, male 68% of total workforce
- High employee engagement score of 71
- Expanded our network of Mental Health First Aiders to 108 and supported them with training
- Launched a new mental health e-learning module for all people managers and introduced employee self-referral for emotional wellbeing support

For our environment, communities and society

- Total greenhouse gas emissions 33,652 (down 17% from last year)
- Switched to purchasing 100% renewable electricity in our offices and other buildings
- AA Charitable Trust for Road Safety and the Environment continues to work towards the preservation and protection of human life and health on our roads; this year, the Charitable Trust supported a range of programmes including conducting research to be used to raise awareness of the hazards of driving on rural roads for Britain's young drivers
- Successful smart motorway campaign has led to positive policy change and will help save lives
- NHS support during COVID-19 – helped over 8,000 NHS workers and kept over 500 ambulances on the road throughout the first lockdown
- Free signage offered to around 5,000 temporary COVID-19 community vaccination centres during the latest lockdown

For the legislators and regulators

- Active members of governmental and regulatory forums, including the Government's Motorists' Forum, and an adviser to the Climate Assembly UK
- Actively involved in the FCA's general insurance pricing practices market study, responding to information requests and attending meetings with the FCA to help it understand the potential impact of its proposed remedies
- Total taxes paid: £15m

For industry

- Participated in the SURVIVE Group for roadside safety, the Society of Motor Manufacturers and Traders (SMMT) connected and autonomous vehicle working group. This year we also supported various initiatives with the Office for Zero Emission Vehicles to help give a better understanding of consumer concerns about electric vehicles
- Continuing membership of ABI and BIBA

For our investors

- Recommended cash offer approved by shareholders on 14 January 2021 (the Acquisition) and completed on 9 March 2021
- The Acquisition reduces leverage significantly and positions the AA for sustainable long-term growth

Roadside

What we do and how we compete

Personal membership

We provide breakdown cover for our consumer members. Vehicle-based policies cover a specific vehicle and personal memberships cover one or more individuals, including families, regardless of the vehicle. We offer a range of cover types and add-ons to ensure there is the right option for every customer.

Competitive landscape

Following a period of stability, the roadside recovery market contracted in 2020 due to the impact of COVID-19. According to Mintel, the overall roadside recovery market is expected to contract in value from £1.77bn in 2019 to £1.64bn in 2020, representing a reduction of 7.3%, principally due to the reduction in car sales in the business-to-business (B2B) market. The overall market, however, is expected to improve in 2021 as car sales begin to recover and the overall size of the market is expected to reach £2.01bn in 2025.

The consumer market is dominated by three major players, of which the AA is the largest. Our competitive advantage is based on our award-winning customer service, trusted brand and large distribution platform, as well as our digital capability. New trends are emerging in the automotive sector including electrification of the UK car parc. The AA is investing in technology and training and forming strategic partnerships to ensure we are at the forefront of Britain's green automotive future.

The AA is the market leader with c.40% of the consumer market.

Business-to-business

For our c.9m B2B customers, breakdown cover is available through the following channels: OEMs as part of the warranty for new cars; banks for premium added value account holders (AVAs); fleets including lease companies, car hire and commercial fleets; and insurance companies who offer breakdown cover as an add-on for motor insurance customers. In all cases, the service is provided by the AA and the majority of contracts are pay-for-use.

Competitive landscape

With new vehicle sales significantly down from last year, the B2B roadside assistance market was down overall in FY21. The market, however, is expected to improve in 2021 as car sales begin to recover.

The B2B roadside assistance market is significantly larger than the consumer market; however, it earns a lower average margin. As these contracts are sophisticated in their specification, barriers to entry are high and our leading position is based on our scale, high service levels, strong partnerships, digital capability and ability to deliver innovative, value-adding solutions to our partners.

The AA is the largest B2B provider and has c.60% of the manufacturer segment, c.60% of the UK's largest fleet and leasing companies, and around 50% of the banking AVA segment.

Other roadside services

Our other roadside services consist of several developing businesses which support a range of driver needs. Among these, the largest are our Driving Schools and DriveTech businesses. The Driving Schools business offers franchises to qualified driving instructors under the AA Driving School and BSM brands. The DriveTech business is a leading provider of fleet risk and safety management and driver training. As part of the acquisition of Prestige in 2019, our SMR platform will be a key driver of growth for our business, enabling our members and wider driver population to benefit from our established and growing AA inspected and approved garage network.

Competitive landscape

With limited driving on Britain's roads, the demand for driving lessons, driver education programmes and SMR was significantly impacted by COVID-19 during FY21.

The UK driving schools market is highly competitive and fragmented. We have a leading market position with our combined AA and BSM brands.

In our DriveTech business, the AA has strong positions in both fleet and police markets. In the fleet market, the AA is the market leader and has a range of smaller competitors who compete primarily on price.

With more than 40,000 vehicle service and repair locations of all types, the UK aftermarket is a huge, diverse and highly competitive industry. While our share of the market is small, our strength of brand, loyal customer base and growing network of inspected and approved garages means we are well positioned to continue to grow.

How we measure the value we create

Personal membership

Consumer Roadside Assistance premiums are principally paid through annual or monthly subscriptions. Subject to identifying customer needs, additional revenue is available from cross-selling (selling other services) or up-selling (selling higher value products and services) following a breakdown.

Performance indicators

Paid personal members

3.168m

(2020: 3.215m)

Average income per member (new basis)

£163

(2020: £165)

Business-to-business

B2B fees are either set per breakdown or per vehicle. The average tenure of the contracts varies, ranging from three to five years.

We are working on a broad range of innovative solutions with our B2B partners, including an extended range of managed roadside services and solutions, SMR, and continued rollout of our app, which, combined with our technical know-how, will enable our partners to improve their offering to end customers while generating additional revenue for the AA.

Performance indicators

Business customers

8.7m

(2020: 9.0m)

Number of breakdowns attended

3.01m

(2020: 3.42m)

Other roadside services

The AA and BSM driving schools' revenue are generated through franchise fees from instructors for use of branded cars and certain other services. The cars are funded by the AA under a lease arrangement. We also provide training for driving instructors.

In relation to the DriveTech business, our driver training services are delivered under long-term service contracts.

With regards to our SMR business, we realise a margin on parts and labour for SMR work carried out through the garage network.

Performance indicators

SMR garage network

520

Driving training courses delivered

411,958

(2020: 457,473)

Insurance and Financial Services

What we do and how we compete

Broking

The AA's insurance broking business serves both personal members and non-members selling motor and home insurance. These policies are underwritten by a panel of underwriters, including the AA's in-house underwriter, AA Underwriting Insurance Company Limited (AAUICL).

Competitive landscape

The market competes largely on the price of premiums. This is particularly true of the 88% of motor insurance sales which are through price comparison websites (PCWs). While our brand consideration is ranked high in motor insurance, price dominates, and we are delivering strong rates of growth in our motor policy book as a result of our improved price competitiveness.

In home insurance, PCWs are less dominant, in part because home specifications vary more, and home insurance is less expensive than motor which reduces the rate of attrition.

We currently have a growing share in the motor and home insurance markets with plans to accelerate growth through the successful execution of our strategy.

Underwriting

The AA's in-house underwriter launched motor policies in January 2016 followed by home policies in August 2016. As part of the AA Group, we utilise our extensive proprietary data as appropriate to hone our pricing. This enables us to price more competitively which supports the broker's ability to win more business. We are now underwriting 57% of our motor broker policies and 46% of our home broker policies.

Our underwriter has grown rapidly and is profitable with a combined operating ratio (COR) below (and therefore ahead of) our target of 95%.

Competitive landscape

Underwriters compete primarily on price. The CORs in this underwriting market are just under 100% (thus earning single digit margins) and the integrated model means that our underwriter drives our higher broker volumes which generate better margins.

Financial Services

In 2015, we signed a 10-year exclusive partnership with the Bank of Ireland to provide savings and loans on a matched-book basis. On 31 March 2020, we extended our partnership by a further three years to at least 2028. As part of the agreement, our partnership now includes AA branded car finance products to sit alongside the successful savings and loan products.

Our Financial Services business also includes AA Cars, our online used cars and vans listings platform.

Competitive landscape

The market for financial services products was significantly impacted by COVID-19 and was down 3% overall in 2020. The combination of the AA's brand and distribution platform and the Bank of Ireland's expertise in service delivery gives our partnership a competitive advantage. We expect to grow our book over the life of our agreement with the Bank of Ireland.

Our main competitors are Virgin Money, Tesco and the high street banks.

In respect of AA Cars, the market for online vehicle sales was impacted with fewer dealers able to operate; however, the restrictions have led to higher online sales. The market is highly competitive and is dominated by Autotrader.

How we measure the value we create

Broking

As an insurance broker, the AA acts as an intermediary between those seeking insurance cover and the insurance underwriters. The AA has the ability to earn commission on new business sales and renewing policies as well as income from add-ons and premium finance.

Performance indicators

Total motor and home policies

1,941,000

(2020: 1,713,000)

Average income per policy

£78

(2020: £84)

Underwriting

The underwriter retains between 10% and 20% of gross written premiums after coinsurance and reinsurance. The in-house underwriter is required to maintain certain levels of solvency capital; as at 31 January 2021, our solvency capital was £36.1m.

Performance indicators

Motor policies underwritten

600,000

(2020: 448,000)

Home policies underwritten

406,000

(2020: 332,000)

Financial Services

The AA and Bank of Ireland remain committed to process improvements and these, together with enhancements to analytics and marketing, are expected to deliver improved profitability in the future.

In respect of AA Cars, income is generated through its core business: dealer subscriptions to a car listing web platform. However, a nominal income is generated from regulated consumer credit introductions to a credit broker that operates a panel of lenders.

Performance indicators

Financial Services products

101,000

(2020: 90,000)

Embracing Britain's green future

The future of motoring in the UK is changing

New zero emission cars and vans by 2030
We are likely to see more change in the next ten years than we have seen in the last century. The Government's Road to Zero Strategy which was first published in 2018 set the ambition that by 2050 almost every car and van will be zero emission. The Government has since brought forward this commitment and announced that the sale of new petrol and diesel cars and vans will cease in 2030, with some new hybrids being allowed to be sold until 2035.

This means that most new cars and vans must be zero emissions at the tailpipe within nine years. Most of these will be electric vehicles (EV), although there is still a case for further uptake of hydrogen fuel cell vehicles, particularly in the HGV and bus sectors.

Against this backdrop and further efficiencies being realised in the cost of manufacturing EV batteries, manufacturers are gearing up and consumer interest is growing in parallel – there were only approximately 20 pure EV models in 2018 and now there are some 130. It is estimated that by 2025, there will be 400 EV models available globally.

The electric car market is growing quickly, with more than 164,100 pure-electric cars on UK roads at the end of September 2020 and over 373,600 plug-in models, including plug-in hybrids (PHEVs). Figures from the SMMT show that pure-electric models accounted for 6.7% of total new car registrations, while adding in PHEVs takes that figure up to 10.5%.

Charging network

As the penetration of EV vehicles increases in the UK car parc, the infrastructure required to support its growth will also need to increase. The UK network of EV charging points has increased from a few hundred in 2011 to more than 12,400 charging locations, 19,700 charging devices and 34,400 connectors by October 2020. The proportion of charger types has also changed dramatically during that time with an increase in high power (rapid) units being installed across the UK. We are seeing more on-street chargers and the rollout of some high-tech charging forecourts such as the Gridserve development near Braintree, Essex which opened in December 2020.

AA's role

This changing automotive landscape is business as usual for the AA. We've been on UK drivers' side since 1905 – advising, campaigning and continuing to build our expertise to ensure that we keep drivers on the road with confidence and reassurance. Indeed, in the past the AA opened the first petrol filling station in the UK and placed the first directional signs.

The AA has been at the forefront of EV conversations with the government, manufacturers, charge-post companies and the media for at least a decade. We continue to poll AA members on their views of EVs and potential barriers to take-up. Last year, almost half (49%) told us that they would consider an EV when they next change their car.

Some have questioned the new role of the AA in this brave new electrified world. EVs do have far fewer moving parts, but all the evidence to date shows that the main reasons for EV breakdowns are similar to those for combustion engine cars. Our data suggests that one third of EV breakdowns are linked to punctures, wheels and the 12-volt battery.

Others have stated that EVs are difficult to tow and will cause problems if they run out of charge or that they are dangerous and difficult to fix.

We have addressed all these issues.

On the towing question, our technical research *convinced some manufactures to reassess* their claims that their vehicles could not be towed. For other vehicles, our technicians have developed a state-of-the-art freewheeling hub which can be used by patrols to enable them to tow EVs to a safe location for recharging without the need for a larger recovery truck.

We installed the first EV/hybrid training rig in the UK at our Oldbury training centre and now have the largest capability of trained EV technicians compared to any other company in Europe (all patrols trained to EV level 2).

In the UK our B2B teams are supporting four significant charging point operators with their back-end systems with tasks such as customer call support. In addition, we are assisting Gridserve customers utilising the UK's first EV charging forecourt. We were also a founding partner of World EV Day and are regular contributors to the influential EV Café forum.

Our Deputy Chairman and President also drive EVs and our President has been test driving and blogging about EVs for many years.

The Energy Saving Trust in a recent audit confirmed that there is still not a suitable electric patrol van that meets our towing and payload requirements, but we continue to liaise with potential future suppliers as we too look to embrace an electric future for our recovery vehicles.

The electrification of the UK car parc forms an integral part of our external Cleaner, Safer, Smarter ESG strategy (please see P30-37 for further details).

Conclusion

In summary, while many obstacles lie ahead, we are in a great position to promote and support drivers through the transition to zero emission vehicles. Our business is also leading the way by supporting charging infrastructure providers with their customer service.

When will drivers switch?*

Almost half of drivers (49%) in an AA survey in October 2020 said they would consider buying an electric car when they next changed their car. This was a 2% increase compared to February 2020.

Younger respondents were most likely to consider buying an electric car (18-24s: 58%; 25-34s: 60%; and 35-44s: 59%).

Londoners were the most likely region (60%) to consider buying an electric car.

Women were also slightly more likely to consider an electric car (51%) than men (49%), as were wealthier respondents (ABs: 57%).

Of those who would not consider buying an electric vehicle, almost two thirds (64%) said they are too expensive, followed by concerns about battery range (62%) and not having enough charging points available (61%). Half of members (50%) who would not consider an electric car worry about the resell value.

* Yonder received 16,201 responses from AA members to its online poll between 13 and 19 October 2020. Yonder is a member of the British Polling Council and abides by its rules. For more details, please go to www.yonderconsulting.com.

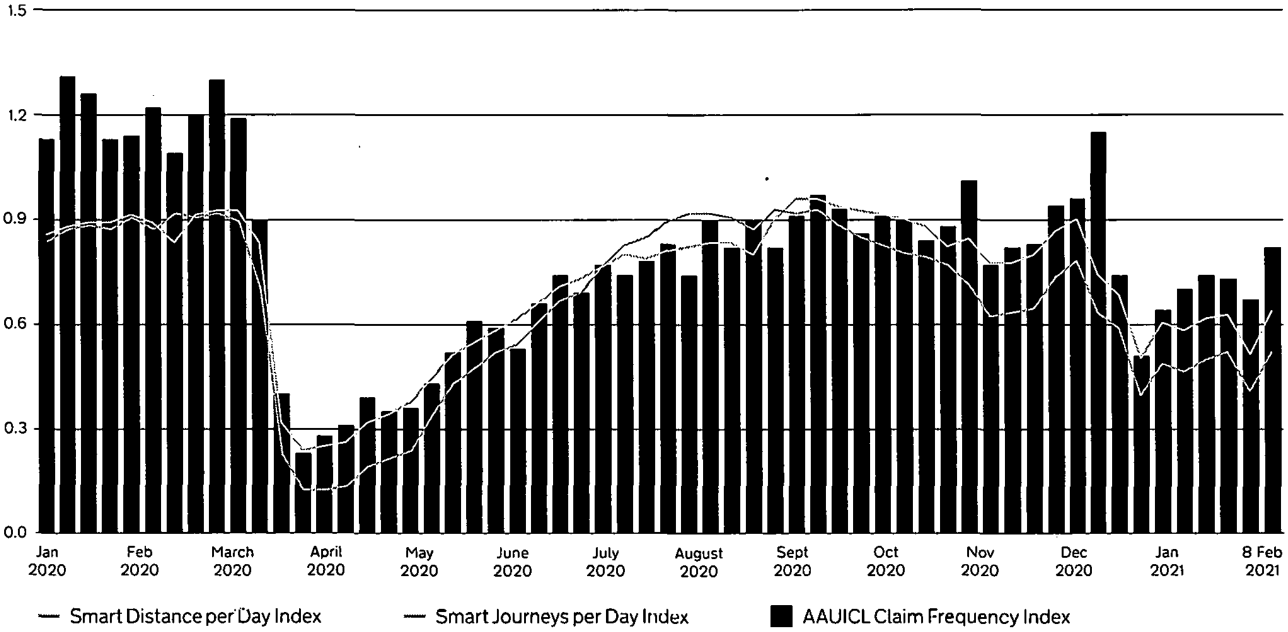
Customer Review

> Perfect service! On time and couldn't have done more to help, definitely went the extra mile to get me and my van back on the road fixing boilers this weekend. Aden Welford from Whitby came to the rescue, brilliant service, wouldn't hesitate to recommend to anyone Thumbs up"

@nickdale1
Twitter

Group performance *continued*

Claims Frequency vs Driving Journeys Distance



Building scale in a competitive insurance landscape

Insurance has been part of the AA since 1967 and is core to the delivery of our simpler and smarter strategy. Our focus is on the £18bn market for personal lines motor and home insurance. The targeted investments that we have made in developing our capital-light underwriter and increasing the pricing capability of our broker, have enabled us to successfully return both the motor and home policy book to growth and deliver good outcomes for our customers. Our recently launched in-house motor claims management proposition, Accident Assist, is performing strongly and means that we are now able to operate across the value chain, providing end-to-end services for our customers.

Emerging trends

Claims and premium inflation

Motor premiums remained steady in 2020 as lower claims frequency resulting from COVID-19 enabled insurers to contain the impact of claims inflation on premium increases.

Home premiums also remained stable, reflecting the absence of severe weather events and a slightly lower claims frequency as more people stayed at home during COVID-19.

Our underwriter's indexed claims frequency is shown above against data from AA telematics. Although the data comes from different sources within the AA, there is a strong correlation, indicating that in 2020 as drivers took fewer trips and travelled shorter distances, claims frequency reduced. The largest reductions in travelling and frequencies were seen in early April at the start of the first lockdown.

Where we see the opportunity

We are trading profitably and growing ahead of many of our competitors. While margins have been squeezed in recent months, especially in home insurance, we are poised to continue to grow, given the investments we have made and continue to make to improve our price competitiveness and deliver profitable growth across the broker panel and through our in-house underwriter. Our in-house underwriter is also delivering profitable growth and remains focused on achieving a combined operating ratio below our long-term target of 95%.

Distribution

Overall quote volumes fell during the year as a result of COVID-19; however, there was no material shift in insurance distribution channels, with PCWs continuing to supply most new business policies.

We have seen an increase in digital adoption, with more customers interacting online and through email and webchat. We've also launched online renewals to give customers more channel choice when interacting with us. Our plans build on our leading brand consideration, proprietary data and unique distribution platform. With our strong cash generation, we can continue to fund the additional levels of investment and policy acquisition costs required to grow the broker and the underwriter. Our solvency capital for our in-house insurer will be predominantly funded utilising internally generated cash, and from the profits of the underwriter.

By improving our pricing agility through the continued rollout of insurer hosted pricing across our motor panel and introducing this to our home panel next year, we are well positioned to accelerate growth in the motor and home book.

Technology-led disruption

One of the biggest emerging areas of technology in the insurance sector is the use of web-connected devices to measure and manage risk. In consumer insurance, the most obvious application is telematics in vehicles which enables insurers to know if a driver is driving safely and, if appropriate, to change premiums in real time. The device also helps reduce fraud by enabling companies to assess if accident damage is consistent with how the vehicle was driven. In the home insurance market, the uptake of smart home devices will give insurers new opportunities to develop their relationships with their customers, by helping people to avoid situations in the home from which a claim may arise.

Where we see the opportunity

The AA is embracing this technological change and capitalising on its leading brand position. Our existing proprietary data on roadside members gives us a distinct advantage compared with other underwriters in respect of current members and ex-members. Our underwriter uses this information and we also share some of it with our other panel members, which supports the growth of our broker. Additional investments in insurer-hosted pricing, as well as in connected services technology, will give us real-time pricing capabilities and additional data on the car and the driver, to enable us to apply technology and price more competitively across both motor and home insurance. Last year, we also launched our younger driver proposition, which uses data from our connected services technology.

Looking ahead, we are building on our claims and accident management proposition and expect this to be a key differentiator for our Roadside and Insurance businesses.

FCA pricing practices review

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, with the final rules expected in the second quarter of 2021. 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. If implemented as intended, the pricing remedies 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 while continuing to meet growth and profitability objectives.

The AA welcomes the FCA's proposals and agrees with the importance of delivering good outcomes to customers.

Making Britain's drivers' lives simpler and smarter

In line with expectations, 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 (see P17–18).

The completion of the Acquisition 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 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.

Following the completion of the Acquisition 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. This led to an overall reduction in leverage from 7.6x as at 31 January 2021 to 6.9x following the refinancing.

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

Robust results in line with expectations

In line with our expectations, we delivered a robust performance in FY21 with revenue falling slightly by 3% to £967m (2020: £993m) and Trading EBITDA down 2% to £341m (2020: £348m). 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 margins remained steady at 35% (2020: 35%).

Operating profit fell by £37m to £218m, a year-on-year reduction of 15%. This was principally due to the decrease in Trading EBITDA, an increase in adjusting operating items of £17m (which included £4m emergency IT-related costs due to COVID-19, offset by £7m furlough support from the Government (see Note 5) and a £4m increase in amortisation and depreciation charges reflecting the historic and ongoing investments in IT.

Profit after tax fell to £40m (2020: £85m) and basic earnings per share decreased by 7.3p, from 13.8p to 6.5p.

Our business maintains good levels of liquidity and continues to deliver positive free cash flow. In line with our expectations, we generated £40m of free cash flow (pre-dividends, bond buybacks and refinancing) compared with £83m 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 £6m compared to an inflow of £17m 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 £137m compared to £129m last year, related to the refinancings in the year (see Financial review on P20-24 for further details).

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.

FY21 review continued

Strategic objectives

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

Innovate and grow Roadside

Our strategy builds on the strong foundation of our Roadside business, in particular, our strong service ethos and commitment to delivering outstanding customer service for our customers and members 24/7, 365 days a year. Recognising the changes facing the automotive sector, including the Government's proposal to bring forward the electrification of the UK car parc, we have adopted a multi-faceted approach to innovating and growing our roadside business which will help to build on our market leading position and establish a clear point of differentiation from our competitors.

Strategic objectives: Transform our breakdown service to be fully connected

What we achieved in FY21: The rollout of Smart Breakdown, our premium connected car offering, was affected this year by COVID-19. Despite this, over 11,000 new and existing customers have Smart Breakdown.

We have utilised the data from our connected services technology to further refine our young driver proposition which we successfully launched in FY21.

We also started providing some basic connected services to our Original Equipment Manufacturer (OEM) customers, such as Diesel Particulate Filter (DPF) monitoring.

What to look forward to: Our forward connected car strategy will be multi-faceted and will involve direct outreach to customers through our Smart Breakdown proposition, as well as through strategic partnerships with OEMs and major Fleets which either leverages our technology and existing onward mobility solution or utilises an OEM's or Fleet's existing capabilities.

We will also continue the phased rollout of our younger driver telematic insurance proposition utilising our existing connected services technology.

Strategic objectives: Ongoing innovation to differentiate our products and services

What we achieved in FY21: We made good progress with the rollout of our consumer SMR proposition (Smart Care) this year; however, our plans to scale up were impacted by COVID-19. Despite this, we saw steady uptake throughout the year and conversion rates have continued to improve. Following the end of the first 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.

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. We are also moving ahead with our plans to expand our network of AA inspected and approved garages.

We also launched and scaled our Recalls proposition which supports OEMs in maximising their reach of recall programmes. This is a fully managed service, from customer contact and booking through to replacement of faulty parts at the customer's home or place of work. Despite being impacted by COVID-19, we replaced over 10,000 faulty airbags during the year.

What to look forward to: We will continue to invest in innovating and developing our pipeline of differentiated products and services to meet a broader range of customer needs while maintaining a firm focus on cost management and return on investment.

What we achieved in FY21: continued

We are also innovating in other areas of our operations such as the high-speed freewheeling hub. This is an ingenious solution to the issue of dealing with the towing of vehicles that normally cannot be towed on two wheels, including vehicles with seized brakes, failed wheel bearings, four-wheel drives or Electric Vehicles (EVs). The invention is now being used by more than 900 patrols and will be rolled out to all patrols in the coming months. It means shorter waiting times and reduced CO_2 emissions for breakdown recoveries, as AA vans can now be used to tow more cars, freeing up large recovery trucks for complex breakdowns involving heavier or more damaged vehicles.

The freewheeling hub works in conjunction with the AA's Multi-Fit wheel and new heavy-duty Multi-Fit wheel for larger vehicles, enabling patrols to fit temporary spare wheels to almost any vehicle. It has its own heavy-duty high-speed bearing making the wheel turn independently from the car.

Strategic objectives: Growing our base with key segments

What we achieved in FY21: Our marketing campaign 'That Feeling', which we launched in July 2020, has been positively received both internally and externally. The campaign was our most effective to date and contributed to improvements at every stage of the customer journey from consideration to purchase. The campaign is a fantastic stepping stone to allow us to act more confidently in our communications while broadening our approach to take the business forwards with multiple product offerings and an ever-changing UK audience.

What to look forward to: Our future marketing strategy will be centered on making Britain's drivers' lives simpler and smarter and will increasingly span the breadth of our offering.

Beyond marketing we are continuing to expand our base of new segments through our non-member insurance channel, younger driver insurance proposition and through strategic B2B partnerships like Admiral and Nationwide.

Strategic objectives: Digital adoption and innovation to drive broader member engagement

What we achieved in FY21: We made good progress with developing our digital channels this year which continue to perform in line with expectations. A key highlight of the year was the improvement to self-serve journeys including online renewal capability for our roadside and insurance customers which has significantly enhanced our customer's digital experience. Of note, the improvements to our insurance digital journeys have received external recognition and we were pleased to have won a gold award for best digital customer experience at the Insurance Times Awards 2020.

Our digital breakdown reporting channels continue to perform well. This capability has been expanded to our 2.2m Lloyds Bank customers, who are now able to report a breakdown via app or web. They are also able to log in via these channels to view the details of their cover. We will continue to roll out this functionality to other customer groups through FY22, in order to further reduce our cost to serve and improve our market leading customer service.

Approximately 589k users accessed our app on a monthly basis during the year. This is down from 611k last year, principally due to fewer member benefits, such as cinema tickets and discounts on meals at restaurants, that we were able to offer our customers as a result of COVID-19 and the impact of the lockdown measures.

What to look forward to: Looking ahead, we are planning to launch significant enhancements to our customer experience through the development of our digital journeys including the app, which will enable additional self service and cross sell capabilities, therefore increasing revenue per customer and reducing our cost base.

We will also continue to extend and roll out digital journeys to our B2B customers.

Strategic objectives: Membership systems investment to drive retention

What we achieved in FY21: We are making progress with building our fit for the future tech estate, including continuing to build out CATHIE, our membership system. We plan to continue with the migration of existing policies, with an implementation programme that minimises the risk of this transition to our members and business.

What to look forward to: The investments we have made and will continue to make in marketing and pricing capabilities, as well as in our online offerings including our app, will give us important capabilities to improve retention performance, grow our membership base, as well as drive cost reduction.

Accelerate growth in Insurance

Strategic objective: Driving more competitive premiums

What we achieved in FY21: The uniqueness of the AA's proprietary data has continued to give us a competitive advantage in what has been a unique year for the Insurance industry. Whilst rates and market demand have reduced, the AA has been able to deliver significant growth through its broking and in-house underwriter businesses.

We delivered strong rates of growth on both the motor and home portfolios this year, reflecting the continued strong growth of the in-house underwriter, the strength of the broker panel and the investments made in improving our pricing capability.

What to look forward to: Looking ahead, the coming year will bring significant change to the insurance market with the implementation of the FCA's pricing practices remedies. At the AA, we believe we are well placed to navigate this through various actions:

1) Pricing capability – Our investment in pricing technology and Insurer Hosted Pricing (IHP) will support our competitive positioning
2) Policy administration replacement programme – This is the enabler to support agile product development and full self-serve capability
3) Cost to serve – We have a strong programme to reduce the cost to serve through digitisation and call centre efficiency
4) Data enrichment – Additional sharing of member data with the panel to further improve net rate differentiation

Strategic objectives

Accelerate growth in Insurance continued

Strategic objective: Broaden footprint to include non-members and younger customers

What we achieved in FY21: Following the launch of our non-members insurance scheme two years ago, we have successfully onboarded 272k non-members, representing 45% of the total underwritten motor policy book and 26% of the total motor policy book. The non-member claim frequency rate is tracking in line with our member and ex-member base and gives us the confidence that the non-member base will continue to drive profitable policy growth. The strong growth of the non-member motor book and improvements in our customer journeys are also helping to deliver consistent and healthy conversions into our Roadside business, with 34% of new insurance customers taking roadside membership at the point of sale.

In addition to the non-member growth channel, we were pleased to have launched our young driver proposition in FY21, which will help to significantly broaden our demographic footprint and support volume growth of the motor book.

What to look forward to: Looking ahead, we expect pricing practices to result in a distribution shift in the market between new business and renewing business. The AA is well placed to continue to deliver strong growth as we continue to broaden our quotability to reach more customer and member cohorts with a competitive quote through 1) footprint expansion and 2) seeking to add new members to the panel.

Notably, given the competitive advantage of the AA member base, we will look to actively increase our cross-sell penetration levels within the member base.

Strategic objective: Insurance and Financial Services innovation

What we achieved in FY21: We launched our young driver insurance scheme this year utilising our connected services technology. This is a key part of our growth strategy as we look to expand our footprint into key customer cohorts.

Accident Assist, our recently launched in-house claims management proposition, is performing strongly. Following the implementation of a new claims handling platform from ICE InsureTech and the consolidation of our claims operations into Royal Tunbridge Wells this year, 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 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.

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.

In January 2021, in partnership with LeasePlan, we launched our AA Smart Lease proposal to our members. AA Smart Lease, offers AA members a flexible and hassle-free alternative to traditional vehicle ownership. 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.

What to look forward to: We will continue to develop our young driver and Accident Assist propositions, which we believe can be a significant value driver for our Insurance business and help to promote cross-sell opportunities. In addition, we will develop our app to support cross-sell rates, and continue to optimise insurance self service capability to improve customer experience and reduce cost to serve.

Despite the challenging market backdrop presented by COVID-19, we remain optimistic about the growth prospects for our Financial Services business and increasing breadth of value added propositions such as leasing that we can offer to members via our AA Cars proposition.

Deliver operational and service excellence

Strategic objective: Deliver operational and service excellence

What we achieved in FY21: The AA continues to deliver best-in-class customer service. 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.

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.

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 the customers themselves.

In respect of our Insurance business, the improvements to our digital journeys this year have also received external recognition and we were pleased to have won a gold award for best digital customer experience at the Insurance Times Awards 2020. We were ranked #1 in insurance brand consideration for motor insurance by Ipsos in 2020. In January 2021, our home and motor insurance won the Feefo Platinum Trusted Service award in recognition of the exceptional experiences we provide to our customers.

What to look forward to: Encouraged by our resilient performance this year, we have identified several areas of digital innovation and cost management that will enable us to continue delivering operational and service excellence while ensuring we are making the necessary investments to support our sustainability goals.

Nurture a high performance culture

Strategic objective: Nurture a high performance culture

What we achieved in FY21: Our priority this year for our people was to ensure their safety and wellbeing and to be able to provide them with the support they needed in order to be able to carry out their responsibilities safely and securely. In doing so, our levels of engagement improved during the year and we were able to maintain the high levels of customer service that our members and customers expect of us.

We measured our engagement levels this year through two ways of working surveys, which we conducted in May and December. Overall employee engagement in December was 71%, which improved by 1 point from May's survey. The biggest score increase was around the theme of safety at work and the single question with the biggest score increase related to having the appropriate PPE for the job.

The wellbeing of our people has been incredibly important during the pandemic; as part of our wellbeing strategy, we've expanded our network of Mental Health First Aiders to 108 and supported them with training. We've launched a new mental health e-learning module for all people managers and introduced employee self-referral for emotional wellbeing support.

In light of the pandemic and the Acquisition, the expectations on our people have been high. Our Senior Leadership team have significantly stepped up to support our people in these challenging times as well as delivering strong business results and ultimately achieving the right outcome for the business.

As a business, we are committed to make Britain's drivers' lives simpler and smarter, and this starts with our employees. A diverse and inclusive workforce that is representative of our customers is the key to delivering the fantastic customer service we pride ourselves on. We believe in doing the right thing, and while we don't have all the answers, we are committed to working with our employee networks, allies and all employees to continue to make the AA a great place to work.

We recently refreshed our diversity and inclusion strategy, targeting six key communities to fully embrace the diversity of our employees and enable the AA to be an even more inclusive place to work. These communities include those with visible and invisible disabilities, gender balance, age, carers, those from our BAME communities and vocational backgrounds, and our LGBT employees.

As part of our commitment to drive better gender balance across our business and specifically within our senior leadership team. This year, we have developed a targeted talent development programme that supports the development of high potential women in our management population and their career progression into senior management roles within our business.

What to look forward to: How we behave is just as important as what we do and our culture is shaped by these behaviours. We want all of our people to be really clear on what is expected of them. To support this, we're launching a new performance management framework across our business. The new framework will ensure performance and behaviour is taken into account, using the AA Code of Conduct as the benchmark. Employees and leaders will review performance, behaviour and wellbeing regularly throughout the year and end of year ratings will assess the 'what' and the 'how' – driving high performance and supporting a healthy culture.

For our leaders, we're introducing 'Leadership Drivers' – these set clear expectations for leaders across all levels of the business and support a high performance culture by focusing on: continuous improvement; developing our people; demanding high performance; acting with integrity, and being accountable.

We're embedding these with specific skills training for leaders to ensure they are equipped to bring the leadership drivers to life and embed a high performance culture.

We're continuing to support our people with their wellbeing by partnering with a new occupational health provider and increasing support for people managers. We will be continuing to provide mental health support for our employees who are placed on furlough or working remotely and will be offering free flu jabs to all employees.

As a business, we are committed to listening to the views of our colleagues and learning from their experiences throughout the pandemic. We are considering our approach to flexible working which meets both the needs of our people as well as the business and will be communicating more on this later in FY22.

> In a time of national crisis, I am very proud that our colleagues exemplified the true culture of the AA by going above and beyond for our members and by supporting thousands of NHS employees and several ambulance services across the country."
>
> **Rick Haythornthwaite**
> Chairman

Creating shared prosperity

We are making considerable progress in our quest to becoming a more sustainable business and one that is able to deliver shared prosperity for all our stakeholder groups.

To help our Environmental, Social and Governance (ESG) activities be better understood and co-ordinated, we have a twin framework covering both internal and external matters. Internally, the issues related to our people, health, safety and security always come first, alongside our efforts to manage our environmental impact, prepare for a changing customer car parc and govern our business ethically and responsibly. Externally, we communicate our safety and sustainability campaigns via our cleaner, safer, smarter strategy. This is promoted by the AA Trust and in our public affairs campaigning and work in the communities.

There were a number of notable achievements this year across our ESG activities, including the various initiatives outlined above as part of our COVID-19 response to support the nation. We were also proud to have achieved a sector leading 'B' rating in the Carbon Disclosure Project (CDP) environmental assessment, an improvement from 'B-' in the prior year. Total GHG emissions fell by 17% and while this was largely attributable to reduced traffic volumes due to the lockdown measures, we are committed to reducing our carbon footprint and to helping the nation meet its zero emissions target. Furthermore, in order to improve our levels of transparency, we are putting in place a structured framework to ensure future compliance with the recommendations by the Task Force Climate-related Financial Disclosures (TCFD).

The road ahead

This has been a year unlike any other. The devastation caused by COVID-19 to human life, our society and to the world economy has been far beyond what anyone could have imagined and has been a profoundly humbling experience. Our thoughts remain with all those affected and we hope that with the rollout of the COVID-19 vaccination well underway, we can look forward to a bright year and future ahead, as we maintain our course of making Britain's drivers' lives simpler and smarter.

Key performance indicators

Robust strategic performance in changing markets

Our key performance indicators (KPIs) measure progress against our strategy. Further details can be found in the Our performance and Financial review sections.

Adjustments this year: To better reflect the average income earned from the paid membership base, we changed the basis of the calculation of the average income per member this year so that it would now be expressed as the average income earned from the paid membership base over the last 12 months as a proportion of the average paid personal membership holdings rather than as a proportion of the closing paid membership holdings on which it was previously determined. The comparatives have been restated to reflect the new definition.

Roadside

Innovate and grow Roadside

KPI	Definition		Relevance for the AA
Average income per member (£)	Average income per paid personal member excluding free memberships	**2021 163** 2020 165 2019 160 0 25 50 75 100 125 150 175 200	This measures the average income we generate from our personal member base as a proportion of the average paid personal membership holdings. Longer term, as we look to move beyond breakdown and capture an increasingly larger share of the car ownership value chain, we expect the average income to trend upwards.
Average income per business customer (£)	Average income per business customer	**2021 23** 2020 22 2019 21 0 5 10 15 20 25	This measures the average income we generate from our business customers. Alongside growing the business customer base, we are targeting a growth in the average income per business customer through the launch of new services such as vehicle recalls and onward mobility solution through our Agile platform.
Paid personal members (thousands)	Number of personal members excluding free memberships at the period end	**2021 3,168** 2020 3,215 2019 3,207 0 500 1,000 1,500 2,000 2,500 3,000 3,500	This demonstrates our ability to build on our market-leading position in the consumer market. Our strategy to innovate and differentiate our core Roadside proposition will enable us to grow our paid personal membership base in the long term.
Business customers (thousands)	Number of business customers at the period end	**2021 8,702** 2020 9,049 2019 9,793 0 2,000 4,000 6,000 8,000 10,000	We are market leaders in the business-to-business (B2B) market, with c.9m business customers. A key tenet of our strategy in B2B is defending our core base as well as growing that base through new contract wins and generating new sources of income that improve the average income per business customer.

Insurance

Accelerate growth in Insurance

KPI	Definition		Relevance for the AA
Average income per policy (£)	Average income per insurance policy for motor and home	Broker only **2021 59** 2020 68 2019 69 0 100 Broker and additional businesses **2021 78** 2020 84 2019 80 0 100	The first measure shows the average income generated by our insurance broking business. As we continue to grow and increase our investment in new business, we expect the second measure of average income per policy, including revenue from our underwriter and Accident Assist business, to increase overall.
Insurance policies (thousands)	Total motor and home policies sold in the last 12 months by our insurance broker	**2021 1,941** 2020 1,713 2019 1,561 0 500 1,000 1,500 2,000	Growing our Insurance business through the total number of policies we broker is a key component of our strategy. We will deliver this through new insurance innovation, driving more competitive premiums and broadening our footprint to include non-members and younger customers.
Underwritten insurance policies (thousands)	Total motor and home policies sold, including renewals, in the last 12 months by our in-house insurance underwriter	**2021 1,006** 2020 780 2019 598 0 100 300 500 700 900 1,100	A key tenet of growing our Insurance business is growing our in-house underwriting business utilising our proprietary member data. We are continuing to increase our penetration levels within the non-member and existing member base.

Roadside operations

Operational and service excellence

KPI	Definition		Relevance for the AA
Breakdowns attended (thousands)	Number of breakdowns attended	**2021 3,014** 2020 3,423 2019 3,730 0 1,000 2,000 3,000 4,000	This is a key driver of our cost base and also demonstrates utilisation of our service by our members and customers.

Financial sustainability

Profitability and cash flow generation

KPI	Definition		Relevance for the AA
Trading EBITDA (£ millions)	Trading EBITDA is the performance measure most closely aligned to that required by our debt documents (see Note 3)	**2021 341** 2020[1] 348 2019 341 0 100 200 300 400	This is a key measure of our underlying trading performance as defined in our debt covenants.
Operating profit (£ millions)	Statutory measure of profit before tax, finance income and finance costs, including adjusting operating items	**2021 218** 2020[1] 255 2019 219 0 100 200 300	Alongside Trading EBITDA, this is a key measure of our underlying trading performance and is a GAAP measure. As we execute our plans for growth, we expect to drive a meaningful growth in operating profit.
EPS (earnings per share, pence)	Statutory measure of profit after tax divided by the weighted average number of shares outstanding, including adjusting operating items	**2021 6.5** 2020[1] 13.8 2019 6.9 0 5 10 15	This measures the allocation of our profitability on a per share basis. Following the Acquisition in March 2021, this measure is no longer relevant and will not be reported.
Free cash flow (£ millions)	Net cash flow before bond buy-backs, refinancing costs and distribution to shareholders	**2021 40** 2020 83 2019 12 0 25 50 75 100	This measures the level of free cash flow generated by the Group and which is available for investment, debt management and distribution to our shareholders, subject to the restrictions of the WBS.

Reduce borrowings and associated interest costs

KPI	Definition		Relevance for the AA
Leverage (ratio)	Ratio of net debt to Trading EBITDA for continuing operations for the last 12 months (see Note 30)	**2021 7.6** 2020 7.6 2019 8.0 0.0 2.5 5.0 7.5 10.0	Proactive debt management remains a key focus for the Group.
Interest cover (ratio)	Ratio of Trading EBITDA to total ongoing cash finance costs (see Notes 6 and 30)	**2021 2.5** 2020 2.6 2019 2.6 0 1 2 3	This measures the extent to which our earnings cover interest payments on our debt.

Sustainability

KPI	Definition			Relevance for the AA
Total greenhouse gas emissions (tonnes carbon dioxide equivalent)*	Our total Group emissions are reported under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Calculations follow the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using market-based and UK location-based emissions factors	Market-based **2021 33,652** 2020 40,615 2019 44,604 0 46,000	Location-based **2021 35,398** 2020 42,757 2019 44,323 0 46,000	Our emissions are material to our environmental impact on issues such as climate change, with our operational fleet accounting for 94% of our total emissions.

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[1] Please see P73.

* Please note that prior year estimates have been adjusted as necessary. This has not resulted in any material changes.

Roadside and Insurance, our two core segments

Roadside

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.

Revenue

£799m

2020[1]: £827m

Trading EBITDA margin

35%

2020: 34%

Trading EBITDA

£280m

2020[1]: £285m

Breakdowns attended

3.01m

2020: 3.42m

Paid personal members

3.168m

2020: 3.215m

Average income per paid member

£163

2020: £165

Business customers

8.7m

2020: 9.0m

Average income per business customer

£23

2020: £22

Business-to-consumer

In line with management expectations, the paid personal membership base fell by 1% during the year to 3.168m (2020: 3.215m) 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 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.

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.

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[1] See P65 and P73.

Trading EBITDA was down 2% to £280m and the Trading EBITDA margin was up 1% to 35%, in line with our expectations, reflecting the operational resilience of our core Roadside business and our ability to act swiftly to protect profitability.

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 3.01m (2020: 3.42m) 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.

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.

Our Driving Schools and DriveTech businesses were significantly impacted this year due to COVID-19, and in aggregate, revenue declined by 21% to £49m (2020: £62m).

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.

Customer Review

The man who rescued me (Phil) was so polite, explained everything clearly and really made me feel reassured with two little ones in the back! Impressive service. Thanks again."

mama_and_the_peas
Instagram

Insurance

Revenue
£168m
2020[1]: £166m

Trading EBITDA margin
36%
2020[1]: 38%

Trading EBITDA
£61m
2020[1]: £63m

Policy numbers
Broker
1,941,000
2020: 1,713,000

In-house underwriter
1,006,000
2020: 780,000

Motor policies
Broker
1,052,000
2020: 869,000

In-house underwriter
600,000
2020: 448,000

Home policies
Brokers
889,000
2020: 844,000

Underwriter
406,000
2020: 332,000

Average income per policy
(Motor and home policies only)
Brokers
£59
2020: £68

Including underwriter
£78
2020: £84

Financial Services products
101,000
2020: 90,000

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1 See P65 and P73.

The Insurance division remained resilient during COVID-19 and continued to deliver strong rates of policy growth. Overall insurance revenue was up 1% to £168m (FY20: £166m). This was principally driven by the strong performance of our new Accident Assist business and our in-house underwriter.

Insurance Broking and Financial Services

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 our 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 including our in-house underwriter to fall to £78 (2020: £84).

Renewal rates have remained broadly steady and our claims costs in our in-house underwriter have been tracking in line with the broader market and were lower due to motorists driving less as a consequence of the COVID-19 lockdown measures.

Customer Review

> The lady I spoke with yesterday, Kirsty, was absolutely brilliant. I was taking a lot of her time asking lots of questions regarding my insurance change over.
>
> I then received the same high standard of service today from a lady called Elle and she completed everything for me.
>
> I just wanted to acknowledge the two of them for being polite, professional and having patience with me."
>
> **Lesley Cooper**
> Trustpilot

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 the consolidation of our claims operations into Royal Tunbridge Wells this year, 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 3% to £61m (FY20: £63m), with the Trading EBITDA margin slightly down from 38% to 36%, as we continue to invest in accelerating the growth in policies of the broker and in-house underwriter, leveraging our strong brand, large distribution platform and proprietary data to deliver future value and Trading EBITDA growth.

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.

Insurance Underwriting

Our Insurance Underwriting business grew strongly in the year, with revenue up £12m to £40m (2020: £28m). Gross written premiums before adjusting for coinsurance arrangements were £188m (2020: £130m), while the gross written premiums net of coinsurance arrangements were £131m (2020: £90m). In line with our expectation, gross earned premiums were lower in comparison to the gross written premiums due to the impact of deferred premiums on our growing policy book and were £115m (2020: £70m). There was no reduction in revenue from deferral of broker commissions (2020: £3m). Revenue is reported after accounting for the broker deferral adjustment, where the broker commission is recognised over the life of the policy along with the underwriter premium for policies underwritten by our in-house underwriter.

Our in-house underwriter continues to grow rapidly and benefit from our strength of brand, distribution scale and proprietary members' data to deliver competitive premiums. This year, we grew the motor book by 34% from 448,000 to 600,000 policies, driven largely by our non-member channel which grew by 50% to 272,000 (2020: 181,000) policies, and the underwritten home book also grew strongly by 22% from 332,000 policies to 406,000 policies. Our underwritten portfolio currently represents 57% (2020: 46%) of the total motor policy book and 46% (2020: 31%) of the total home policy book.

Alongside the non-member policy growth, we are actively developing strategies to increase our online competitiveness and cross-sell capabilities to increase the penetration levels within our existing member base. Consistent with our ambition to broaden our competitive footprint, we launched our young driver insurance proposition late last year utilising our connected services technology.

Our combined operating ratio was in line with our long-term target of 95%. We achieved stable rates of retention across our motor and home policies book and net claims paid were £23m (2020: £23m).

In line with expectations, Trading EBITDA was up £13m to £22m (2020: £9m), reflecting the solid growth this year.

The in-house underwriter business remains well capitalised under the Solvency II capital requirements. As at 31 January 2021, the solvency coverage headroom was 63% over requirement and can be funded from the profits of the underwriter and AA Limited available cash.

Customer Review

My thanks and appreciation to John in your motor vehicle technical support – which is a fantastic "member only" service as I needed confirmation as to how the problem likely occurred in my car. I highly recommend it!"

@FilmswithT
Twitter

Financial review

> "Despite the challenges presented by COVID-19, we delivered a strong set of results with Trading EBITDA only slightly below that of last year and positive free cash flow generation in line with our expectations. This reflects the resilience of our business model and the essential nature of the services we provide to our members and customers. Looking ahead, supported by a rebalanced capital structure and an improved outlook for the UK economy, there is reason to be confident that we can carry our positive momentum forward and deliver on our plans for long-term growth."

Kevin Dangerfield
Chief Financial Officer

Group Revenue

	2021 £m	2020[1] £m
Roadside	**799**	827
Insurance	**168**	166
Revenue	**967**	993

Group revenue was £967m, down 3% compared to last year (2020: £993m), a strong performance given the impact of COVID-19 and a testament to the resilient nature of our business.

Overall Roadside revenue was down 3% at £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 Revenue was up 1% to £168m (2020: £166m), driven by the strong performance of our Accident Assist business as well as the growth of our in-house underwriter, AA Underwriting Insurance Company Limited (AAUICL). This more than offset 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.

Group Trading EBITDA

	2021 £m	2020[1] £m
Roadside	**280**	285
Insurance	**61**	63
Trading EBITDA	**341**	348
Trading EBITDA margin	**35.3%**	35.0%

In line with our expectations, Group Trading EBITDA was down slightly at £341m compared to £348m in the prior year. This was a strong performance considering the operational challenges due to COVID-19 and is testament to the resilience of our core businesses and our ability to act swiftly to manage our costs and protect profitability. Roadside Trading EBITDA was down £5m to £280m (2020: £285m), 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 Trading EBITDA was down £2m to £61m (2020: £63m), 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 and in-house underwriter.

Trading EBITDA margin was stable at 35% (2020: 35%), with resilient Roadside Trading EBITDA margins despite the impacts of COVID-19 offsetting the anticipated reduction in Insurance Trading margins due to the accelerated investment in new business volumes.

Reconciliation of Trading EBITDA to operating profit

Trading EBITDA is a performance measure required under the terms of our debt documents and is used for calculating our debt covenants. The Group also shows Trading EBITDA as a measure of underlying trading performance. Trading EBITDA is calculated as operating profit before adjustments as shown in the table below:

	2021 £m	2020[1] £m
Trading EBITDA	**341**	348
Share-based payments	**(4)**	(5)
Pension service charge adjustment	**(5)**	(4)
Contingent consideration remeasurement gain	**-**	9
Amortisation and depreciation	**(93)**	(89)
Adjusting operating items	**(21)**	(4)
Operating profit	**218**	255

In the current year, adjusting operating 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, £16m related to transaction fees related to the Acquisition, £2m related to strategic review projects, a £2m loss on disposal of subsidiaries (see note 12), a £1m impairment of investments in joint ventures, £1m of additional property dilapidation costs and £4m related to emergency IT expenditure incurred setting up home working for our people due to the pandemic, offset by £7m related to government furlough support in respect of COVID-19, a £2m release of a provision for conduct and regulatory costs and a £1m profit on disposal of non-current assets.

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[1] See P65 and P73.

Operating profit

	2021			2020[1]		
	Roadside £m	Insurance £m	Group £m	Roadside[1] £m	Insurance[1] £m	Group £m
Trading EBITDA	**280**	**61**	**341**	285	63	348
Share-based payments	**(3)**	**(1)**	**(4)**	(2)	(3)	(5)
Pension service charge adjustment	**(4)**	**(1)**	**(5)**	(4)	–	(4)
Contingent consideration remeasurement gain	**–**	**–**	**–**	–	9	9
Amortisation and depreciation	**(81)**	**(12)**	**(93)**	(79)	(10)	(89)
Operating profit before adjusting items	**192**	**47**	**239**	200	59	259
Adjusting operating items			**(21)**			(4)
Operating profit			**218**			255

Operating profit decreased by £37m to £218m, a year-on-year decrease of 15%. This was attributable to the reduction in Trading EBITDA, the £17m increase in adjusting operating items of £21m (which included £4m emergency IT-related costs due to COVID-19, offset by £7m furlough support from the Government (see note 5) and a £4m increase in amortisation and depreciation reflecting the historic and ongoing investments in IT. The operating profit figure last year included a favourable adjustment, a contingent consideration remeasurement gain of £9m related to the acquisition of Used Car Sites Limited (trading as AA Cars) which we acquired in 2017.

Revenue, gross profit, operating profit, profit before tax, profit for the year and earnings per share for the year ended 31 January 2020 have been restated to correct a prior year error. There has been a corresponding restatement to the deferred income balance for the year ended 31 January 2020. 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. See note 19 for further details.

Net finance costs

	2021 £m	2020 £m
Interest on external borrowings	**136**	129
Finance charges payable on lease liabilities	**3**	5
Interest receivable from financial assets held for cash management purposes	**–**	(1)
Total ongoing cash net finance costs	**139**	133
Ongoing amortisation of debt issue fees	**9**	14
Fair value movement on interest rate swaps	**1**	1
Net finance expense on defined benefit pension schemes	**(3)**	5
Contingent consideration movements	**–**	1
Total ongoing non-cash net finance costs	**7**	21
Adjusting finance costs	**20**	–
Adjusting finance income	**–**	(4)
Total net finance costs	**166**	150

Net finance costs increased by £16m to £166m (2020: £150m) resulting from adjusting finance costs namely; the early repayment premium and transaction costs of £11m as well as a £9m write-off of unamortised issue costs related to the February 2020 issue of £325m Class A8 Notes in exchange for £325m of Class A5 Notes.

Profit before tax

On account of the adjustments outlined above, profit before tax in the year fell to £52m (2020: £105m).

Taxation

The tax charge for the year decreased by £8m to £12m (2020: £20m), reflecting the lower profitability. The tax charge consisted of a current tax charge of £14m (2020: £16m) and a deferred tax credit of £2m (2020: charge of £4m). The effective tax rate increased to 23.1% (2020: 19.0%).

Profit after tax and earnings per share

Profit after tax was down at £40m (2020: £85m) and basic earnings per share reduced by 7.3p from 13.8p to 6.5p.

Adjusted profit after tax and adjusted basic and diluted earnings per share decreased to £83m (2020: £85m), 13.6p (2020: 13.8p) and 13.4p (2020: 13.4p) respectively reflecting the slightly lower underlying trading result.

Pension liabilities

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).

Cash flow and liquidity

Free cash flow

	2021 £m	2020[1] £m
Trading EBITDA	**341**	348
Working capital and provisions excluding adjusting operating items	**(8)**	19
Pension deficit reduction contributions	**(25)**	(26)
Other items	**(1)**	(4)
Cash flow from continuing operating activities before taxation, adjusting operating items and capital expenditure	**307**	337
Tax paid	**(15)**	(11)
Capital expenditure including capital and interest payments on leases less proceeds from sale of fixed assets	**(93)**	(98)
Operating free cash flow after capital expenditure	**199**	228
Interest on borrowings less interest receivable	**(137)**	(128)
Operating free cash flow before adjusting operating items	**62**	100
Acquisition of own shares	**(2)**	–
Acquisitions, disposals and investment in joint ventures	**(4)**	(8)
Adjusting operating Items	**(16)**	(9)
Free cash flow	**40**	83
Purchase of Bonds/Debt refinancing activities	**(14)**	(28)
Free cash flow to equity	**26**	55
Dividends paid	**–**	(12)
Net increase in cash and cash equivalents	**26**	43

We remain well within our financial covenants, have good levels of liquidity and are generating positive free cash flow. In FY21, we generated £40m of free cash flow (2020: £83m) before the costs of purchasing bonds, refinancing and dividends. This figure was lower partly due to the reduction in Trading EBITDA as well as the working capital and provisions excluding adjusting operating items outflow of £8m in the year compared to an inflow of £19m last year, which included a cash receipt from HMRC following settlement of historic partial exemption claims and an increase in the claims provisions in our underwriter. 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. The free cash flow figure was also impacted by higher tax payments in the year reflecting the change to the timing of corporation tax payments mandated by HMRC, as well as higher net interest paid on borrowings of £137m compared to £128m last year following the February 2020 refinancing. Total capex, was however, down £5m at £64m (FY20: £69m) due to the impact of COVID-19 on the timing of project spend, reduction in labour costs and the re-prioritisation of IT resource spend.

Pension deficit reduction payments of £25m (2020: £26m) were in line with the agreement made with the Pension Trustees in February 2020.

Proceeds from the issue of £280m Class B3 Notes in January 2021 are not shown in the cash flow statement presented above because they were placed into an escrow account (see note 20) and held until the refinancing of the Class B2 Notes in March 2021, see next page.

We are required to hold segregated funds as 'restricted cash' to satisfy requirements governing our regulated businesses, including the Insurance Underwriting business. These restricted cash balances have decreased to £40m (2020: £70m) due the becoming available of a restricted cash balance of £32m which was held due to a requirement in the Group's debt documents 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 21). Therefore, as it was no longer required, the excess cash was returned to available cash on 31 July 2020.

Interest cover is calculated as the ratio of Trading EBITDA to total ongoing cash finance costs (see note 30) and was 2.5x (2020: 2.6x).

Capital management

The Group capital is a combination of net debt and equity. As at 31 January 2021, net debt was £2.6bn while the equity market capitalisation was £0.2bn.

The Directors have sought to achieve an appropriate balance between the higher return that is possible with borrowings and the advantages and security of equity funding. We aim to reduce both the amount of net debt and the cost of servicing it over time through the successful delivery of our strategy as well as a proactive approach to managing our debt. We continue to have significant headroom in respect of our covenants and in addition to the Senior Term Facility the Group has a Working Capital Facility available of £60m, of which £56m remained undrawn at 31 January 2021.

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+.

Our leverage ratio was flat at 7.6x but following the Acquisition and subsequent refinancing in March 2021 (see note 39) we are moving towards a rebalanced capital structure. Adjusting for the £261m cash injection from the Consortium, our leverage ratio is 6.9x.

In light of the Group's continued positive performance, the Group intends to continue to proactively manage its capital structure subject to market conditions.

Capital structure as at 31 January 2021

	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
Less proceeds of Class B3 Notes held in escrow			(280)
		4.88	**2,767**
Class B2 Notes	Repurchased	(5.50)	(29)
Total loan notes		**4.87**	**2,738**
Lease liabilities			52
Cash and cash equivalents			(185)
Total net debt			**2,605**
Equity (valued at close on 31 January 2021)			217
Total capital as at 31 January 2021			**2,822**

The weighted average interest rate for all borrowings of 4.87% has been calculated using the effective interest rate and carrying values as at 31 January 2021.

At 31 January 2021 the £280m Class B3 Notes were contingent on the completion of the Acquisition (see note 20) and as such have been presented as a current liability at the year end even though the expected maturity date is 31 January 2026.

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 the Group (the 'Acquisition').

Following the Acquisition of the Group in March 2021, the Company released AA Bond Co Limited from the £29m Class B2 notes and refinanced the remaining £541m outstanding Class B2 notes using £261m cash injected as new equity from the Consortium and the £280m proceeds from the issuance of the Class B3 notes. 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 £311m since 31 January 2021. See note 39 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 39 for further details.

As part of the Acquisition, both the Group and Bidco have incurred transaction fees and expenses in an aggregate amount of c.£77m. See note 39 for further details.

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 equity referred to above. 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 considering each of these points along with the projected cash flows for a period of one year from the date of approval of these consolidated 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 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 Company continues to evaluate the optimal refinancing strategy of its debt maturities and coupon payments, including the A Notes, B Notes and Senior Term Facility. Early redemption of the Class A Notes would result in make-whole interest penalties up to the 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 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. Our going concern assessment shown on P60, highlights our cash generative nature, our ability to service the interest obligations on our debt and the risks associated with refinancing.

The Group remains committed to the proactive management of its capital structure and will continue to assess all options as we go through FY22.

Financial review continued

Net debt

Year ended 31 January	2021 £m	2020 £m
Senior Term Facility	**200**	–
Class A Notes	**1,997**	2,197
Less: AA Intermediate Co Limited group 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[2]	**27**	39
Net WBS debt[3]	**2,675**	2,704
IFRS 16 lease adjustment for WBS lease obligations[4]	**22**	24
The Company's group lease obligations[5]	**3**	3
Class B2 Notes repurchased by the Company	**(29)**	(29)
Less: the Company's cash and cash equivalents[6]	**(66)**	(57)
Total net debt	**2,605**	2,645
AA Limited Trading EBITDA	**341**	350
AA Intermediate Co Limited Trading EBITDA[7]	**319**	340
Net debt ratio[8]	**7.6x**	7.6x
Class B leverage ratio[9]	**8.4x**	8.0x
Senior leverage ratio[10]	**6.5x**	6.2x
Class A free cash flow: debt service[11]	**2.5x**	3.4x

1 Principal amounts of the Senior Term Facility and Class A Notes less AA Intermediate Co Limited group cash and cash equivalents.

2 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.

3 WBS debt represents the borrowings and cash balances within the WBS structure headed by AA Intermediate Co Limited. This includes the principal amounts of the Senior Term Facility, Class A Notes, Class B Notes and lease obligations for covenant reporting less AA Intermediate Co Limited group cash and cash equivalents.

4 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.

5 Total lease obligations for the Group excluding the value reported as the AA Intermediate Co Limited group lease obligations.

6 Total cash and cash equivalents for the Group excluding the value reported as the AA Intermediate Co Limited group cash and cash equivalents.

7 AA Intermediate Co Limited group Trading EBITDA including discontinued operations as required by the debt documents based on frozen GAAP.

8 Ratio of Total Net Debt to AA Limited Trading EBITDA for the last 12 months.

9 Ratio of Net WBS Debt[3] to AA Intermediate Co Limited Trading EBITDA for the last 12 months.

10 Ratio of Net Senior Secured Debt[1] to AA Intermediate Co Limited Trading EBITDA for the last 12 months.

11 Ratio of last 12 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes as calculated by the debt documents.

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 cover 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 external dividends and undertake those other finance activities which are not restricted.

The Group tests investment balances for impairment annually, which in the current year has resulted in an impairment to the carrying value of the Company's investment in subsidiaries (see note 2 to the Company Financial Statements).

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 to Trading EBITDA of AA Intermediate Co Limited group for the last 12 months. This excludes AA Limited cash and cash equivalents.

2 Cumulative free cash flow, since 1 February 2013, reduced by dividends paid by the AA Intermediate Co Limited group and adjusted for items required by the financing documents.

3 Ratio of fixed finance charges to Trading EBITDA of AA Intermediate Co Limited group for the last 12 months.

4 Cumulative profit after tax, since 1 May 2013, adjusted for items required by the financing documents and reduced by dividends paid by the AA Intermediate Co Limited group.

Note that the above table relates to the financial activities of the AA Intermediate Co Limited group and therefore the metrics therein will differ from those of the Group. Each of these metrics are required by the financing documents.

At 31 January 2021 the Senior Leverage ratio was 6.5x. In order for this to reduce to 5.5x thus enabling dividends to be paid up to AA Limited, either the AA Intermediate Co Limited group Trading EBITDA would need to increase by £59m or the AA Intermediate Co Limited group cash and cash equivalents would need to increase by £324m.

Kevin Dangerfield
Chief Financial Officer

13 April 2021

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 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 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 Risk Committee for review and debate and presented to the 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.

Principal Risk: COVID-19

The risk that 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. As the pandemic progressed, we took additional steps to manage any potential conduct risks and ensure customer vulnerability was identified and appropriate measures put in place. To minimise the impact of COVID-19 on trading this year, 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.

We continue to monitor our activities to ensure that the risks and issues posed by COVID-19 on the business are appropriately addressed.

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

The risk that we are unable to manage our debt

Risk trend: Reducing

Description: The Company 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. 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 21), the completion of the Acquisition 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

The risk that a changing regulatory environment may adversely affect our activities

The risk of material litigation against the AA

Risk trend: Increasing

Description: The changing regulatory environment could cause currently compliant services to become non-compliant, with material implications for customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in claims, fines and reputational damage. Changes in regulatory rules or guidance, legislation or taxation could impact the business model.

AA Risk Management Framework continued

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, the Gibraltar Financial Services Commission 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 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.

Principal Risk: Outstanding service

The risk that we are unable to maintain outstanding service

Risk trend: Same as last year

Description: The AA's brand and its continued success, and 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

The risk that 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.

Principal Risk: Insurance broking

The risk that 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: Insurance underwriting

The risk that we have higher claims costs than anticipated

Risk trend: Same as last year

Description: There are risks of higher than expected claims frequency, higher average cost per claim or catastrophic claims.

Mitigation: Underwriting guidelines are used to ensure that claims frequency and costs remain within expected levels. The reinsurance structure using co-insurance and quota share proportionately reduces the AA's risk. Excess of loss and catastrophe reinsurance is also used to protect against costly individual claims and events.

Change in the year: This business remains on track to deliver growth with sustainable and profitable return on capital.

Impact, likelihood and trend: The occurrence of very large one-off claims is expected to be low in volume, but we have reinsurance arrangements in place which caps our maximum exposure per claim. The occurrence of smaller claims is built into our pricing models and is carefully monitored.

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.

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.

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 employees and customers

Risk trend: Increasing

Description: We must continue to effectively manage the risks to our employees' and customers' safety and ensure that effective controls are deployed to achieve this.

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.

Principal Risk: Pensions

The risk we are unable to meet our pension liabilities

Risk trend: Stable

Description: The Company 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.

Change in the year: 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.

Stakeholder engagement s172(1) statement

Engaging with stakeholders makes our business better

Engagement is critical for any business, but particularly so for one in the process of transforming itself. The importance of aligning everyone around a common objective and working towards delivering it successfully cannot be overstated. That's why we are proud of the work that we have been doing to ensure that our people at all levels understand the direction of our business and the role they play in ensuring our long-term success.

Our people	Communities and societies	Government and regulators
We engage with our people in a variety of ways, ensuring that their voice is heard and that they can help to influence the future of our business	**Ensuring that we make a positive contribution to the places where we live and work helps build thriving communities and strengthens our business**	**In our conversations with Government and regulators, we promote the interests of all UK motorists and advocate for more rigorous industry standards**
Examples in 2020		
› Measured employee engagement and culture through two shorter surveys which gave us valuable insights about how people were feeling during the pandemic. Their inputs gave us clear actions to support them › Elected new members to our Management Forum, which is designed to involve management-grade employees in shaping strategy and major decisions › Developed our internal communications to help drive two-way conversation; our intranet continues to develop, and we have introduced new methods of communication, including interactive livestreaming › Our annual AA colleague awards event went virtual this year. Our awards recognised outstanding achievements in an exceptional year, with a theme of 'Pride of the AA'. We received more than 700 nominations, from which our judges chose 12 individual winners and three teams who really stood out	› Switched to purchasing 100% renewable electricity in our offices and other buildings › Continued as a signatory of the Armed Forces Covenant, and holder of their Employer Recognition Scheme Gold Award › Encouraged our people to raise funds for their nominated local charity throughout the year › The AA Charitable Trust for Road Safety and the Environment continues to work towards the preservation and protection of human life and health on our roads. This year, the Charitable Trust supported a range of programmes which included helping teenagers in care learn to drive and also helped to promote various other road safety initiatives	› Our campaign on the safety of 'smart' motorways was successful, with the Transport Secretary agreeing to reduce the spacing between emergency refuge areas to ¾ mile where feasible. We also gave evidence to various House of Commons Select Committees. We have won two awards for this campaign › We have been actively involved in the FCA's general insurance pricing practices market study, responding to information requests and attending meetings with the FCA to help it understand the potential impact of its proposed remedies › We are active members of governmental and regulatory forums including a member of the Government's Motorists' Forum and an adviser to the Climate Assembly UK

Industry	Investors	Customers
We believe that effective, system-wide change is only possible if we work with our wider industry peers, partners and supply chain	**While still a listed company, we were committed to ensuring continued effective communication and engagement with both our shareholders and bondholders. We will continue to offer the same high levels of engagement with our bondholders in future**	**We aim to deliver industry-leading value, service and quality for our customers, and we are regularly judged as 'best in class'**
Examples in 2020		
› Participated in the SURVIVE Group for roadside safety and the Society of Motor Manufacturers and Traders (SMMT) connected and autonomous vehicle working group. This year we also supported various initiatives with the Office for Zero Emission Vehicles to help give a better understanding of consumer concerns regarding electric vehicles › Worked with the breakdown industry via an All-Party Parliamentary Group to call for enhanced motorway safety rules that protect road users and patrols, via the 'slow down and move over' campaign	› Cash offer for AA plc approved by our shareholders at the extraordinary general meeting on 14 January 2021 › Held 138 meetings throughout the year with our bondholders and shareholders	› 'Which? Recommended Provider' status for the third year running › UK Business Awards for the Most Customer Centric Organisation › Gold award for best digital customer experience at the Insurance Times Awards 2020 › #1 in insurance brand consideration for motor insurance by Ipsos › Feefo Platinum Trusted Service award

Our Directors make decisions with our stakeholders, and the long term, in mind

Section 172 of the Companies Act 2006 (Section 172) requires company directors to act in the way that they consider, 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 working within a governance framework for key decision-making that takes into account all relevant stakeholders and balances their various interests. 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.

Key stakeholders

The Board continuously monitors the AA's key stakeholders to ensure that due consideration is given to all relevant stakeholders in the context of principal decisions. During the year, the following key stakeholders were identified:

› Our people

› Communities and societies

› Government and regulators

› Industry

› Investors

› Customers

Read more about our engagement with key stakeholders, and our approach to each of the groups mentioned above, on **P28**

Board considerations

During the year, the Board considered how the AA engages with each of the key stakeholders mentioned above, as well as its future engagement strategy under new ownership. The Board will continue to ensure that due consideration is given to stakeholder views and interests, to the extent that they are relevant to any particular decision.

Two matters that dominated Board time during the year were the Company's response to COVID-19 and future financing options. The case studies on the right describe how the Directors had regard to the matters set out in Section 172 when discharging their duties, and how this informed the Board's decision-making around these two matters.

Other required disclosures

› Principal non-financial risks: P25-27

› Gender diversity statistics: P1

Responding to COVID-19

In March 2020, the Board responded quickly and decisively to the COVID-19 pandemic and subsequent lockdown measures. It oversaw prompt changes to the Company's operations, both in Roadside and Insurance, and material cost reduction programmes to mitigate the significant uncertainty ahead. The cost-cutting measures included a 15% reduction in pay for all Board members for three months. A multi-layered command structure was put in place immediately, with weekly conference calls of the Board and executive teams to ensure that decisions could be taken and implemented swiftly throughout the business.

The Board considered the health and safety of its employees and customers to be of paramount importance. It took action to safeguard these groups while ensuring that the business could continue to operate effectively. Office-based employees were transitioned to homeworking as quickly as possible, and safe systems of work were put in place for patrols and other employees who were unable to work from home. The number of employees who were placed on furlough were kept under continuous review and, in most cases, employees were able to return to work relatively quickly where necessary.

The Company also took steps to keep employees informed and to support their wellbeing and mental health during this unprecedented period. It communicated with all employees on a regular basis through weekly video blogs from the CEO and an FAQ section on the Hub, the Company's intranet. The Company trained 108 mental health first aiders and rolled out mental health training to all managers. Two 'Ways of Working' surveys were carried out during the year to help understand how the workforce had been affected by COVID-19 and what additional actions the Company could take to support its employees. The second survey received its highest ever response rate of 88%, which will help to inform the Company's future working practices.

The Board considered how best to support customers who were experiencing financial difficulties as a result of COVID-19. The Company was able to offer more flexible payment options to customers who had been directly affected. In other cases, it was possible to modify or temporarily suspend the product a customer was receiving to ensure that it continued to meet their needs. Finally, the Company was proud to be able to support the wider community by partnering with the London Ambulance Service and offering free breakdown cover to NHS employees.

The Board will continue to balance various stakeholder needs to ensure that the business can operate in a safe and effective manner, while supporting employees, customers and the wider community through periods of crisis.

Strategic review of future financing options

A key focus for FY21 was how the AA could decrease its debt burden from a leverage ratio of 7.6x and its associated interest, which was becoming unsustainable for business growth and future investment. In reducing the level of debt, the Board hoped to improve the Company's future financial flexibility and investment opportunities.

The Board formed a working group and held weekly meetings to explore and consider a range of options, including a new equity issue, debt refinancing, a range of hybrid and convertible equity options and sale. The process was conducted over several months, with specialist advisors in respect of each option conducting detailed analysis and presenting this to the Board. There were also multiple briefings from the Company's lawyers regarding the application of section 172 to the Board's considerations.

The Board carefully considered the risks and potential benefits associated with the various options. The Board considered the impact on employees and consulted with the IDU union. Throughout the process, the Board strived to have open and transparent engagement with the entire workforce through regular direct communications from the CEO. It also engaged proactively with the FCA and other regulators, keeping them updated as appropriate.

The City Code on Takeovers and Mergers (the Code) required the Company to publish certain formal updates to investors and the wider market. The impact of COVID-19 and the rules of the Code and Market Abuse Regulation meant that informal engagement with investors was more challenging during FY21. However, investors were able to communicate with the Investor Relations team and were encouraged to ask questions at the Company's general meetings. Ultimately, shareholders could express their views directly via their right to vote on the transaction.

Having considered the interests of all stakeholders and consulted where appropriate, on 25 November 2020 the Board announced and formally recommended an offer of 35p per share (the Offer) from 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 14 January 2021, the Offer was overwhelmingly approved by shareholders and the transaction completed on 9 March 2021. The Board hopes that the significant reduction in the Company's debt will provide the foundations for future investment and growth, which will in turn benefit the Company's wider stakeholders.

Going cleaner, safer, smarter in a fast-moving world

Cleaner, safer, smarter

As President, I head up the AA Charitable Trust for Road Safety and the Environment and lead our external campaigns on safety, innovation, mobility and environmental issues. This is an important role that we have fulfilled throughout our history.

The last 12 months have been a challenge for everyone due to the global pandemic. The AA team reacted well by introducing safe systems of work, enabling most office-based employees to work from home and indeed helping the national efforts by supporting NHS staff with free breakdown cover and helping various ambulance services to get more vehicles on the road.

Our external ESG strategy is headlined 'cleaner, safer smarter'. This is a strategy we have developed to support our extensive campaigning work on behalf of Britain's drivers through our public affairs team. Internally, we put the health, safety, security and wellbeing of our colleagues, customers and the public first in everything we do, alongside our efforts to manage our environmental impact, prepare for a changing customer car parc and govern our business ethically and responsibly. This dual strategy runs through our operations, business units and campaigning work. It is sponsored by Gareth Kirkwood, Managing Director, Roadside Services, from an executive perspective, and coordinated by Hannah Smith, our new Head of Group Health, Safety and the Environment, and has the full support of myself and the Board.

We are keen to show how we will prosper over the long term as the global economy moves from fossil fuels to renewables.

Cleaner and environment

There are real challenges as we strive for zero emissions. The Government's target of stopping the sale of new petrol and diesel cars and vans by 2030 is a welcome and radical move. As a market leader, our remit extends beyond the actions we take to reduce our carbon footprint. In 2020, these have included the purchasing of 100% renewable electricity for our sites, and further development of our 'remote fix' strategy to reduce the fuel consumption of our fleet. For the third year running, we've achieved a sector-leading rating in the Carbon Disclosure Project (CDP) environmental assessment. We seek to influence Government, decision-makers and the driving public on steps that can be taken to mitigate the climate crisis – for example, last year I was an adviser to Climate Assembly UK. In addition, we often poll our customers on issues such as accelerating the rollout of electric vehicles (EVs) and ensure that the results are communicated to Government and other relevant stakeholders.

We supported the introduction of 'green' number plates to identify electric and zero emission vehicles and encourage their take-up. Alongside the Transport Secretary, I was one of the first in the UK to have a green plate fitted to my new electric vehicle. We also continued to work with the Environment Agency to promote a joint campaign warning of the dangers of driving through flood water. Read more about our commitment to the environment on P31.

Safer and social

With over 10m customers in the UK, we take our wider social responsibilities very seriously. Ensuring that we operate safely and in a manner that protects our customers, colleagues and the public has always been our number one priority. Last year, we led a campaign for significant improvement in safety standards on smart motorways, where the hard shoulder is used as a running lane and there aren't enough emergency refuge areas. Our campaigning and the evidence we gave to the All-Party Roadside Rescue and Recovery Group and the Transport Select Committee helped to put pressure on the Government to make changes. We instigated a BBC Panorama programme on the subject and held numerous meetings with ministers and officials. Our intensive campaigning paid off, with the Transport Secretary agreeing to all our demands in an 18-point plan including doubling the number of emergency refuge areas and the full introduction of stopped vehicle detection technology. We continue to keep up the pressure to ensure these improvements are implemented.

Our broader social remit also means working with suppliers who share our values and supporting local charities around our UK offices. This year, we further rolled out a scheme we developed with the University of Bristol, that helps teenage care leavers learn to drive, which improves both their job prospects and self-esteem. We worked with Live Unlimited in Barnet and other charities to take this scheme forward in the communities where they work. Due to COVID-19 and cancelled tests and lessons, we have increased the number of lessons we have pre-funded for care leavers.

We recently refreshed our diversity and inclusion strategy, targeting six key communities to fully embrace the diversity of our employees and enable the AA to be an even more inclusive place to work. These communities include those with visible and invisible disabilities, gender balance, age, carers, those from our BAME communities and vocational backgrounds, and our LGBT employees. Each of these communities is led by a senior executive sponsor to raise awareness of the diverse nature of our workforce and the communities we serve. Read more about our commitment to safety and our commitment to society on P36-37.

Smarter and governance

Good governance is crucial and covers everything from how we listen to our customers and people, to the way we run our Company. We have rolled out a new Code of Conduct and fully implemented The Senior Managers and Certification Regime (SMCR). We have improved our training in areas such as anti-bribery and corruption, whistleblowing, information security, identifying and acting upon customer vulnerability and our data protection responsibilities.

We listen to our customers. Our AA Yonder Poll is the biggest dedicated motoring panel in Europe, and the responses from approximately 13,000–20,000 drivers each month helps to mould our policy and influences Government policy. On the commercial side, our 'Passenger Seat' panel of 17,000 customers, helps us to develop products and services which reflect the needs of drivers. Read more about our commitment to our people on P35, our commitment to a high performance culture on P12-13 and our corporate governance on P39-49.

Throughout this report, you will see examples of how our 'cleaner, safer, smarter' approach to ESG penetrates and helps to shape our business and is vital to our success, now and in the future.

Edmund King OBE
AA President
Chairman AA Charitable Trust

Stakeholders

More information about the Company's wider stakeholder groups can be found on P28.

In our broader public affairs work and ESG initiatives we have had very close liaison with the Transport Secretary and Roads Minister, particularly over smart motorways, traffic and travel during COVID-19 lockdowns, and Christmas travel.

We also work alongside various House of Commons Select Committees and with officials from the Department of Transport, Treasury, Downing St, DVLA, DVSA and Highways England. We work with various safety groups, including PACTS, and we chair the SURVIVE road safety group for recovery operators. We also interact with trade bodies such as Chambers of Commerce, SMMT, Logistics UK, Road Haulage Association and Campaign for Better Transport. In response to COVID-19, we have worked with the NHS and the London Ambulance Services and several regional ambulance services.

On the charity front, we have worked with Barnardo's, Live Unlimited, the FIA Foundation and the Road Safety Trust.

Through DriveTech, we work closely with police forces and various academic and technology institutions. We also liaise with professional bodies and have won awards from the Chartered Institute of Public Relations and the Public Relations and Communications Association.

Our members are our key stakeholders and we often seek their views on issues through our AA Yonder Motoring Panel and our Passenger Seat surveys.

Our commitment to the environment

Sustainable development is an integral part of the AA mindset and we have been proud to continue to develop and invest in our strategy over the last 12 months.

The global disruption caused by the COVID-19 pandemic has affected every part of human life. It has, however, provided a rare opportunity to reflect on our own personal carbon and energy footprints and re-engage or discover our local environment. At the AA, we have also used this opportunity to reflect and ensure that we re-align with this global mindset. We acknowledge our responsibility and the vital role we can play in addressing our impact on climate change. More than ever, we are committed to driving climate action within the fields we can directly influence but also to lead the wider market transition. Nowhere is this better illustrated than with EVs, which have the potential to transform global emissions reduction. We understand the importance of societal change in this area and the expectations of our investors, workforce, members, and how our treatment of this issue will affect our future success.

This section will provide you with some of the highlights and achievements from the past 12 months, specifically related to reducing our own impact, our readiness for a changing market, the external activity we have undertaken and our priorities for the year ahead.

Cleaner, safer, smarter: campaigning on cleaner

We have continued to lead environmental 'thought leadership' throughout the year:

- We continued to provide expert resource to support national and local campaigning and lobbying
- We continued proactive leadership on the shift to EVs
- We led populus research consumer attitudes to EVs
- We were a founding partner for World EV Day
- We have supported drivers with their questions on electric vehicles by conducting several surveys and working with ITV Tonight on 'Electric Cars: Are We Ready?' documentary
- The AA President's blog, 'Living with an electric car' and regular appearances on the B2B forum 'EV Café'
- We have promoted environmentally responsible driving to pupils in our driving school training
- We have worked with our DriveTech business' corporate clients to support them in improving fuel efficiency with their petrol or diesel vehicles, but also to support them with their switch to electric vehicles
- We offered specialist information on https://www.theaacorporate.com/driving-advice/fuels/environment
- We provided traffic news and route planning to optimise journey times and lengths

Reducing our impact: minimising our carbon and energy footprint

2020 highlights

- We achieved a sector-leading rating in Carbon Disclosure Project (CDP) assessment (B); citing an improvement from B- in 2019
- We achieved a decrease of 17.4% for total Greenhouse Gas (GHG) emissions*
- Through innovation, we recorded a 1%* reduction in our recovery emissions this year as a result of our 'Repair management Solution'. During FY21, we trialled this solution in one area. This has since increased to four areas and we are anticipating national roll out by Q3 2021. The business is working towards a target of 1m recovery miles saved and a 5%* reduction in our recovery emissions
- We independently verified GHG emissions for the second year, providing us with additional assurance and certainty
- We continued on our path to Task Force on Climate-related Financial Disclosures (TCFD) compliance, providing a structured framework for future compliance
- We removed 450,000 plastic membership cards from circulation so far, with a cost saving of over £45,000. We are continuing to roll out extended trials of cardless packs
- We introduced innovative equipment to improve our capability to tow four-wheel drives and EVs, decreasing reliance on the deployment of a secondary resource and the generation of GHGs related to that secondary operational deployment

Our buildings

- Overall property GHG emissions have increased by 11%.* Until the colder months materialised, a significant reduction was expected. However, to ensure that fresh air could still be provided to reduce the risk of COVID-19 spread, increased gas usage (9.5%) was required to increase the temperature of colder external air being brought into our occupied offices
- We reduced marked-based emissions per ft^2 ** by 5.3% against a 2019 baseline and a target of 2%
- We continued to purchase 100% renewable electricity for all our offices and other buildings.*** This equates to 7,601 MWh of electricity now being renewable
- As a result of reduced occupancy, we have actively managed the estate during COVID-19 to reduce emission levels. This has resulted in a reduction in consumption of electricity (-18.5%), water usage (-57.5%) and waste tonnage (-59.3%) compared to FY20
- We continued to roll out energy monitoring and savings initiatives throughout our estate
- We reduced waste generated by our offices and maintained our 'zero to landfill' policy

Our fleet

- Overall operational fleet emissions have decreased by 17.6%,* mainly influenced by a change in workload blend and a decrease in overall workload
- Overall operational fleet fuel consumption for FY21 has decreased by nearly 2.36m litres (-16%) compared with the same period last year. This is due to our effective operational management alongside a change in workload blend and a decrease in overall workload
- We reduced company car emissions by 71.5% compared with 2019 as a result of reduced travel and investment in information technology to support remote meetings
- We have enhanced electric and hybrid options made available for company cars. 74% of our company car fleet is now either electric or hybrid compared to 63% in 2019; average CO_2 emissions of our fleet were 52g/km in 2020, compared with 74g/km in 2019 and 81g/km in 2018
- All of our roadside and recovery fleet vehicles meet the Euro 6 standard
- We introduced the Freewheeling hub, our latest innovative technology which will bring an expected further reduction of 2% of our recovery emissions in FY22*
- We continued development of our 'remote fix' strategy to reduce the fuel consumption of our fleet, resulting in the avoidance of 48,483 patrol journeys

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* Compared to 2019 figures.

** Net lettable.

*** Renewable electricity not available to purchase in Northern Ireland.

Summary GHG footprint

Our GHG emissions continued to decrease in FY21; 33,621 tCO$_2$e compared to 40,500 tCO$_2$e in FY20.

Source of emissions	tCO$_2$e (AR21)	tCO$_2$e (AR20)	tCO$_2$e (AR19)	% change to AR20
Scope 1 emissions (direct combustion of fuels in stationary and mobile sources, and fugitive emissions)	**33,621**	40,500	41,379	▼ 17.0%
Scope 2 emissions, market-based (emissions from generation of purchased emissions in owned or controlled equipment and operations, using a supplier-specific emission factor)	**31**	262	3,225	▼ 88.2%
Scope 2 emissions, location-based (emissions from generation of purchased emissions in owned or controlled equipment and operations, using a regional emission factor)	**1,777**	2,395	2,944	▼ 25.8%
Total emissions (market-based)	**33,652**	**40,762**	**44,604**	**▼ 17.4%**
Out of scope emissions (emissions from the biofuel content in forecourt diesel and petrol)	**1,382**	1,296	861	▲ 6.6%
Fleet intensity measurement 1 (tCO$_2$e/job) (emissions from operational fleet divided by the number of operational job tasks completed)	**0.01054**	0.01121	0.01089	▼ 6.0%
Property intensity measurement 2 (tCO$_2$e/ft^2) (market-based emissions from energy use in UK Corporate portfolio (electricity and natural gas consumption), divided by floor area)	**0.00300**	0.00316	0.00945	▼ 5.1%

GHG Methodology

Emissions reported as required under Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Calculations follow the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using emissions factors from UK Government's GHG Conversion Factors for Company Reporting 2020. Overseas factors have been obtained from national agencies. The GHG reporting period aligns with financial statements 2020/21. <1% of consumption data is estimated using GHG Protocol guidelines. Boundaries are defined using the operational control approach. Emissions from AA The Driving School Agency Limited are considered out of scope, as it operates as a franchise and the Company has neither equity rights nor control over franchisees. Home-based teleworkers are excluded from GHG reporting. Square footage of buildings has been aligned to our net lettable area in line with our Company targets.

Streamlined Energy and Carbon Reporting

Climate change represents one of the greatest challenges facing our planet, and at the AA, we are committed to supporting the transition to a low-carbon economy to meet the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC). Our emissions are generated across our operations, including at sites, by vehicles and through employee travel.

The goal is to conduct current and future business operations in a sustainable manner which helps create a better future for the environment. Our largest environmental impact from our direct operations comes from our fleet and buildings. Therefore, we established the following emission reduction targets relevant to FY21:

- Reduce emissions from our buildings per ft^2 by 2% by the end of FY21 compared to FY20
- Operational fleet: 2.9% reduction in litres per job task in FY21 compared to FY20

In AR21, the Company had a Streamlined Energy and Carbon Reporting (SECR) carbon footprint of 36,103 tCO$_2$e using a location-based approach. This is down from 43,853 tCO$_2$e in AR20, a decrease of 18%. We recognise the likely impact that COVID-19 caused to our operations during the financial year, with changes to our operational carbon footprint impacted by the movement away from offices during this time, and the 'stay at home' restrictions impacting our day-to-day operational fleet use.

This section of our report discloses our operational energy and carbon footprint in line with the Government's SECR initiative and includes the data from this financial year (February 2020–January 2021; AR21) and, for the sake of comparison, data from the previous financial year (February 2019–January 2020; AR20).

SECR Methodology

To comply with SECR, the Company has reported on all of the emission sources required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. This includes emissions from the first year in which we fell into the scope of the scheme (AR21) and our previous reporting year (which was not included in our AR20 report). This is for the sake of comparison and is not mandatory for the first year of reporting under SECR. Our emissions have been calculated in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). We calculated our Scope 2 emissions using a dual reporting approach, publishing both a location-based footprint (using regional average grid-mix), and a market-based footprint (determined from suppliers' standard fuel mix). Emission factors are provided by suppliers when feasible to cover Renewable Energy Guarantees of Origin (REGO) or conventional supplies. Where this is not available, UK Residual Mix by the Association of Issuing Bodies (AIB, 2019) factors are used.

The reported emissions align with our financial year (February – January), and in line with SECR requirements, the emissions in scope are based on a financial control boundary. This differs from our GHG inventory boundary, in which we only report emissions for where we have 'operational control' (i.e. ability to influence, manage and track energy use and/or emissions from an operation). The SECR therefore additionally includes sites for where the AA is deemed not to have operational control. The consumption of these sites has been estimated using the CIBSE Guide F, and emissions estimated using the residual AIB 2019 factors. Emissions for previous years are retrospectively adjusted as and when more accurate data becomes available.

The Company undertakes third party verification to independently verify the accuracy, completeness and consistency of its GHG emissions data (operational control scope only) against ISO 14064-1 and ISO 14064-3. The AR20 and AR21 data have been independently assured by a third party.

SECR Annual energy and carbon

In AR21, the Company consumed 149,574,623 kWh of energy and had an adjusted footprint of 36,103 tCO$_2$e (location-based), equating to an absolute decrease of 7,750 tCO$_2$e compared with AR20.

Summary SECR footprint

Table 1 shows our operational Scope 1 emissions, including our consumption of natural gas, fuel consumed by our operational fleet and company cars, fugitive emissions from refrigerants and fuel consumed by our backup generators and equipment. Please note it is not yet feasible to separate out fuel purchased for private use from fuel card data, and therefore the following table includes a minimal proportion of grey fleet data.

Table 1: Scope 1 emissions

	Natural Gas		Transport – Diesel		Transport – Petrol		Refrigerants		Generators and Equipment – Gas oil	
Scope 1	kwh	tCO$_2$e	kwh	tCO$_2$e	kwh	tCO$_2$e	kwh	tCO$_2$e	kwh	tCO$_2$e
AR20	7,359,483	1,353	157,671,742	38,570	2,269,659	530	N/A	79	269	1
AR21	**8,030,421**	**1,477**	**131,167,687**	**31,599**	**821,321**	**276**	**N/A**	**369**	**1,462**	**6**

Table 2 shows our Scope 2 emissions, released from the generation of the electricity we consume. These have been calculated using both the location-based methodology, in line with the average UK grid energy mix, as well as the market-based methodology, which reflects the contractual emission factors of the electricity providers with specific information regarding the origin of electricity and associated GHG intensity. The Company entered into a renewable energy contract in March 2019, backed by REGO.

Table 2: Scope 2 emissions

Scope 2	Electricity kwh	tCO$_2$e (location)	tCO$_2$e (market)
AR20	11,265,711	2,880	982
AR21	**9,516,632**	**2,219**	**689**

Table 3 shows our Scope 3 emissions from our energy consumed by our employees who have travelled either in a rental car or claimed mileage on their personal car.

Table 3: Scope 3 Emissions

	Transport Grey Fleet – Diesel		Transport Grey Fleet – Petrol	
Scope 3	kwh	tCO$_2$e	kwh	tCO$_2$e
AR20	676,785	166	1,169,582	273
AR21	**13,651**	**57**	**23,449**	**102**

A summary of all the emissions reported in line with our SECR disclosure is shown in Table 4.

Table 4: Total carbon emissions

Scopes	Scope 1	Scope 2 (location)	Scope 2 (market)	Scope 3	Total (location)	Total (market)
AR20	40,534	2,880	982	439	43,853	41,955
AR21	**33,725**	**2,219**	**689**	**159**	**36,103**	**34,573**

A summary of all the kWh energy reported in line with our SECR disclosure is shown in Table 5.

Table 5: Total kWh energy

kWh	Scope 1	Scope 2	Scope 3	Total
AR20	167,301,154	11,265,711	1,846,367	180,413,232
AR21	**140,020,891**	**9,516,632**	**37,100**	**149,574,623**

Table 6 contains our intensity ratios. The Company discloses its emissions so as to reflect the share of environmental impact across the business, in particular with regard to emissions from property, and emissions from the operational fleet. Emissions will be considered with regard to:

› Occupied Floor Area – AA Corporation Limited 'UK Corporate' sites

› Number of operational job tasks – The AA Breakdown & Recovery Operations Confirmation of floor area and number of job tasks

Table 6: Intensity ratio (tCO$_2$e/sqft and tCO$_2$e/no. of operational job tasks)

	tCO$_2$e /sqft		
kWh	(Location)	(Market)	tCO$_2$e/no of operational jobs
AR20	0.0075	0.0032	0.0112
AR21	**0.0066**	**0.0030**	**0.0105**

Energy efficiency actions

We strived to increase our energy efficiency efforts and have thus evaluated several cost-effective energy efficiency measures across our portfolio for FY21.

Due to COVID-19, we have had to adjust our usual business operations (e.g. adapting buildings and reducing occupancy levels due to Government restrictions and lockdowns). This has resulted in energy savings across FY21, with the significantly lower headcounts on site reducing the small power, domestic hot water, air conditioning and ancillary services use and overall associated energy demand.

The below list outlines our operational changes due to the pandemic:

- Run times and set points were adjusted to reflect reduced occupation
- Ancillary equipment and service areas were reviewed, and un-used equipment was switched off (e.g. catering equipment in kitchens, unnecessary fridges, etc.)
- COVID-19-secure workplaces have required the isolation of heat recovery mechanisms in HVAC

These can also be translated into energy efficiency initiatives, as shown below:

Initiative	kWh Savings for AR21	Status
Isolating unneeded floors' electricity	**326,598**	Complete
Isolating unneeded floors' gas	**68,006**	Complete
BMS* changes: electricity	**408,248**	Complete
BMS* changes: gas	**85,008**	Complete
LCNC** Electricity	**81,650**	Complete
LCNC** Gas	**17,002**	Complete

* BMS- Building Management System.

** LCNC- Low Cost/ No Cost initiatives.

Our standards

It's important for us to meet popular, credible standards for environmental and sustainability performance. This year:

- We continued successful certification of our integrated HS&E management system to the ISO 14001 standard
- We completed the CDP climate change assessment for the third year running in FY21 and are really pleased to confirm we have achieved a climate change score of B. This is an improvement on the previous year (previously B-). This achievement is above sector, European and global averages which sit at a score of C
- We supplied greenhouse gas emissions data that has been independently verified to the international standards ISO14064-1 and ISO1064-3

Please visit https://www.theaacorporate.com/esg for more information on our GHG emissions and verification statement.

Our readiness: We have been developing our people and fleet for a changing car parc

We have taken steps to build key foundational EV capabilities.

Invested in our people and equipment – they are the EV experts you can rely on

- In collaboration with our business partner, we were the first company in the world to develop and utilise an Electric Vehicle Training Rig
- All patrols and technicians are being trained to equivalent Level 2 High Voltage Awareness by the end of FY22

Enhanced our EV repair and recovery capability

- We have developed the freewheeling hub, to allow us to move EV vehicles safely when we cannot repair at roadside. This ensures that the customer is repositioned to a charging point at the soonest opportunity, allowing the customer to get back on their journey with the least interruption. We are estimating this latest innovation will save 325 tCO_2e (approximately 2% of our annualised recovery emissions)*. It is foreseeable that this saving will continue to increase as the EV car parc continues to grow
- 12m UK drivers are considering purchasing an EV in the next two years, which equates to 49% of members. Last year, we attended just over 13,000 full EVs (anticipated to be 30,000 for FY22). Only 690 'run out of power' jobs were attended for battery electric vehicles in 2020. Our patrols and technicians are, however, equipped with a RFID charge card enabling them to recover an out of charge EV to the nearest BP Pulse public charger
- In collaboration with our business partner, we developed a way of refuelling a hydrogen fuel cell vehicle at the side of the road. Mobile refuelling equipment is installed in our state-of-the-art technical development van. To read more please visit https://www.theaacorporate.com/about-us/newsroom/innovation-and-technology/toyota-mirai-fcv-refuel

Partnered with infrastructure providers to support our customers growing EV requirements

We have focused on establishing partnerships with growing brands that support the UK EV charging infrastructure. Last year saw us partner with SWARCO, GRIDSERVE, Gronn Kontakt and EO Charging by providing an outsourced customer service to meet their client needs. From March 2020, we closed out the year handing 1,200 calls per month, resolving 85% of enquiries on the call with an average handling time of 6 minutes. We have enabled these customers to manage the uptime of their network while we handled their customer needs.

Environment: Our focus for the year ahead

We will continue to invest in and develop reducing our own footprint and supporting our customers' changing needs:

- Supporting the Government's targets of stopping new petrol and diesel vehicle sales by 2030, wider climate change goals by 2050 and regional low emission zones (LEZ) and ultra low emission zones (ULEZ), while acknowledging the challenges this presents for our industry; actively working to remove these issues for the AA and our supply chain
- Continuing the development and introduction of our equipment roadmap leading to emissions in GHG, reductions in fossil fuel consumption, enhanced resource management and decreased secondary/third-party resource deployment to dangerous locations
- Analysing our deployment and fleet data to determine operational improvements resulting in carbon and energy reductions
- Analysing our supply chain, especially the garage network for compliance with clean air zone regulations
- Continuing to reassess our most polluting vehicles (9% of roadside operational fleet account for 38% of the total ops fleet emissions) and our wider fleet to determine opportunities for EV, hybrid and alternative fuel options when these become available
- Further enhancing our in-house subject matter knowledge and expertise across more of the EV value chain
- Investing in our expert patrols to further distil knowledge to enhance roadside repair capability with equivalent Level 3 High Voltage training currently being planned
- Enhancing our existing diagnostic rules and approaches for EV to ensure that we remain leaders in this space
- Exploring options to partner better with charging providers to enhance our customer charging capability offering
- Working directly with OEMs to develop 'out of charge EV' safe recovery procedures to ensure vulnerable customers are moved to a place of safety
- Optimising our support of the EV marketplace by forging more business relationships with charge point operators while diversifying our offering to power companies, EV hardware manufacturers and software providers
- Launching a level 2 support function where our mobile workforce will support the needs of charge post operators beyond the call centre by offering a maintenance and emergency response field-based service
- Continuing our path to TCFD alignment

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* Based on FY20 emissions data and average figures for MPG and times for loading.

Social: Our commitment to our people

In a year like no other, it has been more important than ever that we engage and listen to our colleagues, while supporting their health and wellbeing. During the pandemic we've had to find new ways to do this. We've held more regular employee surveys enabling us to respond more quickly to issues that matter and introduced new initiatives to support wellbeing, including courses for our line managers and training more than 100 Mental Health First Aiders.

We're extremely proud of how we've helped keep Britain moving and of our partnership with London Ambulance Service to keep key workers on the roads. Across the business there have been great examples of how our teams have supported our members, customers and each other. These were showcased at our first virtual awards event – The Pride of the AA – where we celebrated how our people make us special.

In 2020 we made good progress against our priorities and, despite the difficult circumstances, engagement across the business increased. We are now using employee feedback to help shape our future ways of working and looking forward to a successful future under our new ownership.

Louise Benford
Chief People Officer

Attracting and retaining talent through development, engagement and wellbeing

Attracting and retaining talent

This year, we attracted a record number of 37,521 applicants and welcomed 1,005 people on board, with the primary use of virtual interviews and assessments.

We maintained our Gold Armed Forces Covenant status and continue to promote job opportunities through the Career Transition Partnership (the MoD's official provider of Armed Forces Resettlement).

We are focused on attracting diverse talent and have piloted initiatives such as blind CV which redacts information relating to gender, age and ethnicity to focus on capabilities and reduce bias in our hiring approach.

Developing our people

We have continued to offer award-winning apprenticeships throughout COVID-19. We now employ over 65 entry-level apprentices and have 130 existing employees on apprenticeships that range from Customer Service level two to MBA level seven. We have continued to retain our award-winning status and were ranked in the top 20 on the RateMyApprenticeship.co.uk, won the West Midlands regional award and placed in the Top 100 Apprenticeship Employers list.

To develop our people safely through the pandemic, from induction and onboarding to skills and knowledge development, we have enhanced our capacity and capability to offer online learning.

In 2021, we are updating and expanding our leadership development offering across all levels. The leadership development offering is aligned with our new leadership behaviour framework and includes an essential and elective curricula.

Our learning management system combines mandatory and optional learning and we have over 200 courses available to all. We have continued to develop essential online learning for all our employees in the following areas:

- Conflict of Interest
- Diversity & Inclusion
- Financial Crime & Anti-Bribery
- GDPR
- Health, Safety & Environment Awareness
- Information Security
- Whistleblowing
- Mental Health

We've continued to embed 'What drives us' – our AA Code of Conduct, by launching interactive training for all our people. This training ensures our people clearly understand the expectations and their responsibilities against five core behavioural principles:

- Put customers first
- Own it and deliver
- Safeguard what matters
- Work as a team
- Speak Up

Engagement

In 2020 we ran two short engagement surveys. This enabled us to get more 'in the moment' feedback on how people were feeling during the pandemic and subsequent return to work, which we could quickly respond to and build into our plans.

Highlights from the November survey include:

- Biggest increase in positive response was around concerns about having the appropriate PPE for the job, up 20pts on May
- Response rate 88%, up 21pts on May
- Positive engagement 71% up 1pt on May

We continue to work closely with our recognised union, the Independent Democratic Union (IDU)/Community, as well as our Management Forum (an elected group for management-level employees), to ensure that our people's views are heard. Meetings are held with the IDU regularly to discuss business strategy, financial performance and employee-related matters.

Rewarding and recognising our people

We thank and recognise our people throughout the year via our Extra Mile programme, while we celebrate their dedication and hard work at the annual AA Awards. In 2020, our awards event went virtual and to recognise outstanding achievements in an exceptional year, the theme was 'Pride of the AA'. We received more than 700 nominations, from which our judges chose 12 individual winners and three teams who really stood out.

Promoting health and wellbeing

In a year like no other, it was more important than ever that we supported the health and wellbeing of our colleagues. To help this, all line managers took part in a mental health awareness course provided by Mental Health First Aid England. We also participate in Mental Health Awareness Week and World Mental Health Day.

We also offer our people a range of wellbeing programmes. In addition to our Occupational Health Service, we have appointed more than 100 Mental Health First Aiders from our existing workforce across the business. They were all trained by Mental Health First Aid England to support colleagues and signpost them to our other wellbeing services. To address absence caused by musculoskeletal issues, we have introduced a self-referral programme which gives colleagues access to a range of physiotherapy and related services. Our people can also self-refer to our Emotional Wellbeing Service which offers a range of psychological therapies up to and including psychiatrist support for the most unwell. Meanwhile, our employee assistance programme offers free, confidential, 24/7 support for our people, both online and over the phone. Face-to-face or virtual therapy sessions are provided as required. Qualified counsellors provide support on a range of topics, including personal, work and family relationships. And we have recently introduced an enhanced Attendance Management Policy and Procedure alongside the IDU, which will help us provide even greater support for those who are unwell with serious health conditions.

Throughout the course of the COVID-19 pandemic we have provided a range of programmes and initiatives designed to promote wellbeing, including for those colleagues working from home and on furlough. This has included free 'virtual' exercise classes and cuppas, healthy living advice and live sessions with healthcare professionals on a range of issues.

Workforce statistics as at 31 January 2021

Overall employee workforce

8,105 (including agency/contractors)

6,988 (excluding agency/contractors)

Manager grade employee population

554

Executive Board population

6

Our commitment to safe and secure operations

Safety leadership is the foundation of our business and critical to the success of our safety culture and business outcomes. Whether ensuring the occupational safety and health of our people, our members or the wider community, we drive a safety-first approach.

This year in the context of COVID-19, more than ever, it has been imperative to ensure that we can continue to deliver the service our members and people deserve.

We put the safety and security of our people, customers and the public first

2020 achievements

- Awarded The Royal Society for the Prevention of Accidents (RoSPA) Gold award for demonstrating high health and safety standards
- Continued to lead the campaign to improve the safety of 'smart' motorways
- Our people have completed over 7,500 health and safety specific e-learning courses
- Achieved a reduction in our Accident Frequency Rate and Lost Time Incident Frequency rate. While inevitably impacted positively by a reduction and change in workload and the increase in homeworking, we also believe it to be as a result of an intensified focus on our safety working practices
- The number of RIDDOR reports is less than half of the previous year's and lower than any occasion in the last 10 years
- Maintained our record of zero fatalities

COVID-19 specific achievements

- 95% of office-based staff homeworking by Easter
- Enabled continuation of homeworking throughout the period, which has led to a comprehensive review of future ways of working across the AA
- All applicable recovery trucks now allow social distancing following the installation of Perspex screens fitted for the protection of our people and customers
- Around 100 recovery vehicle cab screens (with fitting guidance) distributed to garage partners to allow carriage of passengers

The challenges presented by COVID-19

We have proudly remained fully operational throughout COVID-19 helping our members and the wider community face this challenge together.

The AA has invested in robust controls from the outset of the pandemic and continued to go above and beyond to protect its people, its members and the wider community. We continue to dynamically risk assess our activity, re-evaluate the latest research and provide 'thought leadership' to ensure our safe systems of work remain effective.

What have we done?

We have completed site risk assessments for our indoor operations to ensure that a COVID-19 secure and compliant workplace could be maintained. Controls for our offices include but are not limited to:

- Limited numbers of our people remain based in offices in line with government guidance; where workers experienced mental health or technical/logistical issues when working from home, these have been supported empathetically on a case by case basis
- Reviewed airflows within buildings, offices and meeting rooms to detail air change frequency rates and determine which can be used safely and for how long, including the closure of all small meeting rooms
- Adjusted air handling units to ensure no recycling of air, bringing in fresh air only
- Initial closure of our canteen facilities; re-opening some as takeaways and offering a limited service in adherence with strict COVID-19 measures
- Enhanced cleaning regimes have been put in place
- Active monitoring (e.g. by COVID-19 marshals) to ensure procedures adhered to
- Provided COVID-19 kits, including hand sanitiser and wipes
- Rearranged available desk configuration and fitting where appropriate to enhance social distancing
- Monthly unannounced independent COVID-19 audits to ensure that all measures were adhered to
- For those returning to the workplace: COVID-19 e-learning plus induction with physical walk-through of local measures

Risk assessments were undertaken for home workers to identify appropriate controls. These have been continually reviewed to ensure that the most suitable controls are implemented to protect our people's health and safety. Controls for those working from home include but are not limited to:

- All staff went through a Display Screen Equipment (DSE) assessment despite the 'temporary' nature of working from home
- All home workers have a range of new equipment, including surge protected electrical extensions and fire extinguishers
- We put a significant focus on wellbeing initiatives and increasing the number of Mental Health First Aiders across the AA

We completed site risk assessments for our outdoor workforce to ensure a COVID-19 secure and compliant workplace could be maintained. Controls for our outdoor workforce include but are not limited to:

- Investment in changing operational processes where required; providing training, securing PPE and applying furlough where demand allowed (ensuring this was provided to our most vulnerable people first)
- Perspex barriers installed into recovery trucks to enable safe carriage of customers
- Supply chain leadership and coordination with NHS partners to maximise our own PPE capacity without undermining local NHS supply situation
- Our Safe Systems of Work have been shared proactively with garage partners and competitors
- Leadership at the industry level SURVIVE group and with DfT, Scottish Parliament and regional police forces to agree safe working practices across the country

The AA year ended 31 January 2021

Statement from the Independent Chair of the Health Safety & Environment Committee

I have reviewed the statements of the AA for the year ended 31 January 2021 which comprise the Environmental, Social and Governance Strategic Report.

In my opinion, the statements give a true and fair view of the state of the Company's affairs as at 31 January 2021.

Health and safety performance

Accident Frequency Rate

2018	35.8
2019	31.9
2020	23.7

The data above is calculated using the formula outlined in the HSE statistics guidance. Previously published figures used AA specific formula.

Total reportable incidents (RIDDOR)

Year	Number of RIDDOR reports
2010	172
2011	129
2012	106
2013	83
2014	78
2015	66
2016	71
2017	62
2018	53
2019	64
2020	31

Our commitment to society

Diversity and inclusion

We have a diverse workforce, so an inclusive workplace is critical. In 2020, we refreshed our diversity and inclusion (D&I) strategy to pull together the great work that is already happening across the business, and to do more of it.

The main aim of the new strategy is to celebrate who we are while enabling everyone to be their best. The strategy consists of three objectives:

- A diverse workforce that is representative of our current and future customers; one where we truly value and embrace differences of all kinds and realise how these contribute to a stronger business
- An inclusive workforce where people can bring their whole self to work and therefore can unlock their true potential and perform at their best
- Strong relationships with the diverse communities in which we operate, allowing us to understand local needs and promote us as an employer of choice

We've established six clear areas of focus – gender balance, ability, carers, pride, origins and generations – to bring together people with shared characteristics and backgrounds to push forward positive change in our business. Each community is being championed by a member of our Executive team, demonstrating clear commitment and ownership. Alongside these communities we have also nominated D&I allies, who are passionate about making a difference. Some of our successes in 2020 include:

- Celebrating eight key campaigns from International Women's Day to National Carers Week and Black History Month
- Launched Unconscious Bias training to all new employees and existing employees
- Designed and implemented a blind CV trial
- Developed a gender talent programme to support the development of senior female leaders

Creating value beyond our business

Our teams make a meaningful impact in the hundreds of communities they work in every day, from supporting community events and local fundraising to national charity days including Children in Need and Macmillan coffee mornings. We are also proud to use our technical knowledge and skills to support charitable events such as the Magical Taxi Tour and Bangers for Ben.

Supporting our wider community

This year, to support our customers and the wider community:

- Our 'Smart' motorway campaign persuaded the Government to agree to double the number of emergency refuge areas and won 'Best Public Affairs' campaign
- AA Signs have provided over 1,800 free signs, so far completing installation at nearly 200 sites to enable the national vaccination effort
- Our technical services team worked with Uber in the North East to fit screens within their vehicles to ensure these could continue working in the North East supporting key workers
- We have supported London Ambulance and East of England Ambulance Service with over 200 patrols and technicians to ensure that as many ambulances as possible are available to be on the road
- We have provided free breakdown cover during the first national lockdown to all NHS workers
- AA Trust scheme to help teenagers in care learn to drive rolled out via various community charities
- We have led the debate promoting Government to consider red flashing lights for breakdown vehicles, promoted 'slow down and move over', gave evidence to the Select Committee on e-scooters and young drivers

Social: Our focus for the year ahead

We will continue to put the safety and security of our people and our members first by:

- Continuing to drive employee engagement in the safety space to ensure that we mitigate the risks that affect our people
- Proactively engaging with our recognised Union, the IDU, to ensure that our people are engaged in the development and delivery of our strategy
- Developing our core health and safety IT systems to optimise accessibility, performance and MI capability
- Enhancing the quality of our risk assessments, safe systems of work and learning and development programmes
- Enhancing our pro-active hazard identification to deliver industry-leading effective safety controls
- Undertaking targeted risk-based safety awareness campaigns to reduce harm to our community, members, staff, suppliers and contracted parties
- The AA Trust is to launch major research and a campaign to raise awareness and save the lives of young drivers on rural roads
- One Life. One radio station. One hour: A radio show will be created, celebrating the life of one young driver who lost their life on one of UK's most dangerous rural roads. This will be broadcast between 2 and 3am on a Sunday, the exact time most crashes happen. It will then be used as a central theme of a national radio and awareness campaign targeting young drivers
- The Government will be held to account on their smart motorway 18-point action plan to enhance road safety for drivers and our patrols

We will also continue to help the wider society by:

- Promoting the actions of patrols who win commendations and show bravery in supporting emergency services and local communities
- Supporting Ambulance Services by keeping more ambulances on the road and highlighting where we have helped community vaccination centres with free signs
- Most of our sites will be involved in local employee charity support and volunteer initiatives
- Working with the AA Trust and other charities to help teenagers in care and care leavers learn to drive to enhance their mobility and self-esteem

We will create a workplace where everyone feels they can belong and do their best work by:

- Striving for a diverse, inclusive working environment by celebrating who we are and creating a workplace where everyone feels they can belong and do their best work. We'll deliver this through our six community groups, each of which has a clearly defined mission
- Ensuring the wellbeing of our colleagues across the AA by supporting their physical, mental, and financial health through services, benefits, information, and training
- Engaging colleagues, generating pride in being part of the AA through regular two-way communication, visible leadership, and recognising and celebrating great work

Governance

The corporate governance requirements are presented in the Governance section of this report.

Non-financial information statement

Reporting requirement	The AA's key policies and standards which govern our approach and controls
Environmental matters Further details in this report: › Our commitment to the environment P31 › Our commitment to safe operations P36 › Principal risk: health and safety P27	Health, Safety and Environmental Policy (E) Health, Safety and Environmental Management System (I) Sustainability and Social Responsibility Policy (E) Prevention and Control of Environmental Incidents Policy (I) Waste Management and Minimisation Policy (I)
Company employees Further details in this report: › Principal risk: outstanding service P26 › Diversity and inclusion P37 › Our commitment to our people P35 › Our commitment to safe operations P36	Business Standards Policy (I) Terms of Employment and Policy Guide (I) Working Time Policy (I) Absence policies including Absence Management, Maternity, Adoption and Family Leave (I) Learning, Development and Performance Policy, including Managing Performance, Performance and Development Behaviours (I) Equality and Diversity Policy (E) Health, Safety and Environmental Policy (E) Health, Safety and Environmental Management System (I) Sustainability and Social Responsibility Policy (E)
Social matters Further details in this report: › Our commitment to society P37 › Our commitment to our people P35 › Stakeholder engagement P28-29	Sustainability and Social Responsibility Policy (E) Treating Customers Fairly Policy (I) Vulnerable Customers Policy (I) The AA Charitable Trust (UK charity no.1125119)
Respect for human rights Further details in this report: › Diversity and inclusion P37 › Our commitment to society P37	Equality and Diversity Policy (I) Human Rights Policy (E)
Anti corruption and anti bribery Further details in this report: › Our commitment to a high performance culture and the highest standards of conduct P12-13	Anti-Money Laundering Policy (I) Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy (I) Conduct Risk Policy (I) Conflicts of Interest Policy (I) Financial Crime Policy (I) Insider and share policies, including Insider and Market Abuse, Insider Information Disclosure and Share Dealing Code Policy (I) Whistleblowers Policy (I)
Due diligence and outcome Further details in this report: › Risk Management Framework P25-27	Risk Management Framework Policy (I) Annual Internal Audit Plan (I) Risk Register (I) ISO 14001, ISO 9001 and ISO45001 certification for specified business areas (E)
Business model Further details in this report: › Our business model P4	
Non-financial key performance indicators Further details in this report: › Key performance indicators P14-15 › Our commitment to safe operations P36 › Our commitment to the environment P31	

I Group policies, standards and guidelines that are published internally only.

E Group policies, standards and guidelines that are published on theaacorporate.com.

The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved by the Board on 13 April 2021 and signed on its behalf by:

Kevin Dangerfield
Director

Directors' Report

The Directors present their report, together with the audited consolidated Financial Statements. This Directors' Report meets the requirements set out in the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and the Companies (Miscellaneous Reporting) Regulations 2018. Some disclosures are included in other sections of this Annual Report and Accounts (ARA) and are incorporated into this Directors' Report by way of cross-reference.

Index to Directors' Report and other required disclosures

Acquisitions and disposals	P71 (Notes to the Financial Statements)
Auditor information	P40 (Directors' Report)
Board of Directors	P40 (Directors' Report)
Carbon emissions	P32 (Strategic Report)
Directors' indemnities and insurance	P41 (Directors' Report)
Dividends	P79 (Notes to the Financial Statements)
Employee engagement	P41 (Directors' Report) and P35 (Strategic Report)
Employees with disabilities	P41 (Directors' Report)
Events after the reporting period	P95 (Notes to the Financial Statements)
Financial instruments	P87 (Notes to the Financial Statements)
FRC Corporate Reporting Review	P41 (Directors' Report)
Future developments	P4-8 (Strategic Report)
Going concern	P41 (Directors' Report)
Internal controls over financial reporting	P40 (Directors' Report)
People	P35 (Strategic Report)
Political donations and expenditure	P41 (Directors' Report)
Remuneration Report	P44-49 (Remuneration Report)
Risks affecting our business	P25-27 (Strategic Report)
Statement of corporate governance arrangements	P39-40 (Directors' Report)
Suppliers' payment policy	P41 (Directors' Report)

Statement of corporate governance arrangements

Following its de-listing from the London Stock Exchange on 10 March 2021, and subsequent conversion from a public to a private limited company, the AA Limited (the AA or the Company) is subject to the requirements for Large Private Companies under the Companies (Miscellaneous Reporting) Regulations 2018 and must include a statement of corporate governance arrangements in its ARA. The Company was fully compliant with the UK Corporate Governance Code 2018 (the Code) for the year ending 31 January 2021. We have set out below how we applied the overarching themes of the Code during FY21.

Directors' Report continued

The Code	Application during FY21
Board leadership and company purpose	› The Board is collectively responsible for the long-term sustainable success of the Company and builds successful relationships with a range of stakeholders through both formal and informal engagement › The Board has continued to keep Company culture under review › Effective workforce engagement during the year included Non-Executive Director (NED) and Executive Director attendance at employee meetings and forums Read more about how the Board has engaged with employees in our *Section 172 statement on P28-29*
Division of responsibilities	› There is a clear division of responsibilities between the Chair and Chief Executive Officer (CEO) and the division of responsibilities across the Board and its Committees is regularly reviewed and documented in Terms of Reference › There are certain matters that the Board delegates to the Executive Committee and other internal operating committees; key matters reserved for the Board include strategy, major policy updates, approval of major acquisitions and disposals, significant capital expenditure and financing matters, and approving the financial statements › The Board identified the following NEDs to be independent: Suzi Williams, Andrew Blowers, Steve Barber, John Leach, Mark Brooker and Cathryn Riley › The AA exceeded the Code requirement for more than half the Board to be independent NEDs, excluding the Chair, for the year ended 31 January 2021 › During FY21, the Board implemented a new process for approving external appointments and reviewing time commitments of Board members. The Nomination Committee considered requests from three NEDs and concluded that each NED would have sufficient time to meet their Board responsibilities. The Board was supportive of the additional skills and experience that these external appointments would bring to the AA
Composition, succession and evaluation	› The AA's Nomination Committee oversees the process for Board and senior management appointments, succession planning, and the annual Board evaluation › All Directors were subject to re-election at the 2020 AGM and were successfully re-elected by shareholders › Korn Ferry has continued to assist with developing a diverse succession plan for the Board, Executive Committee and other business-critical roles and a nominated deputy system has been put in place for effective succession planning › An evaluation of the Board, its Committees and the Chair was carried out in December 2020. As the AA was not a constituent of the FTSE 350 during FY21, it was not required to undertake an external evaluation under the Code. Nevertheless, the Nomination Committee carefully considered how best to work within the spirit of the Code, taking into account the needs and views of a variety of stakeholders. The Nomination Committee carried out an internal evaluation for FY21 and discussed the results
Audit, risk and internal control	› The AA's Audit Committee met regularly and fulfilled the requirements set out in the Code › During the year, the Audit Committee reviewed and made recommendations in relation to the preliminary final and interim financial results and disclosures to ensure that all information published in the Group's financial results was fair, balanced and understandable › The effectiveness and independence of the Group's external auditor, including its involvement with non-audit matters, was monitored throughout the year › The Audit Committee continued to assess the resourcing of the Internal Audit function and the adequacy of internal financial controls › A new Chief Risk Officer, Briony Horvath, was appointed during the year and the AA continues to develop our risk management framework. Read more about risk management on P25-27
Remuneration	› In line with the Code, the AA's Remuneration Committee, comprising independent NEDs, reviewed remuneration policies and practices to ensure that these were aligned with the Company's strategy and promoted its long-term sustainable success Read more about the work of the Remuneration Committee in our Remuneration Report on P44-49

Auditor information

The auditor of the Company is PricewaterhouseCoopers LLP. So far as each person serving as a Director of the Company is aware, at the date this Directors' report was approved by the Board there is no relevant audit information (that is, information needed by the auditor in connection with preparing its report) of which the Company's auditor is unaware. Each such Director confirms that he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Audit Quality Review

The FRC's Audit Quality Review (AQR) team routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. During the year, the AQR team selected to review the audit of the Group's financial statements for the year ended 31 January 2020. The Chair of the Audit Committee held discussions with the AQR prior to the review commencing, and the Audit Committee received a full copy of the findings. No significant matters arose from the review which required action, and the Audit Committee was therefore satisfied as to the quality of the audit.

Internal controls over financial reporting

The Audit and Risk Committees worked closely together to monitor the effectiveness of the Group's risk management framework and internal financial controls. It should be noted that the Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and they can only provide reasonable and not absolute assurance against material misstatement or loss. The Risk Committee received copies of all internal audit plans and reports. In addition to the Head of Internal Audit attending all Committee meetings, the chair of the Committee regularly met with the Head of Internal Audit.

Board of Directors

The Directors who served throughout the financial year ending 31 January 2021 were Steve Barber, Simon Breakwell, Andrew Blowers, Mark Brooker, Kevin Dangerfield, John Leach, Cathryn Riley and Suzi Williams. On 9 March 2021, following the acquisition of the Company 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), Steve Barber, Andrew Blowers, Mark Brooker, John Leach, Cathryn Riley and Suzi Williams resigned as Directors of the Company.

Directors' indemnities and insurance

The Company maintains appropriate Directors' and officers' liability insurance cover. The Company also grants 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 on P35.

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.

FRC Corporate Reporting Review

During the year, we were notified by the FRC's Corporate Reporting Review team that they had reviewed our FY21 Annual Report and Accounts. We satisfactorily responded to their enquiries and they noted no significant findings from their review, with any disclosure recommendations applied, as appropriate, in this report.

Going concern

The Group has £372m of Class A5 Notes due within 12 months of approval of the Annual Report and Accounts. 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 equity from the Consortium (see note 39 for further details). Given the significant deleveraging of the debt at both A Notes and B Notes level following the Acquisition, 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 (see Note 39) 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 consolidated 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 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.

Political donations and expenditure

No political donations were made during the year ended 31 January 2021 (2020: £nil). The AA has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined by relevant legislation.

Company re-registration

Following the Acquisition, which completed on 9 March 2021, the Company de-listed from the London Stock Exchange on 10 March 2021 and became a private limited company called AA Limited on 17 March 2021.

Suppliers' payment policy

It is the Company's policy to develop and maintain key commercial relationships with its suppliers and to obtain mutually agreeable payment terms. For the half year period ended 31 January 2021, the average time taken to pay invoices was 7 days. Further information can be obtained from the Government's payment practice reporting portal.

The Directors' Report has been approved by the Board on 13 April 2021 and signed on its behalf by:

Kevin Dangerfield
Chief Financial Officer

Directors' Responsibilities Statement

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 company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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 and the Directors' Remuneration Report comply with the Companies Act 2006.

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

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.

The Directors' Responsibilities Statement was approved by the Board on 13 April 2021 and signed on its behalf by:

Kevin Dangerfield
Chief Financial Officer

Remuneration membership and attendance

Committee members	Date appointed
Mark Brooker (Chair)	6 September 2019
Steve Barber	27 June 2018
Andrew Blowers	15 November 2019

All members ceased to be members of the Committee when they resigned as Directors on 9 March 2021.

Other attendees

The CEO, Chief People Officer and Reward Director and Deloitte LLP and Willis Towers Watson attended parts of Committee meetings by invitation in order to provide the Committee with additional context. As with all Board Committees, the Company Secretary acts as secretary and provides support and sufficient resources. Where necessary, the Committee has direct access to independent professional advisers to undertake their duties.

Willis Towers Watson was appointed as adviser to the Committee from September 2020.

No individual was present when their own remuneration was being determined.

Introduction

This Directors' Remuneration Report sets out to cover the required regulatory information in the context of the Remuneration Policy approved at the 2018 AGM, which received 76.23% votes in favour, and how our implementation of that policy fits with the ongoing strategic priorities of the Company and desired outcomes for our shareholders, and other key stakeholders, where appropriate.

As ever, the Committee closely follows the ongoing regulatory focus on executive remuneration, fairness and corporate culture. Over the past 12 months, the Committee has reviewed the Remuneration Policy and its implementation, taking account of the UK Corporate Governance Code 2018 (the Code) and associated Guidance on Board Effectiveness, and the Companies (Miscellaneous Reporting) Regulations 2018. We are committed to ensuring that the interests of the wider workforce, shareholders, and other key stakeholders are considered fairly, and in the context of expectations of the general public and welcome the greater degree of clarity and transparency that these changes bring.

On 25 November 2020, the Company announced that a cash offer had been received from 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 14 January 2021, 93.48% of our shareholders voted in favour of this offer, and the Scheme of Arrangement through which the Acquisition was effected (the Scheme) took effect on 9 March 2021.

In light of the Company's de-listing, only updates specifically relating to corporate governance changes have been made to the remuneration policy.

Over the course of the year, the Committee has considered and taken a number of significant decisions, in respect of Annual Bonus outcomes and the vesting of long-term incentive plans as a direct result of the sale and resulting de-listing of the Company.

The Committee strongly believes that it is important to reward performance fairly and transparently, whilst balancing executive outcomes with that of shareholder experience. Taking into consideration the tremendous effort of management to deliver an overwhelmingly positive result in respect of the recent shareholder vote on the sale of the Company, as well as a strong underlying performance in light of the COVID-19 pandemic, the Committee believes that the decisions it has taken in respect of remuneration outcomes have been balanced and fair.

Rationale for Committee decisions

Until the point of de-listing, the Committee continued to be responsible for all Executive remuneration matters, from the recruitment and retention of high calibre individuals, to the design of appropriate incentivisation mechanisms and the ongoing monitoring of performance against these, to ensure Executive outcomes are aligned with shareholder experience. Remuneration practices at the AA are designed to motivate the Executive and leadership team to achieve strategic objectives and to lead and incentivise all employees within the Company whilst delivering value for key stakeholders.

For the year ended 31 January 2021, Committee discussions took place against an uncertain political and economic backdrop as well as uncertainty around the future ownership of the Company. In determining performance outcomes for the Annual Bonus Plan, the Committee has taken into consideration the overall business performance as well as individual performance of Executive Directors and the bonus outcomes of the wider workforce. The Committee also considers risk and governance performance when determining outcomes.

As set out in the FY20 Directors' Remuneration Report, the Company confirmed that the Annual Bonus Plan and its operation would be reviewed at the beginning of H2 and that the maximum bonus potential for Simon Breakwell and Kevin Dangerfield for FY21 would be reduced accordingly.

Our full year results, which reflect a Trading EBITDA decline of c.2% on the prior year from £348m to £341m and net debt flat year on year at £2.6bn, demonstrate our commitment to delivering on the plan we set ourselves at the start of the year, amid challenging external trading conditions.

Key decisions taken in the year were in relation to:

FY21 Bonus outcomes

For further details, see P45.

All employee 'Thank You' gesture

In recognition of the tremendous collective effort of everyone in the Company, the Committee approved a special one-off 'Thank You' gesture of £400 per person. This was made in December 2020 to all employees of the Company outside of the Executive Committee and Executive Directors (subject to qualifying employment).

Vesting of PSP awards

In respect of the PSP17 award, the performance period of the final measure (TSR) ended on 26 October 2020. The Committee noted that TSR performance significantly underperformed the relevant metric and, as a result, it was determined that this measure was not met. As such, the PSP17 is expected to vest to the extent reported in last year's Annual Report, at 2% of the total award, being 24,279 shares in the case of Simon Breakwell. Kevin Dangerfield had no awards under the PSP17. Further details can be found on P45-46.

In respect of the PSP18 award, the performance of both the Trading EBITDA and Net Leverage ratio measures reached the end of their performance period on 31 January 2021 and it was determined that neither of these measures reached the minimum performance required to trigger vesting. Whilst the TSR measure would normally be measured in May 2021, the Committee determined that all PSP18 awards should lapse in their entirety on the date of the Court Sanction.

In respect of the PSP19 award, the Remuneration Committee did not make a final decision on the vesting level until shortly before the Court sanctioned the Scheme, but it made a preliminary assessment and awards vested in the upper half of the range. All outstanding options under the Performance Share Plan will lapse to the extent not exercised upon the expiry of one month following the Court Sanction of the Scheme.

No awards vested until the final Court Sanction date in respect of the Acquisition, at which time all vested shares were bought by the Consortium for 35p per share, except for those participants who elected for the Alternative Offer under the Scheme.

Board changes during FY21

There were no Board changes in the year ended 31 January 2021.

Key remuneration decisions and out-turns for FY21

- No salary increases were awarded to Executive Directors for 2020/21
- Salary and fee reduction of 15% for Executive and Non-Executive Directors from 1 May to 31 July 2020
- No awards made under the Performance Share Plan
- Since IPO, and in a time of challenging business performance, no long-term incentive schemes have paid out, with the exception of the 2% vesting of PSP17 awards, demonstrating that the interests of Executive Directors and the wider executive are aligned with those of our shareholders and poor performance is not rewarded
- The closure of the CARE section of the Company's defined benefit pension scheme to future accrual, with existing members moving to the defined contribution pension scheme from April 2020

Wider workforce pay arrangements

The Committee has continued to consider executive remuneration in the context of the Company's reward framework and of fairness across the organisation. As well as monitoring and reviewing the effectiveness of the approved Remuneration Policy and its impact and compatibility with remuneration practices for the wider workforce, the Committee has reviewed the frameworks and budgets for key components of employee pay arrangements, together with the broader structure of Group bonus provisions in seeking to achieve appropriate alignment with executive pay arrangements.

The Board has regularly received progress updates on a variety of employee engagement initiatives, including our annual 'Our Voice' cultural index survey, and in particular this year, our 'Ways of Working' survey, which has been conducted twice during the ongoing COVID-19 pandemic. These surveys give the wider workforce the opportunity to share their thoughts, feedback and suggestions.

The Committee has also received regular updates on progress in relation to the Company's gender pay gap and initiatives in place to reduce this gap over time. Whilst the Committee is mindful of the widespread gender imbalance that exists more generally within the automotive sector, it has been particularly pleased to note a number of initiatives launched by the Company over the past 12 months, particularly focused on improving the Company's gender balance. The Committee is pleased to see a year-on-year increase in the number of female apprentices across the Company, with females making up 43% of this year's apprentice cohort. In addition, the Committee notes the launch of the Company's 'Balance Network' which will be rolling out its first mentoring scheme to 20 female leaders from March 2021.

There were no annual pay awards for the wider workforce for the year ended 2021 as a direct result of the ongoing COVID-19 crisis.

Committee changes

Over the course of the year ended 31 January 2021 there were no changes to the Committee, save for its advisers.

Following a competitive process conducted during the year, it is noted that Willis Towers Watson were appointed as adviser to the Committee from September 2020.

Kevin Dangerfield

On behalf of the Remuneration Committee

FY21 remuneration at-a-glance

Trading EBITDA	S&P Rating	Net debt
£341m	**BBB-**	**£2.6bn**
2020[3]: £348m	2020: BBB-	2020: £2.6bn

How we implemented in FY21

Key component	Feature	Comments	Chief Executive Officer	Chief Financial Officer
Basic salary and core benefits	To attract, retain and motivate executives	No base salary increases were made to Executive Directors in the year. Executive Directors took a 15% base pay reduction for three months as a result of COVID-19 Benefits include retirement benefits, car and private medical benefits	**£760k**	**£433k**
Annual bonus	To incentivise the delivery of annual financial, strategic and operational objectives	Maximum bonus opportunity for the CEO is normally 150% base salary and 120% base salary for the CFO Maximum potential was reduced for the CEO to 100% and to 80% for the CFO as a direct result of the COVID-19 impact	**£539k**	**£253k**
Deferred element of bonus	To facilitate alignment with shareholders and aid in satisfying the minimum shareholding requirement	In light of the pending de-listing of the Company, there will be no element of deferral for the FY21 bonus	**N/A**	**N/A**
PSP[1]	To award for the delivery of performance against long-term strategic objectives and provide alignment with the interests of shareholders	No awards were made during FY21 PSP17 is expected to vest at 2% in line with the disclosure made in last year's report, but no awards vested until the date of the Court Sanction	**£8k**	**N/A**
Shareholding requirements[2]	Executive Directors are required to build and retain a minimum shareholding in the Company, built up over time		**35% of salary**	**0% of salary**

[1] Acquisition purchase price of 35p used for calculation.

[2] Share price on 31 January 2021 of 34.8p used for calculation.

[3] Trading EBITDA for the year ended 31 January 2020 has been restated due to a prior year error. See P73.

Annual report on remuneration

This section of the Directors' Remuneration Report sets out a summary of how the Company's Remuneration Policy was implemented in the year ended 31 January 2021.

Audited sections

The current regulations require the Company's auditor to report to the members on the 'auditable part' of this report (marked*) and to state, in its opinion, that this part of the report has been properly prepared in accordance with the Companies Act 2006.

The Committee reviews the framework for remuneration arrangements for its Executive Directors and other members of the Executive Committee on an annual basis.

The Committee continues to believe that remuneration packages for Executive Directors should be focused on variable rewards with challenging objectives, which are in line with the business, culture and customer needs.

Single figure of remuneration*

The table below provides a single figure of remuneration for each Executive Director for the year ended 31 January 2021. The information for Non-Executive Directors is included in the table on P48.

Director	Year	Salary £000	Taxable benefits[1] £000	Retirement benefits £000	Annual bonus[2] £000	Long term incentives[3] £000	Total fixed[4] £000	Total variable[5] £000	Total £000
Simon Breakwell	**2021**	**674**	**4**	**82**	**539**	**8**	**760**	**547**	**1,307**
	2020	700	4	82	825	–	786	825	1,611
Kevin Dangerfield[6]	**2021**	**395**	**14**	**24**	**253**	**–**	**433**	**253**	**686**
	2020	30	–	–	–	–	30	–	30

1 The components of taxable benefits include private medical insurance, permanent health insurance, life assurance and car related benefits.

2 Value of annual bonus payable in respect of the year and based on performance for the financial year.

3 The 2017 PSP award, which has elements based on performance in the period FY18 to FY20, was subject to TSR performance to 26 October 2020 and will vested at 2% on the date of the Court Sanction, 8 March 2021.

4 Total fixed remuneration includes base pay, taxable benefits and retirement benefits.

5 Total variable remuneration includes annual bonus and long-term incentives.

6 Kevin Dangerfield was not eligible to participate in the Annual Bonus Plan for the year ending 31 January 2020.

Base salary*

Year ended 31 January 2021

There were no increases to base salary for either Executive Director in the year ended 31 January 2021. In direct response to the COVID-19 pandemic, Executive Directors took a 15% base salary reduction for three months from 1 May to 31 July 2020. Average base salary increase for all other employees was 0%.

Year ending 31 January 2022

There will be no increase to base salary for Executive Directors.

Retirement benefits*

Year ended 31 January 2021

Cash payments in lieu of retirement benefit, equivalent to 11.7% of salary to Simon Breakwell and 6% of salary to Kevin Dangerfield.

Year ending 31 January 2022

There are no anticipated changes to retirement benefits for Executive Directors in the year ending 31 January 2022.

Short term incentive: annual bonus*

Year ended 31 January 2021

For the year ended 31 January 2021, the Annual Bonus Plan did not operate as normal, as a direct result of the impact of the COVID-19 pandemic. In reaching its decision in respect of Executive Director bonus outcomes for the year ended 31 January 2021, the Committee gave consideration to:

- Shareholder experience: dividend suspended and share price performance balanced by an offer to acquire the Company which was overwhelmingly supported by shareholders as the best outcome
- Employee experience: minimal workforce redundancies, furlough payments topped up to 100% of contractual pay, sick pay paid in full for COVID-19 cases, as well as an all employee 'Thank You' payment made in December 2020 and discretionary awards for high performers in the regular bonus scheme
- Government support: to date, c.£6.8m has been received through the Government's Coronavirus Job Retention Scheme. No additional government funding or loans were received by the Company
- *Action taken with regard to Executive remuneration during the year: PSP20 awards cancelled, 15% pay reduction for three months*

In taking all of the above into consideration, the Committee determined that the maximum bonus potential for FY21 should be scaled back from 150% to 100% for the CEO and from 120% to 80% for the CFO.

Annual bonus performance was assessed against a number of financial and strategic measures. The financial element was determined to have paid out at 54% of its maximum performance, with the Trading EBITDA underpin of at least £340m being achieved. The strategic element was assessed against a range of measures, including but not limited to the successful shareholder vote in respect of the Acquisition of the Company, strong business resilience in light of the COVID-19 pandemic and the successful re-financing exercise undertaken. The Committee therefore determined that 100% of the strategic element of the bonus would be paid out for both the CEO and the CFO.

Taking into account the strong underlying performance of the business, the enormous effort required to achieve the sale of the Company and continued progress against strategic objectives, the Committee determined that both Executive Directors were awarded a pay-out of 77% of the new reduced maximum. This resulted in payments of £539,000 for Simon Breakwell and £252,560 for Kevin Dangerfield, in both cases 51% of the original maximum bonus potential for FY21.

Share-based incentive plans*

Year ended 31 January 2021

As disclosed in last year's report, the TSR performance element of the PSP17 reached the end of its measurement period on 16 October 2020 and it was determined that the Threshold level of performance had not been achieved. As a result, the PSP award made in 2017 vested at 2% as disclosed in last year's report. Vested shares were not released until the date of the Court Sanction on 8 March 2021 and were purchased by the Consortium for 35p per share. As a result of this purchase, Simon Breakwell will receive c.£8,498 in exchange for his 24,279 vested shares.

PSP17 vesting outcomes

Measure	Weighting	Threshold[1]	Stretch (60% vest)	Maximum (100% vest)	End of performance period	Outcome	Estimated vesting (% of element)
Relative TSR	20%	TSR equal to FTSE 250 Index	TSR outperform FTSE Index +5% p.a.	TSR outperform FTSE Index +10% p.a.	26 October 2020	Not met	0%

[1] For threshold performance, the level of vesting for each element is as follows: (i) Trading EBITDA – 10% of element; (ii) Net Leverage Ratio – 10% of element; and (iii) Relative TSR – 25% of element.

[2] Subject to an additional adjustment based on TSR performance over the period 27 October 2017 to 26 October 2020. If TSR performance over the period is below the FTSE 250 Index, vesting outcomes will be scaled back by 10%. If TSR performance over the period is below the lower quartile of the FTSE 250, vesting outcomes will be scaled back by 50%.

As a result of the ongoing COVID-19 pandemic and the Acquisition, no PSP awards were made in the year ended 31 January 2021.

PSP vesting outcomes as a result of the Acquisition

The Remuneration Committee did not make a final decision on the vesting levels until shortly before the Court sanctioned the Scheme, but it made a preliminary assessment and determined that the vesting levels will be within the following ranges: awards granted in 2017 will vest at 2%; awards granted in 2018 did not vest; and awards granted in 2019 vested in the upper half of the range. All outstanding options under the Performance Share Plan will lapse to the extent not exercised upon the expiry of one month following the Court Order being granted.

In respect of the PSP18 award, the performance of both the Trading EBITDA (30%) and Net Leverage Ratio (20%) measures reached the end of their performance period on 31 January 2021. Whilst the TSR measure (50%) would normally be measured in May 2021, the Committee determined that no vesting should occur in respect of these awards and that all PSP18 awards lapsed in their entirety on the date of the Court Sanction.

Measure	Weighting	Threshold[1]	Stretch (60% vest)	Maximum (100% vest)	End of performance period	Outcome	Estimated vesting (% of element)
Trading EBITDA	30%	£370m	£385m	£415m	31 January 2021	240	0%
Net Leverage Ratio	20%	6.7x	6.4x	5.9x	31 January 2021	6.6x	0%

Outstanding PSP awards at 31 January 2021

	Grant date	Number of shares	Percentage vesting at threshold	Performance period	Vesting period	Holding period[5]
Simon Breakwell	27 October 2017[1]	1,148,606	See note below[2]	FY18 to FY20	FY18 to FY20	50% of any vested shares will be released on the 4th anniversary of the grant date, with the balance released on the 5th anniversary of the grant date
	7 November 2018[3]	1,157,024	25% of maximum	FY19 to FY21	FY19 to FY21	100% of any vested shares will be released on the 5th anniversary of the grant date
	30 October 2019[4]	2,200,000	25% of maximum	FY20 to FY22	FY20 to FY22	100% of any vested shares will be released on the 5th anniversary of the grant date

[1] The face value of the award, based on a 10-day average of 161.5 pence, is £1,855,000. This was equivalent to 247% of Simon Breakwell's annual interim salary for FY18. Relative TSR, which was measured from a starting price of 161.5p, is based on the 10-day average share price up to and excluding the grant date of 27 October 2017.

[2] Trading EBITDA – 10% of element; Net Leverage Ratio – 10% of element; and Relative TSR – 25% of element.

[3] The face value of the award, based on a 10-day average of 103.2 pence, is £1,194,130. This was equivalent to 171% of Simon Breakwell's annual salary for FY19. Relative TSR, which will be measured from a starting price of 117p, is based on the six-month average share price up to and excluding the grant date (7 May to 6 November 2018).

[4] The face value of the award, based on a 10-day average of 47 pence, is £1,050,000. This was equivalent to 150% of Simon Breakwell's annual salary for FY20. Relative TSR, which will be measured from a starting price of 66.83p, is based on the average share price from the beginning of the financial year on 1 February 2019 up to and including 18 October 2019).

[5] Any applicable holding period ceased to apply upon the Acquisition of the Company.

Year ending 31 January 2022

No awards were made up to the date of de-listing of the Company.

All-employee share plans*

Employee Share Incentive Plan (ESIP)

The ESIP is an all-employee, HMRC-approved scheme which enables eligible participants to purchase market-priced shares by entering into a partnership share agreement and holding such shares in trust for up to five years.

No Executive Directors participate in the ESIP.

Additional information

Shareholding requirements*

Executive Directors are required to build and retain a minimum shareholding in the Company equivalent to 200% base pay over a reasonable timeframe, typically within five years of appointment. All shares were purchased by the Consortium on the Acquisition completion date.

Further to the disclosure in last year's report, 20% of Simon Breakwell's FY20 annual bonus out-turn was invested in 295,346 of the Company's shares on 7 May 2020. Kevin Dangerfield was appointed as CFO and to the Board on 6 January 2020 and, as such, currently holds no shares in the Company.

Directors' share interests

The table below sets out the Directors' (and any relevant connected persons') share interests in the ordinary shares of the Company as at 31 January 2021.

	Holding requirement as a % of base pay	Shares held outright	ESIP – awards subject to holding period	PSP – awards subject to performance conditions[2]	Shareholding (% of salary)[3]
Simon Breakwell[2]	200%	719,930	–	4,505,630	35%
Kevin Dangerfield[4]	200%	–	–	–	0%

1 Includes 295,346 shares which were purchased on 7 May 2020 at a price of 29p as a result of the deferral of 20% of Simon Breakwell's bonus for the year ending 31 January 2020, which will be deferred for three years.

2 Includes PSP awards granted in October 2017, November 2018 and November 2019 under the 2015 PSP.

3 Based on the closing share price on 31 January 2021 of 34.8p.

4 Kevin Dangerfield was appointed to the role of CFO and to the Board on 6 January 2020.

Service contracts

The Executive Directors are employed under rolling service contracts that do not have fixed terms of appointment and are subject to a 12-month notice period.

Payments to past Directors*

There were no payments made to past Directors in the year ended 31 January 2021.

Payments for loss of office*

In the year ended 31 January 2021, there were no payments made to Executive Directors, past or present, in compensation for loss of office.

Advice and services provided to the Committee

Over the course of the year ended 31 January 2021, the Committee was advised on matters relating to executive remuneration by Deloitte LLP and Willis Towers Watson. Following a retender process, Willis Towers Watson was successfully appointed as adviser to the Remuneration Committee from 11 September 2020.

Deloitte LLP and Willis Towers Watson are both founding members of the Remuneration Consultants' Group and adhere to the Remuneration Consultants' Group's Code of Conduct.

The Committee deems the advisers to be independent from the Company, and the advice it received during the year to be appropriate and objective.

The fees paid for services are set out below:

Company	Nature of services	2021 £000	2020 £000
Deloitte LLP[1]	30%	**20**	116
Willis Towers Watson[2]	20%	**96**	–

1 Deloitte LLP ceased advising the Remuneration Committee on the appointment of Willis Towers Watson on 11 September 2020.

2 Willis Towers Watson were appointed as advisers to the Remuneration Committee on 11 September 2020.

Percentage change in CEO remuneration

The table below illustrates the percentage change in salary, benefits and annual bonus for the year ended 31 January 2021 for the CEO as against all other employees.

	% change in base salary	% change in benefits	% change in annual bonus
CEO[1]	-4%	0%	-35%
All employees[2]	0%	0%	7%

1 Change in base salary is as a result of the 15% base salary reduction between 1 May and 31 July 2020 which was applied to Executive Directors.

2 Change in base salary for employees is as a result of there being no annual pay award during FY21. The change in annual bonus represents the average bonus paid to eligible employees.

CEO pay ratio

The AA's business encompasses a very broad spectrum of services from roadside assistance to insurance, as well as driving schools and a car sales platform. As a result, our workforce is diverse and covers a number of sectors and skillsets.

In line with requirements published in June 2018 for companies with 250 employees or more, the table below sets out the CEO's 'single figure' total remuneration of £1,307k in relation to the median, 25th and 75th percentile total remuneration of their full-time equivalent UK employees. For the purposes of the ratios below, the CEO's total remuneration reflects the total single figure and salary for the year ended 31 January 2021, as disclosed on P45 of the report. The employee pay for the 25th percentile, median and 75th percentile data was calculated at 31 January 2021.

	Method	25%ile ratio	Median ratio	75%ile ratio
Ending 31 January 2021	**A**	**58:1**	**41:1**	**32:1**
Ending 31 January 2020	A	73:1	53:1	42:1

The Company has calculated the CEO pay ratio, using the Option A calculation method of comparing the full-time equivalent total remuneration of all UK-based employees for the relevant financial year. Due to the complexity of pay arrangements and diversity of sectors and skillsets of our workers, Option A is felt to provide a more accurate picture than either of the other two calculation mechanisms.

The Company considers the current median pay ratio to be well positioned in comparison with FTSE 250 companies, but is cognisant that it is open to fluctuation depending on outcomes of both short-term and long-term incentives received by the CEO from time to time and is committed to keeping a watching brief on year-on-year comparisons.

Relative importance of spend on pay

The difference in actual expenditure between 2020 and 2021 on remuneration for all employees in comparison with Trading EBITDA and distributions to shareholders by way of dividends is set out in the table below. It is noted that no dividends were paid to shareholders in FY21.

	2021 £m	2020 £m	
Total employee remuneration	**305**	316	-3%
Trading EBITDA	**341**	348[1]	-2%
Distributions relating to the year	**0**	4	-100%

[1] Trading EBITDA for the year ended 31 January 2020 has been restated due to a prior year error. See P73.

Comparing pay to performance

The table below shows the total remuneration paid to the CEO and/or Executive Chairman (as relevant) since admission.

		FY15	FY16	FY17	FY18[1]	FY19	FY20	FY21[2]
CEO single figure of remuneration	Simon Breakwell	–	–	–	£765k	£1,486k	£1,611k	**£1,307k**
	Bob Mackenzie	£1,113k	£1,557k	£1,369k	£469k	–	–	–
Annual bonus pay-out (% of maximum)[3]	Simon Breakwell	–	–	–	69%	64%	79%	**51%**
	Bob Mackenzie	100%	79%	57%	NIL	–	–	–
Long-term incentives vesting (% of maximum)	Simon Breakwell	–	–	–	n/a	n/a	n/a	**2%**
	Bob Mackenzie	n/a	n/a	n/a	NIL	–	–	–

[1] The figures shown for each individual in FY18 reflect part-year figures. Simon Breakwell was appointed on an interim basis on 1 August 2017 and this became permanent on 25 September 2017. Bob Mackenzie was dismissed on 1 August 2017.

[2] The PSP17 vested at 2%, although awards were not released until the Court Sanction date.

[3] Percentage is of normal maximum of 150%. Actual was 75% of the reduced maximum of 100% base pay.

Remuneration for Non-Executive Directors*

Remuneration for Non-Executive Directors (NEDs) is set by the Board, taking account of the commitments and responsibilities of the roles and their participation in the various Committees of the Company. The appropriateness of fees is reviewed on an annual basis. Fees have not increased since IPO.

The fees for NEDs for the year ended 31 January 2021 are set out in the tables below. NEDs are not eligible to participate in annual bonus, LTIP and retirement benefit arrangements.

	2021			2020		
Name	Fees[1]	Benefits £000	Total £000	Fees	Benefits £000	Total £000
John Leach	**265**	**–**	**265**	275	–	275
Steve Barber	**92**	**–**	**92**	95	–	95
Andrew Blowers	**133**	**–**	**133**	137	–	137
Mark Brooker	**91**	**–**	**91**	83	–	83
Cathryn Riley	**91**	**–**	**91**	95	–	95
Suzi Williams	**77**	**–**	**77**	102	–	102

[1] Non-Executive Directors took a fee reduction of 15% from 1 May to 31 July 2020 as a direct result of the COVID-19 pandemic.

Standard annual fees payable to the Non-Executive Chairman and NEDs are set out in the table below.

	FY21 fee	FY20 fee
Non-Executive Chairman	**£275,000**	£275,000
Senior Independent Director (SID)	**£12,500**	£12,500
Basic fee for other NEDs	**£80,000**	£80,000
Additional fee for chairing of Board Committee	**£15,000**	£15,000

Non-Executive Directors took a temporary 15% fee reduction for a period of three months from 1 May 2020. All fees reverted to 100% from 1 August 2020.

Non-Executive Director shareholdings*

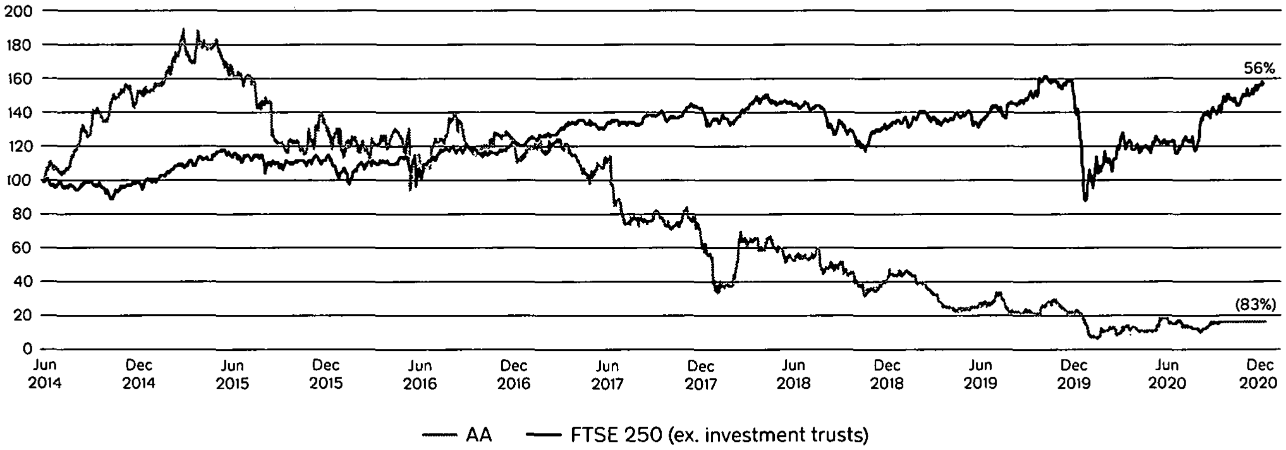
While there are no shareholding requirements for NEDs, this is encouraged within the Company. The table below details ordinary shareholdings of NEDs at 31 January 2021.

	Ordinary shares of 0.1p	
Name	31 January 2021	31 January 2020
John Leach	**90,000**	32,812
Steve Barber	**200,000**	200,000
Andrew Blowers	**63,945**	63,945
Mark Brooker	**19,221**	19,221
Cathryn Riley	**–**	–
Suzi Williams	**15,021**	15,021

On approval of the Court Sanction on 8 March 2021, all shares in issue, including those owned by Directors, were purchased by the Consortium for 35 pence per share, with the exception of those held by Andrew Blowers, who elected for the Alternative Offer.

The chart below illustrates AA Group's TSR performance against the FTSE 250 (excluding investment trusts) since Admission. This provides a general market reference point.

Value of £100 holding since admission



Non-Executive Directors – agreements for service

NED appointments are subject to a letter of appointment and the Company's Articles of Association (the Articles). They are expected to serve up to two three-year terms but may be invited by the Board to serve for an additional period. The relevant notice periods for each NED are set out in the table below; however, there are certain conditions under which the Company can terminate the agreement with immediate effect. NEDs receive no compensation payments for loss of office.

The length and time commitments of appointments for NEDs are reviewed on an annual basis.

The details of the NEDs' terms and dates of service contracts are set out below:

Name	Date of appointment	Date Post Resigned	Notice period
John Leach	26 June 2014	9 March 2021	6 months
Steve Barber	11 June 2018	9 March 2021	1 month
Andrew Blowers	25 September 2014	9 March 2021	1 month
Mark Brooker	10 July 2018	9 March 2021	1 month
Cathryn Riley	28 February 2018	9 March 2021	1 month
Suzi Williams	1 October 2015	9 March 2021	1 month

All NEDs resigned their posts on 9 March 2021 following the purchase of the Company by the Consortium.

This Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations) issued under the Companies Act, and the Code.

Voting regarding the 2020 Directors' Remuneration Report and the last approved Remuneration Policy were as follows:

	Votes for	Votes against	Votes withheld	Total votes
Remuneration Report (2020 AGM)	226,497,050	11,270,720	894,834	237,767,770
	95.26%	4.74%		
Remuneration Policy (2018 AGM)	328,112,738	102,326,671	2,746	430,439,409
	76.23%	23.77%		

The Remuneration Report has been approved by the Board and signed on its behalf by:

Kevin Dangerfield
Chief Financial Officer

Independent auditors' report to the members of AA Limited (formerly AA plc)

Report on the audit of the financial statements

Opinion

In our opinion:

- AA Limited (formerly AA plc)'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 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 Accounts (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 1.2 to the Group 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 to the Group.

Other than those disclosed in note 33 to the financial statements, we have provided no non-audit services to the Group 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 cashflows 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 1.2a 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

On 25 November 2020, the Board of AA plc recommended to its shareholders a cash offer of 35p per share from TowerBrook Capital Partners (U.K.) LLP and Warburg Pincus International LLC (together "the Consortium"). On 14 January 2020, the shareholders approved the acquisition, which successfully completed post year end on 9 March 2021. Following the completion of the acquisition, AA plc delisted from the London Stock Exchange and was re-registered as AA Limited. Throughout the course of the financial year to 31 January 2021, and up to the point of delisting, we reported matters relevant to our audit to the Audit Committee. Following the delisting, and prior to the formal creation of a new Audit Committee, we reported to the Directors.

Overview

Audit scope

- We conducted audit testing over eight 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 four components
- We obtained coverage of 92% 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)
- Valuation of insurance technical provisions (Group)
- Goodwill impairment assessment (Group)
- Investment in subsidiaries impairment assessment (Company)
- COVID-19 (Group and Company)

Materiality

- Overall Group materiality: £8.5m (2020: £8.75m) based on 4% of Operating Profit
- Overall Company materiality: £3.0m (2020: £3.0m) based on 1% of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3.0m
- Performance materiality: £6.3m (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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 preparation of 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, general insurance claims liabilities and subsidiary investment and goodwill impairment assessments, as described further in the Key audit matters below.
- 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' Remuneration Report and 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.

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.

Capitalisation of software development costs, which was a key audit matter last year, is no longer included because of our assessment that this is no longer a heightened audit risk. Otherwise, the key audit matters below are consistent with last 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 19.	
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 19). 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.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue in respect of the personal roadside business (Group) continued 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 19.	
	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.
Valuation of insurance technical provisions (Group) Refer to Note 1.3(n) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and Note 24 to the financial statements.	
The Group financial statements include liabilities for the estimated cost of settling general insurance claims. The insurance technical provisions contain both the outstanding claims provisions of £35m and the provisions for incurred but not reported claims of £12m. The Directors focused on this area due to the significance of these liabilities to the Group's statement of financial position and because of the inherent uncertainties present when estimating future claims development.	Our work to address the valuation of the insurance technical provisions was supported by our internal non-life actuarial specialists. We targeted the largest outstanding claims and evaluated the methodology and assumptions used by the Directors to estimate the most judgemental components of each claim. We obtained supporting documentation, deemed suitable in each instance, to support the most significant elements of the claims. We agreed that the judgements taken by the Directors were reasonable. We performed independent actuarial projections of the reserve requirements as at 31 December 2020, rolling forward our work to the year-end. These projections were carried out at varying degrees of granularity, including claim type and policy type projections, which were subsequently aggregated in order to produce our independent view. To allow for the impact of COVID-19 and the resultant change in experience, we adjusted our view of the expected loss ratios for the changes in road traffic volumes compared to a normal year, i.e. before COVID-19. We tested on a sample basis the underlying source data on which actuarial projections are based to supporting documentation.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance technical provisions (Group) continued Refer to Note 1.3(n) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and Note 24 to the financial statements.	
We focused, in particular, on: › The methodologies and assumptions used in estimating the outstanding claims provisions for general insurance products, in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; and › Whether the Directors' provision for incurred but not reported claims, which has been determined with the assistance of an external actuarial expert, has been prepared appropriately, including whether any trends in the underlying claims experience were appropriately reflected.	Within the booked reserve recognised in the financial statements there is a management loading on top of the actuarial best estimate which represents a margin for uncertainty. We challenged the Directors on the level of margin held as it falls towards the higher end of our reasonable range. We corroborated the explanations received to supporting data analyses and internal documentation shared with the underwriting company's Board, as well as considering the margin in the context of the maturity of the business, relevant peers and market conditions. We concluded that the year end insurance technical provisions are reasonable based on the independent projections performed and our assessment of the potential uncertainty present, and that they are consistent with financial reporting requirements and industry accepted practice.
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.
Investment in subsidiaries impairment assessment (Company) Refer to Notes 1.3(b) and 2 to the Company financial statements.	
The Company holds investments in subsidiaries of £140m after recording an impairment charge of £394m, representing AA Insurance Holdings Limited group (the underwriting business) and AA Mid Co Limited (which owns the rest of the Group). The Directors focused on the carrying value of these investments in light of the takeover offer for the Company, accepted by shareholders, of £218m.	We checked the Consortium's cash offer of 35p per share to publicly available documents approved by shareholders and recomputed the overall purchase price of £218m without exception. We tested the Directors' allocation of this value between the investments in subsidiaries held by AA Limited (formerly AA plc) Company, confirming the allocations reflected appropriate and consistent assumptions for each business (i.e. for the underwriting business and for the rest of the Group which includes all of the Group's external debt). This leveraged the Directors' calculations for the Group goodwill impairment assessment referred to above.

Independent auditors' report to the members of AA Limited (formerly AA plc) continued

Key audit matter	How our audit addressed the key audit matter
Investment in subsidiaries impairment assessment (Company) continued Refer to Notes 1.3(b) and 2 to the Company financial statements.	
In light of the material difference to the purchase price, the Directors determined a method, after deducting the Group's non-ring fenced available cash of £26m, of allocating the implied value to the Group's underwriting business proportionate to discounted cash flow projections with respect to the whole Group. No impairment of this investment was identified. The remainder of the implied value was allocated to the investment in the AA Mid Co Limited group and compared to the carrying value of this investment, resulting in an impairment of £394m.	*With regard to the interest cash flows, we evaluated the* appropriateness of the assumptions used with reference to market conditions immediately prior to the takeover offer being received. We found the assumptions applied to be reasonable and supported by external advice and consistent with the Group's forecasts prior to the Consortium offer. We checked the calculation of the impairment and were satisfied the impairment recorded in the year is appropriate. We also evaluated the related disclosures, including in relation to potential interest rate sensitivities, and were satisfied they were appropriate.
COVID-19 (Group and Company) Refer to Notes 1.2(a), 11, 24 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;* › The valuation of insurance technical provisions was updated to allow for the impact of COVID-19 and the resultant change in experience. Consideration of the impact on insurance technical provisions is described in the related key audit matter 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 goodwill and investment in subsidiaries impairment assessments 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. Our procedures in respect of the valuation of insurance technical provisions are set out in the key audit matter 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.

AA Limited (formerly AA plc) 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 Limited (formerly AA plc) Company, Automobile Association Developments Limited, Automobile Association Insurance Services Limited and AA Bond Co Limited. In addition, four legal entities were in scope for specific audit procedures, being AA Corporation Limited, AA Underwriting Insurance Company Limited, AA Senior Co Limited and AA Financial Services Limited. These four components were selected based on the contribution of each to specific financial statement line items, including intangible assets, accrued expenses, insurance technical reserves, 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	£8.5m (2020: £8.75m).	£3.0m (2020: £3.0m)
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 £3.0m.
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 £3.0m to ensure the Company did not have a higher materiality than the overall Group materiality allocation.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £3.0m to £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 approximately 75% of overall materiality, amounting to £6.3m 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 Audit Committee that we would report to them misstatements identified during our audit above £0.5m (Group and Company audits) (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.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, 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.

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.

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 and the part of the Directors' Remuneration Report to be audited 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 Audit Committee, 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
13 April 2021

Consolidated Income Statement
For the year ended 31 January

	Note	2021 £m	2020* £m
Revenue	2	**967**	993
Cost of sales		**(362)**	(393)
Gross profit		**605**	600
Administrative and marketing expenses		**(387)**	(346)
Other income	18	**-**	1
Operating profit	4	**218**	255
Finance costs	6	**(169)**	(155)
Finance income	7	**3**	5
Profit before tax		**52**	105
Tax expense	9	**(12)**	(20)
Profit for the year		**40**	85

Earnings per share from the profit for the year:	Note	2021 pence	2020* pence
Basic from total operations	10	**6.5**	13.8
Diluted from total operations	10	**6.4**	13.4

* Revenue, gross profit, operating profit, profit before tax, profit for the year and earnings per share for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

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

Consolidated Statement of Comprehensive Income
For the year ended 31 January

	Note	2021 £m	2020* £m
Profit for the year		**40**	85
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 gains on defined benefit schemes	27	**(50)**	39
Tax effect	9	**10**	(7)
		(40)	32
Total other comprehensive (loss)/income		**(39)**	30
Total comprehensive income for the year		**1**	115

* Profit for the year ended 31 January 2020 has been restated to correct a prior year error, see note 19.

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

Consolidated Statement of Financial Position
As at 31 January

	Note	2021 £m	2020* £m
Non-current assets			
Goodwill and other intangible assets	11	**1,353**	1,354
Property, plant and equipment	13	**53**	52
Right-of-use assets	14	**55**	69
Investments in joint ventures and associates	15	**5**	5
Financial assets at amortised cost	29	**4**	4
Deferred tax assets	9	**17**	9
		1,487	1,493
Current assets			
Inventories	16	**4**	4
Trade and other receivables	17	**304**	257
Proceeds of Class B3 Notes issuance held in escrow	20	**280**	–
Cash and cash equivalents	18	**185**	149
		773	410
Assets classified as held for sale	38	**–**	12
Total assets		**2,260**	1,915
Current liabilities			
Trade and other payables	19	**(556)**	(507)
Current tax payable		**(2)**	(7)
Borrowings and loans	20	**(637)**	(200)
Derivative financial instruments	22	**(1)**	–
Lease liabilities	31	**(18)**	(23)
Provisions	23	**(5)**	(5)
		(1,219)	(742)
Non-current liabilities			
Borrowings and loans	20	**(2,354)**	(2,506)
Derivative financial instruments	22	**(1)**	(2)
Lease liabilities	31	**(34)**	(43)
Defined benefit pension scheme liabilities	27	**(188)**	(162)
Provisions	23	**(7)**	(6)
Insurance technical provisions	24	**(47)**	(43)
		(2,631)	(2,762)
Liabilities classified as held for sale	38	**–**	(3)
Total liabilities		**(3,850)**	(3,507)
Net liabilities		**(1,590)**	(1,592)
Equity			
Share capital	25	**1**	1
Share premium	26	**412**	410
Own shares	26	**(23)**	(33)
Cash flow hedge reserve	26	**(1)**	(2)
Retained earnings	26	**(1,979)**	(1,968)
Total equity		**(1,590)**	(1,592)

* 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 19.

The financial statements were approved by the Board of Directors on 13 April 2021 and signed on its behalf by

Simon Breakwell
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

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

Consolidated Statement of Changes in Equity
For the year ended 31 January

	Share capital £m	Share premium £m	Own shares £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2019 as previously reported	1	408	(31)	–	(2,068)	(1,690)
Restatement* (see note 19)	–	–	–	–	(9)	(9)
At 1 February 2019 (restated*)	1	408	(31)	–	(2,077)	(1,699)
Profit for the year (restated*)	–	–	–	–	85	85
Other comprehensive income/(expense)	–	–	–	(2)	32	30
Total comprehensive income/(expense)	–	–	–	(2)	117	115
Dividends	–	–	–	–	(12)	(12)
Issue of share capital	–	2	–	–	–	2
Purchase of own shares	–	–	(2)	–	–	(2)
Equity-settled share-based payments (see note 36)	–	–	–	–	4	4
At 31 January 2020 (restated*)	**1**	**410**	**(33)**	**(2)**	**(1,968)**	**(1,592)**
Profit for the year	–	–	–	–	40	40
Other comprehensive (expense)/income	–	–	–	1	(40)	(39)
Total comprehensive income	–	–	–	1	–	1
Issue of share capital	–	2	–	–	–	2
Purchase of own shares	–	–	(4)	–	–	(4)
Settlement of share schemes	–	–	14	–	(14)	–
Equity-settled share-based payments (see note 36)	–	–	–	–	3	3
At 31 January 2021	**1**	**412**	**(23)**	**(1)**	**(1,979)**	**(1,590)**

* 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 19.

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

Consolidated Statement of Cash Flows

For the year ended 31 January

	Note	2021 £m	2020* £m
Operating activities			
Profit before tax		**52**	105
Amortisation, depreciation and impairment	11,13,14	**93**	89
Net finance costs	6,7	**166**	150
Difference between pension charge and cash contributions		**(19)**	(22)
Other adjustments to profit before tax		**5**	(11)
Working capital and provisions:			
Increase in trade and other receivables		**(52)**	(34)
Increase in trade and other payables		**41**	32
Increase in provisions		**5**	19
Total working capital and provisions adjustments		**(6)**	17
Net cash flows from operating activities before tax		**291**	328
Tax paid		**(15)**	(11)
Net cash flows from operating activities		**276**	317
Investing activities			
Capital expenditure		**(64)**	(69)
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		**(2)**	–
Interest received		**–**	1
Net cash flows used in investing activities		**(67)**	(70)
Financing activities			
Proceeds from borrowings	21	**525**	15
Issue costs on borrowings	21	**(8)**	–
Debt repayment premium and penalties	21	**(6)**	–
Repayment of borrowings	21	**(525)**	(43)
Refinancing transactions		**(14)**	(28)
Interest paid on borrowings		**(137)**	(129)
Acquisition of own shares		**(2)**	–
Payment of lease capital		**(27)**	(31)
Payment of lease interest		**(3)**	(4)
Dividends paid		**–**	(12)
Net cash flows used in financing activities		**(183)**	(204)
Net increase in cash and cash equivalents		**26**	43
Cash and cash equivalents at 1 February		**159**	116
Cash and cash equivalents at 31 January	18	**185**	159

* 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 19.

The cash flows from operating activities are stated net of cash outflows relating to adjusting operating items of £16m (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), transaction fees related to the Acquisition (see note 39) of £12m (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 £11m) include equity-settled share-based payment charge of £3m (2020: £4m), loss on sale of fixed assets of £2m (2020 profit: £5m), other income of £nil (2020: £1m) 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 Limited ('the Company') and its subsidiaries (together referred to as 'the Group'). AA Limited is a private company, limited by shares, and is incorporated and domiciled in England and Wales, UK. Prior to de-listing on 10 March 2021, the Company's ordinary share capital was listed on the London Stock Exchange.

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 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 the Company. The acquisition of the Company ('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 by the Company, 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 equity referred to above. The Directors understand that the outstanding £1,997m Class A Notes are trading at a price near par with yields 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 20).

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 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 was 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 years presented in these consolidated financial statements.

a) Interests in joint ventures and associates

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

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

b) Foreign currencies

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

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

c) Business combinations and goodwill

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

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

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

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

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.

1 Basis of preparation and accounting policies continued

1.3 Accounting policies continued

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.

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. Restricted cash is cash which is subject to contractual or regulatory restrictions.

Debt instruments

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

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

Equity instruments (share capital issued by the Group)

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

Derivative financial instruments

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

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

Cash flow hedges

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

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.

1 Basis of preparation and accounting policies continued

1.3 Accounting policies continued

i) Impairment of assets continued

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.

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 years; 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 year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year 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.

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 and provision for unearned premium.

Commission income from insurers external to the Group is recognised at the commencement of the period of risk on a point in time basis, with the Group acting as agent in this relationship. 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, broker acquisition costs are deferred. The Group also has insurance risk within the insurance underwriting segment on insurance products underwritten by the Group.

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.

The provision for outstanding claims relating to products with insurance risk within the insurance underwriting segment is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled, less amounts already paid by the reporting date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the statement of financial position date, which is set using statistical methods. Both outstanding claims and IBNR are not discounted for the time value of money.

1 Basis of preparation and accounting policies continued

1.3 Accounting policies continued

n) Insurance contracts continued

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within trade and other receivables and insurance contract liabilities respectively. Differences between the provisions at the reporting date and settlements and provisions in the following year are recognised in the income statement as they arise.

Reinsurance

The Group undertakes a programme of reinsurance in respect of the policies which it underwrites. Outward reinsurance premiums are accounted for in the same accounting period as the related inward insurance premiums and are included as a deduction from earned premium, and therefore as a reduction in revenue. The amount of any anticipated reinsurance recoveries is treated as a reduction in claims costs.

The Group has also entered into coinsurance arrangements in respect of certain policies that it underwrites. Premiums and claims in respect of coinsured policies are shown net of the coinsurer's share.

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 except where the risk is underwritten by the Group in which case aggregator fees are initially deferred then expensed over the duration of the policy. These costs are presented in the income statement within administrative and marketing expenses.

p) Adjusting operating items and adjusted earnings per share

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.

Adjusted earnings per share is a non-IFRS performance measure which adjusts profit after tax for items that are either discontinued operations, one-off in nature or relate to transactions that do not form part of the ongoing performance of the Group.

q) Finance income and costs

Finance costs comprise interest payable, finance charges on lease liabilities 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 prior 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.

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.

1 Basis of preparation and accounting policies continued

1.3 Accounting policies continued

v) Critical accounting estimates and judgements continued

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.

Insurance technical provisions

The Group's insurance technical provisions are an estimate of the expected ultimate cost of claims as at the statement of financial position date and the cost of claims incurred but not yet reported to the Group. The estimation of these claims is based on historical experience projected forward using actuarial projection methodologies which incorporate various assumptions. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

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.

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 as 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. This segment also includes the insurance underwriting and reinsurance activities of the AA.

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[1]	**799**	827
Insurance[1]	**168**	166
Revenue	**967**	993
Trading EBITDA		
Roadside[1]	**280**	285
Insurance[1]	**61**	63
Trading EBITDA	**341**	348
Share-based payments (see note 36)	**(4)**	(5)
Contingent consideration remeasurement gain	**–**	9
Pension service charge adjustment (see note 3)	**(5)**	(4)
Amortisation and depreciation (see notes 11, 13, 14)	**(93)**	(89)
Operating profit before adjusting operating items	**239**	259
Adjusting operating items (see note 5)	**(21)**	(4)
Operating profit	**218**	255
Net finance costs (see notes 6 and 7)	**(166)**	(150)
Profit before tax	**52**	105

* *The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.*

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.

	Roadside[1]		Insurance[1]	
Operating profit before adjusting operating items	2021 £m	2020* £m	2021 £m	2020* £m
Trading EBITDA	**280**	285	**61**	63
Share-based payments	**(3)**	(2)	**(1)**	(3)
Pension service charge adjustment	**(4)**	(4)	**(1)**	–
Contingent consideration remeasurement gain	**–**	–	**–**	9
Amortisation and depreciation	**(81)**	(79)	**(12)**	(10)
Operating profit before adjusting operating items	**192**	200	**47**	59

* The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

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 underwriting	**40**	28
› Insurance other[1]	**15**	18
Total Insurance	**168**	166
Revenue	**967**	993

* The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

[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. The majority of brokering activities revenue relates to commission income from insurers external to the Group, whereas insurance underwriting largely consists of premiums receivable on underwritten insurance products.

For further detail on the Group's revenue streams see the 'Our performance' section of the Annual Report on P16-19, and the 'AA Risk Management Framework' section of the Annual Report on P25-27 for the different risks associated with each.

3 Adjusted performance measures

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

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, adjusting operating items, share-based payments, pension service charge adjustments, 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:

		For the year ended 31 January	
	Note	2021 £m	2020* £m
Trading EBITDA	2	**341**	348
Share-based payments	36	**(4)**	(5)
Contingent consideration remeasurement gain		**-**	9
Pension service charge adjustment		**(5)**	(4)
Amortisation and depreciation	11,13,14	**(93)**	(89)
Adjusting operating items	5	**(21)**	(4)
Operating profit	4	**218**	255

* The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

Trading EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, legal costs and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of share-based payments, 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 stakeholders and management to more easily and consistently track the underlying operational performance of the Group and its business segments.

Adjusted earnings per share

Adjusted earnings per share adjusts profit after tax for items that are either discontinued operations, one-off in nature or relate to transactions that do not form part of the ongoing performance of the Group.

Adjusted profit before tax is included as a non-GAAP measure as it is used by management to evaluate performance and by investors to more easily and consistently track the underlying performance of the Group. Adjusted earnings per share is calculated as adjusted profit after tax divided by the weighted average number of shares in issue during the year.

	2021	2020*
Profit after tax as reported (£m)	**40**	85
Adjusted for:		
Adjusting operating items (see note 5) (£m)	**21**	4
Share-based payments (see note 36) (£m)	**4**	5
Contingent consideration remeasurement gain (£m)	**-**	(9)
Pension service charge adjustment (£m)	**5**	4
Adjusting finance costs (see note 6) (£m)	**20**	-
Adjusting finance income (see note 7) (£m)	**-**	(4)
Tax expense (see note 9) (£m)	**12**	20
Adjusted profit before tax (£m)	**102**	105
Tax at rate of 19% (2020: 19%) (£m)	**(19)**	(20)
Adjusted profit after tax (£m)	**83**	85
Weighted average number of shares outstanding (millions)	**611**	615
Adjusted basic earnings per share (pence)	**13.6**	13.8
Weighted average number of diluted ordinary shares (see note 10) (millions)	**621**	634
Adjusted diluted earnings per share (pence)	**13.4**	13.4

* The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

4 Operating profit

Operating profit is stated after charging:

	2021 £m	2020 £m
Amortisation of owned intangible assets (see note 11)	**55**	46
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
Transaction fees related to the Acquisition (see note 39)	**16**	–
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	**1**	(2)
Total adjusting operating items	**21**	4

In the current year, other adjusting operating items comprised a £2m 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 21).

6 Finance costs

	2021 £m	2020 £m
Interest on external borrowings	**136**	129
Finance charges payable on lease liabilities	**3**	5
Total ongoing cash finance costs	**139**	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 21)	**6**	–
Debt issue fees immediately written off following repayment of borrowings (see note 21)	**5**	–
Total adjusting cash finance costs	**11**	–
Unamortised debt issue fees written off following repayment of borrowings (see note 21)	**9**	–
Total adjusting non-cash finance costs	**9**	–
Total finance costs	**169**	155

During the current year, the Group issued £325m of Class A8 Notes in exchange for £325m of Class A5 Notes (see note 21). 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 21).

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**	–
Net gain on settlement of debt	–	4
Adjusting finance income	–	4
Total finance income	**3**	5

8 Employee costs

	2021 £m	2020 £m
Wages and salaries	**244**	254
Social security costs	**25**	26
Other pension costs	**32**	31
Share-based payments expense (see note 36)	**4**	5
	305	316

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	**1,290**	1,223
	7,221	7,536

9 Tax

The major components of the income tax expense are:

	2021 £m	2020* £m
Consolidated income statement		
Current income tax		
Current income tax charge	**15**	16
Adjustments in respect of prior years	**(1)**	–
	14	16
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	**12**	20

* The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

	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 charged directly to other comprehensive income	**(10)**	7

9 Tax continued

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

	2021 £m	2020* £m
Profit before tax	**52**	105
Tax at rate of 19% (2020: 19%)	**10**	19
Adjustments relating to prior years	**(1)**	-
Rate change adjustment on temporary differences	**(1)**	-
Expenses not deductible/(chargeable) for tax purposes:		
› Costs relating to share transactions	**3**	-
› Amounts relating to acquisitions and disposals	**1**	(1)
› Other non-deductible expenses/non-taxed income	**-**	2
Income tax expense reported in the consolidated income statement at effective rate of 23.1% (2020: 19.0%)	**12**	20

* The comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

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 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 expense recognised in the income statement	**2**	(4)
Tax 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 charge. 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.

The effective tax rate is higher than the standard rate of corporation tax as a result of one-off disallowable costs incurred in respect of the Acquisition of the Group's shares. Further costs of the Acquisition, to be incurred in the year ending 31 January 2022, are also expected to result in an effective rate above that of the standard rate for that financial year.

10 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2021	2020*
Basic earnings per share:		
Profit after tax from total operations (£m)	**40**	85
Weighted average number of shares outstanding (millions)	**611**	615
Basic earnings per share from total operations (pence)	**6.5**	13.8

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential dilutive ordinary shares.

Under the Group's Employee Share Incentive Plan, shares are purchased monthly at market value and therefore any dilution is immediately accounted for in the earnings per share. In addition, matching shares are issued monthly and placed into trust, therefore any dilution is immediately accounted for in the earnings per share and the issue of matching shares has no further dilutive effect. As at 31 January 2021, there are no outstanding shares to be issued under these schemes that are potentially dilutive.

As at 31 January 2021, the Performance Share Plan ('PSP') share scheme (see note 36) is considered to be potentially dilutive and is included in the diluted earnings per share below. There are no further classes of share that we believe will have a material dilutive impact as at 31 January 2021.

	2021	2020*
Weighted average number of ordinary shares in issue (millions)	**611**	615
Potentially dilutive shares (millions)	**10**	19
Weighted average number of diluted ordinary shares (millions)	**621**	634
Diluted earnings per share from total operations (pence)	**6.4**	13.4

* Earnings per share comparatives for the year ended 31 January 2020 have been restated to correct a prior year error, see note 19.

Adjusted earnings per share adjusts profit after tax for items that are either one-off in nature or relate to transactions that do not form part of the ongoing performance of the Group (see note 3).

11 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
At 1 February 2019	1,197	–	257	1,454
Additions	–	11	58	69
Disposals	–	–	(14)	(14)
At 31 January 2020	**1,197**	**11**	**301**	**1,509**
Additions	–	–	57	57
Reclassification	–	–	(2)	(2)
Disposals	–	–	(46)	(46)
At 31 January 2021	**1,197**	**11**	**310**	**1,518**
Accumulated amortisation and impairment				
At 1 February 2019	27	–	96	123
Amortisation	–	1	45	46
Disposals	–	–	(14)	(14)
At 31 January 2020	**27**	**1**	**127**	**155**
Amortisation	–	1	54	55
Disposals	–	–	(45)	(45)
At 31 January 2021	**27**	**2**	**136**	**165**
Net book value				
At 31 January 2021	**1,170**	**9**	**174**	**1,353**
At 31 January 2020	1,170	10	174	1,354

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 £45m (2020: £46m) 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 Reinsurance Company Limited, AA Underwriting Limited and Automobile Association Underwriting Services Limited for cash consideration of £6m. The combined net book value of net assets disposed of was £8m, which resulted in a £2m loss on disposal being recognised. The net outflow of cash to dispose of these subsidiaries was £2m.

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
Reclassification	–	(5)	–	5	–
Disposals	–	–	–	(10)	(10)
At 31 January 2020	24	7	4	80	115
Additions	–	–	–	11	11
Reclassification	–	–	–	2	2
Disposals	–	–	(4)	(18)	(22)
At 31 January 2021	**24**	**7**	**–**	**75**	**106**
Accumulated 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**	**–**	**36**	**53**
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	23	119	142
Additions	4	33	37
Disposals	–	(71)	(71)
At 31 January 2020	27	81	108
Additions	–	13	13
Disposals	(2)	(19)	(21)
At 31 January 2021	**25**	**75**	**100**
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	**21**	**34**	**55**
At 31 January 2020	24	45	69

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 (50% 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 50% 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**	143
Prepayments	**30**	24
Contract assets	**15**	16
Reinsurers' share of insurance liabilities (see note 24)	**86**	67
Other receivables	**11**	7
	304	257

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

Reinsurers' share of insurance liability comprises £52m (2020: £35m) in relation to the provision for unearned premiums and £34m (2020: £32m) in relation to claims outstanding.

18 Cash and cash equivalents

	2021 £m	2020 £m
Ring-fenced cash at bank and in hand – available	**119**	62
Ring-fenced cash at bank and in hand – restricted	**-**	40
Non ring-fenced cash at bank and in hand – available	**26**	27
Non ring-fenced cash at bank and in hand – restricted	**40**	30
Cash and cash equivalents as presented in consolidated statement of cash flows	**185**	159
Less: presented as assets held for sale (see note 38)	**-**	(10)
Cash and cash equivalents as presented in consolidated statement of financial position	**185**	149

Ring-fenced cash and cash equivalents relate to cash held within the Whole Business Securitisation (WBS) by AA Intermediate Co Limited and its subsidiaries. Dividends can only be paid to AA Limited when certain debt to Trading EBITDA and cash flow criteria are met.

Restricted cash is cash which is subject to contractual or regulatory restrictions. Restricted cash consists of £40m (2020: £38m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions, which generated £nil (2020: £1m) of other income. At 31 January 2020, restricted cash also included £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 21). Therefore, as it was no longer required, the excess cash was returned to available cash on 31 July 2020.

19 Trade and other payables

	2021 £m	2020* £m
Current		
Trade payables	**128**	112
Other taxes and social security costs	**25**	29
Accruals	**81**	59
Deferred income	**225**	231
Deferred consideration	**-**	1
Provision for unearned premiums in insurance underwriting (see note 24)	**62**	46
Other payables	**35**	29
	556	507

* 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	979	(1)	978	**995**	**(2)**	**993**
Consolidated statement of financial position						
Retained earnings	(2,068)	(9)	(2,077)	**(1,957)**	**(11)**	**(1,968)**
Deferred income	(233)	(10)	(243)	**(219)**	**(12)**	**(231)**
Current tax payable	(3)	1	(2)	**(8)**	**1**	**(7)**

20 Borrowings and loans

	2021 £m	2020 £m
Current liabilities		
Borrowings (see note 21)	**637**	200
Non-current liabilities		
Borrowings (see note 21)	**2,354**	2,506
	2,991	2,706

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 21).

At 31 January 2021, the £280m Class B3 Notes were contingent on the completion of the Acquisition (see note 21) 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 has completed (see note 39) 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 21). 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 39).

21 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total at 31 January 2021 £m	Total 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
Class B2 Notes	Repurchased	(5.50%)	(29)	1	(1)	**(29)**	(29)
		4.87%	**3,018**	**(66)**	**39**	**2,991**	2,706

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 4.87% 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.

21 Borrowings continued

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.

At 31 January 2021, the Company held £29m at principal value of repurchased Class B2 Notes in AA Bond Co Limited (2020: £29m). This is recognised by the Group as a reduction in borrowings and presented in a separate line in the above table. The asset was held by the Group outside of the WBS but was linked to the Class B2 Notes shown above which were issued by the Group within the WBS. The current restrictions of the WBS prevented the Class B2 Notes from being purchased by an entity within the WBS and cancelled through settlement.

On 10 March 2021, the Company released AA Bond Co Limited from the £29m Class B2 Notes described above and refinanced the remaining £541m outstanding Class B2 Notes using £261m cash injected as new equity from the Consortium and the £280m proceeds from the issuance of the Class B3 Notes which were released from escrow. There was no premium paid on repayment of the Class B2 Notes. See note 39 for further detail.

On 10 March 2021, the Group also refinanced its Senior Term Facility, Working Capital Facility and Liquidity Facility. See note 39 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.

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 39), 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.

22 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).

23 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.

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.

24 Insurance Underwriting

Reconciliation to segmental result

	2021 £m	2020 £m
Gross earned premium	**115**	70
Earned premium ceded to reinsurers	**(88)**	(48)
Net earned premium	**27**	22
Deferral of broker commission	**-**	(3)
Other income	**13**	9
Insurance Underwriting revenue (see note 2)	**40**	28

	2021 £m	2020 £m
Gross claims incurred	**(69)**	(63)
Less reinsurance recoveries	**44**	36
Net claims incurred	**(25)**	(27)
Ceding commission	**14**	10
Administrative costs	**(10)**	(6)
Deferral of broker acquisition costs	**3**	4
Insurance Underwriting costs	**(18)**	(19)

24 Insurance Underwriting continued

Reconciliation of movements in the provision for unearned premiums

	2021 £m	2020 £m
Gross unearned premiums at 1 February	**46**	26
Less: reinsurers' share of unearned premiums	**(35)**	(17)
Net unearned premiums at 1 February	**11**	9
Gross premiums written	**131**	90
Less: outward reinsurance premium ceded	**(105)**	(66)
Net premiums written	**26**	24
Gross premiums earned	**(115)**	(70)
Less: earned premium ceded to reinsurers	**88**	48
Net premiums earned	**(27)**	(22)
Gross unearned premiums at 31 January (see note 19)	**62**	46
Less: reinsurers' share of unearned premiums (see note 17)	**(52)**	(35)
Net unearned premiums at 31 January	**10**	11

Reconciliation of movements in claims outstanding

	2021 £m	2020 £m
Gross claims outstanding at 1 February	**43**	30
Less: reinsurers' share of claims outstanding	**(32)**	(22)
Net claims outstanding at 1 February	**11**	8
Gross claims incurred	**69**	63
Less: reinsurance recoveries	**(44)**	(36)
Net claims incurred	**25**	27
Gross claims paid	**(65)**	(48)
Less: received from reinsurers	**42**	25
Net claims paid	**(23)**	(23)
Gross claims outstanding transferred to liabilities held for sale (see note 38)	**–**	(2)
Reinsurers' share of claims outstanding transferred to assets held for sale (see note 38)	**–**	1
Net claims presented as held for sale	**–**	(1)
Gross claims outstanding at 31 January (see below)	**47**	43
Less: reinsurers' share of claims outstanding (see note 17)	**(34)**	(32)
Net claims outstanding at 31 January	**13**	11

Insurance technical provisions

	2021 £m	2020 £m
Outstanding claims provisions	**35**	36
Other technical provisions – provisions for incurred but not reported (IBNR) claims	**12**	7
	47	43

Provision is made for the estimated cost of claims incurred but not settled at the statement of financial position date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims.

The purpose of the outstanding claims provision is to ensure that adequate reserves are in place for claims where the incident has already occurred. It is calculated by aggregating the case reserves for all the claims that have already been reported to us, which are estimated by using the most up-to-date information available concerning each case.

The purpose of the IBNR reserve is to reflect the additional claims cost from claims incurred but not reported before the statement of financial position date. Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios.

The Group's results are not materially susceptible to changes within the assumptions used within the insurance technical provisions due to the reinsurance arrangements in place.

24 Insurance Underwriting continued

Claims development table as at 31 January

Incurred to date – gross claims	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
At end of underwriting year	16	16	23	45	49	
One year later	31	24	38	68	–	
Two years later	29	23	38	–	–	
Three years later	30	23	–	–	–	
Four years later	29	–	–	–	–	
Cumulative claims incurred	29	23	38	68	49	**207**
Claims paid	(28)	(21)	(32)	(51)	(28)	**(160)**
Gross claims outstanding	1	2	6	17	21	**47**

Incurred to date – net claims	2017 *£m*	2018 *£m*	2019 *£m*	2020 *£m*	2021 *£m*	Total *£m*
At end of underwriting year	2	7	7	18	18	
One year later	5	12	20	25	–	
Two years later	5	11	20	–	–	
Three years later	5	11	–	–	–	
Four years later	5	–	–	–	–	
Cumulative claims incurred	5	11	20	25	18	**79**
Claims paid	(5)	(10)	(18)	(20)	(13)	**(66)**
Gross claims outstanding	–	1	2	5	5	**13**

25 Share capital

	2021 £m	2020 £m
Allotted, called up and fully paid		
624,054,757 (2020: 616,734,346) ordinary shares of £0.001 each	**1**	1
	1	1

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

All movement in the number of shares relates to the issue of matching shares in relation to the Employee Share Incentive Plans (see note 36).

Other share types issued were as follows:

	2021 £000	2020 £000
Allotted, called up and fully paid		
60,000,000 (2020: 60,000,000) deferred shares of £0.001 each	**60**	60
	60	60

The deferred shares have no voting rights and are held in trust (see note 36).

26 Reserves

	Share premium £m	Own shares £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2019 as previously reported	408	(31)	–	(2,068)	(1,691)
Restatement* (note 19)	–	–	–	(9)	(9)
At 1 February 2019 (restated*)	408	(31)	–	(2,077)	(1,700)
Retained profit for the year (restated*)	–	–	–	85	85
Dividends paid	–	–	–	(12)	(12)
Purchase of own shares	–	(2)	–	–	(2)
Issue of shares	2	–	–	–	2
Equity-settled share-based payments (note 36)	–	–	–	4	4
Other comprehensive income:					
Remeasurement gains on defined benefit schemes (note 27)	–	–	–	39	39
Tax effect of remeasurement gains on defined benefit schemes (note 9)	–	–	–	(7)	(7)
Effective portion of changes in fair value of cash flow hedges	–	–	(2)	–	(2)
At 31 January 2020 (restated*)	**410**	**(33)**	**(2)**	**(1,968)**	**(1,593)**
Retained profit for the year	–	–	–	40	40
Purchase of own shares	–	(4)	–	–	(4)
Issue of shares	2	–	–	–	2
Settlement of share schemes	–	14	–	(14)	–
Equity-settled share-based payments (note 36)	–	–	–	3	3
Other comprehensive income:					
Remeasurement losses on defined benefit schemes (note 27)	–	–	–	(50)	(50)
Tax effect of remeasurement gains on defined benefit schemes (note 9)	–	–	–	10	10
Effective portion of changes in fair value of cash flow hedges	–	–	1	–	1
At 31 January 2021	**412**	**(23)**	**(1)**	**(1,979)**	**(1,591)**

* 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 19.

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 March 2020, the Directors resolved to suspend the final dividend, thereby leaving total dividend payments of £4m in respect of the 2020 financial year, reflecting total dividends of 0.6p per qualifying ordinary share. The Company did not pay a dividend in the year ended 31 January 2021.

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.

27 Pensions continued

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)

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.

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.

27 Pensions continued

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.

The Group's pension schemes have not borne any costs related to the Acquisition of the Group (see note 39).

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)	–	(1)	–
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)**	**–**	**–**

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

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.

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 amounts 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)	**185**	149
Trade receivables (see note 17)	**162**	143
Proceeds of Class B3 Notes issuance held in escrow (see note 20)	**280**	-
Reinsurers' share of insurance liabilities (see note 17)	**86**	67
Contract assets and other receivables (see note 17)	**26**	23
Total financial assets	**743**	386

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 22)	**1**	2
Financial liabilities at fair value through profit or loss		
Derivative financial instruments (see note 22)	**1**	-
Financial liabilities at amortised cost		
Trade payables (see note 19)	**128**	112
Other payables and accruals (see note 19)	**116**	88
Borrowings (see note 20)	**2,991**	2,706
Deferred consideration (see note 19)	**-**	1
Lease liabilities (see note 31)	**52**	66
Insurance technical provisions (see note 24)	**47**	43
Total financial liabilities	**3,336**	3,018

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 22)	**1**	**1**	**–**	**–**
Interest rate swap derivatives (note 22)	**1**	**1**	**–**	**–**
Liabilities for which fair values are disclosed				
Loan notes (note 21)	**2,791**	**2,978**	**–**	**–**

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 22)	2	2	–	–
Liabilities for which fair values are disclosed				
Loan notes (note 21)	2,706	2,746	–	–

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.

30 Financial risk management objectives and policies continued

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

Market risk

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

The 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	**(2,844)**	(2,772)
Net exposure to fixed rate instruments	**(2,560)**	(2,768)
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.

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	143	129	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

30 Financial risk management objectives and policies continued

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	**519**	**661**	**2,012**	**352**	**3,544**
Derivative financial instruments	**1**	**1**	**-**	**-**	**2**
Lease liabilities	**21**	**14**	**10**	**21**	**66**
Other payables and accruals	**116**	**-**	**-**	**-**	**116**
Insurance liabilities	**35**	**7**	**5**	**-**	**47**
Trade payables	**128**	**-**	**-**	**-**	**128**
	820	**683**	**2,027**	**373**	**3,903**

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	322	813	1,529	516	3,180
Derivative financial instruments	–	2	–	–	2
Obligation under finance leases	25	15	16	26	82
Other payables and accruals	88	–	–	–	88
Insurance liabilities	30	7	5	1	43
Deferred consideration	1	–	–	–	1
Trade payables	112	–	–	–	112
	578	837	1,550	543	3,508

Insurance risk

The Group is exposed to insurance risk through its underwriting activities. The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling. For further detail regarding insurance risk, refer to P26 of the Annual Report.

Capital management

As noted in the Financial Review on P20-24, the Group considered its capital to be a combination of Net Debt and equity until the de-listing on 10 March 2021 (see note 39).

	2021 £m	2020 £m
Total Net Debt	**2,605**	2,645
Equity (valued at close on 31 January)	**217**	295
Total capital	**2,822**	2,940

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

› to provide an adequate return to shareholders

The relative priorities of these objectives are discussed on P10-13 and P22-23.

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:

	Covenant	2021 £m	2020 £m
Class A Notes		**1,997**	2,197
Senior Term Facility		**200**	–
Less: AA Intermediate Co Limited group 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[2]		**27**	39
Net Whole Business Securitisation (WBS) Debt[3]		**2,675**	2,704
IFRS 16 lease adjustment for WBS lease obligations[4]		**22**	24
AA Limited group lease obligations[5]		**3**	3
Class B2 Notes repurchased by AA Limited		**(29)**	(29)
Less: AA Limited group cash and cash equivalents[6]		**(66)**	(57)
Total Net Debt		**2,605**	2,645
AA Limited Trading EBITDA		**341**	348
AA Intermediate Co Limited Trading EBITDA[7]		**319**	338
	Covenant		
Net Debt ratio[8]		**7.6x**	7.6x
Class B leverage ratio[9]		**8.4x**	8.0x
Senior Leverage ratio[10]		**6.5x**	6.2x
Interest cover[11]		**2.5x**	2.6x
Class A Free Cash Flow: Debt Service[12]	>1.35x	**2.5x**	3.4x

[1] Principal amounts of the Senior Term Facility and Class A Notes less AA Intermediate Co Limited group cash and cash equivalents.

[2] 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.

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

[4] 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.

[5] Total lease obligations for the Group excluding the value reported as the AA Intermediate Co Limited group lease obligations.

[6] Total cash and cash equivalents for the Group excluding the value reported as the AA Intermediate Co Limited group cash and cash equivalents.

[7] AA Intermediate Co Limited group Trading EBITDA including discontinued operations as required by the debt documents based on frozen GAAP.

[8] Ratio of Total Net Debt to AA Limited Trading EBITDA.

[9] Ratio of Net WBS Debt[3] to AA Intermediate Co Limited group Trading EBITDA.

[10] Ratio of Net Senior Secured Debt[1] to AA Intermediate Co Limited group Trading EBITDA.

[11] *AA Limited Trading EBITDA divided by total ongoing cash finance costs (see note 6).*

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

The Senior Term Facility and Class A Notes have interest cover covenants attached to them. The Group was in compliance with all covenants throughout the year and as at 31 January 2021.

The Group includes regulated companies which are required to hold sufficient capital to meet acceptable solvency levels based on the relevant regulators' requirements. In addition, 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).

Further details on our policies and processes for managing capital as well as the thresholds set for the covenants above are set out in the Financial Review on P20-24.

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**	**21**	23	25
Between one and five years	**21**	**24**	27	31
After five years	**13**	**21**	16	26
Total minimum lease payments	**52**	**66**	66	82
Less amounts representing finance charge	**–**	**(14)**	–	(16)
Present value of minimum lease payments	**52**	**52**	66	66

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 £0.8m (2020: £0.6m).

In addition, fees for non-audit services provided by the Company's auditors were £0.6m (2020: £0.1m), relating to audit-related assurance services and in the prior year included other advisory 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 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.

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, the Executive Committee and the Non-Executive Directors. With effect from 1 February 2020 Non-Executive Directors are included in the definition of key management personnel.

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**	5
Share-based payments (see note 36)	**1**	1
Total compensation paid to key management personnel	**6**	6

* This number has been restated to include the Non-Executive Directors as per the new definition.

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**	–
Share-based payments – Longacre LTBP	**–**	1
Total cash-settled share-based payments	**1**	1
Total share-based payments expense	**4**	5

Following the Acquisition of the Company (see note 39), 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.

Shares held in trust

As at 31 January 2021, the following shares were held in trust:

	Ordinary shares	Deferred shares
Ocorian – Employee Benefit Trust (EBT)	12,524,269	60,000,000
Equiniti – ESIP	11,567,837	–
Total shares held in trust	24,092,106	60,000,000

Employee Share Incentive Plans

The Group has 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 the Company 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.

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 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.

36 Share-based payments continued

Performance Share Plan (PSP) continued

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 Group's Insurance businesses. These awards vest to specified threshold pound sterling values. The vesting conditions for each threshold are linked to the performance of the Group's Insurance businesses. The award date for this scheme was 23 January 2019.

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

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

The total expected value of shares to be awarded under this scheme is £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 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 a material 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 material impact on the financial statements.

38 Assets and liabilities classified as held for sale

At the prior year end, AA Underwriting Limited, Automobile Association Underwriting Services Limited and AA Reinsurance Company 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
Reinsurers' share of insurance liabilities	–	1
Other receivables	–	1
Cash and cash equivalents	–	10
	–	12

The liabilities classified as held for sale were:

	2021 £m	2020 £m
Accruals	–	1
Insurance technical provisions – gross claims outstanding	–	2
	–	3

39 Events after the reporting period

The Acquisition

On 25 November 2020, the board of directors of Basing Bidco Limited ('Bidco'), 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'), agreed with the Board of Directors of the Group the terms of a recommended cash acquisition pursuant to which Bidco would acquire the entire issued and to be issued ordinary share capital of the Group ('the Acquisition'). The Acquisition was completed on 9 March 2021 and the Company's ordinary shares were de-listed from the London Stock Exchange on 10 March 2021. The Company 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 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 21). 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 the Company (see note 21) were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing.

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.

Transaction fees and expenses

As part of the Acquisition, both the Group and Bidco have incurred transaction fees and expenses in an aggregate amount of c.£77m. Approximately £27m of these costs are incurred by the Group of which £16m had been expensed as adjusting operating items as at 31 January 2021 (see note 5), and £4m were refinancing costs and were capitalised as issue costs for the refinancing of the Class B3 Notes (see note 21). Bidco is expected to incur costs of c.£50m, of which £6m were refinancing costs and were capitalised as issue costs for the Class B3 Notes (see note 21). The remaining costs will be incurred in the year ended 31 January 2022 and will be expensed as adjusting operating items. Bidco has made a further equity injection of £17m towards these costs, with the remainder expected to be met using cash from the Group.

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. See the Directors' Remuneration Report on P43-46 for more information.

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 first quarter of 2022.

Company Statement of Financial Position
As at 31 January

	Notes	2021 £m	2020 £m
Non-current assets			
Investments in subsidiaries	2	**140**	531
Financial assets at amortised cost	3	**-**	26
		140	557
Current assets			
Trade and other receivables	4	**1**	14
Cash and cash equivalents	5	**25**	26
		26	40
Assets classified as held for sale	2	**-**	1
Total assets		**166**	598
Current liabilities			
Trade and other payables	6	**(3)**	–
Total liabilities		**(3)**	–
Net assets		**163**	598
Equity			
Called up share capital	7	**1**	1
Share premium		**412**	410
Own shares		**(23)**	(33)
Retained earnings		**(227)**	220
Total equity		**163**	598

The loss for the financial year of the Company is £436m (2020: loss of £294m).

The financial statements were approved by the Board of Directors on 13 April 2021 and signed on its behalf by

Simon Breakwell
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

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

Company Statement of Changes in Equity
For the year ended 31 January

	Share capital £m	Share premium £m	Own shares £m	Retained earnings £m	Total £m
At 1 February 2019	1	408	(31)	522	900
Loss for the year	–	–	–	(294)	(294)
Dividends	–	–	–	(12)	(12)
Issue of share capital	–	2	–	–	2
Purchase of own shares	–	–	(2)	–	(2)
Share-based payments	–	–	–	4	4
At 31 January 2020	**1**	**410**	**(33)**	**220**	**598**
Loss for the year	–	–	–	(436)	(436)
Issue of share capital	–	2	–	–	2
Purchase of own shares	–	–	(4)	–	(4)
Settlement of share schemes	–	–	14	(14)	–
Share-based payments	–	–	–	3	3
At 31 January 2021	**1**	**412**	**(23)**	**(227)**	**163**

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

1 Presentation of financial statements and Company accounting policies

1.1 Presentation of financial statements

AA Limited ('the Company') is a private company, limited by shares, incorporated and domiciled in England and Wales, UK. Prior to de-listing on 10 March 2021, the Company's ordinary shares were traded on the London Stock Exchange. 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 material impact on the financial statements.

1.3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years 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.

b) Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment.

The cost of share-based payments settled by the Company in respect of employees of its subsidiaries are accounted for as a capital contribution and are therefore reflected as an addition to the cost of the investments in subsidiaries.

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

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

c) Financial instruments

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

d) Critical accounting estimates and judgements

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

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

Investments

The Group tests the investment balances for impairment 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 (see note 2 for details).

2 Investments in subsidiaries

	2021 £m	2020 £m
At 1 February	**532**	822
Charge for the share incentive schemes	**3**	4
Disposal of subsidiary AA Reinsurance Company Limited	**(1)**	–
Impairment	**(394)**	(294)
At 31 January	**140**	532
Less: presented as assets held for sale	**–**	(1)
Investments in subsidiaries as presented in the Company statement of financial position	**140**	531

In the year ended 31 January 2021, there was a decrease in investments in subsidiaries of £392m (2020: decrease of £290m). This was the result of an impairment of £394m in the year, which is described in more detail below (2020: £294m). This was partially offset by a £3m increase (2020: £4m) relating to the fair value of equity-settled share-based payments granted (see note 36 of the Group financial statements).

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 Company has two directly held subsidiaries, AA Insurance Holdings Limited which owns the Group's underwriting business and AA Mid Co Limited which owns the rest of the Group. At 31 January 2021, the shareholders of the Company had accepted an offer on its share capital valuing the Company's market capitalisation at £218m.

After deducting the Group's non ring-fenced available cash of £26m from the £218m offer price, an allocation of the remaining implied value was assigned to the Group's underwriting business proportionate to its discounted cash flow projections with respect to those of the whole Group. This valuation allocation for the Group's underwriting business was then compared to the carrying value of its investment balance. No impairment of this balance was deemed necessary.

2 Investments in subsidiaries continued

The remainder of the market valuation was then allocated to the Company's investment in the AA Mid Co Limited group and compared to the carrying value of this investment. This indicated an impairment of £394m. This impairment has been reflected in the carrying value of the Company's investments in subsidiaries as at 31 January 2021.

The recoverable amounts of the investments were 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.

Due to the short-term risks specific to the Group and industry in place at 31 January 2021, the Company considered it appropriate to continue applying a value in use model using forecast dividend cash flows from its investments (a 'dividend distribution' model), consistent with the final valuation model used in the year ended 31 January 2020. This model assesses the cash flows available to the parent company from its investment in the subsidiaries. In this dividend distribution model, the cash flow projections of the underlying investments include cash outflows relating to financing costs (i.e. interest) and taxation, a departure from the traditional value in use model described in IAS 36 which was used in the years prior to the year ended 31 January 2020. The model also reflects an assessment of future refinancing and interest costs that the Group expects to arise as its existing debt is refinanced over the next five years.

IAS 36 considers that the appropriate discount rate for a value in use calculation should reflect the current market assessments of the time value of money. Having reviewed this model and its results, and given that the current market valuation of the Group as at 31 January 2021 was known, the Company determined that the use of this model and the implicit discount rate could reasonably be expected to reflect an investor's assessment of the return required given the specific Group, industry and macroeconomic conditions and risks in existence at the year end.

There is significant judgement over which assumptions are most appropriate to apply in these circumstances and as to whether a dividend distribution model or a traditional enterprise value less debt value in use model is the most appropriate. The use of the dividend distribution model and its inputs were specific to conditions in existence at the Company's year end and may no longer be appropriate in subsequent years should these conditions no longer exist. Specifically, the Company considers the primary driver for the accepted offer price and value of the implicit discount rate to be due to the risks in existence at 31 January 2021 of the Class B2 Notes securitised against AA Mid Co Limited and their refinancing. After year end, the conditions associated with this suppressed valuation have been removed by the redemption of the Class B2 Notes on 10 March 2021.

IAS 36 permits the reversal of impairment losses when there have been favourable events or changes in circumstances since the loss was recognised. On this basis, given the deleveraging and refinancing of the B2 Notes, the new Senior Term Facility, Working Capital Facility and Liquidity Facility and further deleveraging expected with the support of the Consortium, we would expect future cash flow generation to be increased significantly. These changes in circumstances will be taken into account in our impairment review in future years.

The valuation allocation to the Company's investment in AA Mid Co Limited is sensitive to changes in forecast cash flows dependent on interest rate assumptions on future refinancings of the Group's debt. Sensitivity testing was performed to analyse the changes in valuation allocation in different interest rate scenarios.

Scenario	Implied impairment of investment in AA Mid Co Limited £m	Change in impairment £m
Interest rates on new borrowings -1%	**389**	(5)
Interest rates as per 5-year plan	**394**	–
Interest rates on new borrowings +1%	**400**	6

Disposal of investment in subsidiary

During the current year, the Company disposed of its investment in AA Reinsurance Company Limited, a direct subsidiary undertaking of the Company. This subsidiary undertaking related to an insurance business in run-off, and was presented as assets held for sale at the prior year end.

3 Financial assets at amortised cost

	2021 £m	2020 £m
Non-current		
Listed corporate debt	–	26
	–	26

Listed corporate debt comprises Class B2 Notes in AA Bond Co Limited. The Class B2 Notes have an expected maturity date of 31 July 2022 and pay interest at a fixed rate of 5.5%.

On 10 March 2021, the Company released AA Bond Co Limited from the Class B2 Notes. At 31 January 2021, these have therefore been impaired from their carrying value of £27m to their recoverable amount of £nil.

4 Trade and other receivables

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings	–	13
Other receivables	**1**	1
	1	14

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

5 Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	**25**	26
	25	26

6 Trade and other payables

	2021 £m	2020 £m
Amounts owed to subsidiary undertakings	**3**	–
	3	–

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

7 Called up share capital

	2021 £m	2020 £m
Allotted, called up and fully paid		
624,054,757 (2020: 616,734,346) ordinary shares of £0.001 each	**1**	1
	1	1

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up. The Company has no authorised ordinary share capital.

The movement in the number of shares in the current year is in relation to the matching shares for the Employee Share Incentive Plans (see Group financial statements – note 36 for further information on these shares).

The Company has 60 million deferred shares in issue (2020: 60 million) which are held in trust and have no voting rights.

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	England and Wales, UK/A	Ordinary
AA Bond Co Limited[1]	Jersey/B	Ordinary
AA Corporation Limited	England and Wales, UK/A	Ordinary
AA Financial Services Limited	England and Wales, UK/A	Ordinary
AA Intermediate Co Limited	England and Wales, UK/A	Ordinary
AA Mid Co Limited[2]	England and Wales, UK/A	Ordinary
AA Senior Co Limited	England and Wales, UK/A	Ordinary
AA Technical Solutions Limited	England and Wales, UK/A	Ordinary
A A The Driving School Agency Limited	England and Wales, UK/A	Ordinary
AA Underwriting Insurance Company Limited	Gibraltar/D	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
Longacre Claims Limited	England and Wales, UK/A	Ordinary and B shares

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 Insurance Holdings Limited[2]	England and Wales, UK/A	Ordinary
AA Ireland Pension Trustees DAC	Ireland/E	Ordinary
AA Newco Limited[4]	England and Wales, UK/A	Ordinary
AA Pension Funding GP Limited	Scotland, UK/C	Ordinary
AA Pension Funding LP[3]	Scotland, UK/C	Membership interest
Automobile Association Holdings Limited	England and Wales, UK/A	Ordinary and deferred redeemable non-voting special dividend
Automobile Association Insurance Services Holdings Limited	England and Wales, UK/A	Ordinary
Automobile Association Services Limited	England and Wales, UK/A	Limited by guarantee
Accident Assistance Services Limited	England and Wales, UK/A	Ordinary
Intelligent Data Systems (UK) Limited	England and Wales, UK/A	Ordinary
Personal Insurance Mortgages and Savings Limited	England and Wales, UK/A	Ordinary
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 AA Limited; 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.

Registered office key

A – Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England

B – 22 Greenville Street, St Helier, Jersey, JE4 8PX

C – 20 Castle Terrace, Edinburgh, EH1 2EN, Scotland

D – First Floor, Grand Ocean Plaza, Ocean Village, Gibraltar

E – 6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland

9 Auditor's remuneration

The fee for the audit of these financial statements was £0.8m (2020: £0.6m). See also note 33 of the consolidated financial statements.

10 Employee costs

The Company had no employees or employee costs in the current or prior year. However, the Company has incurred costs in respect of the NEDs of £1m (2020: £1m).