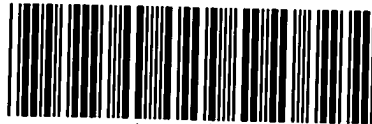


AA ANNUAL REPORT & ACCOUNTS 2023

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COMPANIES HOUSE

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STRONG FINANCIAL AND OPERATIONAL PERFORMANCE WITH GROWTH STRATEGY DELIVERING ACCELERATING RESULTS.

“ I am very pleased to report continued strong financial performance in my second year at the AA, delivering accelerating growth and business transformation in the face of a challenging external environment. External factors made for a difficult business setting in FY23, but the strength of our membership-based business model, together with our service ethos and quality of people saw the AA make material strategic progress and continue to serve our members when they needed us most.”

Jakob Pfaudler, AA CEO

Revenue

£1,044m

(2022: £989m)

Profit/(loss) before tax

£76m

(2022: £(23)m)

Operating profit

£203m

(2022: £119m)

Adjusted EBITDA¹

£393m

(2022: £383m)

Net cash flow from operating activities

£263m

(2022: £214m)

Personal members and business customers

13.9m

(2022: 12.0m)

Total motor and home policies

1,855,000

(2022: 1,923,000)

Total greenhouse gas emissions

35,776

(2022: 34,211)

¹ Non-Generally Accepted Accounting Principles (Non-GAAP) measures explained on page 21

STRATEGIC REPORT



CHAIR'S STATEMENT

The last twelve months have witnessed a challenging macroeconomic environment which has acted as a call to arms for all our colleagues at the AA as we strive to go above and beyond for our customers. Against this external backdrop it has been pleasing to see that our business transformation has accelerated and has begun to deliver significant upgrades to organisational capability, culture and infrastructure, now resulting in accelerating growth and profitability.

Delivery of these early promises has been the primary focus of the Board along with the development of an effective risk management approach.

In 2022 we also launched our first ESG Report outlining our strategy aligned to People, Planet and Communities, underpinned by strong governance and ambitious targets. We are committed to be net zero for our own emissions by 2035 and to increase representation in our Executive and Senior Leadership Team populations to 40% for gender diversity and 10% for ethnic diversity by 2026.

As a Board of Directors, we are pleased that the AA continues to receive strong support from its shareholders who have enabled continued investment to drive sustainable growth.

Thank you to all of our colleagues. Quite simply, the progress we have made this year would not be possible without the resilience, dedication and commitment of our people.

“FY23 has been a hugely successful year for the AA, building on the strong momentum established in FY22”

Rick Haythornthwaite
Chair



CEO'S STATEMENT

In the second year under new ownership and management of the AA, we had another year of strong financial and operational performance with growth in membership, revenue and Adjusted EBITDA¹ across the Group. We demonstrated highly resilient and recurring revenues, an ability to offset inflationary cost pressures and as a result, generated strong operating cash flow. We continued to provide our customers with exceptional service and made excellent progress with our transformation programme, despite a challenging external environment.

We are ever more excited about the future for the business and I would like to highlight the key achievements of FY23.

Strong progress in a challenging macro environment

FY23 turned out to be a year with more macroeconomic challenges than anticipated, including material cost inflation, labour shortages and ongoing supply chain disruptions. Against this backdrop, we are proud to have consolidated our market leadership in Roadside Assistance, with more than 40% share of the UK consumer market and 60% share of the B2B market and effectively managed our cost base to mitigate the impact of inflation. Our 2,700 dedicated patrols rescue 3.2m customers at the roadside each year, more than any of our competitors, fixing 4 in 5 vehicles at the roadside with unrivalled service levels.

This year, we were also delighted to be awarded an unparalleled fifth consecutive Which? Recommended Provider rating, recognising not only the breadth of knowledge and the courtesy of our patrols, but also commenting on the effectiveness of our contact centre agents.

Alongside growth in Roadside Assistance, we have further built on our wide portfolio of complementary businesses supporting customers across their driving lifecycle including growing our AA and BSM Driving schools, our Insurance businesses, our in-house service, maintenance and repair (SMR) garage services and our AA Cars and Financial Services businesses.

Accelerating growth in Roadside Business to Consumer and Business to Business

In our Roadside business, we delivered growth in both revenue and Adjusted EBITDA¹, with margins remaining strong. Paid membership holdings increased by 2.4% to 3.252m (2022: 3.177m) enabled by our transformed web journey delivering a 2% improvement in conversion rate. Our investment in core IT platforms and further enhanced customer value management enabled an improvement on our renewal rate to 84.4% (2022: 84.1%), under our new retention measure, despite cost-of-living pressures and supported by our market-leading service at the roadside. Under the old measure, retention rate was 80.3% (2022: 80.8%).

During the year we have revised the basis of average income per paid personal member to include motor insurance income from members. Under this new basis, average income per paid personal member has increased in the year by £5 to £190 (2022: £185) reflecting targeted pricing actions, strong brand stretch and early success of our cross-sell focus. Under the old basis, average income per paid personal member has increased by £7 to £176 (2022: £169).

In our B2B business we acquired two significant new breakdown assistance contracts from NatWest and Nationwide, increasing our business customer holdings to 10.6m (2022: 8.8m). Through these partnerships, customers will receive our award-winning roadside assistance services which they can access fully through digital channels, including the AA app. In addition, we successfully retained or extended all our major core roadside contracts which were due for renewal this year, including

¹ Non-Generally Accepted Accounting Principles (GAAP) measures explained on page 21.

HIGHLIGHTS

Revenue

£1,044m

(2022: £989m)

Breakdowns attended

3.18m

(2022: 3.07m)

Adjusted EBITDA¹ margin

38%

(2022: 39%)

Paid personal members

3.252m

(2022: 3.177m)

Adjusted EBITDA¹

£393m

(2022: £383m)

Business customers

10.6m

(2022: 8.8m)

amongst others JLR, VWG, Ford, Suzuki, Lotus, Arval, Hertz, Zenith and Admiral. Overall income for B2B grew by 6.2% reflecting the significant increase in holdings, the benefit of higher pay-for-use income from the breakdowns we serviced and the additional services that we provided in supporting our motor manufacturing partners.

Continued investment and improvement in customer service and operations

We continue to invest in growing the number of patrols we have on the road, adding approximately 130 during FY23 allowing us to increase the proportion of AA Patrol attendance, rather than a third-party partner, when compared to FY22. That resulted in an improved number of first-time fix rates, getting our members on their way sooner. We also almost doubled the proportion of remote (phone) fixes through our enhanced data capabilities providing our members with a faster fix at a lower cost to the AA.

We continue to invest in digitising our customer journeys and encouraging customer adoption. Customers reporting a breakdown via the app without any interaction with our call centre increased by 15% year on year to 40% with our new B2B customer accounts at NatWest and Nationwide being added to our existing digitally connected breakdown reporting capability.

Insurance growth despite external pressures

Our motor policy book returned to growth with a 4% increase, finishing the year on 1,073,000 policies (2022: 1,027,000) carefully balancing growth with profitability and management of claims inflation. Our home book decreased by 13% to 782,000 (2022: 896,000), following a strategic prioritisation of motor insurance growth in a challenging Insurance environment. During the year, we continued to make improvements in our customer journey which helped to deliver consistent and healthy cross-sell conversions into our Roadside business with a third of all new business now simultaneously buying roadside cover.

At the end of FY22, we successfully implemented changes in our pricing models in order to comply with the requirements of the FCA's GIPP rules, whilst continuing to drive new business volumes and increase customer value. Our total average income per insurance policy remained stable at £78 (2022: £78) with lower broker income being offset by our in-house underwriter and other insurance business income.

Driven by the challenging external environment, Adjusted EBITDA¹ in our Insurance business reduced by £15m to £55m (2022: £70m). The Underwriting business remained profitable but was negatively impacted by the inflationary environment that emerged during the year, causing an increase in claims costs, in common with the industry. In addition, we experienced lower motor renewal commissions following our implementation of the GIPP regulations at the end of the prior year.

The in-house underwriter business remains well capitalised under the Solvency II capital requirements. Our Solvency Capital Requirement (SCR) coverage was 189% (2022: 186%) as at 31 October 2022.

Accident Assist, our in-house claims management proposition launched in FY21, is performing strongly from a volume and margin perspective. Accident Assist services are actively marketed to our B2C membership base, which has improved further following the launch of an electronic accident notification to our AA App. The growth in non-fault claims volumes through this business is providing the insurance business with a natural hedge against increasing claims cost in our in-house underwriter.

Strong performance in developing businesses

Our SMR business increased volumes driven by our B2C proposition, Smart Care and our B2B clients. We continue to provide SMR services to LeasePlan and secured Lex Autolease and Novuna as new clients during FY23. We successfully launched our first Autocentre in Dartford in the first half of the year, as we begin to expand into more areas of the SMR value chain and utilise the strength of our brand.

Driving Schools benefitted from pent up demand for driving lessons following the easing of Covid-19 restrictions. Our driving instructor base grew by 22% from 2,420 to 2,957, as we successfully increased awareness for our driving instructor programme resulting in a 40% increase in the number of instructors trained in FY23. AA Cars, our online used cars and vans platform, continued on its recovery trajectory, despite the continued suppression of the UK used car market, driven in part by longer wait times for new cars as production failed to meet demand with manufacturers experiencing their own supply chain issues.

The Drivetech business remains stable despite the termination of one speed awareness contract in the year.

Strong support from our shareholders

Following Warburg Pincus and TowerBrook Capital Partners' acquisition of the AA in March 2021, we have continued to invest in the future of the AA, whilst maintaining a deleveraging trajectory. Capital investment of £79m in FY23 (2022: £77m) has gone into core re-platforming across Roadside and Insurance, improving our digital and data infrastructure and developing new propositions for our B2B and B2C customers.

Progressing with our Strategy

Our long-term strategic vision is to build a unique ecosystem of propositions that creates confidence for drivers, now and for the future. We continue to believe that the strategy we outlined in FY22 sets us on the right course:

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

Horizon 1: Optimising the core

Horizon 1 activity focuses on the most critical current value levers to deliver membership and revenue growth and improve operating efficiency. Horizon 1 activity is well underway and is now delivering tangible commercial and operational results.

Digital activity in Horizon 1 has been focused on improving customer journeys to optimise conversion, enhance persistency and streamline customer value management. Redesigning customer journeys, in addition to improving our pricing and customer communication, has led to conversion and retention rate improvements for the Roadside business. Within Insurance, we launched the BEAM Insurance brand in May to increase the Broker footprint and we have leveraged new data sources to further expand the Underwriter footprint. We are continuing to improve efficiency and productivity by digitising customer journeys and streamlining processes. We have continued to invest in our underlying systems, infrastructure and digital capabilities. 40% of consumer breakdowns are now reported digitally, either online or through the AA app, enabling us to improve customer outcomes effectively and improve efficiency. The core Roadside re-platforming programme has been completed with the vast majority of policies now on the new platform and our insurance business transitioning to a new platform in FY24.

Horizon 2: Extending the business

Horizon 2 initiatives are focused on extending current products and services to meet our customers' ever-changing needs and access a wider target revenue pool in doing so. As the transition to Electric Vehicles (EVs) gains speed we are future-proofing our patrol force, with 72% of patrols now trained to EV Level 2 and we will continue to invest in training our patrols to EV Level 3 in FY24. In FY23 we launched an EV Driving School proposition offering new drivers the opportunity to learn how to drive in an EV. Looking forward, we are developing solutions to support our EV customers whether it be from point of purchase or during journeys, for example, by assisting them to address 'range anxiety'.

This year we launched a digital proposition for our Accident Assist service where customers can report an accident via our app. In November, we introduced a new webchat capability in our contact centres, offering our customers a quick and easy way to get in touch with us, driving improved customer outcomes and operating efficiency.

We have also invested in the research and development of vehicle data-based propositions and are expecting to launch the first proposition to the market in FY24. This proposition innovation allows us to move ahead of the market and leverage our group assets in new ways.

The AA's impact on society and the planet is important and our Environmental, Social and Governance (ESG) activities are a vital part of our business. We believe we have a key role in helping to reduce the environmental impact of driving, both through adapting our own operations and supporting our customers in adapting their activities. We have included in our reporting our key environment, social and corporate governance updates. However, this is just a small part of what we do and we will be releasing our second annual ESG report in the coming months to share our progress on ESG activities in the last twelve months.

Horizon 3: Monetising innovation

In Horizon 3, we will build new propositions capitalising on opportunities across the automotive and mobility value chains, using our proprietary assets such as historical breakdown data and leveraging our relationships with third parties. We have started to progress here with our investment in vehicle data capture and insights and expect to ramp up our activities in this space over the coming years.

“FY23 has been a year like no other for the AA, with a challenging external environment combined with growing internal ambition and momentum. In this context the accelerating growth and impact of our new strategy has been heartening and bodes well for the future. I am ever more convinced that the future is bright for the AA, with wonderful opportunities for further service enhancement, accelerating growth and new business extensions.”

Jakob Pfaudler
CEO

GROUP AT A GLANCE

We are the leading provider of roadside assistance services in the UK, with a successful insurance business and propositions across the driving category.

ROADSIDE

Roadside Assistance

- ▶ UK's largest provider of B2C and B2B roadside assistance
- ▶ Largest UK fleet of c.2,700 highly trained patrols
- ▶ In-house recovery fleet of >400 patrols

Driving Services

- ▶ Market-leading driving schools, AA Driving School and BSM
- ▶ Drivetech driver education business, including driver awareness courses offered by police forces
- ▶ Prestige, our in-house service, maintenance and repair (SMR) platform with AA autocentre and 750+ network garages

Revenue

£878m

(2022: £822m)

Adjusted EBITDA margin

38%

(2022: 38%)

Adjusted EBITDA¹

£338m

(2022: £313m)

Paid personal members

3.252m

(2022: 3.177m)

Share of UK consumer market

>40%

(2022: >40%)

Business customers

10.6m

(2022: 8.8m)

Share of business to business market

>60%

(2022: >50%)

¹ Non-Generally Accepted Accounting Principles (Non-GAAP) measures explained on page 21

INSURANCE

Insurance Broker & Underwriter

- › Insurance broker business operating a panel of motor and home policy distribution
- › In-house underwriter (outside Intermediate Co Group) leveraging AA proprietary data, supporting broker
- › Multi-brand offer under AA and BEAM brands

Financial and Insurance Services

- › AA Cars platform enabling customers to buy used cars and vans
- › Market-leading in-house claims management proposition, Accident Assist
- › Distribution partnership with Bank of Ireland for other financial services products

Revenue

£166m

(2022: £167m)

Adjusted EBITDA margin

33%

(2022: 42%)

Adjusted EBITDA¹

£55m

(2022: £70m)

Insurance policies broker

1,855,000

(2022: 1,923,000)

Motor policies broker

1,073,000

(2022: 1,027,000)

Home policies broker

782,000

(2022: 896,000)

Underwritten policies

1,006,000

(2022: 1,018,000)

Motor policies in-house underwriter

593,000

(2022: 576,000)

Home policies in-house underwriter

413,000

(2022: 442,000)

OUR BUSINESS MODEL

Our business model spans the motoring lifecycle from the moment our customers learn to drive, securing their first car and keeping them on the road and when they choose to buy or sell a car. Our operation sets us up as a market leader in the automotive sector with leading business units in roadside assistance, insurance, service, maintenance & repair and driving schools.

LEARN TO DRIVE



Driving lessons



Theory test app

SELL VEHICLE



Vehicle health certificate



Reverse auction

GET A REPAIR



Repairs

GET A CAR



Buying used cars



Leasing new cars



Vehicle financing



Vehicle inspections

MAINTAIN YOUR CAR



MOT



Servicing

GET ON THE ROAD



Insurance



Vehicle warranty

DRIVE DAY TO DAY



Route planning



Journey-related tools



Driver monitoring



Fuel planning

IF YOU BREAK DOWN



Roadside assistance



Fuel assist



Battery care



Key care



Tyre cover



Fleet management

IF YOU HAVE AN ACCIDENT



Legal services



Accident assist

Our customers (consumers, small & medium enterprises (SMEs), original equipment manufacturers (OEMs), fleet managers and financial institutions) are at the heart of our business model, where customer-first outcomes are paramount. Our market-leading position is supported by a high level of brand awareness. We have the largest breakdown cover operation with over 2,700 experienced and qualified patrols who deliver a premium service for all our customers. Underpinning this is a leading data, digital and insights capability that helps inform and execute a sustainable strategy, delivering profits and real value for the end customer.

WHAT WE DO >>> ROADSIDE

Personal Membership

OUR PROPOSITION >>>

We provide breakdown cover for our consumer members. Vehicle-based policies cover only a specific vehicle and personal memberships cover one or more individuals, including families, regardless of the vehicle, giving consumers choice and the confidence they need to be on the road.

THE VALUE WE CREATE >>>

Consumer Roadside Assistance fees 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 or specific call out.

HOW WE COMPETE >>>

The sector is dominated by three major players, of which the AA is the largest, with greater than 40% of the consumer market. Our advantage is through quality of service, brand, and distribution channels paired with digital capability. The AA is well placed to take advantage of emerging trends given our leading market position, technology, and development of connected car propositions.

MANAGING OUR RISK EFFECTIVELY >>>

Our sales process is regulated as it is bought by consumers as insurance. To manage risk in this area we:

- › Track a number of metrics to ensure that we are delivering good customer outcomes to our members
- › Track risks around competition
- › Review changes to the regulatory environment
- › Have controls in place to ensure appropriate management of information security, cyber-crime and data management

Business to Business (B2B)

OUR PROPOSITION >>>

We provide our Roadside Assistance cover to manufacturers, roadside programmes, banks (for premium added value account (AVA) holders), leasing and rental companies (incl. large direct to fleet customers) and SME's. The service for our c.11m business consumers is provided by the AA in a mixture of pay-for-use contracts, insured contracts and some hybrid contracts.

THE VALUE WE CREATE >>>

B2B fees are either set per breakdown or per vehicle, with the contracts typically ranging from three to five years for large corporates and one year for our SME clients. We are working on a range of innovative solutions, rolling out our award-winning app and digital breakdown service, enabling our B2B partners to improve their offering to end customers while generating additional revenue for the AA.

HOW WE COMPETE >>>

The AA has c.55% of the manufacturer segment, over 65% of the UK's largest fleet and leasing companies and over 70% of the banking AVA segment. Our market-leading position is based on our high service levels, strong partnerships, digital capability and ability to deliver innovative value-adding solutions to our partners.

MANAGING OUR RISK EFFECTIVELY >>>

Roadside Assistance is provided with warranties for new vehicles, leased vehicles and fleets. It is also provided as part of benefits packages for banks' AVA holders. To manage risk in this area we:

- › Track partner satisfaction levels
- › Track risks around competition
- › Have controls in place to ensure appropriate management of information security, cyber-crime and data management

Driving Services

OUR PROPOSITION >>>

The Driving School business offers a comprehensive education for learner drivers with experienced and qualified driving instructors under the AA Driving School and British School of Motoring (BSM) brands. The Drivetech business offers training for occupational drivers and drivers who have committed driving offences.

THE VALUE WE CREATE >>>

The Driving School revenue derives from franchise fees from instructors for use of branded cars and the AA's digital platform. 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.

HOW WE COMPETE >>>

The UK driving school market is highly competitive and fragmented, but the AA and BSM brands have approximately 7% of this market with more than 2,900 driving instructors. In relation to the Drivetech business, the AA has strong positions in both fleet and police markets. For the fleet market, the AA is market leader vs. a range of smaller competitors who compete primarily on price.

MANAGING OUR RISK EFFECTIVELY >>>

We provide vehicles to some of our instructors under a Consumer Hire Agreement. As such, these agreements are regulated by the FCA. To manage risk in this area we:

- › Track a number of metrics to ensure that we are delivering good customer outcomes to our members
- › Track risks around competition
- › Review changes to the regulatory environment
- › Have controls in place to ensure appropriate management of information security, cyber-crime and data management

WHAT WE DO >>> INSURANCE

Broking

OUR PROPOSITION >>>

The AA's insurance broking business serves both personal members and non-members, selling both motor and home insurance policies under the AA and BEAM insurance brands. These policies are underwritten by a panel of underwriters, including the AA's in-house underwriter.

THE VALUE WE CREATE >>>

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

HOW WE COMPETE >>>

92% of motor insurance sales are placed through price comparison websites (PCWs). The AA brand ranks highly in motor insurance, where price dominates, whilst in home insurance, our brand outperforms peers on PCWs. 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.

MANAGING OUR RISK EFFECTIVELY >>>

Broking is regulated by the FCA. To manage risk in this area we:

- › Track a number of metrics to ensure that we are delivering good customer outcomes to our members
- › Track risks around competition
- › Review changes to the regulatory environment
- › Have controls in place to ensure appropriate management of information security, cyber-crime and data management

Underwriting

OUR PROPOSITION >>>

The AA's in-house underwriter launched motor policies in January 2016 followed by home insurance 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 and deliver value for the customer.

THE VALUE WE CREATE >>>

The underwriter targets an underwriting margin on the premiums it writes. It also makes investment income on the premium cash flows. Profit commission from reinsurers is paid to the underwriter when the business performs better than target. The operation retains less than 20% of gross written premiums after reinsurance.

HOW WE COMPETE >>>

Underwriters compete primarily on price. We target combined operating ratios of 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 for the group.

MANAGING OUR RISK EFFECTIVELY >>>

Our in-house underwriter is regulated by the Gibraltar Financial Services Commission (GFSC) and it is bound by the Solvency II directive. Our Solvency Capital Requirement (SCR) coverage was 189% as at 31 October 2022 (2022: 186%). To manage risk in this area we:

- › Track a number of metrics to ensure that we are delivering good customer outcomes for our members
- › Track risks around competition
- › Review changes to the regulatory environment
- › Have controls in place to ensure appropriate management of information security, cyber-crime and data management

Financial Services

OUR PROPOSITION >>>

In 2015, we signed an exclusive partnership with the Bank of Ireland to provide savings and loans. This partnership was extended and will run at least until 2028. As part of the agreement, our partnership now includes AA branded car finance products to sit alongside the successful savings and loan products, offering our customers smart and flexible ways to manage their finances.

THE VALUE WE CREATE >>>

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.

HOW WE COMPETE >>>

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.

MANAGING OUR RISK EFFECTIVELY >>>

The Financial Services business is subject to regulation by the FCA. The Bank of Ireland undertakes the principal regulated activities and the AA oversees the delivery of good customer outcomes through its relationship management and product governance framework.

KEY PERFORMANCE INDICATORS

Growth in personal membership and meaningful deleveraging

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

ROADSIDE

Innovate and grow Roadside

KPI	Definition	Performance	Relevance for the AA						
Average income per member (£)*	Average income per paid personal member including insurance motor members	<table border="1"> <tr> <td>2023</td> <td>190</td> </tr> <tr> <td>2022</td> <td>185</td> </tr> <tr> <td>2021</td> <td>185</td> </tr> </table>	2023	190	2022	185	2021	185	This measures the average income we generate from our personal member base as a proportion of the average paid personal membership holdings. We will continue to drive increases in the average income per customer through the quality of service, the brand and our distribution channels paired with digital capability.
2023	190								
2022	185								
2021	185								
Average income per business customer (£)	Average income per business customer	<table border="1"> <tr> <td>2023</td> <td>23</td> </tr> <tr> <td>2022</td> <td>23</td> </tr> <tr> <td>2021</td> <td>23</td> </tr> </table>	2023	23	2022	23	2021	23	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 solutions through our Agile platform.
2023	23								
2022	23								
2021	23								
Paid personal members (thousands)	Number of personal members excluding free memberships at the period end	<table border="1"> <tr> <td>2023</td> <td>3,252</td> </tr> <tr> <td>2022</td> <td>3,177</td> </tr> <tr> <td>2021</td> <td>3,111</td> </tr> </table>	2023	3,252	2022	3,177	2021	3,111	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.
2023	3,252								
2022	3,177								
2021	3,111								
Business customers (thousands)	Number of business customers at the period end	<table border="1"> <tr> <td>2023</td> <td>10,618</td> </tr> <tr> <td>2022</td> <td>8,842</td> </tr> <tr> <td>2021</td> <td>8,702</td> </tr> </table>	2023	10,618	2022	8,842	2021	8,702	We are market leaders in the business-to-business (B2B) market, with c.11m 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.
2023	10,618								
2022	8,842								
2021	8,702								

* During the year we have revised the basis of average income per member to include insurance motor members. As a result, the average income per member has been restated. See page 6.

INSURANCE

Accelerate growth in Insurance

KPI	Definition	Performance	Relevance for the AA	
Average income per policy (£)	Average income per insurance policy for motor and home	Broker only	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 longer term.	
		2023		43
		2022		47
		2021		59
		Broker and additional businesses		
		2023		78
2022	78			
2021	78			
Insurance policies (thousands)	Total motor and home policies sold in the last 12 months by our insurance broker	2023	1,855	For our insurance strategy we place a focus on the value of the policy through the prominence of the AA brand.
		2022	1,923	
		2021	1,941	
Underwritten insurance policies (thousands)	Total motor and home policies sold, including renewals in the last 12 months by our in-house insurance underwriter	2023	1,006	A key tenet of growing our insurance business is growing our in-house underwriting business utilising our proprietary member data. We add value through this integrated model allowing us to price more competitively. We are continuing to increase our penetration levels within the non-member and existing member base.
		2022	1,018	
		2021	1,006	

KEY PERFORMANCE INDICATORS continued

ROADSIDE OPERATIONS**Operational and service excellence**

KPI	Definition	Performance	Relevance for the AA
Breakdowns attended (thousands)	Number of breakdowns attended	2023 3,179	This is a key driver of our cost base and also demonstrates utilisation of our service by our members and customers.
		2022 3,072	
		2021 3,014	

FINANCIAL SUSTAINABILITY**Profitability and cash flow generation**

KPI	Definition	Performance	Relevance for the AA
Adjusted EBITDA (£ millions)	Adjusted EBITDA is the performance measure used for market comparability	2023 393	This is a new measure required to compare our performance to that of the market. Adjusted EBITDA is defined on page 21.
		2022 383	
		2021 375	
Operating profit (£ millions)	Statutory measure	2023 203	Alongside Adjusted EBITDA, this is a key measure of our performance and is a GAAP measure. As we execute our plans for growth, we expect to drive a meaningful growth in operating profit.
		2022 119	
		2021 218	
Net cash flow from operating activities (after tax) (£ millions)	Net cash flow before investing and financing activity	2023 263	This measures the level of net cash flow from operating activities which is available for investment and debt management, subject to the restrictions of the WBS.
		2022 214	
		2021 276	

Reduce borrowings and associated interest costs

KPI	Definition	Performance	Relevance for the AA
Leverage (ratio)	Ratio of net debt to Adjusted EBITDA for continuing operations for the last 12 months	2023 5.7	Proactive debt management remains a key focus for the Group.
		2022 5.9	
		2021 6.9	
Senior leverage (ratio)	Ratio of Net Senior Secured debt to AA Intermediate Co Limited group debt covenant EBITDA	2023 5.8	The Class A Notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x.
		2022 6.2	
		2021 6.5	
Interest cover (ratio)	Ratio of Adjusted EBITDA to cover interest payments on our debt	2023 3.1	This measures the extent to which our earnings cover ongoing cash finance costs (see Note 5).
		2022 3.0	
		2021 2.7	

SUSTAINABILITY

KPI	Definition	Performance	Relevance for the AA	
Total greenhouse gas emissions (tonnes carbon dioxide equivalent)	Calculations follow the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using market-based and UK location-based emissions factors	Market based	Our emissions are material to our environmental impact on issues such as climate change, with our operational fleet accounting for 96% of our total emissions.	
		2023		35,776
		2022		34,211
		2021		33,819
		Location based		
		2023		36,937
	2022	35,872		
	2021	35,565		

EMPLOYEES

KPI	Definition	Performance	Relevance for the AA
Employees at the AA	The number of employees at the AA (excluding contractors and agency)	2023	This measures the change in employees of the AA since the prior year end.
		6,942	
		2022	
	2021	6,988	

We are pleased to report another year of continued growth despite inflationary cost pressures. We have seen continued increase in overall membership and both Adjusted EBITDA and Reported EBITDA, as well as positive operating cash flow generation. We have confidence in continued modest Adjusted EBITDA growth and positive cash flow building on the positive momentum from the past two years.”

Tom Mackay
Chief Financial Officer

FINANCIAL REVIEW

During the year, we have demonstrated our highly resilient and recurring revenues with strong operating margins, underpinned by robust operating cash flow generation, the core financial characteristics of our business.

Our growth has continued and we are pleased to see a 2% increase in B2C membership, 20% increase in our B2B membership and a 4% increase in Motor Insurance policies. Despite inflationary cost pressures, Adjusted EBITDA and Reported EBITDA (previously Trading EBITDA) have grown year-on-year, driven by improvement in our top line revenue of 6%.

We have continued to improve the Group’s capital structure providing a long-term sustainable amount of leverage to support investment in our successful future. The Group successfully refinanced £250m of debt in FY23 and a further £400m has been raised since year end, well ahead of the next scheduled maturity. Net debt has reduced from 5.9x Adjusted EBITDA as of 31 January 2022 to 5.7x as of 31 January 2023 and the senior leverage ratio has reduced from 6.2x to 5.8x.

Building on the positive momentum of the past two years, we have confidence in continued modest Adjusted EBITDA growth and positive cash flow. Underpinned by our improved capital structure, we will continue to make investments in both our core Roadside and Insurance platforms and the Horizon initiatives to build an AA of the future.

Group Revenue

	2023 £m	2022 £m
Roadside	878	822
Insurance	166	167
Revenue	1,044	989

Our core Roadside business delivered significant top line growth with revenue up 7% from £822m to £878m driven by the increase in new business volumes seen in both business-to-consumer (B2C) and business-to-business (B2B) and continued expansion of our driving school and service maintenance and repair (SMR) businesses.

In Insurance, our strong brand presence and investment propositions including the launch of our new BEAM insurance brand, in-house underwriter capability and expansion of our accident assist business, enabled us to offset the revenue impact to our broker from market volatility in new business and lower earnings on renewals following the implementation of the FCA's new General Insurance Pricing Practices (GIPP) rules on 1 January 2022. Overall insurance revenue decreased slightly to £166m (2022: £167m) with the second half returning to positive revenue growth.

Group Adjusted EBITDA

	2023 £m	2022 £m
Roadside	338	313
Insurance	55	70
Adjusted EBITDA	393	383
Adjusted EBITDA Margin	37.6%	38.7%

Group Reported EBITDA

	2023 £m	2022 £m
Roadside	309	290
Insurance	44	55
Reported EBITDA	353	345
Reported EBITDA Margin	33.8%	34.9%

Note: Due to a change in accounting policy, during the year the Group began deferring Roadside acquisition costs, which has resulted in a restatement of the prior year financial statements (see note 36).

Adjusted EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of customer acquisition costs relating to third party commissions and fees, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

Adjusted EBITDA has been presented as a new additional alternative performance measure in FY23 to enable a more consistent comparison of performance across the industry. A reconciliation to Operating Profit as presented in the income statement is shown below.

Reported EBITDA (previously 'Trading EBITDA') is Adjusted EBITDA excluding the adjustment for amortisation of acquisition costs relating to third party commissions and fees.

FINANCIAL REVIEW continued

Group Adjusted EBITDA grew from £383m in the prior year to £393m and Group Reported EBITDA grew from £345m to £353m. This reflected a strong volume growth in B2C holdings, B2B holdings and the Motor Insurance portfolio despite inflationary cost pressures and the tough economic environment in Insurance, as well as reducing renewal commission.

Roadside Adjusted and Reported EBITDA increased by 8.0% and 6.6% respectively, with favourable trading performance in B2C, B2B, Prestige and Driving Schools, partially offset by higher garaging spend due to the higher number of breakdowns.

Insurance Adjusted and Reported EBITDA fell by 21.4% and 20.0% to £55m and £44m respectively, due to lower motor renewal commissions and claims inflation. Market prices have increased during FY23 resulting in an improved H2 EBITDA margin.

Group Adjusted and Reported EBITDA margin was down slightly from 38.7% to 37.6% and 34.9% to 33.8% respectively, with resilient Roadside Adjusted and Reported EBITDA margins offsetting the anticipated reduction in Insurance trading margins due to the impact of lower motor renewal commissions noted above.

Reconciliation of Adjusted and Reported EBITDA to Operating profit

	2023 £m	2022 £m
Adjusted EBITDA	393	383
Amortisation of acquisition costs relating to third party commissions and fees	(40)	(38)
Reported EBITDA	353	345
Share-based payments	(3)	(5)
Pension service charge adjustment	(5)	(4)
Pension past service cost	-	(26)
Amortisation and depreciation	(105)	(99)
Impairment of property, plant and equipment	-	(11)
Impairment of held for sale property	(1)	-
Impairment of goodwill	(6)	-
Adjusting operating items	(30)	(81)
Operating profit	203	119

In the current year, adjusting operating items of £30m include strategic review projects of £18m relating to transformation and organisational redesign, as well as £10m investment in a research project relating to a significant project in our connected car capability, with further research spend anticipated in FY24 to test a new offering. The project is expected to become business as usual in FY25 when the offering is expected to be launched nationwide. The investment spend is governed and approved by the Board of Directors. Also included is £4m closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme, £2m transaction fees related to the acquisition in FY22, £2m cost-of-living payments, £1m of impairment of investments in joint ventures and £1m relating to legal costs on a claim on which a judgement was favourably handed down in January 2023 and was successfully defended on all material elements, partly offset by £8m profit on sale of fixed assets.

Operating Profit

	2023			2022		
	Roadside £m	Insurance £m	Group £m	Roadside £m	Insurance £m	Group £m
Adjusted EBITDA	338	55	393	313	70	383
Amortisation of acquisition costs	(29)	(11)	(40)	(23)	(15)	(38)
Reported EBITDA	309	44	353	290	55	345
Share-based payments	(3)	-	(3)	(4)	(1)	(5)
Pension service charge adjustment	(4)	(1)	(5)	(3)	(1)	(4)
Pension past service cost	-	-	-	(23)	(3)	(26)
Amortisation and depreciation	(90)	(15)	(105)	(86)	(13)	(99)
Impairment of property, plant and equipment	-	-	-	(7)	(4)	(11)
Impairment of held for sale property	-	(1)	(1)	-	-	-
Impairment of goodwill	(6)	-	(6)	-	-	-
Operating profit before adjusting items	206	27	233	167	33	200
Adjusting operating items	-	-	(30)	-	-	(81)
Operating profit	-	-	203	-	-	119

Operating profit increased by £84m to £203m. This was predominately attributable to one off items in the prior year, including acquisition transaction costs of £64m, pension past service costs of £26m and impairment in relation to property plant and equipment of £11m. In the current year, we report stronger trading as described above, but also £6m higher amortisation and depreciation reflecting ongoing investment in the business. In addition, the current year result includes £6m impairment of goodwill relating to the Drivetech business and £30m of adjusting operating items explained earlier.

Share schemes

Basing TopCo Limited, an indirect parent company of AA Limited, operates a management equity plan which grants senior management awards with vesting conditions linked to their continued employment. This plan has been accounted for as an equity settled share-based payment and where the participants directly benefit the AA Limited Group, the share-based payment charge has been accounted for within the Group (see note 33).

In the year ended 31 January 2023, the Group implemented a Long-Term Incentive Plan, granting benefits to key members of senior management. These benefits vest based on certain performance conditions. This scheme is accounted for as a cash-settled share-based payment scheme (see note 33).

A £3m charge has been recognised in the income statement in relation to these schemes for the year ended 31 January 2023.

Net finance costs

	2023	2022
	£m	£m
Interest on external borrowings	123	125
Finance charges payable on lease liabilities	2	2
Interest income on bank deposits	(2)	-
Total ongoing cash net finance costs	123	127
Ongoing amortisation of debt issue fees	5	9
Net finance (income)/expense on defined benefit pension schemes	(3)	2
Fair value movement on interest rate swap	-	(1)
Total ongoing non-cash net finance costs	2	10
Adjusting finance costs	2	5
Total net finance costs	127	142

Net finance costs decreased in the year by £15m to £127m (2022: £142m). This was in part due to lower amortisation of debt issue fees following the refinancing of the A5 Notes in the prior year. Adjusting costs were also higher in the prior year reflecting the costs associated with refinancing the A5 Notes, B2 Notes, working capital facility and liquidity facility.

In the current year, the Group issued £250m of Class A10 Notes in exchange for £250m of Class A6 Notes. This incurred £2m of adjusting finance costs, consisting of £1m write-off of unamortised issue fees associated with the A6 Notes and £1m of early repayment penalties following repayment of the A6 Notes.

Current year net finance costs also include £3m pension interest income mainly relating to the UK defined benefit scheme and £2m interest income on bank deposits.

Profit before tax

On account of the prior year one off items outlined above, the FY23 result improved to a profit before tax of £76m (2022: loss of £23m).

Taxation

The tax charge for the year increased by £3m to £7m (2022: tax charge of £4m) largely reflecting the impact of the adjustments in respect of prior years on the standard rate of tax (see note 8). The tax charge consists of a current tax credit of £1m (2022: charge of £14m) and a deferred tax charge of £8m (2022: credit of £10m). The effective tax rate was 9.2% (2022: (17.4%)).

Profit after tax

We made a profit after tax of £69m (2022: loss of £27m). The growth is driven by improved trading described above as well as transaction fees associated with the acquisition within the prior year.

Assets held for sale

During the prior year, the sale of two properties was approved. The sale of one of these properties completed in the year. The sale of the second property is expected to complete in H1 FY24.

Goodwill

An impairment review was undertaken and impairment of £6m has been recognised in relation to Drivetech goodwill, reducing it to £25m (2022: £31m) (see note 25). This is due to lower volumes following the termination of one contract providing speed awareness courses. The business remains competitive in the market and has several other contracts in place. It also expects to continue to be profitable and cash generative going forward.

FINANCIAL REVIEW continued**Pension liabilities**

The overall surplus of £130m as at 31 January 2022 has moved to a deficit of £169m as at 31 January 2023, which represents a change of £299m over the year, driven primarily by movements in the AAUK scheme position.

Gilt yields increased significantly over FY23, with a high level of volatility seen during September and October in particular. The AAUK scheme invests part of its assets in a Liability Driven Investment ('LDI') mandate, held for risk management purposes. Specifically, this mandate has historically been designed to "hedge" the impact on the value of the AAUK scheme's liabilities from changes in gilt yields (and inflation), to help to protect the AAUK scheme's funding position. Gilt yield increases to mid-October led to a significant fall in the size of the liabilities, with a broadly corresponding fall in LDI assets.

Following the Bank of England intervention in October, gilt yields fell to lower levels. This led to an increase in the value of the AAUK scheme's liabilities – with a lower level of hedging, the asset value lagged behind. This had a meaningful impact in reducing the IAS 19 surplus from earlier in FY23. The IAS 19 position suffered further from (i) funding liabilities being larger than IAS 19 liabilities, plus contractions in AA-rated corporate bond yields relative to gilts, meaning that the fall in hedging assets (linked to the funding basis) were relatively larger than IAS 19 liability falls, (ii) worse than assumed performance of other asset classes and (iii) very high price inflation experienced relative to long-term expectations at the start of the year. In aggregate, these impacts meant that the AAUK scheme has moved into a statement of financial position deficit at 31 January 2023.

In February 2023, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2022. This resulted in a significant reduction of the technical provisions deficit of around 60% from £131m as at 31 March 2019 to £53m. The Asset-Backed Funding mechanism, which provides a long-term deficit reduction plan and additional contribution schedule remain in place from the 2019 valuation. Under the asset-back funding scheme, the Group makes an annual deficit reduction contribution of £15m increasing annually with inflation until October 2038, or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands. Under the additional contribution schedule (i.e. contributions in excess of the Asset-Backed Funding mechanism), the Group pays £12m per annum until July 2025. The trustee meets its own costs of running the AAUK scheme.

Cash flow and liquidity

	2023 £m	2022 £m
Operating activities		
Profit/(loss) before tax	76	(23)
Amortisation, depreciation and impairment	112	110
Net finance costs	127	142
Difference between pension charge and cash contributions	(24)	(24)
Other adjustments to profit/(loss) before tax	(4)	30
Working capital and provisions	(9)	(11)
Net cash flows from operating activities before tax	278	224
Tax paid	(15)	(10)
Net cash flows from operating activities	263	214
Investing activities		
Capital expenditure	(79)	(77)
Proceeds from sale of fixed assets	14	2
Investment in joint venture	(1)	(1)
Financial investments	1	(10)
Interest received	2	–
Net cash flows used in investing activities	(63)	(86)
Financing activities		
Refinancing transactions	7	(51)
Interest paid on borrowings	(124)	(123)
Payment of lease capital and interest	(30)	(27)
Net cash flows used in financing activities	(147)	(201)
Net increase/(decrease) in cash and cash equivalents	53	(73)
Cash and cash equivalents at 1 February	112	185
Cash and cash equivalents at 31 January	165	112

The cash flows from operating activities are stated net of cash outflows relating to operating adjusting items of £36m (2022: £86m). These items comprised £17m relating to strategic initiatives (2022: £12m), £10m relating to the research project in our connected car capability (2022: £nil), £4m related to the closure of the CARE section of the AAUK pension scheme and transitional agreement

made with employees in that scheme (2022: £5m), £2m cost of living payments (2022: £nil), £2m acquisition transaction fees (2022: £68m) and £1m legal costs (2022: £1m). Note: proceeds relating to profit on sale of fixed assets within adjusting operating items are shown within proceeds from sale of fixed assets line item.

Net cash flows from operating activities in the year were an inflow of £263m, an improvement of £49m over the prior year, reflecting strong trading performance and lower one-off adjusting items as described above. The working capital and provisions outflow of £9m is in line with the prior year and reflects the timing of receipts and payments as well as the post Covid-19 expansion of our accident assist business.

Capital expenditure was up £2m at £79m (2022: £77m) ensuring we continue to be well invested as we deliver on Horizon 1 and Horizon 2, generating significant benefits.

Refinancing inflows of £7m in the current year reflect the £10m settlement of a gilt-lock, part offset by costs associated with refinancing the £250m A6 loan Notes for £250m A10 Notes in July 2022. The prior year was an outflow of £51m reflecting an equity injection from Basing BidCo Limited and refinancing of the Class A5 and Class B2 Notes.

We end the year with a strong cash position, remain well within our financial covenants, have good levels of liquidity and continue to generate positive operating cash flow.

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 increased to £40m (2022: £29m) following the positive trading of our underwriter.

Interest cover is calculated as the ratio of Adjusted EBITDA to total ongoing cash finance costs and was 3.1x (2022: 3.0x). The Class A Free Cash Flow to Debt Service ratio was 2.9x (2022:3.1x).

Capital management

Capital is represented by our net debt position. As at 31 January 2023, net debt was £2.2bn, a reduction of £0.1bn compared to the prior year.

The Group aims 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 the Group has a Working Capital Facility of £56m, of which £46m is available for cash drawings and remained undrawn at 31 January 2023.

On 13 July 2022, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B3 Notes at B+.

Our leverage ratio based on Adjusted EBITDA reduced to 5.7x at 31 January 2023 compared to 5.9x in the prior year and our senior leverage ratio has reduced from 6.2x to 5.8x, representing a continuing positive shift towards a rebalanced capital structure.

The Group continues to proactively manage its capital structure subject to market conditions.

Capital structure as at 31 January 2023

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	10 March 2026	3.49	150
Class A2 Notes	31 July 2025	6.27	500
Class A7 Notes	31 July 2024	4.88	550
Class A8 Notes	31 July 2027	5.50	325
Class A9 Notes	31 July 2028	3.25	270
Class A10 Notes	31 July 2029	7.38	250
Class B3 Notes	31 January 2026	6.50	280
Total loan notes			2,325
Lease liabilities			62
Cash and cash equivalents			(165)
Total net debt			2,222

The weighted average interest rate for all borrowings of 5.45% has been calculated using the effective interest rate and principal values as at 31 January 2023.

The majority of the Group's borrowings are long-term in nature, with no borrowings due within 12 months from the date of signing of these financial statements. It remains a key assumption of the Directors that the Group continues to have ready access to public debt markets to enable these borrowings to be refinanced in due course.

On 13 July 2022, AA Bond Co Limited issued £250m of Class A10 Notes at an interest rate of 7.38%. £2m of issuance fees associated with the issue of the Class A10 Notes were capitalised and will be amortised over the expected maturity of the debt. The proceeds of the issuance of the Class A10 Notes were used to redeem the Class A6 Notes. The A6 redemption was done at a make-whole premium of £1m and completed on 14 July 2022.

FINANCIAL REVIEW continued

In March 2022, a series of gilt lock hedges totalling £250m were transacted to fix, in advance, the underlying gilt yield used for the issuance of the A10 Notes on 13 July 2022. The gilt locks were unwound prior to the issuance of the A10 Notes and total cash proceeds of £10m were received by the Group on 6 July 2022. This transaction has been accounted for as a cash flow hedge, with the effective element of the change in fair value booked in other comprehensive income and being recycled to the income statement over the life of the A10 Notes.

The Group is already well advanced in refinancing the £550m A7 Notes, maturing in July 2024. In February 2023 AA Bond Co issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023, tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account, to be held for redemption of Class A7 Notes.

In February 2023, the Group renewed and increased its Liquidity Facility by £15m to a total of £175m, which remains undrawn and on 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023 and a new interest rate swap was transacted which exchanges SONIA for a fixed interest rate of 4.14%, thereby fixing the incremental £15m of Senior Term Facility borrowings at 7.17% through to 10 March 2026.

Our going concern assessment shown on page 65, 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 FY24.

Net debt

Within the Group, there is a Whole Business Securitisation (WBS) structure. All of the Class A Notes within the WBS are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited (a subsidiary of the Company) and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B3 Notes.

The Class B3 Notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. Thus, cash held by the AA Intermediate group is ring-fenced within the WBS. Dividends can only be paid to AA Limited when certain debt to debt covenant EBITDA and cash flow criteria are met.

	2023 £m	2022 £m
Class A Notes	1,895	1,895
Senior Term Facility	150	150
Less: AA Intermediate Co Limited group cash and cash equivalents	(99)	(67)
Net Senior Secured Debt¹	1,946	1,978
Class B Notes	280	280
Lease obligations for covenant reporting ²	31	20
Net Whole Business Securitisation (WBS) Debt³	2,257	2,278
IFRS 16 lease adjustment for WBS lease obligations ⁴	28	25
AA Limited group lease obligations ⁵	3	3
Less: AA Limited group cash and cash equivalents ⁶	(66)	(45)
Total Net Debt	2,222	2,261
AA Intermediate Co Limited debt covenant EBITDA ⁷	336	321
Class B leverage ratio ⁸	6.7x	7.1x
Senior Leverage ratio ⁹	5.8x	6.2x
Class A Free Cash Flow: Debt Service ¹⁰	2.9x	3.1x

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 B3 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 debt covenant EBITDA, including discontinued operations as required by the debt documents, being Reported EBITDA based on frozen GAAP and accounting principles.

8 Ratio of Net WBS Debt³ to AA Intermediate Co Limited group debt covenant EBITDA.

9 Ratio of Net Senior Secured Debt¹ to AA Intermediate Co Limited group debt covenant EBITDA.

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

The Class A Notes only permit the release of cash providing the senior leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment.

The Class B3 Note restrictions generally only permit the release of cash, providing the fixed charge 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 B3 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.

	2023 £m	2022 £m
Senior Leverage ratio ¹	5.8x	6.2x
Excess cash flow ²	£278m	£228m
Fixed charge coverage ratio ³	2.6x	2.7x
Consolidated net income ⁴	£452m	£401m

¹ Ratio of Net Senior Secured Debt to AA Intermediate Co Limited group debt covenant EBITDA.

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 debt covenant 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.

RISK MANAGEMENT REPORT

Overall Responsibility

The Board of AA Limited is responsible for determining the level of risk that the AA is prepared to take, or that it is willing to accept, in order to achieve its strategic objectives. The levels of risk are articulated through a series of risk appetite statements and we monitor ourselves closely against the statements through our risk governance and our risk management framework. Further information about the corporate governance arrangements for the AA is set out in the Directors' Report on pages 46-51.

Risk Governance

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

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

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

Risk management framework

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

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

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

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

Own Risk and Solvency Assessment (ORSA)

The AA has an in-house underwriter in Gibraltar who is subject to Solvency II compliance. As such, they operate a defined set of capital management processes to ensure the solvency and liquidity needs are met on a current and forward-looking basis. Results of the ORSA are presented to the underwriter's Board and the conclusions of the assessment are used to inform strategic decision-making.

Principal Risks and Opportunities

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

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



<p>Customer risk</p> <p><i>The risk that we fail to constantly monitor, manage and develop the interaction between our agents and our customers to ensure fair treatment and good outcomes</i></p> <p>Risk trend</p> <p>▶</p>	<p>Potential impact</p> <p>Products and services continually evolve in the market and as customer needs change, there is a risk that products do not perform as customers expect or that they no longer deliver good customer outcomes.</p> <hr/> <p>Mitigation</p> <p>We continually review and adapt our products and services to ensure we deliver good outcomes. We have also been closely monitoring the rising cost of living crisis – we run a financial difficulty forum to identify how we can support our customers.</p> <p>We are also preparing ourselves for our regulator's incoming cornerstone regulation, Consumer Duty. We have an extensive programme of work in place to review our existing frameworks, structures and processes to proactively look for opportunities to improve and enhance the outcomes we deliver to our customers.</p>
<p>People risk</p> <p><i>The risk that we are unable to attract and retain the critical skills, knowledge and experience we need to deliver our services</i></p> <p>Risk trend</p> <p>▲</p>	<p>Potential impact</p> <p>Covid-19, Brexit and changing workforce expectations in terms of location, flexibility and pay have all contributed to a shrinking workforce, with fewer people in the talent pool across the UK.</p> <hr/> <p>Mitigation</p> <p>Our people play a critical role in the success of our business and in our future growth. We have made some significant enhancements to our Employee Value Proposition in FY23 and continue to ensure we adapt and respond to a changing environment.</p>
<p>Cyber security</p> <p><i>The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise critical data</i></p> <p>Risk trend</p> <p>▲</p>	<p>Potential impact</p> <p>Cyber attacks are an ever increasing threat for businesses. This is a risk that has heightened as a result of the increase in state-sponsored cyber attacks and the development of more sophisticated ransomware attacks.</p> <hr/> <p>Mitigation</p> <p>We continue to operate our clearly defined cyber security strategy and we have invested in resources to further strengthen our controls. We benchmark our security controls against the Standard for Information Security (ISO27001) and an independent third party performs an annual review to provide assurance that our controls remain effective.</p>
<p>Financial risk</p> <p><i>The risk that the company has insufficient liquid funds required for the business to operate, is unable to refinance its maturing debt, or unable to do this at affordable cost</i></p> <p>Risk trend</p> <p>▼</p>	<p>Potential impact</p> <p>The ability to finance is critical to the ongoing existence and operation of the Group. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. In particular, financing costs have increased as a result of rising interest rates as the economy sees higher levels of inflation.</p> <hr/> <p>Mitigation</p> <p>Despite a challenging macroeconomic environment, the Group has completed a successful refinancing of its A6 Notes, issuing £250m of A10 Notes in FY23, as well as a partial refinancing of its £550m A7 Notes in FY24 and continues to seek to refinance bonds well ahead of their maturity dates. The Group is highly cash generative and has good levels of available cash as well as a Working Capital Facility of £56m, of which £46m is available for cash drawings allowing it to withstand such macroeconomic challenges.</p>

Risk Trend key:

▲ Risk exposure has increased

▼ Risk exposure has reduced

▶ Risk exposure remained the same

<p>Insurance risk <i>The risk that we have higher claims costs than anticipated, or that market conditions impact our commercials</i></p> <p>Risk trend </p>	<p>Potential impact There are risks of higher-than-expected claims frequency, higher average costs per claim or catastrophic claims. The UK continued to experience market volatility in FY23 due to Covid-19, Brexit and the resulting inflationary and interest rate impact on the economy.</p> <hr/> <p>Mitigation We have an agile pricing model, enabling us to adapt to movement in the market. Underwriting guidelines are used to ensure that claims frequency and costs remain within expected levels. We also have a robust reinsurance programme in place to ensure we can meet future assets and liabilities.</p>
<p>Health and Safety risk <i>The risk we are unable to maintain the safety of our workforce and customers</i></p> <p>Risk trend </p>	<p>Potential impact Vehicles breaking down at the roadside is inherently dangerous. Maintaining a safe environment for our members and for our workforce is absolutely critical to our business.</p> <hr/> <p>Mitigation The AA has a robust and externally audited integrated health, safety and environmental (HS&E) management system. We regularly review all our HS&E risks to ensure that our control environment remains strong and effective. We have a dedicated team of health and safety advisers who are all members of the Institution of Occupational Safety and Health. We deploy best practice internally and externally.</p> <p>We are an active member of SURVIVE, the industry group working towards improving safety for those working at the roadside and we have an external expert chair of our core Health and Safety Committee, to ensure good governance and independent scrutiny</p>

Risk Trend key:
 ▲ Risk exposure has increased ▼ Risk exposure has reduced ► Risk exposure remained the same

Emerging Risks

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

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

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

Risk type	Examples
Political	<ul style="list-style-type: none"> › Current tax policy or future tax policy › Stability of government
Economic	<ul style="list-style-type: none"> › Interest rates or exchange rates › Inflation
Social	<ul style="list-style-type: none"> › Consumer behaviour › Brand and image
Technology	<ul style="list-style-type: none"> › Competing technology development › Machine learning and artificial intelligence
Legal	<ul style="list-style-type: none"> › Regulatory change › Legislative change
Environmental	<ul style="list-style-type: none"> › Climate change › Energy availability and cost

We report on our emerging risks to our executive risk committee and relevant Group company Boards. In addition, emerging risks that could impact our in-house underwriter are incorporated into the annual ORSA report.

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

Government reform

- › The Department for Business and Trade (formerly the Department for Business, Energy and Industrial Strategy) published its plans to strengthen the UK's audit, corporate reporting and corporate governance systems. The proposed measures aim to enhance accountability across the business ecosystem and increase resilience and choice in the statutory audit market.
- › The AA has started to assess the potential impact and is making plans to respond to the expected future direction of financial reporting for in-scope firms.

Climate Change and TCFD

- › The AA recognises that climate change poses a number of transitional and physical risks and opportunities for business, people and our communities. We already have a well embedded process for modelling the impact of climate change and related weather events within our Roadside Operations, to ensure we have the right resources to meet our members' needs.
- › Over the last 12 months we have identified further key climate related risks (such as adverse weather events and energy usage), we have been developing financial modelling of the most material to our future strategy and we're embedding the management of climate-related risks into our broader risk management framework. These key activities form part of our commitments under the Task Force for Climate related Financial Disclosure's (TCFD) recommendations, which will be reported in FY24.
- › We also recognise the critical importance of reducing our GHG emissions. We believe that driving doesn't have to cost the earth and that's why, as part of our ESG strategy, we are making a commitment to become Net Zero for our own emissions by 2035.

Global financial instability

- › Economic uncertainty is expected to remain high as a result of the geopolitical risks arising from the Russian war on Ukraine, a potential global banking crisis following the collapse of two U.S lenders, takeover of Credit Suisse and the UK's long term macroeconomic outlook. These are macroeconomic risks that we will continue to monitor through observation of the financial markets and the wider external environment.
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HEALTH, SAFETY AND ENVIRONMENTAL PERFORMANCE REPORT

Our commitment to safe operations

From when the AA was first formed, the safety of our customers and fellow road users has been our priority. Whilst there have been many changes over the years this commitment has never wavered. We will always continue to prioritise getting our people, our customers and our communities home safely every day. This year our focus has been:

- › Supporting and delivering projects to enhance safety and operational performance, such as tooling, equipment, and technological enhancements.
- › Investing in our people, including enhancing the capability and capacity of our Health, Safety and Environment team and developing our peoples' skills, knowledge, and expertise.
- › Developing our Health, Safety and Environmental information, instruction and guidance to best support our people to make great safety decision making.
- › Continuing to support the development of our safety culture to maximise safety performance and keep our people, our customers and our communities safe.

Health and Safety performance

Our customers expect excellent service and this can only be achieved by delivering upon a strong foundation of health and safety performance. The health and safety of our people, our customers and our communities is of paramount importance to us. The AA continues to drive its health and safety standards and strives to continually improve every year. This year the AA continued to demonstrate improvements with the following key points:

Recognition of health and safety performance:

- › Awarded The Royal Society for the Prevention of Accidents (RoSPA) Gold award for the fourth consecutive year for demonstrating high health and safety standards.
- › Shortlisted for the SHE 2023 awards Health and Safety Team of the year.



Continual improvements in health and safety performance:

- › Continued to lead the industry by lobbying on important safety topics, such as 'smart' motorways and 'red-light' capability on our vehicles.
- › We have introduced safety cameras to over 1,000 of our service vehicles and plan to fit 1,400 more in FY24. This has provided enhanced oversight and support to our people who often work alone and sometimes in dangerous locations.
- › We had fewer accidents/incidents in FY23 than FY22 despite the number of cases increasing (cases in 2022: 3,534,143, cases in 2021:3,480,240). The number of accidents/incidents has decreased by 51% since FY17.
- › Our accident incidence rate has reduced year on year since first recording in FY21.
- › Near miss reporting has increased by over 7 times the amount it was in FY19. This enables the pro-active management of health and safety hazards and is pivotal to some of the improvements implemented.
- › Excluding FY21, the number of total RIDDOR reports is the lowest since available records show (first data: 2010).
- › The number of days lost due to incidents increased in FY23 and FY22 and will remain a focus for FY24.
- › We recorded no occupational diseases.
- › We maintained our record of zero fatalities.

Environmental performance

The AA firmly believes that driving doesn't have to cost the earth and is committed to its ESG strategy and ensuring it meets its reporting obligations. This report will contain the compliance reporting requirements. For all supporting content relating to our ESG strategy, please refer to the standalone ESG report.

Streamlined Energy & Carbon Reporting (SECR)

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 the AA's operations, including at sites, by vehicles and through employee travel.

The goal at the AA 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, the group has established the following emission reduction targets:

- › **Buildings** – Maintain 2019/20 (FY20) levels of consumption (metric: emissions per square foot)
- › **Operational Fleet** – Achieve 5% reduction in overall road operations fuel use (litres) compared to 2019/20 (FY20) levels of consumption.

In FY23, the AA had a carbon footprint comprised of Scope 1, 2 and 3 of 36,937.15 tCO₂e using a location-based approach. This is an increase of 1,065 tCO₂e (+3%) compared to FY22, but a decrease of 6,535 tCO₂e (-15%) against base year (FY20). We recognise the likely impact that the lifting of Covid-19 restrictions has caused to our operational emissions throughout the financial year.

This section of our Strategic report discloses our operational energy and carbon footprint in line with the UK Government's Streamlined Energy and Carbon Reporting (SECR) initiative. This report contains the entire GHG inventory for the year 2022/23 (FY23) for all the areas of our business where we have operational control. It includes the data from this financial year (February 2022 – January 2023; FY23) and for the sake of comparison, data from the previous financial years (February 2021 – January 2022; FY22 and February 2020 – January 2021; FY21 and February 2019 – January 2020; FY20 – which is also our baseline year) for our Corporate and Signs locations.

Methodology

To comply with Streamlined Energy and Carbon Reporting (SECR), the AA has reported on all of the emission sources required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. 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 REGO or conventional supplies. Where this is not available, UK Residual Mix by the Association of Issuing Bodies (AIB, 2021) factors have been used. In the small number of areas where actual data cannot be reliably verified, estimated data will be used.

Reported emissions align with our financial year (February – January), and in line with SECR requirements, the emissions in scope are based on an operational control boundary.

The AA undertakes third party verification to independently verify the accuracy, completeness and consistency of GHG emissions data (operational control scope only) against ISO 14064-1 and ISO 14064-3. FY20 (our baseline), FY21, FY22 and FY23 data have been independently assured by a third party.

Annual Energy & Carbon

In FY23, the AA consumed 155,844 MWh of energy and had an adjusted footprint of 36,937 tCO₂e (location-based), equating to an absolute increase of 1,065 tCO₂e compared to FY22 and an absolute decrease of 6,535 tCO₂e compared to FY20.

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. For FY23 we have also included electric cars which we have added to our operational fleet.

Table 1: Scope 1 Emissions

Scope 1	Natural Gas		Transport – Diesel		Transport – Other (LPG)		Transport – Petrol		Transport – Electric		Refrigerants		Generators & Equipment – Gas oil	
	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e
FY20	7,357	1,353	157,582	38,548	13	3	1,518	355	–	–	N/A	240	–	1
FY21	8,030	1,477	131,150	31,551	3	1	959	220	–	–	N/A	368	1	6
FY22	9,847	1,804	134,458	31,848	7	2	980	225	–	–	N/A	130	2	8
FY23	6,463	1,180	140,577	33,900	18	4	1,491	339	–	–	N/A	51	6	2

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 our electricity providers, with specific information regarding the origin of electricity and associated GHG intensity). The AA Limited entered into a renewable energy contract in FY23, backed by Renewable Energy Guarantees of Origin (REGO). The sites that are not covered by this are:

- › Bedford Signs Depot
- › Newcastle Q3
- › Dartford
- › Gibraltar

It is planned to move these sites to purchased renewable electricity in FY24.

Table 2: Scope 2 Emissions

Scope 2	Electricity MWh	tCO ₂ e (location)	tCO ₂ e (market)
FY20	9,372	2,396	262
FY21	7,623	1,777	31
FY22	7,888	1,675	14
FY23	6,097	1,185	23

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. This has been broken down by fuel type to account for electric cars that make up our grey fleet.

Table 3: Scope 3 Emissions

Scope 3	Transport Grey Fleet – Diesel		Transport Grey Fleet – Petrol		Transport Grey Fleet – Electric		Transport Grey Fleet – Other	
	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e	MWh	tCO ₂ e
FY20	897	219	1,531	358	–	–	–	–
FY21	264	64	449	103	–	–	–	–
FY22	291	69	486	112	–	–	–	–
FY23	530	128	619	141	17	3	28	5

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

Table 4: Total carbon emissions (location-based)

Scopes	Scope 1	Scope 2 (location)	Scope 3	Total (location)
FY20	40,500	2,395	577	43,472
FY21	33,621	1,777	167	35,565
FY22	34,016	1,675	181	35,872
FY23	35,476	1,184	277	36,937

Table 4a: Total carbon emissions (market-based)

Scopes	Scope 1	Scope 2 (market)	Scope 3	Total (market)
FY20	40,500	261	577	41,338
FY21	33,621	31	167	33,819
FY22	34,016	14	181	34,211
FY23	35,476	23	277	35,776

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

Table 5: Total MWh energy

MWh	Scope 1	Scope 2	Scope 3	Total
FY20	166,471	9,372	2,428	178,271
FY21	140,143	7,623	714	148,480
FY22	145,295	7,888	777	153,960
FY23	148,555	6,096	1,193	155,844

Table 6 contains our intensity ratios. The AA 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. In terms of intensity ratios, our emissions will be presented for:

- › Occupied Floor Area – AA Corporation Limited “UK Corporate & Signs” sites

Table 6: Intensity ratio (tCO₂e/sqft and tCO₂e/no of operational job tasks)

Intensities	tCO ₂ e/sqft	
	(Location)	(Market)
FY20	0.00716	0.00308
FY21	0.00622	0.00288
FY22	0.00695	0.00363
FY23	0.00540	0.00274

Energy Efficiency Actions

The AA strives to increase our energy efficiency efforts and have thus evaluated several cost-effective energy efficiency measures across our portfolio for FY23.

Due to Covid-19 we had to adjust our usual business operations (e.g. adapting buildings and reducing occupancy levels due to government restrictions and lockdowns) for some of the years reported on in this section. This has led to lower energy figures in some years however also prompted revised ways of working, including but not limited to, increased remote working. Some of these revised ways of working have remained whilst some have reverted to the pre-Covid-19 position.

The below list outlines some of the energy efficiency actions in our buildings that we have introduced in FY23:

- › Ongoing review and adjustment of the run times and set points of the heating, ventilation and air conditioning (HVAC) plant across all sites to reflect reduced occupation.
- › Ongoing review and adjustment of the lighting control settings (reducing PIR times) across all the sites to reflect reduced occupation.
- › Reviewed and adjusted the domestic hot water time schedules to meet occupancy demand (Newcastle, Oldbury, Cheadle and Basingstoke).
- › Isolated unused floors to minimise gas and electricity consumption (Newcastle, Cheadle and Basingstoke).
- › Introduced Fridays closedown from November 2022 and onwards in Basingstoke.
- › Optimised the existing humidity and air quality monitoring system in Oldbury, by using the information to adjust the HVAC operating hours and modes, which led to energy reduction and better performance of the plant.
- › Reviewed and increased the comms rooms cooling setpoints in Newcastle from 19°C to 23°C.
- › Ancillary equipment and service areas were reviewed and un-used equipment was switched off (e.g. TVs, catering equipment in kitchens, unnecessary printers and fridges etc.)

OUR PEOPLE AND SOCIAL MATTERS

Diversity and inclusion

Creating a safe and inclusive workplace that reflects our customers and our communities and where people can feel they belong and thrive is paramount to the AA in order to:

- › Represent the customers and communities we serve and provide products with great customer outcomes.
- › Encourage different thoughts and ideas, enabling debate and innovation that drives increased business success.
- › Attract and retain the best talent and to support all our people in reaching their full potential.

In FY23, we had several areas of focus, including:

- › **Recruitment and promotion** – we agreed and published our targets for senior leadership gender and ethnic representation and have monitored our positive progress.
- › **Talent and career development** – we ran our first career development programme for ethnically diverse colleagues 'I Will Accelerate' and our second 'Driven Women' talent programme.

- › **Inclusive culture** – we delivered mandatory inclusivity training for all colleagues, and have continued to grow and support our five Employee Network groups celebrating key events.
- › **Social mobility** – we have partnered with 10,000 Black Interns to support summer placements and launched our first graduate apprenticeship programme supporting an alternative route to gain a degree.

In addition, we are proud to have signed the Race at Work Charter. This provides a framework for employers to take practical steps to ensure their workplaces are tackling barriers that can be encountered at work by colleagues from an ethnic minority. It supports our commitment to ethnicity in the AA and is a key milestone in our support for ethnic diversity and inclusion.

We continue to review our talent practices and pipelines to attract and promote a higher proportion of diverse candidates. 99% of our Patrol workforce is male which is representative of the UK mechanic market. This has a significant impact on our employee numbers as shown below.

Group	Gender split (%)		Total number
	Male	Female	
Group Executive Committee (GEC)	78	22	9
Senior Leaders	56	44	50
People Managers	61	39	709
Employees (excluding agency and contractors)	69	31	6,174

Developing our people

Our success as a business depends on building our people's capability. We expect all our people to learn and grow and are committed to making sure they have access to learning solutions to keep pace with the changing needs of our customers and our business.

We invest in significant development for our patrols providing over 28,000 hours of professional development in areas such as EV training and vehicle diagnostic training.

We continue to onboard entry talent via our apprenticeship schemes and offer professional development to internal colleagues. This year over 150 apprentices have participated in entry level to post graduate level apprenticeships.

We implemented a market leading library of instructional courses and videos covering the latest business, technology, leadership and personal skills to encourage our colleagues to self-serve and access bite-sized learning. This has resulted in over 2,000 hours of on-demand learning being consumed.

For our leaders we expanded our leadership and learning curriculum and over 800 leaders participated in learning on topics such as Leading Hybrid Teams.

Our people accessed 140,000 hours of learning in FY23 equating to 3 days per employee, up from 2.5 days in FY22.

Attracting Talent

In a tough talent market, where demand often outstrips supply, we have continued to attract great talent to the AA. We have made significant technical hires in our digital and data functions. We have made strides to simplify attraction processes and introduced new ways to assess talent, such as gamification in customer operations which is a more engaging and inclusive process for entry talent using behaviours rather than prior experience.

Respect for human rights

At the AA, we believe that acting ethically and responsibly is not only the right thing to do, but essential for our business. As a brand which is admired and held in high regard of trust, the AA has strong values and principles which remain a powerful driver in our continual desire to remain a sustainable and commercially successful business. Importantly, this approach covers both our own business operations and our wider supply chain.

The AA respects human rights and it is committed to safe operations throughout its supply chain. We believe in doing the right thing and in doing it safely, without unnecessary risk to people's health or to the environment. Furthermore, the AA has a policy of zero tolerance towards acts of modern slavery which are unlawful or are a violation of fundamental human rights. You can read more about the AA's approach to modern slavery in the statement on our corporate website at www.theaacorporate.com

Supporting our wider communities and society

This year, to ensure we make a positive contribution to the places where we live and work, we have taken the following actions:

- › Encouraged our people to raise funds for their nominated local charities and beyond our local community, to the Ukraine crisis appeal.
- › Helped more than 2,500 Ukrainian refugees with either in-car lessons or on-line courses in Ukrainian to help them adjust to driving on the other side of the road in the UK.
- › Continued as a signatory of the Armed Forces Covenant and holder of their Employer Recognition Scheme Gold Award.
- › Campaigned for safer 'smart' motorways and continued to highlight dangers on rural roads.
- › Continued to support and promote the benefits of helping teenagers in care and care leavers to learn to drive to enhance their mobility, job prospects and self-esteem.

Further details about how the AA manages customer risk can be found in the principal risk section on *page 29*.

STAKEHOLDER ENGAGEMENT

Engaging with stakeholders makes our business better

The importance of engagement is well understood and that importance is only heightened during a period of transformation. The positive impact of aligning everyone around a common objective and working towards delivering it successfully cannot be overstated. That is why there has been a particular focus this year on setting a new 'Blueprint' for our purpose, behaviours and strategic vision 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
<p>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</p>	<p>We ensure that we make a positive contribution to the places where we live and work to help build thriving communities and strengthen our business</p>	<p>In our conversations with Government and regulators, we promote the interests of all UK motorists</p>

Examples in 2022/2023

<ul style="list-style-type: none"> › We launched our Blueprint (purpose, behaviours and strategic vision) to approximately 80 senior leaders at the end of FY23. To support our journey we also recruited a community of Influencers from across the business. › We measured employee engagement and culture through a short 'pulse' survey at the beginning of the year and a longer annual survey at the end of the year which gave us valuable insights about how colleagues are feeling about life at the AA. In January 2023 our engagement score increased to 67% (+4 points from April 2022) and our employee net promoter score (I would openly recommend the AA as an employer) increased to 64% (+4 points from April 2022). › We received more than 2,000 nominations for our annual AA colleague awards which is more than double the amount we received in the previous year. Approximately 180 colleagues from across the business attended the VIP event in Birmingham, where we announced 12 winners – a mixture of teams and individuals who really stood out. 	<ul style="list-style-type: none"> › We continued as a signatory of the Armed Forces Covenant, and holder of their Employer Recognition Scheme Gold Award. › The AA Trust continued to support and promote the benefits of helping teenagers in care and care leavers to learn to drive to enhance their mobility, job prospects and self-esteem. This was coordinated principally with the Live Unlimited charity in Barnet, North London. › The AA Charitable Trust, AA Driving School and Drivetech helped more than 2,500 Ukrainian refugees with either in-car lessons or on-line courses in Ukrainian, to help them adjust to driving on the other side of the road in the UK. Several employees helped transport provisions to Ukraine and we offered free signage for collection points and free European Breakdown Cover for humanitarian convoys. › The AA Charitable Trust continued the campaign aimed at improving the safety of new drivers on rural roads where 71% of fatal crashes involving young drivers occur. 	<ul style="list-style-type: none"> › We continued our campaign to improve the safety of 'smart' motorways. Stopped Vehicle Detection has now been rolled out and there are plans for an extra 120 Emergency Refuge Areas. › We worked with the Competition and Markets Authority to push the case for greater fuel price transparency, including urging the Government to introduce a 'fuel price checker', which would let people know the cheapest price on offer in their local area.
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Industry	Investors	Customers
<p>We believe that effective, system-wide change is only possible if we work with our wider industry peers, partners and supply chain</p>	<p>While no longer being a listed company, we continue to maintain significant levels of debt in the form of publicly issued bonds and to engage with our investors and bondholders</p>	<p>We aim to deliver industry-leading value, service and quality for our customers and we are regularly judged as 'best in class'</p>

Examples in 2022/2023

<ul style="list-style-type: none"> › We are active members of various Government bodies and advisory groups such as the Motorists' Forum and the Office for Zero Emission Vehicles. › We campaigned with Motability to improve the standards for public EV charge points to make them more accessible to disabled and other drivers with mobility challenges. 	<ul style="list-style-type: none"> › We held a results call in April 2022 with investors and bondholders covering the AA Limited group results and intend to do so again in respect of FY23. › We provided interim accounts for AA Intermediate Co Limited and an interim statement for the AA Limited Group. › There has been significant engagement with bond investors as part of debt issuance processes in June 2022 and January 2023. 	<ul style="list-style-type: none"> › Which? 'Recommended Provider' status for the fifth consecutive year. › In Which? Manufacturer Breakdown Cover review, we provide cover for the top ten manufacturers in the table of fourteen. › Our AA Car Insurance has a five-star rating by Defaqto.
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S172(1) STATEMENT**Our Directors make decisions with our stakeholders and the long-term in mind**

Section 172 of the Companies Act 2006 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.

In this Section 172 statement, the term 'Director' refers to the statutory directors of the Company, as well as their alternate directors, to the extent they acted in such capacity during the year (the Directors). The Directors' aim is to make sure that their 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 Directors have considered the need to act fairly between stakeholders and continue to maintain high standards of business conduct. Nevertheless, the Directors acknowledge that stakeholder interests may conflict with each other and that not every decision can result in a positive outcome for all stakeholders.

The table below sets out how the Directors had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006 when performing their duties in respect of the Company.

Section 172(1)	Decisions/considerations
(a) The likely consequence of any decision in the long term	<p>The Directors remain dedicated to promoting the success of the AA's business as a whole through development of effective strategy, which generates long-term sustainable success for the AA's shareholders and stakeholders.</p> <p>Further details on how the Directors considered the likely consequence of any decision in the long term can be found in the stakeholder engagement section on page 38 and the Risk Management Framework on page 28.</p>
(b) The interests of the company's colleagues	<p>The Directors continue to recognise that delivery of the AA's purpose, strategy and long-term sustainable growth requires strong employee engagement. Management keeps employees informed of the Company's plans, vision, purpose and culture through various formal and informal methods such as events, blogs, vlogs and briefings.</p> <p>The CEO continues to publish a weekly vlog to all employees to keep in touch, including keeping them up to date on factors affecting the Company's performance. To ensure there are opportunities for a two-way dialogue, the CEO has also attended Q&A sessions at various Company sites across the UK during the year.</p> <p>The Directors have measured employee engagement and culture through a short 'pulse' survey at the start of the year and a fuller annual engagement survey at the end of the year. The results of these surveys, which showed an increase in employee engagement, have been shared with colleagues and the Directors and senior management have developed action plans to respond to this input.</p> <p>Throughout the year, certain Directors have utilised opportunities to ride along with our patrols or participate in call listening sessions in our customer call centres. Likewise, several Directors are customers in respect of the Company's services and therefore participate directly and share in the customer experience.</p> <p>Further details on how the Directors considered the interests of the Company's colleagues can be found in the stakeholder engagement section on page 38 and the Directors' Report on page 46.</p>
(c) The need to foster the company's business relationships with suppliers, customers and others	<p>The Directors recognise the importance of the Company developing strong relationships with all its stakeholders, actively seeks opportunities to understand these interests and have effective interaction with its key stakeholders.</p> <p>As a large private company, the Directors recognise the diversity of the Company's stakeholders. Therefore, the Company takes proactive steps to engage with all its stakeholders from customers to industry peers and Government.</p> <p>Further details can be found in the stakeholder engagement section on page 38.</p>

<p>(d) The impact of the company's operations on the community and the environment</p>	<p>The Directors understand that ensuring the Company's operations have a positive impact on the community and environment is of strategic importance. That is why, after careful consideration by the Board, the Company set a target during the year to be net zero by 2035 for its own greenhouse gas emissions.</p> <p>In recognition of the importance of its impact, the Company publishes a separate annual report on ESG matters which can be found on its corporate website at www.theaacorporate.com. The 2023 ESG report is due to be published in May this year.</p> <p>In addition, further details in respect of the impact of the Company's operations on the community and the environment can be found in the stakeholder engagement section on page 38 and the health, safety and environmental performance report on page 32.</p>
<p>(e) The desirability of the company maintaining a reputation for high standards of business conduct</p>	<p>The Directors believe that managing its reputation for high standards of business conduct is a key priority. The Directors ensure that an appropriate framework, including relevant policies and codes of conduct, is in place to support this. The Directors are made aware of any issues that may have a material impact on the Company's reputation and operations.</p> <p>All employees are required to complete mandatory e-learning training, in respect of matters such as financial crime, conduct risk, anti-bribery and corruption. The Directors are kept up to date with the completion rates of mandatory training amongst colleagues via monthly updates. In addition, there are policies in respect of these areas and they are available to all employees via an internal policy library, which is governed by a formal policy committee.</p> <p>Further details can be found in the Directors' Report on page 46.</p>
<p>(f) The need to act fairly as between the Company's owners</p>	<p>The Company engages positively with its shareholders and other investors. Specifically, two directors of the Company are representatives of its two largest shareholders. The Company maintains contact with other investors through regular corporate reporting on its corporate website and through the accessibility of an Investor Relations function.</p> <p>Further details can be found in the stakeholder engagement section on page 38 and the Directors' Report on page 46.</p>

Key stakeholders

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

- › Our people
- › Communities and societies
- › Government and regulators
- › Industry (including the supply chain)
- › Investors
- › Customers

Read more about our engagement with key stakeholders and our approach to each of the groups mentioned above, on page 38.

NON-FINANCIAL INFORMATION STATEMENT

Reporting requirement	The AA's key policies and standards which govern our approach and controls
<p>Environmental matters</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Our commitment to safe operations <i>page 32</i> › Risk management report: health and safety risk <i>page 30</i> 	<p>ESG Strategy Report (E) and (I)</p> <p>Health, Safety and Environmental Policy (I)</p>
<p>Company employees</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Diversity and inclusion <i>page 36</i> › Developing our people <i>page 36</i> › Our commitment to safe operations <i>page 32</i> 	<p>ESG Strategy Report (E) and (I)</p> <p>Our Behaviours (I)</p> <p>Working Time Policy and Time off Policy (I)</p> <p>Absence policies including Attendance Management Policy and Family Leave (e.g. Maternity leave, paternity leave and shared parental leave, adoption leave, surrogacy and fostering) (I)</p> <p>Flexible Working Policy (I)</p> <p>Capability Policy (I)</p> <p>Equality and Diversity Policy (I)</p> <p>Workplace Policy (I)</p> <p>Health, Safety and Environmental Policy (I)</p>
<p>Social matters</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Supporting our wider communities and society <i>page 37</i> › Stakeholder engagement <i>pages 38 and 39</i> 	<p>ESG Strategy Report (E) and (I)</p> <p>Complaints Handling Policy (I)</p> <p>Vulnerable Customers Policy (I)</p> <p>The AA Charitable Trust (UK charity no.1125119)</p>
<p>Respect for human rights</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Diversity and inclusion <i>page 36</i> › Respect for human rights <i>page 37</i> 	<p>ESG Strategy Report (E) and (I)</p> <p>Equality and Diversity Policy (I)</p> <p>Human Rights Policy (E)</p>

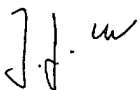
Reporting requirement	The AA's key policies and standards which govern our approach and controls
<p>Anti-corruption and anti-bribery</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Employee engagement (in the Directors Report page 50) 	<p>Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy (I)</p> <p>Conduct Risk Policy (I)</p> <p>Conflicts of Interest Policy (I)</p> <p>Financial Crime Policy (I)</p> <p>Securities Dealing Policy (I)</p> <p>Whistleblowing Policy (I)</p>
<p>Due diligence and outcome</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Risk Management report page 28 	<p>Risk Management Framework Policy (I)</p> <p>Annual Internal Audit Plan (I)</p> <p>Risk Register (I)</p> <p>ISO 14001, ISO 9001 and OHSAS 18001 certification for specified business areas (E)</p>
<p>Business model and company strategy</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › CEO statement pages 6-9 › Our business model pages 12-15 	
<p>Non-financial key performance indicators</p> <p>Further details in this Report:</p> <ul style="list-style-type: none"> › Key performance indicators pages 16-19 	

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

E Group policies, standards and guidelines that are published on www.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 19 April 2023 and signed on its behalf by:

Jakob Pfaudler
Chief Executive Officer



GOVERNANCE REPORT

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of AA Limited for the year ended 31 January 2023 (Companies Act 2006, s415). 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 and are incorporated into this Directors' Report by way of cross-reference.

Index to Directors' Report and other required disclosures

Auditor information	<i>page 50 (Directors' Report)</i>
Board of Directors	<i>page 47 (Directors' Report)</i>
Carbon emissions	<i>page 34 (Strategic Report)</i>
Directors' indemnities and insurance	<i>page 50 (Directors' Report)</i>
Employee engagement	<i>page 50 (Directors' Report) and page 38 (Strategic Report)</i>
Employees with disabilities	<i>page 50 (Directors' Report)</i>
Events after the reporting period	<i>page 103 (Notes to the Financial Statements)</i>
Financial instruments	<i>page 67 (Notes to the Financial Statements)</i>
Going concern	<i>page 50 (Directors' Report) and page 65 (Notes to the Financial Statements)</i>
Internal controls over financial reporting	<i>page 50 (Directors' Report)</i>
Our people and social matters	<i>page 36 (Strategic Report)</i>
Ownership of the AA	<i>page 47 (Directors' Report)</i>
Political donations and expenditure	<i>page 51 (Directors' Report)</i>
Risk management	<i>page 28 (Strategic Report)</i>
Statement of corporate governance arrangements	<i>page 48 (Directors' Report)</i>
Suppliers' payment policy	<i>page 51 (Directors' Report)</i>
Walker Guidelines	<i>page 50 (Directors' Report)</i>

Ownership of the AA

Since 10 March 2021, the immediate parent company of the Company has been Basing Bidco Limited (Bidco). Bidco is a subsidiary of Basing Topco Limited (Topco), an investment company controlled 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.

Board of Directors

During the financial year ending 31 January 2023, the governance framework in respect of the AA was amended. From the acquisition referred to above until October 2022, investment oversight of the AA Group was exercised by the Board of Directors of Topco. Since October 2022, management control of the AA Group has been exercised by the Board of Directors of the Company. The AA subsidiary undertakings consolidated in the Group financial statements are listed in note 7 to the Company's financial statements on pages 108 and 109.

The Directors of Topco during the year were:

- › Rick Haythornthwaite (Chair and Non-Executive Director) (until his resignation on 3 October 2022);
- › Kory Sorenson (Non-Executive Director) (until her resignation on 3 October 2022);
- › James O'Gara (on behalf of Warburg Pincus LLC);
- › Gordon Holmes (on behalf of TowerBrook Capital Partners (U.K.) LLP) (until his resignation on 3 October 2022);
- › Adarsh Sarma (on behalf of Warburg Pincus LLC) (until his resignation on 3 October 2022);
- › Joseph Knoll (on behalf of TowerBrook Capital Partners (U.K.) LLP);
- › Simon Breakwell (Deputy Chair and Non-Executive Director) (until his resignation on 30 September 2022); and
- › Jakob Pfaudler (AA Group CEO) (until his resignation on 3 October 2022).

The Directors of the Company during the year were:

- › Rick Haythornthwaite (Chair and Non-Executive Director) (from 3 October 2022);
- › Kory Sorenson (Non-Executive Director) (from 3 October 2022);
- › Gordon Holmes (on behalf of TowerBrook Capital Partners (U.K.) LLP) (from 3 October 2022);
- › Adarsh Sarma (on behalf of Warburg Pincus LLC) (from 3 October 2022);
- › Jakob Pfaudler (AA Group CEO); and
- › Tom Mackay (AA Group CFO).

The following Alternate Directors were appointed on 3 October 2022:

- › James O'Gara as Alternate Director for Adarsh Sarma (on behalf on Warburg Pincus LLC);
- › Joseph Knoll as Alternate Director for Gordon Holmes (on behalf of TowerBrook Capital Partners (U.K.) LLP).

The Board has a number of matters formally reserved for its consideration and approval. Furthermore, it has delegated authority in respect of certain matters to an Audit and Risk Committee and a Remuneration and Nomination Committee, and these matters are detailed in the respective committee terms of reference.

DIRECTORS' REPORT continued

Statement of corporate governance arrangements

The AA Group is subject to the requirements for Large Private Companies under the Companies (Miscellaneous Reporting) Regulations 2018 and must include a statement of its corporate governance arrangements in its Annual Report and Accounts.

The AA Group has chosen to adopt the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles) and was fully compliant for the year ending 31 January 2023. This report explains how the Directors have applied each of the Wates Principles to the AA's operations and the corporate governance arrangements in place at the AA.

<i>The Wates Principles</i>	<i>Application during FY23</i>
<p>1. Purpose and leadership An effective board develops and promotes the purpose of the company and ensures its values, strategy and culture align with that purpose</p>	<p>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.</p> <p>During the year significant work has been undertaken to transform the culture of the AA, which has included a comprehensive consideration of its purpose and strategic vision. The Board has provided input in respect of that transformation from the outset and has been kept updated as it has been rolled out across the Group, through a co-ordinated, multi-channel approach.</p> <p>The Board is dedicated to promoting the success of the business as a whole, through development of effective strategy, which generates long-term sustainable success for the AA's shareholders. A significant portion of the Board's time during the year has been dedicated to the consideration and debate of various strategic decisions, at a time when macro-economic trends that have long been dormant have re-emerged.</p>
<p>2. Board composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge</p>	<p>There is a clear division of responsibilities between the Chair of the Board and the CEO of the Company, as recommended by the Wates Principles.</p> <p>The AA values balance and diversity and each Director and member of senior management has a high level of understanding and knowledge relevant to the AA's business needs.</p> <p>The Board considers diversity at all levels of the Company. That consideration has been aided during the year through dedicated Board agenda time for the AA's Chief People Officer to update the Board on the specific initiatives the Company is pursuing with regard to diversity.</p> <p>There are clear arrangements for the delegation of authority from the Board to an Audit and Risk Committee and a Remuneration and Nomination Committee respectively and the Board are satisfied that this delegation is appropriate for the size and complexity of the AA.</p>
<p>3. Director responsibilities The board and individual directors should have a clear understanding of their accountability and responsibilities</p>	<p>Each Director has a clear understanding of their general duties and accountabilities.</p> <p>The Directors understand their duty to disclose a conflict of interest as and when it may arise. Declared conflicts of interest are regularly reviewed and monitored.</p> <p>The Board maintains clear lines of accountability through a combination of appropriate delegation and the adoption of reserved matters.</p> <p>The Company Secretary, CEO and the Chair periodically review the appropriateness and strength of governance process and they consider if enhancements could be made.</p> <p>Board meetings, papers and supporting items are provided in a timely and accurate manner from the relevant experts within the business, allowing for clear and informed decision-making at management level.</p>

<p>4. Opportunity and risk</p> <p>A board should promote the long-term sustainable success of the company, by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks</p>	<p>The Board has overall responsibility for the AA's risk appetite and risk management framework. However, the AA's risk management is delegated to the Audit and Risk Committee which, supported by the Chief Risk Officer, has oversight of the risk within the AA.</p> <p>The AA operates a 'three lines of defence' model. The model distinguishes between functions that have primary 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.</p> <p>To support this model, the AA has risk policies, defined risk appetites for key risks, risk oversight committees and clearly documented accountabilities and responsibilities from the business, through to the management.</p> <p>There is an internal control framework with appropriate risk management systems in place, which helps to identify emerging and established risks.</p> <p>The AA's Risk Management Framework Policy requires all areas of the business to maintain a risk register, which must be reviewed at a minimum, on a quarterly basis.</p> <p>Read more about risk management on pages 28-31.</p>
<p>5. Remuneration</p> <p>A board should promote executive remuneration structures aligned to the long-term sustainable success of a company</p>	<p>Matters of remuneration policies and procedures are delegated to the Remuneration and Nomination Committee which meets twice a year and additionally when required.</p> <p>The Company has appropriate and fair levels of remuneration in place to secure and retain high-quality directors, senior management and wider employees at the AA.</p> <p>Remuneration is aligned to the AA group's strategy and is designed to promote the long-term sustainable success of the business.</p> <p>Remuneration structures and practices take account of the AA's wider business operating environment and wider workforce pay and conditions.</p> <p>The AA reports on the gender pay gap on its corporate website.</p>
<p>6. Stakeholder relationships and engagement</p> <p>Directors should foster effective stakeholder relationships aligned to the company's purpose</p>	<p>The AA recognises the importance of stakeholder engagement and has a strong focus on quality internal and external communication. The AA's key stakeholders are continuously monitored, to ensure that due consideration is given to the relevant stakeholders in the context of principal decisions.</p> <p>The AA is responsible for ensuring its business activities sustainably benefit the wider stakeholder system including consideration of social, economic and environmental impacts.</p> <p>As a large private company, the AA recognises that stakeholder engagement is critical and aligning everyone around a common objective and delivering the objective successfully is of key importance. The AA ensures people at all levels understand the direction of the business, and role they play in the business.</p> <p>The AA regularly engages with its key stakeholders, through both formal and informal channels including but not limited to employee engagement surveys, internal communications and live streams from senior management, active involvement in governmental and regulatory forums and participation in industry groups including SURVIVE Group for Roadside Safety and the Society of Motor Manufacturers and Traders.</p> <p>Read more about our stakeholder engagement on page 38.</p>

DIRECTORS' REPORT continued**The Guidelines for Enhanced Disclosure by Portfolio Companies and Private Equity Firms (the Walker Guidelines)**

Due to its private equity ownership, the AA is classified as a portfolio company under the Walker Guidelines. The private equity funds that own the AA are (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.

The senior executives of the private equity funds who have oversight of the AA, on behalf of the funds are Adarsh Sarma and James O'Gara for Warburg Pincus LLC and Gordon Holmes and Joseph Knoll for TowerBrook Capital Partners (U.K.) LLP.

The Directors confirm that the AA was fully compliant with the Walker Guidelines for the year ending 31 January 2023. The specific disclosures required under the Walker Guidelines, being (i) environmental matters, (ii) employee matters, (iii) social matters, (iv) respect for human rights and (v) anti-corruption and bribery are included within the Strategic Report. The Walker Guidelines also require disclosure about the main trends and factors likely to affect the future development, performance and position of the AA's business, which are included in the 'Our Business Model' and 'Financial Review' sections of the Strategic Report on pages 12-15 and pages 20-27.

Auditor information

The auditor of the Company is PricewaterhouseCoopers LLP.

Internal controls over financial reporting

The Audit and Risk Committee monitors 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 Audit and Risk Committee receives copies of relevant internal audit plans and reports in addition to finance updates and risk reports from the Chief Risk Officer. The Head of Internal Audit and Group Financial Controller attend all Committee meetings and the chair of the Committee regularly meets with the Chief Risk Officer and Head of Internal Audit.

Directors' indemnities and insurance

The Company maintains appropriate directors' and officers' liability insurance cover. The Company also grants indemnities to each of its Directors to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Act) were in force during the year ended 31 January 2023 and remain in force, in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Group.

Employee engagement

We remain committed to employee engagement throughout the business. Employees are kept updated on the AA's strategy and progress through regular communication emails and updates on the AA's intranet page. Further details of our workforce engagement and our people can be found on page 38. There are clear and transparent policies in place for employees to raise concerns about misconduct and unethical practices at the AA, which include but are not limited to: Whistleblowing Policy, Conflicts of Interest Policy and Anti-Bribery and Allowable Gifts, Hospitality and Donations Policy.

The Board believes that a shared purpose, strategic vision and organisational culture across the organisation informs the management's decision-making and significant work has gone in to refreshing those elements during the course of the year. Regular employee engagement surveys address and monitor how well the organisational culture and values between senior management and their colleagues are embedded and aligned.

The latest employee engagement survey, held in January 2023, had a response rate of 84% and an employee engagement score of 67%. Read more about how the Board has engaged with our people in the stakeholder engagement summary on page 38.

Employees with disabilities

The AA is proud of our policy that people with any disability should have full and fair consideration for all vacancies. The AA is a 'Disability Confident Committed employer – Level 1' and 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 and support employees in the workforce if they become disabled during employment. That support is provided in part through our 'Ability' employee network group.

To assist in the training, career development and promotion of disabled people, we have recently partnered with 10,000 Able Interns to offer support and unlock opportunities for them with the offer of a paid summer internship with the AA.

Going concern

Notwithstanding the Group's net liabilities, the Group's operations are highly 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. The majority of the Group's borrowings are long term in nature, with no borrowings due within 12 months from the date of signing of these financial statements. For the Group's longer-term viability, it remains a key assumption of the Directors that the Group continues to have ready access to public debt markets to enable these borrowings to be refinanced in due course.

On 13 July 2022, the Group completed a refinancing of its A6 Notes, issuing £250m of A10 Notes at a coupon of 7.38%. The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £550m of A7 Notes which have a maturity date of July 2024. On 6 February 2023 AA Bond Co Limited issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. On 6 February 2023 the Group renewed and increased its Liquidity Facility by £15m to a total of £175m which remains undrawn and on 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023 (see note 37).

The Directors have reviewed detailed monthly cash flow forecasts for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future without significant curtailment of operations. Therefore, the financial statements have been prepared using the going concern basis.

Political donations and expenditure

No political donations were made during the year ended 31 January 2023 (2022: £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.

Statement of Directors' responsibilities in respect of the financial statements

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

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

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

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

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 full year ended 31 January 2023, the average time taken to pay invoices was 17.41 days. Further information can be obtained from the Government's payment practice reporting portal.

The Directors' Report has been approved by the Board on 19 April 2023 and signed on its behalf by:

Jakob Pfadler
Chief Executive Officer

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

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

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.

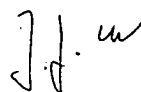
Directors' confirmations

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 19 April 2023 and signed on its behalf by:

Jakob Pfadler
Chief Executive Officer



FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AA LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- › AA Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 January 2023 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 UK-adopted international accounting standards as applied in accordance with the provisions 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, including 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 & Accounts 2023 (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 January 2023; 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.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- › We conducted audit testing over seven components.
- › Four components were subject to an audit of their complete financial information.
- › Specific audit procedures were performed on certain balances and transactions in respect of a further three components.
- › Procedures were also performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances, asset impairment assessments and cash balances within the Group which were not covered through the audit of the components referenced above.
- › We obtained coverage of 91% of revenue.

Key audit matters

- › Recognition of revenue in respect of the personal roadside business (Group)
- › Valuation of net post-retirement benefit obligations (Group)
- › Valuation of insurance technical provisions (Group)
- › Goodwill impairment assessment (Group)
- › Investment in subsidiaries impairment assessment (Company)

Materiality

- › Overall Group materiality: £8.0m (2022: £8.0m) based on approximately 2.5% of Reported EBITDA (formerly called Trading EBITDA in 2022) with adjustments (2022: approximately 2.5% of Trading EBITDA with adjustments).
- › Overall Company materiality: £7.7m (2022: £7.5m) based on approximately 1% (2022: approximately 1%) of Total Assets, but for the purposes of the audit of the Group financial statements, we limited the Company materiality to £3.0m.
- › Performance materiality: £6.0m (2022: £6.0m) (Group) and £5.8m (2022: £5.6m) (Company).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

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 Note 2.

The Group has recognised revenue of £506m in respect of the insured 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 provisions and other adjustments, to appropriately account for revenue.

We focused on whether revenue from these policies was correctly recognised, and whether the corrections and standing provisions and other adjustments made are complete. Given the known issues, there is an increased completeness risk that there are undetected errors in the policy management system calculations. There is also an increased risk of error where manual corrections are made.

We assessed the design and implementation of the insured personal roadside business revenue processes and related financial controls; however, we concluded that we would not rely on the controls over financial reporting and therefore we performed only substantive procedures in this area.

For a sample of insured personal roadside contracts, we performed detailed testing of revenue transactions including agreeing to the underlying contracts, recalculating the revenue and deferred revenue recognised based on transactional data and contractual terms, and agreement to cash receipt. We performed detailed testing of the deferred revenue balances at period end to underlying contracts and recalculated the deferred revenue balance. We have understood the updated migration status of the underlying policy management systems and have performed substantive testing procedures over a sample of migrated policies.

We reviewed management's reconciliations of the revenue to be recognised as generated by the policy management systems to the revenue actually recognised in the general ledger, and tested a sample of the specific manual corrections, standing provisions and other adjustments posted by management to correct the known system errors as well as obtaining a full understanding of each of these.

We performed substantive testing procedures over the completeness of the monthly corrections, standing provisions and other adjustments through the following procedures: sample testing policies and tracing through any identified differences to the corresponding correction, provision or other adjustment made, obtaining an understanding of all policy types and ways of policy set up and the corresponding accounting entries for each of these, and understood the nature of complaints through review of the complaints log to understand whether these could be indicative of further unidentified issues. We have also followed up from the prior year on any releases and utilisations of provisions to ensure that these are properly accounted for.

We found no material misstatements from our testing.

Valuation of net post-retirement benefit obligations (Group)

Refer to Notes 1.3(l) and 1.3(u) 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 operates three defined benefit pension schemes, the most significant of which is the AA UK Pension Scheme (AA UK), which combined have a total net defined benefit pension deficit of £169m, moving from a surplus of £130m in 2022, comprising gross assets of £1,621m and gross liabilities of £1,790m.

Valuation of the liabilities requires significant levels of judgement and technical expertise in determining the appropriate assumptions to measure it. Changes in assumptions (including discount rate, mortality, inflation and pension increases) can have a material impact on the calculation of the liabilities either individually or in combination. The Directors used independent actuaries to prepare the year end valuation under International Accounting Standard 19, 'Employee benefits' ("IAS 19").

Valuation of the scheme assets requires judgement, due to the nature of certain complex and illiquid assets held, for which there are no quoted prices available. Of the total asset value held, the majority do not have a quoted price available. Prices are obtained directly from the relevant investment managers who apply judgement in valuing those assets. In addition, the bulk annuity policies held are valued using actuarial assumptions.

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 assets and obligations.

We obtained an understanding of the pensions process and assessed the design and implementation of controls, including complementary user entity controls in place where service organisations are used.

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 are reasonable and assessing the impact of the assumptions in combination with one another. We agreed that the judgements taken by the Directors were reasonable.

We obtained external confirmations to test the existence of pension assets as at 31 January 2023. 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 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 disclosures 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.

INDEPENDENT AUDITORS' REPORT continued

Key audit matter

How our audit addressed the key audit matter

Valuation of insurance technical provisions (Group)

Refer to Notes 1.3(n) and 1.3(u) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and Note 22 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 £100m and the provisions for incurred but not reported claims of £17m.

The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based upon management's best estimate of the ultimate cost of all claims incurred but not settled at the year end, whether reported or not, together with the related claims handling costs.

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.

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;
- › Whether the provision for incurred but not reported claims has been calculated appropriately, including whether any trends in the underlying claims experience were appropriately reflected, and any margins included within the booked reserves are reasonable; and
- › Estimating the impact of the higher inflationary environment on reserve estimates.

We assessed the design and implementation of the insurance technical provisions processes and related financial controls.

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 for 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 2022, rolling forward our estimates 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.

We tested, on a sample basis, the completeness and accuracy of the underlying source data on which our actuarial projections are based to supporting documentation.

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. In the current year the margin has been set using a standard industry methodology which aligns to a percentile of the reserve risk distribution, which is a change of approach compared to the prior year. The new approach results in a margin for uncertainty that is within a reasonable range when we consider it in the context of the maturity of the business and by comparing it to peers who write similar business.

We are currently in an environment of high and uncertain future inflation. Inflation is an evolving risk area which may result in rising insurance claim costs. In addition, social inflation may continue to increase due to societal trends and views toward litigation. We have performed our work with consideration of regulatory guidance provided by the Prudential Regulation Authority ("PRA") and the Institute and Faculty of Actuaries ("IFoA"). We have performed an independent exercise to estimate the impact of the higher inflationary environment on our reserve estimates using a projected cashflow approach. Specifically, we have estimated the future cash flows for each accident year using our selected payment pattern multiplied by appropriate inflation indices at each future period. 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 Notes 1.3(i) and 1.3(u) to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates, and Notes 9 and 25.

The Group holds £1,164m of goodwill allocated to cash generating units (CGU) Roadside assistance, Insurance services, AA Cars and Drivetech. Goodwill is subject to annual impairment review for which the Directors analyse discounted cash flows at the CGU level.

Cash flow forecasts are an area of particular focus given the judgements relating to future growth and discount rate assumptions. An impairment charge of £6m has been recorded by the Directors against the goodwill balance of Drivetech in the current financial year, making the Goodwill balance for this CGU £25m. No impairment was highlighted in the other three CGUs.

The risk that we focused on in the audit is that the goodwill balance allocated across the CGUs in the Group, may have been impaired in value and this has not been recognised.

For the four CGUs, we obtained an understanding of the impairment process.

We checked that 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 key assumptions in relation to recent trading, including roadside membership rates and the number of motor and home insurance policies sold or renewed. We also challenged the extent to which climate change considerations had been reflected, as appropriate, in the cash flow forecasts.

We focused additional work on the Drivetech CGU due to the loss of a speed awareness contract in the year. For certain assumptions, which underpinned their forecast performance, including their existing customer base, contract renewals and expected growth plans, we assessed these for reasonableness against market data, if available, and other internal management data where appropriate. This indicated that an impairment of £6m was appropriate based on the assumptions.

We evaluated the historical accuracy of the cash flow forecasts for these businesses. 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 assumptions for long-term growth rates and the discount rate by comparing them to economic forecasts and by engaging our valuation experts to assess the cost of capital for the Company and comparable organisations respectively. 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 the four CGUs and agreed with their conclusion that only Drivetech had a reasonable possible change, caused by estimation uncertainty, that could give rise to an additional material impairment.

We also evaluated the related disclosures, including the enhanced disclosure in relation to Drivetech sensitivities, and were satisfied they were appropriate.

Investment in subsidiaries impairment assessment (Company)

Refer to Notes 1.3(b), 1.3(d) and 2 to the Company financial statements.

The Company holds investments in subsidiaries of £718m representing AA Insurance Holdings Limited (the underwriting business) and AA Mid Co Limited (which owns the rest of the Group).

The Directors prepared a set of 'dividend distribution' forecasts to reflect the cash flows available for distribution to the Company from the Group's subsidiaries. These incorporated interest and tax cash flows in addition to the enterprise value cash flows used in support of the goodwill impairment assessment, reflecting that the Group's debt materially is held in those subsidiaries. These cash flows were then discounted at an equity discount rate.

No impairment charge and no reversal of past impairment charges has been recorded by the Directors in the current financial year.

The risk that we focused on in the audit is that the Investment in subsidiaries balance may have been impaired in value, or require a reversal of impairment and this has not been recognised.

We obtained an understanding of the impairment process.

We evaluated the appropriateness of the 'dividend distribution' model prepared. We evaluated the Directors' impairment assessment of the investment in subsidiaries' carrying value by agreeing amounts to supporting documentation and checking calculations. This leveraged the Directors' calculations for the Group goodwill impairment assessment referred to above.

We evaluated the assumptions with regard to anticipated interest flows as debt is refinanced over the coming years and the basis for calculating tax cash flows. We found these to be reasonable and, in relation to interest flows, supported by current market rates. With the support of our valuation experts, we evaluated the Directors' determination of the equity discount rate and found this to be reasonable.

We agreed with the Directors' conclusion that there is no impairment charge required nor any change in circumstances that would merit the reversal of past impairment charges.

We also evaluated the related disclosures, including in relation to potential discount rate, terminal period growth rate and cash flow sensitivities, and were satisfied they were appropriate.

INDEPENDENT AUDITORS' REPORT continued

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 has two operating segments. Within these segments there are 51 reporting units, of which the following are considered financially significant: Automobile Association Developments Limited and Automobile Association Insurance Services Limited. Two further reporting units were subject to an audit of their complete financial information due to their nature: AA Limited and AA Bond Co Limited. In addition, three reporting units were in scope for specific audit procedures, being AA Corporation Limited, AA Underwriting Insurance Company Limited and AA Senior Co Limited. These three components were selected based on the contribution of each to specific financial statement line items, including: intangible assets and associated amortisation expense, operating and accrued expenses, staff

costs, prepayments and long term receivables; revenue, insurance technical reserves and related accounts; and borrowings, external interest expense and long term derivative financial assets respectively. These, together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, pension scheme balances, asset impairment assessments and cash balances within the Group which were not covered through the audit of the components referenced above, gave us the evidence we needed for our opinion on the financial statements as a whole. Having undertaken certain procedures to understand the accounting processes and controls at the Group, we determined it was appropriate to perform a substantive audit for the reporting units in scope. All audit procedures were performed by the Group engagement team, with no component auditors involved.

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	£8.0m (2022: £8.0m).	£7.7m (2022: £7.5m).
How we determined it	Approximately 2.5% of Reported EBITDA (formerly called Trading EBITDA in 2022) with adjustments (2022: approximately 2.5% of Trading EBITDA with adjustments)	Approximately 1% (2022: approximately 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	EBITDA, which is a common performance measure for PE backed companies, reflects the fact that this is typically the most relevant measure of profitability. Based on the benchmarks used in the Annual Report, EBITDA is the primary measure used by the shareholders and other users of the financial statements in assessing the performance of the Group, and that by adjusting this to exclude certain items (such as the pension service charge, the share-based payments charge and the impairment of investments in joint ventures), it provides a clearer view of the performance of the underlying business.	We believe that total assets is the appropriate measure as the Company is a non-profit oriented entity. In the current year, overall materiality has been reduced to £3.0m for the purposes of the audit of the Group financial statements, to ensure the Company did not have a higher materiality than the overall Group materiality allocation.

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

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality,

amounting to £6.0m (2022: £6.0m) for the Group financial statements and £5.8m (2022: £5.6m) for the Company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.4m (Group and Company audits) (2022: £0.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- › Discussion with management, internal audit, internal compliance and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.

INDEPENDENT AUDITORS' REPORT continued

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

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

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

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

Use of this report

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

Other required reporting**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Nicholas Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
19 April 2023

CONSOLIDATED INCOME STATEMENT

for the year ended 31 January

	Note	2023 £m	2022 £m
Revenue	2	1,044	989
Cost of sales		(429)	(393)
Gross profit		615	596
Administrative and marketing expenses		(406)	(466)
Impairment of goodwill	9	(6)	-
Impairment of property, plant and equipment	10	-	(11)
Operating profit	3	203	119
Finance costs	5	(132)	(143)
Finance income	6	5	1
Profit/(loss) before tax		76	(23)
Tax expense	8	(7)	(4)
Profit/(loss) for the year		69	(27)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 January

	Note	2023 £m	2022 £m
Profit/(loss) for the year		69	(27)
Other comprehensive income on items that may be reclassified to the income statement in subsequent years			
Effective portion of changes in fair value of cash flow hedges		17	7
Tax effect	8	(4)	(2)
		13	5
Other comprehensive (expense)/income on items that will not be reclassified to the income statement in subsequent years			
Remeasurement (losses)/gains on defined benefit schemes	24	(326)	322
Tax effect	8	81	(80)
		(245)	242
Total other comprehensive (loss)/income		(232)	247
Total comprehensive (loss)/income for the year		(163)	220

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January

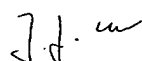
	Note	2023 £m	2022 Restated ¹ £m
Non-current assets			
Goodwill and other intangible assets	9	1,355	1,350
Property, plant and equipment	10	35	37
Right-of-use assets	11	63	51
Investments in joint ventures and associates	12	5	5
Financial Investments	14	9	10
Derivative financial instruments	20	14	6
Financial assets at amortised cost	26	4	4
Other receivables	15	6	-
Defined benefit pension scheme asset	24	-	130
Deferred tax assets	8	13	-
		1,504	1,593
Current assets			
Inventories	13	4	4
Trade and other receivables	15	431	354
Derivative financial instruments	20	1	-
Current tax receivable		8	-
Cash and cash equivalents	16	165	112
		609	470
Assets classified as held for sale	35	2	8
Total assets		2,115	2,071
Current liabilities			
Trade and other payables	17	(580)	(536)
Current tax payable		-	(6)
Lease liabilities	28	(24)	(16)
Provisions	21	(5)	(4)
		(609)	(562)
Non-current liabilities			
Borrowings and loans	18	(2,309)	(2,306)
Derivative financial instruments	20	(1)	-
Lease liabilities	28	(38)	(32)
Defined benefit pension scheme liabilities	24	(169)	-
Provisions	21	(6)	(10)
Deferred tax liabilities	8	-	(58)
Cash-settled share-based payments		(2)	-
Insurance technical provisions	22	(117)	(77)
		(2,642)	(2,483)
Total liabilities		(3,251)	(3,045)
Net liabilities		(1,136)	(974)
Equity			
Share capital	23	4	4
Share premium		787	787
Cash flow hedge reserve		17	4
Retained earnings		(1,944)	(1,769)
Total equity		(1,136)	(974)

¹ Trade and other receivables, deferred tax liability and retained earnings for the financial year ended 31 January 2022 have been restated due to a change in accounting policy. Trade and other receivables and trade and other payables have also been restated due to a prior year classification error. See note 36 for further details.

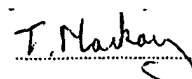
The accompanying notes are an integral part of this consolidated statement of financial position.

The financial statements were approved by the Board of Directors on 19 April 2023 and signed on its behalf by

Jakob Pfaudler
Chief Executive Officer



Tom Mackay
Chief Financial Officer



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 January

	Share capital £m	Share premium £m	Own shares £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2021 as previously reported	1	412	(23)	(1)	(1,979)	(1,590)
Restatement ¹	-	-	-	-	12	12
At 1 February 2021 (restated ¹)	1	412	(23)	(1)	(1,967)	(1,578)
Loss for the year	-	-	-	-	(27)	(27)
Other comprehensive income	-	-	-	5	242	247
Total comprehensive income	-	-	-	5	215	220
Issue of share capital	3	375	-	-	-	378
Settlement of share schemes	-	-	23	-	(22)	1
Equity-settled share-based payments (see note 33)	-	-	-	-	5	5
At 31 January 2022 (restated¹)	4	787	-	4	(1,769)	(974)
Profit for the year	-	-	-	-	69	69
Other comprehensive loss	-	-	-	13	(245)	(232)
Total comprehensive loss	-	-	-	13	(176)	(163)
Equity-settled share-based payments (see note 33)	-	-	-	-	1	1
At 31 January 2023	4	787	-	17	(1,944)	(1,136)

¹ Retained earnings as at 1 February 2021 and 31 January 2022 have been restated due to a change in accounting policy. See note 36 for further details.

Cash flow hedge reserve

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 January

	Note	2023 £m	2022 Restated ¹ £m
Operating activities			
Profit/(loss) before tax		76	(23)
Amortisation, depreciation and impairment	9, 10, 11, 35	112	110
Net finance costs	5, 6	127	142
Difference between pension charge and cash contributions		(24)	(24)
Other adjustments to profit/(loss) before tax (see note below)		(4)	30
Working capital and provisions:			
Increase in trade and other receivables		(81)	(21)
Increase/(decrease) in trade and other payables		33	(22)
Increase in provisions		39	32
Total working capital and provisions adjustments (see note below)		(9)	(11)
Net cash flows from operating activities before tax		278	224
Tax paid		(15)	(10)
Net cash flows from operating activities		263	214
Investing activities			
Capital expenditure		(79)	(77)
Proceeds from sale of fixed assets		14	2
Investment in joint venture		(1)	(1)
Financial investments		1	(10)
Interest received		2	-
Net cash flows used in investing activities		(63)	(86)
Financing activities			
Proceeds from borrowings	19	250	699
Issue costs on borrowings	19	(2)	(15)
Debt repayment premium and penalties	19	(1)	-
Equity contribution via issue of shares		-	378
Repayment of borrowings	19	(250)	(1,113)
Proceeds from gilt-lock hedge	19	10	-
Refinancing transactions		7	(51)
Interest paid on borrowings		(124)	(123)
Payment of lease capital		(28)	(25)
Payment of lease interest		(2)	(2)
Net cash flows used in financing activities		(147)	(201)
Net increase/(decrease) in cash and cash equivalents		53	(73)
Cash and cash equivalents at 1 February		112	185
Cash and cash equivalents at 31 January	16	165	112

¹ Increase in trade and other receivables and Increase/(decrease) in trade and other payables have been restated due to a prior year classification error. See note 36 for further details.

Other adjustments to profit/(loss) before tax outflow of £4m (2022: inflow of £30m) includes a share-based payment charge of £3m (2022: £5m) and impairment of investment in joint ventures of £1m (2022: £1m), offset by profit on sale of fixed assets of £8m (2022 profit: £2m). The prior year also included a pension past service cost of £26m.

The Underwriter ended its co-insurance arrangement in December 2022. As a result, a larger proportion of business was reinsured by quota-share reinsurers as at 31 January 2023 compared to 31 January 2022. Under re-insurance arrangements, the Group is required to show receivable and payable balances separately, which has resulted in a year on year increase to the relevant asset and liability balances (see table below).

	Cash flow line item	2023 £m	2022 £m	Cash flow
Reinsurers' share of insurance liabilities (note 15)	Trade and other receivables	173	115	(58)
Provision for unearned premiums in insurance underwriting (note 17)	Trade and other payables	(101)	(76)	25
Insurance technical provisions (note 22)	Provisions	(117)	(77)	40
		(45)	(38)	7

Non-cash investing activities include the acquisition of right-of-use assets (see note 11).

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 2023 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.

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

1.2 Basis of preparation

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

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

These consolidated financial statements have been prepared under the historic cost convention as modified by the measurement of derivatives.

a) Going concern

Notwithstanding the Group's net liabilities, the Group's operations are highly 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. The majority of the Group's borrowings are long term in nature, with no borrowings due within 12 months from the date of signing of these financial statements. For the Group's longer-term viability, it remains a key assumption of the Directors that the Group continues to have ready access to public debt markets to enable these borrowings to be refinanced in due course.

On 13 July 2022, the Group completed a refinancing of its A6 Notes, issuing £250m of A10 Notes at a coupon of 7.38%. The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £550m of A7 Notes which have a maturity date of July 2024. On 6 February 2023 AA Bond Co Limited issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. On 6 February 2023 the Group renewed and increased its Liquidity Facility by £15m to a total of £175m which remains undrawn and on 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023 (see note 37).

The Directors have reviewed detailed monthly cash flow forecasts for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future without significant curtailment of operations. Therefore, the financial statements have been prepared using the going concern basis.

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.

AA Limited and AA Intermediate Co Limited have agreed to provide a legal guarantee under s479A-C of the Companies Act 2006 to the below subsidiaries for audit exemption:

Name	Registered Number	Legal Guarantor
A A The Driving School Agency Limited	02733119	AA Limited
Prestige Fleet Servicing Limited	06254669	AA Limited
Accident Assistance Services Limited	10293691	AA Limited
Longacre Claims Limited	09564972	AA Limited
AA Technical Solutions Limited	08970395	AA Limited
AA Pension Funding GP Limited	SC460990	AA Limited
AA Acquisition Co Limited	05018987	AA Intermediate Co Limited
Drivtech (UK) Limited	03636328	AA Intermediate Co Limited
Intelligent Data Systems (UK) Limited	05148878	AA Intermediate Co Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1 Basis of preparation and accounting policies continued**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. Customer relationships are amortised over 10 years and software and development costs over 5 years.

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.

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

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. In assessing residual values and asset lives consideration have been given to the impact of climate change. These lives are as follows:

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

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

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.

Financial Investments

The Group classifies its financial investments as financial assets at fair value through profit or loss. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the profit and loss account.

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 affect profit or loss, the associated cumulative gain or loss on the hedged forecast transaction is removed from equity and recognised in the income statement.

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

i) Impairment of assets

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

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

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

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1 Basis of preparation and accounting policies continued**1.3 Accounting policies** continued**i) Impairment of assets** continued

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 cost, being the initial lease liability plus any direct initial costs and an estimate of end-of-life costs, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position.

Subsequently the right-of-use assets are depreciated over their lease terms. Useful economic lives of leased assets are reviewed for appropriateness on a continuous basis including in relation to climate change impacts such as electric vehicles. The Group does not take the short-term exemption over the accounting for lease extensions.

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. This stream is accounted for under IFRS 4.

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. This stream is accounted for under IFRS 15.

Where customers choose to pay by instalments, finance income for the Group, which is classified as Revenue, is recognised in the period to which it relates using the effective interest rate method. This stream is accounted for under IFRS 9.

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. This stream is accounted for under IFRS 15.

Commission income from the sale and related marketing and administrative services of financial products is recognised on a point in time basis at the point of the provision of the service. Profit share income is earned based on the cumulative profits earned by the financial services partnership with the Bank of Ireland, which is recognised over time when certain thresholds of profitability in the partnership are reached. This stream is accounted for under IFRS 15.

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. 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 at the roadside or through recovery. 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.

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within trade and other receivables and insurance technical provisions. 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 had in the year 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) Deferred acquisition costs

Insurance broker acquisition 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 the costs are initially deferred then expensed over the duration of the policy. These costs are presented in the income statement within administrative and marketing expenses. Due to a change in accounting policy, during the year the Group also began deferring Roadside acquisition costs, where the risk is underwritten by the Group, which has resulted in a restatement of the prior year financial statements (see note 36).

p) Adjusting operating items

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

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.

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 debt issue fees written off.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1 Basis of preparation and accounting policies continued**1.3 Accounting policies** continued**r) Taxation** continued

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

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

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using a valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market vested and non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes. On change of control, if the vesting date is brought forward, the share based payment charge and increase in equity for the remainder of the vesting term will be accelerated and recognised as at that date (see note 33).

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) Critical accounting estimates and judgements

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

about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

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

Retirement benefits

The Group's retirement benefit assets and liabilities, which are actuarially assessed each period, are based on key assumptions including return on plan assets, discount rates, mortality rates, inflation, future salary and pension costs. These assumptions may be different to the actual outcome (see note 24 for sensitivity analysis).

Insurance technical provisions

The Group's insurance technical provisions, which are presented on a gross asset and liability basis, 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. Due to the level of reinsurance the results for the year are not subject to significant risk of misstatement caused by changes to the assumptions in the next 12 months. The estimation of these claims is based on actuarial projection methodologies which incorporate analysis of historic patterns on a peril-by-peril basis to make assumptions about the development of incurred claims and an additional margin is held over and above the best estimate reserves, using the reserve risk distribution to reflect the uncertainty in the reserves. 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 (see note 22).

Intangibles

The Group has significant software development programmes and there is judgement in relation to which programmes and costs to capitalise under IAS 38. Additionally, there is an estimate in respect of the future usage period of software on which the Group bases the useful economic life of related assets. A reduction in the useful economic life of Customer relationships and Software would result in an increase in the amortisation charge based on the new useful life (see note 9)

Goodwill – Drivetech

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 25). Management has prepared discounted cash flows based on the latest strategic plan. The value in use calculation is most sensitive to assumptions in growth and discount rate (see note 25), and cash flows incorporate the latest business-led assumptions including contract wins and renewals, sales volumes and investment requirements including an assessment of the impact of climate change.

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:

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.

Goodwill – Other

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 25). Management has prepared discounted cash flows based on the latest strategic plan. The value in use calculation is most sensitive to assumptions in growth and discount rate, and cash flows incorporate the latest business-led assumptions including contract wins and renewals, sales volumes and investment requirements including an assessment of the impact of climate change.

2 Segmental information and revenue disaggregation

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

The two reportable operating segments are as follows:

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

	2023 £m	2022 £m
Revenue		
Roadside	878	822
Insurance	166	167
Revenue	1,044	989
	2023 £m	2022 £m
Operating Profit		
Roadside	206	167
Insurance	27	33
Operating Profit before adjusting operating items	233	200
Adjusting operating items (see note 4)	(30)	(81)
Operating Profit	203	119

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 operating profit before adjusting operating items.

Adjusting operating items are not allocated to individual segments as they are managed on a group basis.

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

Insurance revenue includes £22m (2022: £24m) within Brokering activities which is recognised under the effective interest method. Please see corresponding accounting policy in note 1.3(m) for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2 Segmental information and revenue disaggregation continued

Disaggregation of revenue:

	2023 £m	2022 £m
Roadside:		
Consumer (B2C)		
Insured contracts	506	480
Pay for use contracts ¹	54	47
Business services (B2B)		
Insured contracts	31	31
Pay for use contracts ¹	191	178
Roadside other ²	96	86
Total Roadside	878	822
Insurance:		
Brokering activities	96	100
Insurance underwriting	50	49
Insurance other ²	20	18
Total Insurance	166	167
Revenue	1,044	989

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

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

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions.

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

For further detail on the Group's revenue streams see the 'Financial Review' section of the Annual Report.

3 Operating profit

Operating profit is stated after charging:

	2023 £m	2022 £m
Amortisation of owned intangible assets (see note 9)	61	61
Depreciation of owned tangible fixed assets (see note 10)	14	14
Depreciation of right-of-use assets (see note 11)	30	24
Amortisation of acquisition costs (see note 15)	72	69
Share-based payments (see note 33)	3	5
Pension service charge adjustment (see note 24)	5	4
Past pension service cost (see note 24)	-	26
Impairment of property, plant and equipment (see note 10)	-	11
Impairment of goodwill (see note 9)	6	-
Impairment of held-for-sale property (see note 35)	1	-
Adjusting operating items (see note 4)	30	81
	222	295

4 Adjusting operating items

	2023 £m	2022 £m
Transaction fees related to the acquisition and debt financing arrangements	2	64
Strategic review projects	18	13
Investment in research project	10	-
Closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme	4	5
Other adjusting operating items	(4)	(1)
Total adjusting operating items	30	81

Strategic review projects of £18m relates to transformation and organisational redesign. The £10m investment in research project relates to a significant project in our connected car capability, with further research spend anticipated in FY24 to test a new offering. The project is expected to become business as usual in FY25 when the offering is expected to be launched nationwide. The investment spend is governed and approved by the Board of Directors. (£4m) other operating adjusting items include (£8m) profit on sale of fixed assets, £2m cost-of-living payments, £1m of impairment of investments in joint ventures and £1m relating to legal costs on a claim on which a judgement was favourably handed down in January 2023 and was successfully defended on all material elements.

In the prior year, strategic review projects included the cost of consultancy and restructuring of the executive team. Other adjusting operating items comprised mainly of £2m profit on sale of fixed assets, partly offset by £1m impairment of investments in joint ventures.

Costs from the current year refinancing 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 5 and 19).

5 Finance costs

	2023 £m	2022 £m
Interest on external borrowings	123	125
Finance charges payable on lease liabilities	2	2
Total ongoing cash finance costs	125	127
Ongoing amortisation of debt issue fees	5	9
Net finance expense on defined benefit pension schemes	-	2
Total ongoing non-cash finance costs	5	11
Early repayment penalty	1	-
Debt issue fees immediately written off following refinancing of banking facilities	-	1
Total adjusting cash finance costs	1	1
Unamortised debt issue fees written off following repayment of borrowings (see note 19)	1	4
Total adjusting non-cash finance costs	1	4
Total finance costs	132	143

During the current year, the Group issued £250m of Class A10 Notes and repaid £250m of Class A6 Notes.

The issue of the class A10 Notes was not a modification of any existing debt and the associated issue fees were capitalised (see note 19).

The Group incurred adjusting finance costs of £2m consisting of a £1m write-off of unamortised issue fees associated with the A6 Notes and a £1m early repayment penalty following repayment of the A6 Notes.

6 Finance income

	2023 £m	2022 £m
Interest income on bank deposits	2	-
Total ongoing cash finance income	2	-
Net finance income on defined benefit pension schemes	3	-
Fair value movement on interest rate swap	-	1
Total ongoing non-cash finance income	3	1
Total finance income	5	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

7: Employee costs

	2023 £m	2022 £m
Wages and salaries	272	254
Social security costs	28	26
Other pension costs	31	31
Share-based payments expense (see note 33)	3	5
	334	316

Wages and salaries includes £2m (2022: £nil) of one off cost-of-living payments with no service requirement within adjusted operating items (see note 4).

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

	2023	2022
Operational	5,593	5,629
Management and administration	1,697	1,572
	7,290	7,201

Directors' Remuneration

	2023 £m	2022 £m
Aggregate remuneration in respect of qualifying services	2	2
Share-based payments	-	1
	2	3

Emoluments of highest paid director:

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

Retirement benefits are accruing for nil (2022: nil) directors under a defined benefit scheme and nil (2022: nil) under a money purchase scheme.

No director exercised share options in the current year (2022: 1). The number of shares exercised was nil (2022: 2,004,279).

No money has been paid or is receivable by directors under long-term incentive schemes in respect of qualifying services in the current year (2022: nil).

No director has received shares in respect of qualifying services under long-term incentive schemes in the current year (2022: nil).

8: Tax

The major components of the income tax expense are:

	2023 £m	2022 £m
Consolidated income statement		
Current income tax		
Current income tax charge	9	15
Adjustments in respect of prior years	(10)	(1)
	(1)	14
Deferred tax		
Origination and reversal of temporary differences	7	(3)
Adjustments in respect of prior years	1	-
Effect of UK corporation tax rate change	-	(7)
	8	(10)
Tax expense in the income statement	7	4

	2023 £m	2022 £m
Consolidated statement of comprehensive income		
Current tax on changes in fair value of cash flow hedge	2	-
Deferred tax on changes in fair value of cash flow hedges	2	2
Deferred tax on remeasurements of defined benefit pension (liability)/asset	(81)	80
Income tax (credited)/charged directly to other comprehensive income	(77)	82

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

	2023 £m	2022 £m
Profit/(loss) before tax	76	(23)
Tax at rate of 19% (2022: 19%)	14	(4)
Adjustments in respect of prior years	(9)	(1)
Effect of UK corporation tax rate change	-	(7)
Lower rate of foreign tax	(1)	(1)
Expenses not deductible for tax purposes:		
- Corporate Interest Restriction disallowance	-	9
- Costs relating to sale of the group	-	7
- Impairment of goodwill	1	-
- Other disallowable expenses	2	1
Income tax expense reported in the consolidated income statement at effective rate of 9.2% (2022: (17.4)%)	7	4

Deferred tax by type of temporary difference

	Consolidated statement of financial position		Consolidated income statement	
	2023 £m	2022 ¹ £m	2023 £m	2022 £m
Accelerated depreciation for tax purposes	15	16	1	(7)
Revaluations of land and buildings to fair value	-	-	-	(1)
Rollover relief	(2)	(2)	-	-
Pension	(2)	(78)	5	(2)
Revaluation of cash flow hedges	(4)	(1)	1	(1)
Short-term temporary differences	6	5	(1)	(1)
Losses available for offsetting against future taxable income	-	2	2	2
Deferred tax expense/(credit)	-	-	8	(10)
Net deferred tax asset/(liability)	13	(58)	-	-

¹ Prior year net deferred tax liability has been restated. See note 36 for further details.

Reconciliation of net deferred tax asset/(liability)

	2023 £m	2022 ¹ £m
At 1 February	(58)	14
Tax (expense)/credit recognised in the income statement	(8)	10
Tax credit/(expense) recognised in other comprehensive income	79	(82)
At 31 January	13	(58)

¹ Prior year net deferred tax liability has been restated. See note 36 for further details.

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

The March 2021 budget announced that the main corporation tax rate will increase from 19% to 25% in April 2023. This increase was substantively enacted in May 2021 and has therefore been reflected in the measurement of deferred tax as at 31 January 2023 and 31 January 2022. The effect of the tax rate increase is nil (2022: credit of £7m).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

8 Tax continued

The Group has carried forward tax losses which arose in the UK of £nil (2022: £12m tax losses, deferred tax equivalent £2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A further £2m (2022: £1m) deferred tax asset relating to other tax losses has not been recognised due to the uncertainty of the availability of suitable future profits to enable recovery. The Group has carried forward interest expenses of £nil (2022: £58m, deferred tax equivalent £14m). The potential deferred tax asset was not recognised in the prior year due to uncertainty over whether the Group would be able to access these amounts in future periods. However, following a review of the public to private transition in the prior year, it was established that there was no impact on the application of the UK's Corporate Interest Restriction rules to the Group. As a result of this, the £58m of interest expenses noted above were not required to be carried forward, resulting in a £9m adjustment in respect of prior years.

The effective tax rate is 9.2% which differs from the standard rate of corporation tax. This reduced rate results from the adjustment in respect of prior year noted above.

The effective rate for 2022 was (17.4%). This rate was as a result of the benefit of the rate change differences being more than offset by the impact of one-off disallowable costs incurred in respect of the acquisition of the Group's shares and the impact of the carried forward interest expenses.

9 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
At 1 February 2021	1,197	11	310	1,518
Additions	-	-	59	59
Disposals	-	-	(21)	(21)
At 31 January 2022	1,197	11	348	1,556
Additions	-	-	72	72
Disposals	-	-	(11)	(11)
At 31 January 2023	1,197	11	409	1,617
Accumulated amortisation and impairment				
At 1 February 2021	27	2	136	165
Amortisation	-	1	60	61
Disposals	-	-	(20)	(20)
At 31 January 2022	27	3	176	206
Amortisation	-	1	60	61
Disposals	-	-	(11)	(11)
Impairment	6	-	-	6
At 31 January 2023	33	4	225	262
Net book value				
At 31 January 2023	1,164	7	184	1,355
At 31 January 2022	1,170	8	172	1,350

Within software, £40m (2022: £22m) relates to assets under construction which are not amortised. This includes £18m (2022: £3m) relating to an insurance sales and administration policy platform.

Software additions comprise £20m (2022: £16m) in relation to internally developed assets and £52m (2022: £43m) in relation to separately acquired assets.

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

An annual impairment review has been performed over the goodwill balance, see note 25 for details.

10-Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Plant & equipment £m	Total £m
Cost				
At 1 February 2021	24	7	75	106
Additions	-	-	17	17
Disposals	-	-	(9)	(9)
Transferred to Held for Sale (see note 35)	(24)	-	(6)	(30)
At 31 January 2022	-	7	77	84
Additions	-	-	13	13
Disposals	-	-	(15)	(15)
At 31 January 2023	-	7	75	82
Accumulated depreciation and impairment				
At 1 February 2021	10	4	39	53
Charge for the year	1	1	12	14
Impairment	5	2	4	11
Disposals	-	-	(9)	(9)
Transferred to Held for Sale (see note 35)	(16)	-	(6)	(22)
At 31 January 2022	-	7	40	47
Charge for the year	-	-	14	14
Disposals	-	-	(14)	(14)
At 31 January 2023	-	7	40	47
Net book value				
At 31 January 2023	-	-	35	35
At 31 January 2022	-	-	37	37

Within plant and equipment, £nil (2022: £1m) relates to assets under construction which are not depreciated.

During the current year, there was an impairment charge of £nil (2022: £11m) against property plant and equipment. In the prior year, £9m related to two properties that had been transferred to held for sale (see note 35). The impairment reduced the values of the properties to the lower of carrying amount and fair value less cost to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

11 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 consolidated statement of financial position in respect of leased assets.

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2021	25	75	100
Additions	6	16	22
Disposals restated ¹	(1)	(9)	(10)
At 31 January 2022 restated¹	30	82	112
Additions	6	37	43
Disposals	-	(16)	(16)
At 31 January 2023	36	103	139

Accumulated depreciation and impairment

At 1 February 2021	4	41	45
Charge for the year	2	22	24
Disposals restated ¹	-	(8)	(8)
At 31 January 2022 restated¹	6	55	61
Charge for the year	3	27	30
Disposals	-	(15)	(15)
At 31 January 2023	9	67	76

Net book value

At 31 January 2023	27	36	63
At 31 January 2022	24	27	51

¹ Disposals of vehicles & equipment for the year ended 31 January 2022 have been restated to correct an error relating to the prior year (see note 36).

12 Investments in joint ventures and associates

	2023			2022		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
At 1 February	1	4	5	1	4	5
Additions	1	-	1	1	-	1
Impairment	(1)	-	(1)	(1)	-	(1)
At 31 January	1	4	5	1	4	5

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

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

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

² 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.

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

13 Inventories

	2023 £m	2022 £m
Finished goods	4	4
	4	4

Cost of sales included £27m (2022: £24m) of inventories recognised as an expense. £1m (2022: £nil) has been charged to cost of sales in relation to inventory write-downs consisting of a £3m charge (2022: £nil) and a £2m release (2022: £nil).

14 Financial Investments

Financial investments comprise the following:

	2023 £m	2022 £m
Shares and other variable-yield securities and units in unit trusts – at fair value	9	10
	9	10

These investments predominantly consist of highly rated bonds, intended for investment purposes.

15 Trade and other receivables

	2023 £m	2022 Restated ¹ £m
Non-current		
Other receivables	6	-
	6	-
Current		
Trade receivables	163	159
Prepayments	29	26
Contract assets	29	21
Reinsurers' share of insurance liabilities (see note 22)	173	115
Deferred acquisition costs (see reconciliation below)	28	26
Other receivables	7	7
Amounts owed from parent undertakings	2	-
	431	354
	437	354

Trade receivables include £97m (2022: £99m) relating to amounts due from insurance broking customers.

Reinsurers' share of insurance liability comprises £79m (2022: £57m) in relation to the provision for unearned premiums and £94m (2022: £58m) in relation to the technical provision.

Deferred acquisition costs

	2023 £m	2022 Restated ¹ £m
At 1 February	26	28
Acquisition expenses deferred for the year	74	67
Amortisation charge for the year	(72)	(69)
At 31 January	28	26

¹ Deferred acquisition costs have been restated due to a change in accounting policy and a prior year error. See note 36 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

16 Cash and cash equivalents

	2023 £m	2022 £m
Ring-fenced cash at bank and in hand – available	94	67
Ring-fenced cash at bank and in hand – restricted	5	-
Non ring-fenced cash at bank and in hand – available	26	16
Non ring-fenced cash at bank and in hand – restricted	40	29
Cash and cash equivalents as presented in consolidated statement of financial position	165	112

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 debt covenant EBITDA and cash flow criteria are met.

Restricted cash is cash which is subject to contractual or regulatory restrictions. Restricted cash which is not ring-fenced consists of £40m (2022: £29m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. Restricted cash which is ring-fenced consists of £5m (2022: £nil) which is held in a debt service reserve account to meet the Liquidity Required Amount requirements per the debt document definitions.

17 Trade and other payables

	2023 £m	2022 Restated ¹ £m
Current		
Trade payables	140	128
Other taxes and social security costs	17	28
Accruals	73	58
Deferred income	229	230
Provision for unearned premiums in insurance underwriting (see note 22)	101	76
Other payables	20	16
	580	536

¹ Provision for unearned premiums in insurance underwriting has been restated due to a prior year error. See note 36 for further details.

Trade payables include £68m (2022: £67m) 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 current year, £219m (2022: £214m) was included within deferred income at the beginning of the year.

Included in deferred income is £12m (2022: £11m) which will be released over a period more than 12 months from the statement of financial position date.

18 Borrowings and loans

	2023 £m	2022 £m
Non-current liabilities		
Borrowings (see note 19)	2,309	2,306
	2,309	2,306

At 31 January 2023 there are no current borrowings (2022: £nil).

The class A6 Notes were redeemed on 14 July 2022 (see note 19).

19 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total as at 31 January 2023 £m	Total as at 31 January 2022 £m
Senior Term Facility	10 March 2026	3.49%	150	(1)	-	149	149
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	500	500
Class A6 Notes	31 July 2023	2.75%	-	-	-	-	249
Class A7 Notes	31 July 2024	4.88%	550	(8)	6	548	547
Class A8 Notes	31 July 2027	5.50%	325	(3)	1	323	323
Class A9 Notes	31 July 2028	3.25%	270	(4)	1	267	266
Class A10 Notes	31 July 2029	7.38%	250	(2)	-	248	-
Class B3 Notes	31 January 2026	6.50%	280	(10)	4	274	272
		5.45%	2,325	(29)	13	2,309	2,306

No changes were made to the Group's banking facilities during the period. Refer to note 37 for events after period end impacting the banking facilities.

The Group's £150m Senior Term Facility is subject to a variable interest rate of SONIA plus a Credit Adjustment Spread of 0.28% plus a margin of 2.75% per annum. The Group has an interest rate swap which fixes the variable SONIA interest rate at 0.46% from 1 August 2021 to 10 March 2026.

At 31 January 2023 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 5.45% has been calculated using the effective interest rate and principal values on 31 January 2023.

The Group's £56m Working Capital Facility, of which £46m is available for cash drawings, and the Group's £160m Liquidity Facility remain undrawn. If the facilities are drawn the margin above SONIA on the Working Capital Facility is 2.75% plus a credit adjustment spread of 0.28% and on the Liquidity Facility is 4.0% plus a credit adjustment spread of 0.28%.

On 13 July 2022 AA Bond Co Limited issued £250m of Class A10 Notes at an interest rate of 7.38%. £2m of issuance fees associated with the issue of the Class A10 Notes were capitalised and will be amortised over the expected maturity of the debt. The proceeds of the issuance of the Class A10 Notes were used to redeem the Class A6 Notes. The A6 redemption was done at a make-whole premium of £1m and was completed on 14 July 2022. In March 2022 a series of gilt lock hedges totalling £250m were transacted to fix in advance the underlying gilt yield used for the issuance of the A10 Notes on 13 July 2022. The gilt locks were unwound prior to the issuance of the A10 Notes and total cash proceeds of £10m were received by the Group on 6 July 2022.

This transaction has been accounted for as a cash flow hedge, with the effective element of the change in fair value booked in other comprehensive income, and being reclassified to the consolidated income statement over the life of the A10 Notes. Following the extinguishment of the Class A6 Notes, £1m of associated unamortised fees were written off.

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

All of the Class A Notes are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group's assets ranks ahead of the Class B3 Notes. The Class B3 Notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain Net Debt to debt covenant 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 the expected maturity date, although most classes of Notes can be settled without penalty within a period before the expected maturity date. For the Class A7 Notes this period is three months, for the Class A8 Notes, Class A9 Notes and Class A10 Notes this period is six months. Any voluntary repayment on the Class B3 Notes would be made at a fixed premium until 31 January 2025 after which there would be no premium to pay on redemption. No redemption of the Class B3 Notes occurred during the period.

All of the Group loan Notes are listed on the Irish Stock Exchange plc, trading as Euronext Dublin.

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 2023 was 2.9x (2022: 3.1x).

The Class A Notes only permit the release of cash from the AA Intermediate Co Limited group of companies 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 2023 was 5.8x (2022: 6.2x). The Class B3 Notes restrictions only permit the release of cash providing a number of criteria are met including that 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 at 31 January 2023 was 2.6x (2022: 2.7x).

The Class A and Class B3 Notes therefore place restrictions on the Group's ability to upstream cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

On 13 July 2022, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B3 Notes at B+. In February 2023, further changes were made to the Group's financing profile. See note 37 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20 Derivative financial instruments

	2023 £m	2022 £m
Non-current assets		
Interest rate swap	14	5
Forward fuel contracts	-	1
Current assets		
Forward fuel contracts	1	-
Non-current liabilities		
Forward fuel contracts	(1)	-
	14	6

The forward fuel contracts are shown and settled on a net basis. On a gross basis, the asset is £1m (2022: £1m) and the liability is £1m (2022: £nil).

In the current year, the net position of the forward fuel contracts is nil. The interest rate swap asset has increased due to fluctuations in interest rates.

21 Provisions and contingent liabilities

	Property leases £m	Other £m	Total £m
At 1 February 2021	4	8	12
Utilised during the year	-	(5)	(5)
Released during the year	-	(2)	(2)
Charge for the year	-	9	9
At 31 January 2022	4	10	14
Utilised during the year	(1)	(7)	(8)
Released during the year	-	(1)	(1)
Charge for the year	-	6	6
At 31 January 2023	3	8	11
Current	-	5	5
Non-current	3	3	6
At 31 January 2023	3	8	11
Current	-	4	4
Non-current	4	6	10
At 31 January 2022	4	10	14

The property leases provision primarily relates to dilapidations. These sums are mainly expected to be paid out over the next 6 years; however, it will take 9 years to fully pay out all amounts provided for. The provision has been calculated at a risk free rate.

Other provisions include a £2m provision (2022: £2m) in relation to a warranty for vehicle part replacements and £6m (2022: £8m) relating to self-funded insurance liabilities, where the Group provides for the cost of certain claims made against it, for example motor vehicle accident damage and employer liability claims. These sums are mainly expected to be paid out over the next 5 years; however, it can take up to 30 years for employer liability claims to pay out in full.

Contingent Liabilities*Litigation – update on Mr Mackenzie's claim*

AA Limited and Mr Robert Mackenzie are pleased to confirm that Mr Mackenzie's long-standing actions against the Group have now been settled. The terms of the settlement are confidential. The AA's new management has seen from the evidence that has been put forward during this claim that Mr Mackenzie was very ill in 2017 at the time of the incident in question and are delighted that Mr Mackenzie is reported to have now made a full recovery.

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.

22 Insurance Underwriting

Reconciliation to segmental result

	2023 £m	2022 £m
Gross earned premium	168	138
Earned premium ceded to reinsurers	(139)	(109)
Net earned premium	29	29
Net deferral of broker commission	(2)	3
Other income	23	17
Insurance Underwriting revenue (see note 2)	50	49

	2023 £m	2022 £m
Gross claims incurred	(161)	(112)
Less reinsurance recoveries	121	79
Net claims incurred	(40)	(33)
Ceding commission	17	17
Administrative costs	(13)	(9)
Net deferral of broker acquisition costs	3	(2)
Insurance Underwriting costs	(33)	(27)

Reconciliation of movements in the provision for unearned premiums

	2023 £m	2022 Restated ¹ £m
Gross unearned premiums at 1 February	76	75
Less: reinsurers' share of unearned premiums	(57)	(52)
Net unearned premiums at 1 February	19	23
Gross premiums written	193	139
Less: outward reinsurance premium ceded	(161)	(114)
Net premiums written	32	25
Gross premiums earned	(168)	(138)
Less: earned premium ceded to reinsurers	139	109
Net premiums earned	(29)	(29)
Gross unearned premiums at 31 January (see note 17)	101	76
Less: reinsurers' share of unearned premiums (see note 15)	(79)	(57)
Net unearned premiums at 31 January	22	19

¹ Gross unearned premiums and gross written premiums have been restated due to a prior year error. See note 36 for further details.

Reconciliation of movements in insurance technical provision

	2023 £m	2022 £m
Insurance technical provision at 1 February	77	47
Less: reinsurers' share of insurance technical provision	(58)	(34)
Net technical provision at 1 February	19	13
Gross claims incurred	161	112
Less: reinsurance recoveries	(121)	(79)
Net claims incurred	40	33
Gross claims paid	(121)	(82)
Less: received from reinsurers	85	55
Net claims paid	(36)	(27)
Insurance technical provision at 31 January (see below)	117	77
Less: reinsurers' share of insurance technical provision (see note 15)	(94)	(58)
Net insurance technical provision at 31 January	23	19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

22 Insurance Underwriting continued

Insurance technical provisions

	2023 £m	2022 £m
Outstanding claims provisions	100	60
Other technical provisions – provisions for incurred but not reported (IBNR) claims	17	17
	117	77

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 insurance technical provisions include a margin for uncertainty. This amount is set based on aligning to a percentile of the reserve risk distribution in line with the current risk appetite.

Whilst the Group's financial position is impacted, the results are not materially susceptible to changes in the assumptions used within the insurance technical provisions due to the reinsurance arrangements in place.

Claims development table as at 31 January

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
Incurring to date – gross claims								
At end of underwriting year	16	16	23	45	49	72	103	
One year later	31	24	38	68	87	139	-	
Two years later	29	23	38	68	82	-	-	
Three years later	30	23	39	66	-	-	-	
Four years later	29	23	37	-	-	-	-	
Five years later	29	23	-	-	-	-	-	
Six years later	29	-	-	-	-	-	-	
Cumulative claims incurred	29	23	37	66	82	139	103	479
Claims paid	(28)	(23)	(36)	(60)	(71)	(92)	(52)	(362)
Insurance technical provision	1	-	1	6	11	47	51	117
Incurring to date – net claims								
At end of underwriting year	2	7	7	18	18	23	27	
One year later	5	12	20	25	28	37	-	
Two years later	5	11	20	25	26	-	-	
Three years later	5	11	20	24	-	-	-	
Four years later	5	11	20	-	-	-	-	
Five years later	5	11	-	-	-	-	-	
Six years later	5	-	-	-	-	-	-	
Cumulative claims incurred	5	11	20	24	26	37	27	150
Claims paid	(5)	(10)	(19)	(23)	(24)	(28)	(18)	(127)
Net claims outstanding	-	1	1	1	2	9	9	23

23 Share Capital

	2023 £m	2022 £m
Allotted, called up and fully paid		
4,072,341,178 (2022: 4,072,341,178) ordinary shares of £0.001 each	4	4
	4	4

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

Other share types issued were as follows:

	2023 £000	2022 £000
Allotted, called up and fully paid		
60,000,000 (2022: 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 33).

24 Pensions

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. The AAUK scheme has a closed final salary section and a Career Average Revalued Earnings (CARE) section which itself was closed on 31 March 2020 following consultation with affected employees. All future pensions build-up from 1 April 2020 in the UK is now on a defined contribution basis. 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 2023 by independent qualified actuaries.

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

	As at 31 January 2023			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(1,730)	(36)	(24)	(1,790)
Fair value of plan assets	1,579	42	-	1,621
(Deficit)/surplus	(151)	6	(24)	(169)
	As at 31 January 2022			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,453)	(51)	(32)	(2,536)
Fair value of plan assets	2,617	49	-	2,666
Surplus/(deficit)	164	(2)	(32)	130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24 Pensions continued

The overall surplus of £130m as at 31 January 2022 has moved to a deficit of £169m as at 31 January 2023, which represents a change of £299m over the year, driven primarily by movements in the AAUK scheme position.

Gilt yields increased significantly over FY23, with a high level of volatility seen during September and October in particular. The AAUK scheme invests part of its assets in a Liability Driven Investment ('LDI') mandate, held for risk management purposes. Specifically, this mandate has historically been designed to "hedge" the impact on the value of the AAUK scheme's liabilities from changes in gilt yields (and inflation), to help to protect the AAUK scheme's funding position. Gilt yield increases to mid-October led to a significant fall in the size of the liabilities, with a broadly corresponding fall in LDI assets.

Following the Bank of England intervention in October, gilt yields fell to lower levels. This led to an increase in the value of the AAUK scheme's liabilities – with a lower level of hedging, the asset value lagged behind. This had a meaningful impact in reducing the IAS 19 surplus from earlier in FY23. The IAS 19 position suffered further from (i) funding liabilities being larger than IAS 19 liabilities, plus contractions in AA-rated corporate bond yields relative to gilts, meaning that the fall in hedging assets (linked to the funding basis) were relatively larger than IAS 19 liability falls, (ii) worse than assumed performance of other asset classes, and (iii) very high price inflation experienced relative to long-term expectations at the start of year. In aggregate, these impacts meant that the AAUK scheme has moved into a statement of financial position deficit at 31 January 2023.

In February 2023, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2022. This resulted in a significant reduction to the technical provisions deficit of around 60% from £131m as at 31 March 2019 to £53m. The Asset-Backed Funding mechanism, which provides a long-term deficit reduction plan, and additional contribution schedule remain in place from the 2019 valuation. Under the asset-back funding scheme, the Group makes an annual deficit reduction contribution of £15m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands. Under the additional contribution schedule (i.e. contributions in excess of the Asset-Backed Funding mechanism) the Group pays £12m per annum until July 2025. The trustee meets its own costs of running the AAUK scheme.

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

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

The next triennial actuarial valuation for the AA UK Pension Scheme will be carried out as at 31 March 2025 (the "2025 Valuation"). The AA and the AA UK Pension Trustee have until 30 June 2026 to agree the 2025 Valuation and any recovery plan to pay off any funding deficit identified.

The 2025 Valuation could vary from the 2022 Valuation meaning the payments required into the AA UK Pension Scheme under any recovery plan could increase or decrease from those agreed for the 2022 Valuation.

The ongoing volatility from accrual costs has been removed but future volatility of deficit costs does remain. Markets still have the potential to be volatile following the reporting date. The Group is exposed to various risks in connection with the funding of the pension commitments under the AA UK Pension Scheme (our principal defined benefit plan), the AA Ireland Pension Scheme and our post-retirement medical scheme, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

The assets of the AA UK Pension Scheme and the AA Ireland Pension Scheme are invested in various investment vehicles which are susceptible to market volatility, interest rate risk and other market risks, any of which could result in decreased asset value and a significant increase in our net pension obligations.

Using an inflation assumption of 3.1% and a discount rate assumption of 4.5%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such a time as another recovery plan is put in place, whether or not an IAS 19 surplus position is shown. The Group notes that, in the event a surplus is shown, 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 2023 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 £28m (2022: £27m) in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2023.

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

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

The Group recognised a charge in the consolidated income statement of £26m in respect of defined contribution pension scheme costs in the year (2022: £27m).

Total Group schemes

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	2,631	(2,819)	-	-
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(42)	(2)	-
Amounts recognised in the income statement	36	(68)	(32)	-
Effect of changes in financial assumptions	-	211	-	211
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	47	-	47
Return on plan assets excluding interest income	53	-	-	53
Amounts recognised in the statement of comprehensive income	53	269	-	322
Foreign exchange (loss)/gain	(3)	3	-	-
Benefits paid from scheme assets	(79)	79	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	27	-	-	-
Movements through cash	(51)	79	-	-
Balance at 31 January 2022	2,666	(2,536)	-	-
Administrative expenses	(5)	-	(5)	-
Interest on defined benefit scheme assets/(liabilities)	60	(57)	3	-
Amounts recognised in the income statement	55	(57)	(2)	-
Effect of changes in financial assumptions	-	844	-	844
Effect of changes in demographic assumptions	-	22	-	22
Effect of experience adjustment	-	(134)	-	(134)
Return on plan assets excluding interest income	(1,058)	-	-	(1,058)
Amounts recognised in the statement of comprehensive income	(1,058)	732	-	(326)
Foreign exchange gain/(loss)	2	(2)	-	-
Benefits paid from scheme assets	(73)	73	-	-
Ongoing employer contributions	1	-	-	-
Deficit reduction employer contributions	28	-	-	-
Movements through cash	(44)	73	-	-
Balance at 31 January 2023	1,621	(1,790)	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24 Pensions continued

AAUK scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	2,580	(2,713)	-	-
Past service cost	-	(26)	(26)	-
Administrative expenses	(4)	-	(4)	-
Interest on defined benefit scheme assets/(liabilities)	40	(41)	(1)	-
Amounts recognised in the income statement	36	(67)	(31)	-
Effect of changes in financial assumptions	-	206	-	206
Effect of changes in demographic assumptions	-	11	-	11
Effect of experience adjustment	-	34	-	34
Return on plan assets excluding interest income	51	-	-	51
Amounts recognised in the statement of comprehensive income	51	251	-	302
Benefits paid from scheme assets	(76)	76	-	-
Benefits paid from scheme assets	26	-	-	-
Movements through cash	(50)	76	-	-
Balance at 31 January 2022	2,617	(2,453)	-	-
Administrative expenses	(5)	-	(5)	-
Interest on defined benefit scheme assets/(liabilities)	59	(55)	4	-
Amounts recognised in the income statement	54	(55)	(1)	-
Effect of changes in financial assumptions	-	820	-	820
Effect of changes in demographic assumptions	-	21	-	21
Effect of experience adjustment	-	(133)	-	(133)
Return on plan assets excluding interest income	(1,049)	-	-	(1,049)
Amounts recognised in the statement of comprehensive income	(1,049)	708	-	(341)
Benefits paid from scheme assets	(70)	70	-	-
Deficit reduction employer contributions	27	-	-	-
Movements through cash	(43)	70	-	-
Balance at 31 January 2023	1,579	(1,730)	-	-

AAI scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	51	(60)	-	-
Amounts recognised in the income statement	-	-	-	-
Effect of changes in financial assumptions	-	4	-	4
Return on plan assets excluding interest income	2	-	-	2
Amounts recognised in the statement of comprehensive income	2	4	-	6
Foreign exchange (loss)/gain	(3)	3	-	-
Benefits paid from scheme assets	(2)	2	-	-
Deficit reduction employer contributions	1	-	-	-
Movements through cash	(1)	2	-	-
Balance at 31 January 2022	49	(51)	-	-
Interest on defined benefit scheme assets/(liabilities)	1	(1)	-	-
Amounts recognised in the income statement	1	(1)	-	-
Effect of changes in financial assumptions	-	16	-	16
Return on plan assets excluding interest income	(9)	-	-	(9)
Amounts recognised in the statement of comprehensive income	(9)	16	-	7
Foreign exchange gain/(loss)	2	(2)	-	-
Benefits paid from scheme assets	(2)	2	-	-
Deficit reduction employer contributions	1	-	-	-
Movements through cash	(1)	2	-	-
Balance at 31 January 2023	42	(36)	-	-

AA PMP scheme

	Assets £m	Liabilities £m	Income statement £m	Other comprehensive income £m
Balance at 1 February 2021	-	(46)	-	-
Interest on defined benefit scheme liabilities	-	(1)	(1)	-
Amounts recognised in the income statement	-	(1)	(1)	-
Effect of changes in financial assumptions	-	1	-	1
Effect of experience adjustment	-	13	-	13
Amounts recognised in the statement of comprehensive income	-	14	-	14
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Movements through cash	-	1	-	-
Balance at 31 January 2022	-	(32)	-	-
Interest on defined benefit scheme liabilities	-	(1)	(1)	-
Amounts recognised in the income statement	-	(1)	(1)	-
Effect of changes in financial assumptions	-	8	-	8
Effect of changes in demographic assumptions	-	1	-	1
Effect of experience adjustment	-	(1)	-	(1)
Amounts recognised in the statement of comprehensive income	-	8	-	8
Benefits paid from scheme assets	(1)	1	-	-
Ongoing employer contributions	1	-	-	-
Movements through cash	-	1	-	-
Balance at 31 January 2023	-	(24)	-	-

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:

	2023		2022	
	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	-	88	-	439
Bonds/gilts	326	325	322	667
Property	6	209	15	300
Hedge funds	1	60	-	194
Private equity	-	138	-	110
Cash/net current assets	46	14	19	66
Annuity policies	-	366	-	485
Total AAUK scheme assets	379	1,200	356	2,261
Movement on AAUK plan assets (excluding admin expenses)		(990)		91

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.

During the year, the LDI hedge required posting of funds to support its value, resulting in the reduction of liquid assets.

Of the £1,200m (2022: £2,261m) assets without a quoted market price at 31 January 2023, £366m (2022: £485m) is in relation to the buy-in policies held by the scheme. Under IAS 19, the fair value of the insurance policies is deemed to be the present value of the related defined benefit obligations. Hence a key area of judgement is the assumptions used to derive the value of the corresponding obligations.

Approximately £19m (2022: £29m) of unquoted assets allocated to private equity and £10m (2022: £13m) of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24 Pensions continued

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

	2023		2022	
	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	3	-	8	-
Bonds/gilts	29	-	27	-
Property	-	7	-	6
Hedge funds	3	-	8	-
Total AA Ireland scheme assets	35	7	43	6
Movements on AA Ireland plan assets (excluding admin expenses)		(8)		2

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	
	2023 %	2022 %	2023 %	2022 %	2023 %	2022 %
Pensioner discount rate	4.5	2.3	3.4	1.1	4.5	2.3
Non-pensioner discount rate	4.5	2.3	3.4	1.4	4.5	2.3
Pensioner RPI	3.1	3.6	-	-	3.1	3.6
Non-pensioner RPI	3.1	3.3	-	-	3.1	3.6
Pensioner CPI	2.3	3.0	2.3	1.9	2.3	3.0
Non-pensioner CPI	2.3	2.7	2.3	1.9	2.3	3.0
Rate of increase of pensions in payment (final salary sections) – pensioner	2.9	3.5	-	-	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	2.9	3.2	-	-	-	-
Rate of increase of pensions in payment (CARE section) – pensioner	1.7	2.2	-	-	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	1.7	2.0	-	-	-	-
Pension increase for deferred benefits	2.3	2.7	2.3	1.9	-	-
Medical premium inflation rate	-	-	-	-	7.1	7.6

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For 2023, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (2022 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2021 model with a 1.25% long-term rate of improvement plus a 2020 and 2021 experience weightings of 10% (2022 – CMI_2020 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

An inflation volatility assumption of 2.00% p.a. was used.

The AA schemes' overall assumptions are that a non-pensioner male retiring in normal health currently aged 60 will live on average for a further 25 years (2022: 25 years) and a non-pensioner female retiring in normal health currently aged 60 will live on average for a further 28 years (2022: 28 years).

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 2023		
	AAUK £m	AAI £m	AAPMP £m
Increase of 1% in discount rate	234	6	3
Increase of 1% in RPI and CPI	(193)	(3)	-
Increase of 1% in CPI only	(79)	(3)	-
Increase of 1% in medical claims inflation	-	-	(3)
Increase of one year of life expectancy	(51)	(1)	-

An equivalent decrease in the assumptions at 31 January 2023 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 2023 is around 15 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 AAUK scheme does not directly hold any financial derivatives but instead invests in investment funds which hold the derivatives required to hedge the scheme's interest rate, inflation and currency risks. The scheme also permits some of the investment managers to use derivative instruments if these are being used to contribute to a reduction of risks or facilitate efficient portfolio management of their funds. The main risks associated with financial derivatives include: losses may exceed the initial margin; counterparty risk where the other party defaults on the contract; and liquidity risk where it may be difficult to close out a contract prior to expiry. These risks are managed by monitoring of investment managers to ensure that they use reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a daily basis with secure cash or gilts collateral.

Liquidity risk – Alongside contributions received from the Group, the AAUK scheme's investments need to generate sufficient cash inflow to meet member benefits as they fall due. In addition, the AAUK scheme should also maintain enough liquid financial resources to support the financial derivatives used in, for example, the hedging strategy via the LDI mandate. Holding insufficient liquid resources could risk the AAUK scheme being unable to realise investments at their expected value in a timely manner, which could lead to reductions in the funding position or a reduction in the level of hedging in place.

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 2023, the scheme had hedged around 70% of interest rate and 80% of inflation risk (of the non-insured liabilities on the scheme-specific self-sufficiency measure). The reduction from 80% of interest rate risk at 31 January 2022 reflects the reduction in hedging resulting from increased liquidity requirements and market movements affecting the LDI mandate. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24 Pensions continued**Bulk annuity policies**

The AAUK scheme holds two bulk annuity policies with a total fair value of £366m as at 31 January 2023. The bulk annuity policy purchased in August 2018 insured all the benefits payable under the scheme in respect of 2,510 pensioner and dependant members, while the bulk annuity policy purchased in September 2019 insured all the benefits payable under the scheme in respect of a further 1,790 pensioner and dependant members.

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

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

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

25 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:

	2023 £m	2022 £m
Roadside Assistance	874	874
Insurance Services	240	240
AA Cars	25	25
Drivetech	25	31
	1,164	1,170

The Group has performed impairment testing at 31 January 2023 and 31 January 2022. 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. For the year ended 31 January 2023, the Group used the five-year plan, adjusted for expected changes, covering the four years up to 31 January 2027 and a 1.95% expectation of growth in the subsequent year up to 31 January 2027. For the purposes of the impairment test, terminal values have been calculated using a 1.95% growth assumption (2022: 2.01%). Cash flows have been discounted at a pre-tax rate reflecting the time value of money and the risks specific to these cash flows. This has been determined as a pre-tax rate of 11.7% (2022: 10.2%). The equivalent post-tax rate was 8.8% (2022: 7.7%).

The cash flow projections are forecast using historical trends overlaid with business-led assumptions such as contract wins, sales volumes, prices and capex investment requirements, which include the impact of climate change, 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 above exercise indicated an impairment in the Drivetech (driver education business) CGU due to lower volumes following the termination of one contract providing speed awareness courses, and as a result, an impairment of £6m has been recognised in the year. In assessing the future cash flow forecasts that underpin the Drivetech goodwill assessment, assumptions have been made about the renewal of existing customers' contracts and also the signing up of new customers, including over the next 12 months. In the event these assumptions are not achieved underlying cash flows would be impacted, which if not mitigated, would lead to further impairment. It is not possible to indicate with certainty the amount at risk if renewal/new customer rate assumptions fell short of the forecasts, however a reduction in forecasted cash flows of between 10% and 50% could result in additional impairment of £2m to £12m. An increase in the discount rate of 1% would result in an additional impairment of £2m.

Except as noted above, 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, with the exception of Drivetech, no reasonably foreseeable change in the key assumptions would result in the recoverable amount being materially less than the carrying amount for any of the CGUs.

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

26 Financial assets and financial liabilities

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

Financial assets

	2023 £m	2022 £m
Financial assets at fair value through other comprehensive income		
Derivative financial instruments (see note 20)	15	6
Financial assets at fair value through profit and loss		
Shares and other variable-yield securities and units in unit trusts – at fair value (see note 14)	9	10
Financial assets at amortised cost		
Loans to related parties (see note 31)	4	4
Cash and cash equivalents (see note 16)	165	112
Trade receivables (see note 15)	163	159
Reinsurers' share of insurance liabilities (see note 15)	173	115
Contract assets and other receivables (see note 15)	36	28
Other receivables – non-current (see note 15)	6	-
Total financial assets	571	434

Loans to related parties comprise £4m of 5% fixed rate loan notes issued from AA Media Limited to the Group, redeemable at par by 29 March 2024.

Financial liabilities

	2023 £m	2022 £m
Financial liabilities at fair value through other comprehensive income		
Derivative financial instruments (see note 20)	1	-
Financial liabilities at amortised cost		
Trade payables (see note 17)	140	128
Other payables and accruals (see note 17)	93	74
Borrowings (see note 19)	2,309	2,306
Lease liabilities (see note 28)	62	48
Insurance technical provisions (see note 22)	117	77
Total financial liabilities	2,722	2,633

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

26 Financial assets and financial liabilities continued

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, loan notes and financial investments.

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

At 31 January 2023:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Forward fuel contracts (note 20)	1	1	-	-
Interest rate swap derivatives (note 20)	14	14	-	-
Shares and other variable-yield securities and units in unit trusts – at fair value (note 14)	9	9	-	-
Liabilities for which fair values are disclosed				
Loan notes (note 19)	2,160	2,022	-	-
Forward fuel contracts (note 20)	1	1	-	-

At 31 January 2022:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Forward fuel contracts (note 20)	1	1	-	-
Interest rate swap derivatives (note 20)	5	5	-	-
Shares and other variable-yield securities and units in unit trusts – at fair value (note 14)	10	10	-	-
Liabilities for which fair values are disclosed				
Loan notes (note 19)	2,157	2,274	-	-

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 2023.

27 Financial risk management objectives and policies

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

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

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

Market risk

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

The Group seeks to manage the impact of variable fuel prices through managing its procurement contracts with suppliers and by hedging the indexed element of diesel costs using Contracts for Difference. The Group has currently hedged 100% of forecast diesel usage for the year ended 31 January 2024 and c.50% of forecast usage for the year ended 31 January 2025.

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

	2023 £m	2022 £m
Fixed rate instruments		
Financial assets	4	4
Financial liabilities	(2,222)	(2,204)
Net exposure to fixed rate instruments	(2,218)	(2,200)
Variable rate instruments		
Financial assets	9	10
Financial liabilities	(149)	(150)
Net exposure to variable rate instruments	(140)	(140)

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 2023 would have increased equity by £nil (2022: £nil) and would have had no impact on profit or cash because the variable rate on the Senior Term Facility, 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 net trade receivables is as follows:

	Total £m	Current £m	< 30 days £m	30 - 60 days £m	60+ days £m
2023	163	138	9	5	11
2022	159	143	9	6	1

The ageing analysis of gross trade receivables is as follows:

	Total £m	Current £m	< 30 days £m	30 - 60 days £m	60+ days £m
2023	168	140	10	5	13
2022	163	145	9	6	3

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

	2023 £m	2022 £m
At 1 February	4	4
Charge for the year	2	2
Utilised	(1)	(2)
At 31 January	5	4

Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

27 Financial risk management objectives and policies continued

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 2023:

	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	109	656	1,425	552	2,742
Lease liabilities	26	20	16	16	78
Other payables and accruals	93	-	-	-	93
Insurance liabilities	85	18	14	-	117
Trade payables	140	-	-	-	140
	453	694	1,455	568	3,170

At 31 January 2022:

	Less than 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Loans and borrowings	115	354	1,618	617	2,704
Lease liabilities	18	9	13	24	64
Other payables and accruals	74	-	-	-	74
Insurance liabilities	56	12	9	-	77
Trade payables	128	-	-	-	128
	391	375	1,640	641	3,047

Insurance risk

The Group's insurance activities are primarily concerned with the pricing, underwriting and claims handling of private motor and residential household policies.

The most critical accounting estimate is the ultimate liability arising from insurance claims. Estimates have to be made both for the expected cost of claims reported at the reporting date and for the expected cost of claims incurred but not yet reported ('IBNR'). This balance is net of subrogation and salvage balances expected to be received from third party insurers. These amounts are estimated based on the value of the respective claim and the judgement of the claims handler.

In calculating the estimated cost of unpaid claims, a number of standard actuarial claims projection techniques are used to develop statistical analysis of historic experience and market data. An additional margin above the best estimate is held, calculated based on the reserve risk distribution, to allow for the uncertainty within the reserves.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, for which more information about the claim is generally available. Most claims are reported soon after the event, but in some cases, it can be longer.

Overall exposure is reduced by the extensive use of reinsurance contracts with approximately 80% (blended rate for Motor and Household products) of risk ceded through quota share contracts to multiple reinsurance partners. There is further reduction to risk for Motor contracts through an Excess of Loss reinsurance programme which limits large losses to £1.0m and Household through a Catastrophe reinsurance programme limit for each event of £9.5m.

Capital management

The Group considered its capital to be Net Debt.

	2023 £m	2022 £m
Total Net Debt	2,222	2,261
Total capital	2,222	2,261

The Group's objectives when managing capital are:

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

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

	2023 £m	2022 £m
Class A Notes	1,895	1,895
Senior Term Facility	150	150
Less: AA Intermediate Co Limited group cash and cash equivalents	(99)	(67)
Net Senior Secured Debt ¹	1,946	1,978
Class B Notes	280	280
Lease obligations for covenant reporting ²	31	20
Net Whole Business Securitisation (WBS) Debt ³	2,257	2,278
IFRS 16 lease adjustment for WBS lease obligations ⁴	28	25
AA Limited group lease obligations ⁵	3	3
Less: AA Limited group cash and cash equivalents ⁶	(66)	(45)
Total Net Debt	2,222	2,261
AA Intermediate Co Limited debt covenant EBITDA ⁷	336	321
	Covenant	
Class B leverage ratio ⁸	6.7x	7.1x
Senior Leverage ratio ⁹	5.8x	6.2x
Class A Free Cash Flow: Debt Service ¹⁰	>1.35x	3.1x

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 B3 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 debt covenant EBITDA including discontinued operations as required by the debt documents being Reported EBITDA based on frozen GAAP and accounting principles.

8 Ratio of Net WBS Debt³ to AA Intermediate Co Limited group debt covenant EBITDA.

9 Ratio of Net Senior Secured Debt¹ to AA Intermediate Co Limited group debt covenant EBITDA.

10 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 2023.

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.

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.

28 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:

	2023		2022	
	Present value of payments £m	Minimum payments £m	Present value of payments £m	Minimum payments £m
Within one year	24	26	16	18
Between one and five years	31	36	17	22
After five years	7	16	15	24
Total minimum lease payments	62	78	48	64
Less amounts representing finance charge	-	(16)	-	(16)
Present value of minimum lease payments	62	62	48	48

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 £10m (2022: £7m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

29 Subsidiary undertakings

The subsidiary undertakings of the Company, all of which are wholly owned except where stated, are listed in note 7 of the Company financial statements.

30 Auditors' remuneration

	2023 £m	2022 £m
Amounts receivable by the Company's auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company (rounded to nearest £m)	1	1

The fee for the audit of these financial statements was £0.8m (2022: £0.8m).

In addition, fees for non-audit services provided by the Company's auditors were £0.2m (2022: £0.1m) principally relating to other assurance services associated with the debt refinancings in both the current and prior years.

31 Related party transactions**Transactions with key management personnel:**

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

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

Transactions with associates:

Associate	Nature of transaction	2023 £m	2022 £m
ARC Europe SA	Registration and call handling fees	2	2

At 31 January 2023, the Group had an outstanding balance payable to ARC Europe SA of £nil (2022: £1m) comprising trade payables in respect of the above transactions.

Transactions with joint ventures:

Joint venture	Nature of transaction	2023 £m	2022 £m
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	1	1

At 31 January 2023, the Group had an outstanding balance receivable from AA Media Limited of £4m comprising fixed rate loan notes (2022: £4m).

32 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.

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

	2023 £m	2022 £m
Short-term employee benefits	7	6
Share-based payments (see note 33)	1	1
Compensation for loss of office	-	1
Total compensation paid to key management personnel	8	8

33 Share-based payments

	2023 £m	2022 £m
Equity-settled share-based payments:		
Share-based payments – Management Equity Plan	1	-
Share-based payments – Employee Share Incentive Plan	-	3
Share-based payments – Performance Share Plan	-	2
Total equity-settled share-based payments	1	5
Cash-settled share-based payments:		
Share-based payments – Long Term Incentive Plan	2	-
Total cash-settled share-based payments	2	-
Total share-based payments expense	3	5

The ESIP and PSP schemes vested in the year ending 31 January 2022 and a management equity plan was inceptioned. In the year ended 31 January 2023 a long term incentive plan was introduced.

Shares held in trust

AA Corporation Limited holds certain deferred shares in AA Limited, with the beneficial entitlement held on trust respectively: (i) as to 20 million deferred shares, for the Company's ex-Chairman Bob Mackenzie pending the outcome of his litigation against the Company (see note 37) and (ii) as to the remaining 40 million deferred shares, for Basing BidCo Limited, the purchaser and immediate parent undertaking of AA Limited.

As at 31 January 2023, the following shares were held on trust by AA Corporation Limited:

	Deferred shares
Total shares held on trust	60,000,000

AA Limited Cash Long Term Incentive Plan

In the year ended 31 January 2023, the Group implemented a Long Term Incentive Plan ("cash LTIP"), granting benefits to key members of senior management. These benefits vest based on certain performance conditions.

A vesting date of 31 January 2026 has been assumed for this scheme and it is expected to be settled in cash. On the basis of the above, the cash LTIP has been accounted for in line with IFRS 2, with the fair value of the cash LTIP liability, based on investment return multiples, being recognised over the expected life of the scheme and remeasured at each reporting date.

The vesting charge for the current year is £2m and is presented as a cash-settled share-based payments expense (2022: £nil).

Management Equity Plan (MEP)

The group operates a management equity plan which grants senior management awards with vesting conditions linked to their continued employment. This plan has been accounted for as an equity settled share based payment, and where the participants directly benefit the AA Limited Group, the share based payment charge has been accounted for within the Group. The charge for the year ended 31 January 2023 was £1m (2022: £nil).

The fair value of awards under the plan was 5.3p each.

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

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

The number of shares awarded were as follows:

	2022 Share awards outstanding	New awards	Leavers	2023 share awards outstanding
MEP	29,366,620	8,577,112	(1,227,787)	36,715,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

34 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 2023 but have not been applied by the Group in these financial statements. These are set out below (effective dates are UK effective dates). For those new accounting standards other than IFRS 17, management are currently at an early stage of assessing their impact on the Group.

- › Amendments to IFRS 16, 'Leases' on leases on sale and leaseback (effective date 1 January 2024)
- › Amendments to IAS 1, 'Presentation of financial statements' on non current liabilities with covenants (effective date 1 January 2024)
- › Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective date 1 January 2023)
- › Amendment to IAS 12 –deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- › IFRS 17, 'Insurance contracts' as amended in December 2021 (effective date 1 January 2023) – see below

IFRS 17

The Group will apply IFRS 17 with effect from 1 February 2023. IFRS 17 introduces a significant change to the accounting for insurance and reinsurance contracts. Our impact assessment is currently ongoing because transition work has not been finalised. The key transition activities that remain ongoing are:

- › Continued refinement of the accounting policies and reporting processes, including embedding of operational controls, used in the production of IFRS 17 results;
- › Continued assessment and challenge of the key assumptions, judgements and estimation techniques applied in the Group's IFRS 17 methodologies; and
- › Continued testing of systems and processes that is currently underway.

Key principles, assumptions, judgements, and methodologies

The Group will apply IFRS 17 retrospectively. The transition date for the Group is therefore 1 February 2022 and the Group will restate the 31 January 2022 Balance Sheet (the opening balance sheet) such that a comparative income statement can be presented in the 31 January 2024 financial statements.

Recognition

The Group has identified insurance contracts written and reinsurance contracts purchased within the scope of IFRS 17. The insurance contracts written by the Group are largely home and motor insurance policies underwritten by the Group and Roadside contracts underwritten by the Group where the fixed fee exemption does not apply. The Group has identified two portfolios, being Roadside and Insurance and contracts will be allocated to those groups within these portfolios based upon the expected profitability and ensuring that groups of contracts contain only contracts issued no more than one year apart. All other contracts written and sold by the Group are outside of the scope of IFRS 17. All reinsurance contracts purchased by the Group have been identified as within the scope of IFRS 17.

Measurement

All of the Group's insurance contracts written and reinsurance contracts purchased have been assessed as eligible for the Premium Allocation Approach (PAA). This is primarily because most contracts provide coverage for one year or less, however certain groups of contracts, notably risk attaching reinsurance purchased, are eligible as the Group expects the measurement of the liability (or asset for reinsurance) for remaining coverage would not be materially different from measuring the contract under the General Measurement Model (GMM).

Under the PAA, the liability for remaining coverage at initial recognition is measured as the premium received less deferred acquisition costs incurred. The Group has not taken advantage of the exemption to expense acquisition costs under the PAA and has elected to defer such costs over the groups of contracts to which the costs relate.

Subsequently, the liability for remaining coverage is increased for any premiums received and then decreased by the amount recognised as insurance revenue for services provided. As permitted under IFRS 17, the Group has elected not to adjust the liability for remaining coverage for the time value of money and the effect of financial risk.

If at any time before, or during coverage, facts and circumstances indicate that a Group of contracts is onerous, then the Group will increase the liability for remaining coverage by including a loss component, with the loss being recognised in the income statement.

During coverage, the Group will recognise a liability for incurred claims at the amount of fulfilment cash flows related to incurred claims. This will represent the best estimate of the expected value of the incurred claim, a risk adjustment to allow for the uncertainty in timing and amount of incurred claims, discounted at a current rate. The Group has elected to discount all liabilities for incurred claims.

The liability for incurred claims largely impacts the Insurance business where the duration of claims from incurrence to settlement can exceed one year. For the Roadside insurance contracts where claims (breakdown recoveries) are incurred and settled in a short time period (within the same day) there is not expected to be any liability for incurred claims outstanding at any point in time.

Presentation & disclosure

IFRS 17 will significantly change the presentation of the results and statement of financial position. The main changes for the Group are:

- ▶ Portfolios of insurance contracts that are assets and liabilities will be presented separately on the face of the statement of financial position;
- ▶ All rights and obligations arising from a portfolio of insurance contracts will be presented on a net basis, therefore, balances such as insurance receivables and unearned premium will no longer be presented separately;
- ▶ Results of reinsurance contracts purchased and reinsurance assets and liabilities will be presented separately from the results, assets and liabilities of the underlying insurance contracts. Currently revenue and costs are presented net of outward reinsurance, therefore total revenue will increase under IFRS 17 as revenue will be presented gross of reinsurance.
- ▶ The effect of the time value of money and other financial risks and changes thereof will be presented as insurance finance income or expense (IFIE) outside of the insurance result.

Policy choices and judgements

The Group has applied the following policy choices and judgements in setting the IFRS 17 methodology:

Area	Methodology/Judgement
PAA eligibility	The Group has developed a PAA eligibility framework for contracts that are not automatically eligible for PAA. This framework assesses the significance of differences between the GMM and PAA. The Group's preliminary conclusion is that all contracts are eligible for PAA.
Deferred acquisition costs	The Group has elected to defer acquisition cost under the PAA, and not take advantage of expensing acquisition costs where it may have been eligible. There is judgement in determining what costs are acquisition costs and judgement in determining the period over which those costs are recognised in the liability for remaining coverage (LRC).
Discount rates	The Group will use a bottom-up approach to derive discount rates. The bottom-up approach will consist of a risk-free rate, based upon UK Government yield curves of appropriate durations, with an illiquidity premium determined by the Group. The illiquidity premium will be determined by the Group using market data. The Group has elected to recognise all movements in discount rates within IFIE in the consolidated income statement, and not to disaggregate between IFIE and Other Comprehensive Income. The Group has elected not to adjust the liability for remaining coverage for the time value of money and the effect of financial risk.
Risk adjustment	The risk adjustment for non-financial risk will be set using a confidence interval technique. Under this approach the Group will determine a probability distribution of the expected present value of future cash flows from the contracts at each reporting date and calculate the risk adjustment as the excess of the value at risk at the target confidence interval over the expected present value of future cash flows allowing for associated risks over all future years. The target confidence interval for the insurance business will be 75 percent. The Group has elected not to disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and IFIE.

Impact

The PAA is largely consistent with the current accounting treatment when measuring the liability for remaining coverage and liability for incurred claims with the following points of note relevant for the Group:

Area	Change from existing accounting	Impact on equity on transition
Deferred acquisition costs	There is a change in the definition of what constitutes an acquisition cost with IFRS 17 permitting both costs from successful and unsuccessful activity, inclusion of an element of acquisition overhead, and where applicable allocation of the costs to future groups of contracts. Currently the Group defers acquisition costs over the current contract and under IFRS 17 the Group will defer them over the future (renewal) contracts where appropriate.	Increase
Liability for incurred claims	The liability for incurred claims requires an explicit risk adjustment and then the best estimate of cash flows, plus risk adjustment, are discounted at a current rate. Currently the Group does not have an explicit risk adjustment, although current reserves are not a pure best estimate. Additionally, the technical provisions are currently undiscounted.	Increase
Loss component	Our identification of onerous contracts under IFRS 17 will be at a more granular level than our current accounting. Any groups of contracts that are onerous will recognise a loss component. Currently no equivalent of a loss component is recognised. Our initial analysis suggests a small loss component will be recognised on transition although business changes post General Insurance Pricing Practices will reduce the loss component over time	Decrease

Transition

Given the application of the PAA and the policy choices and judgements above, the Group is expecting upon transition to apply IFRS 17 using the full retrospective approach.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

35 Assets classified as held for sale

During the prior year, the sale of two properties was approved. The sale of one of these properties completed in the year and resulted in a profit on sale of £1m which is included in the consolidated income statement. The sale of the second property is expected to complete in H1 FY24 and is held for sale at the lower of carrying amount and fair value less cost to sell, which has resulted in an impairment of £1m, also included in the consolidated income statement.

The assets classified as held for sale were:

	2023 £m	2022 £m
Property, plant and equipment – property 1	–	5
Property, plant and equipment – property 2	2	3
Total	2	8

36 Prior year restatements

Due to a change in accounting policy, during the year the Group began deferring Roadside acquisition costs, where the risk is underwritten by the Group. This has resulted in a restatement of the prior year financial statements. A prior year restatement has also been made relating to a classification error in the consolidated statement of financial position.

	Previously reported 31 January 2022 £m	Change in accounting policy – effect of restatement £m	Classification error – effect of restatement £m	Restated 31 January 2022 £m
Consolidated statement of financial position				
Trade and other receivables	328	15	11	354
Trade and other payables	(525)	–	(11)	(536)
Deferred tax liability	(55)	(3)	–	(58)
Retained earnings as at 1 February 2022	(1,781)	12	–	(1,769)

Note: There was no restatement in the consolidated income statement for year ended 31 January 2022. As at 31 January 2021, the prior year classification error would have increased trade and other receivables by £13m and reduced trade and other payables by the same amount.

	Previously reported 31 January 2022 £m	Classification error – effect of restatement £m	Restated 31 January 2022 £m
Consolidated statement of cash flows			
Increase in trade and other receivables	(23)	2	(21)
Decrease in trade and other payables	(20)	(2)	(22)

The prior year consolidated statement of financial position classification error impacted deferred acquisition costs within trade and other receivables (see note 15) and provisions for unearned premiums in insurance underwriting within trade and other payables (see note 17). The table below shows the impact on the Insurance Underwriting note (see note 22) as at 31 January 2022.

Reconciliation of movements in the provision for unearned premiums for year ended 31 January 2022

	Previously reported	Effect of restatement	Restated
Gross unearned premiums at 1 February	62	13	75
Less: reinsurers' share of unearned premiums	(52)	–	(52)
Net unearned premiums at 1 February	10	13	23
Gross premiums written	141	(2)	139
Less: outward reinsurance premium ceded	(114)	–	(114)
Net premiums written	27	(2)	25
Gross premiums earned	(138)	–	(138)
Less: earned premium ceded to reinsurers	109	–	109
Net premiums earned	(29)	–	(29)
Gross unearned premiums at 31 January	65	11	76
Less: reinsurers' share of unearned premiums	(57)	–	(57)
Net unearned premiums at 31 January	8	11	19

Disposals of cost and accumulated depreciation in respect of certain fully depreciated right-of-use assets had been overstated, due to an error, in the right-of-use assets disclosure note for the year ended 31 January 2022. Below is the impact on the right-of-use assets note as at 31 January 2022.

Right-of-use assets at 31 January 2022

	Cost			Accumulated depreciation and impairment		
	Reported £m	Effect of restatement £m	Restated £m	Reported £m	Effect of restatement £m	Restated £m
Vehicles & equipment						
At 1 February 2021	75	–	75	41	–	41
Additions	16	–	16	22	–	22
Disposals	(22)	13	(9)	(21)	13	(8)
At 31 January 2022	69	13	82	42	13	55

37 Events after the reporting period

Settlement of litigation

During the course of the year, the litigation with the Company's ex-Chairman Bob Mackenzie against the Company reached a conclusion (see note 21). As a consequence, the 20 million deferred shares previously held on trust by the AA Corporation Limited pending the outcome of the litigation were transferred to be held on trust for Basing BidCo Limited, the purchaser and immediate parent undertaking of AA Limited. Therefore, the beneficial entitlement to all 60 million deferred shares in AA Limited is now held on trust by AA Corporation Limited for Basing BidCo Limited.

A11 Loan Note issue

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

Facility Renewal

On 6 February 2023 the Group renewed and increased its Liquidity Facility by £15m to a total of £175m which remains undrawn and on 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023 and a new interest rate swap was transacted which exchanges SONIA for a fixed interest rate of 4.14% thereby fixing the incremental £15m of Senior Term Facility borrowings at 7.17% through to 10 March 2026.

COMPANY STATEMENT OF FINANCIAL POSITION

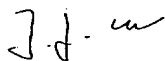
as at 31 January

	Notes	2023 £m	2022 £m
Non-current assets			
Investments in subsidiaries	2	718	716
		718	716
Current assets			
Trade and other receivables	3	29	37
Cash and cash equivalents	4	19	12
		48	49
Total assets		766	765
Current liabilities			
Trade and other payables	5	(16)	(17)
		(16)	(17)
Non-current liabilities			
Cash-settled share-based payments		(2)	-
		(2)	-
Total liabilities		(18)	(17)
Net assets		748	748
Equity			
Called up share capital	6	4	4
Share premium		787	787
Retained earnings		(43)	(43)
Total equity		748	748

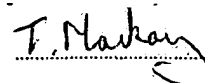
The profit for the financial year of the Company is Enil (2022: profit of £202m).

The financial statements were approved by the Board of Directors on 19 April 2023 and signed on its behalf by

Jakob Pfaudler
Chief Executive Officer



Tom Mackay
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 2021	1	412	(23)	(227)	163
Profit for the year	-	-	-	202	202
Issue of share capital	3	375	-	-	378
Settlement of share schemes	-	-	23	(23)	-
Share-based payments	-	-	-	5	5
At 31 January 2022	4	787	-	(43)	748
Result for the year	-	-	-	-	-
At 31 January 2023	4	787	-	(43)	748

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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. 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 2023. 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 either the current financial year or the financial year ending 31 January 2024 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 regularly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The 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 a regular 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 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. For the purposes of the impairment test, terminal values are calculated using a growth assumption and cash flows are discounted at a rate reflecting the time value of money and the risk specific to these cash flows. In assessing the specific method of calculating the value in use, a specific judgement has been made regarding the use of the 'dividend distribution model' which is explained in Note 2.

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, along with an assessment of the impact of climate change, however future government or industry wider changes could reduce the present forecasts. These allow the business to forecast profits, working capital and capital expenditure requirements (see note 2 for details).

Due to the previous impairments booked, as the equity investments are carried at the higher of fair value less costs to sell and value in use, there is a risk that subsequent changes in the assumptions individually or in combination in the next 12 months could give rise to a material adjustment to the carrying value of the equity investment, and this represents the estimation uncertainty, details of the sensitivity are given in Note 2.

2 Investments in subsidiaries

	2023 £m	2022 £m
At 1 February	716	140
Additions	-	361
Additions relating to share schemes	2	5
Impairment reversal	-	210
At 31 January	718	716

In the year ended 31 January 2023, there was an addition to investments in subsidiaries of £2m relating to the Group's share schemes (see note 33 of the Group financial statements).

The Company has performed impairment testing at 31 January 2023 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.

The impairment test was principally performed on the cash flow projections of the underlying AA Mid Co Limited group. The recoverable amount of the investment was determined based on a value in use (VIU) calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 2023, the Company used the five-year plan, adjusted for expected changes, covering the four years up to 31 January 2027 and a 1.95% expectation of growth in the subsequent year. For the purposes of the impairment test, terminal values have been calculated using a 1.95% (2022: 2.01%) inflationary growth assumption in perpetuity based on the IMF's UK long-term growth rate.

The impairment assessment was conducted using a 'dividend distribution' model which was also used in the year ended 31 January 2022, due to the short-term risks specific to the Group and industry.

This model assesses the cash flows available to the parent company from its investment in subsidiaries. The model uses the cash flow projections of the underlying investments including cash outflows relating to financing costs (i.e. interest) and taxation. Using both a discount rate based on an initial cost of equity of 15.8% (2022: 19.1%) and terminal year cost of equity of 14.0% (2022: 19.1%), there was a sufficient amount of headroom and therefore no indicators of impairment in the value of the investments.

In terms of sensitivity, the discounted cash flow model used is most sensitive to the discount rate and terminal period growth rate. A decrease/increase in the terminal period cost of equity of 1% would result in an improvement/reduction in the VIU of £64m/£52m. A decrease/increase in the terminal period growth of 1% would result in a reduction/improvement in the VIU of £48m/£57m. A decrease/increase of 1% in the cashflow forecasts would result in a reduction or improvement in the VIU of £9m.

3 Trade and other receivables

	2023 £m	2022 £m
Amounts owed by subsidiary undertakings	29	36
Other receivables	-	1
	29	37

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

4 Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank and in hand	19	12
	19	12

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

5 Trade and other payables

	2023 £m	2022 £m
Amounts owed to subsidiary undertakings	16	17
	16	17

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

6 Called up share capital

	2023 £m	2022 £m
Allotted, called up and fully paid		
4,072,341,178 (2022: 4,072,341,178) ordinary shares of £0.001 each	4	4
	4	4

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

During the year, the company did not pay a dividend (2022: £nil).

Other share types in issue were as follows:

	2023 £000	2022 £000
Allotted, called up and fully paid		
60,000,000 (2022: 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.

7 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 2023 are:

Name	Country of incorporation / registered office key	Class of shares held
AA Acquisition Co Limited ¹	England and Wales, UK / A	Ordinary
AA Bond Co Limited ²	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 ³	England and Wales, UK / A	Ordinary
AA Senior Co Limited	England and Wales, UK / A	Ordinary
AA Technical Solutions Limited ¹	England and Wales, UK / A	Ordinary
A A The Driving School Agency Limited ¹	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 ¹	England and Wales, UK / A	Ordinary
Prestige Fleet Servicing Limited ¹	England and Wales, UK / A	Ordinary
Used Car Sites Limited	England and Wales, UK / A	Ordinary
Longacre Claims Limited ¹	England and Wales, UK / A	Ordinary and B Shares

The other subsidiary undertakings of the Company at 31 January 2023 are:

Name	Country of incorporation / registered office key	Class of shares held
A.A. Pensions Trustees Limited	England and Wales, UK / A	Ordinary
AA Brand Management Limited	England and Wales, UK / A	Ordinary
AA Garage Services Limited	England and Wales, UK / A	Ordinary
AA Insurance Holdings Limited ³	England and Wales, UK / A	Ordinary
AA Ireland Pension Trustees DAC	Ireland / E	Ordinary
AA Pension Funding GP Limited ¹	Scotland, UK / C	Ordinary
AA Pension Funding LP ⁴	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 ¹	England and Wales, UK / A	Ordinary
Intelligent Data Systems (UK) Limited ¹	England and Wales, UK / A	Ordinary
Personal Insurance Mortgages and Savings Limited	England and Wales, UK / A	Ordinary
The Automobile Association Limited ²	Jersey / B	Ordinary

1 These entities are exempt from the requirements of the Companies Act 2006 relating to the audit of financial statements under s479A-C.

2 This company also has a UK branch establishment.

3 Directly owned by AA Limited; all other subsidiaries are indirectly held.

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

Registered office key

Registered office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
Third Floor, 44 Esplanade, St. Helier, Jersey, JE4 9WG	B
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	C
Waterport Place, Unit 2.1, 2 Europort Road, Gibraltar, GX11 1AA	D
6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland	E

8 Auditors' remuneration

The fee for the audit of these financial statements was £0.1m (2022: £0.2m). See also note 30 of the consolidated financial statements.

9 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 Non-Executive Directors of £0.3m (2022: £0.3m).

10 Ultimate parent undertaking and ultimate controlling party

The Company is a wholly owned subsidiary of Basing BidCo Limited, a company incorporated and domiciled in Jersey.

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

The parent of the largest and smallest group to consolidate these financial statements is AA Limited, whose registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA. Copies of the consolidated AA Limited financial statements are available from the website: www.theaacorporate.com/investors.



AA Limited

Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

Company number: 05149111