

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

Registered number: 05663655

AA SENIOR CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023

STRATEGIC REPORT

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a wholly owned subsidiary of AA Acquisition Co Limited.

The principal activity of the Company is that of a financing company for the AA Limited group (“the Group”).

Despite a challenging macroeconomic environment, the Company remains in a resilient position to continue to perform its primary activity and management have assessed that this will continue to be the case.

As shown in the Company's Income Statement, the Company incurred finance costs of £131m (2022: £139m) in the year 31 January 2023 and earned income of £124m (2022: £124m) for shares in group undertakings. A profit after tax of £36m for the year (2022: loss of £2m) was made, largely due to group relief earned in the current year. The statement of financial position shows the Company's financial position at the year end. The Company has net assets of £474m (2022: £431m).

Management deem these figures to be the key performance indicators of the Company.

There are currently no plans to alter the principal activity of the Company going forward and the Company expects to continue to be a financing company.

The directors have had regard to the matters set out in section 172 (a) to (f) when performing their duty under section 172 of the Companies Act 2006. For details of how this is accomplished across the AA Limited group, refer to page 40-41 of AA Limited's Annual Report 2023, with whom the Company shares common directorship and management structure.

RISK MANAGEMENT FRAMEWORK

The Board of AA Limited is responsible for determining the level of risk that the AA is prepared to take, or that it is willing to accept, in order to achieve its strategic objectives. The levels of risk are articulated through a series of risk appetite statements and 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 of the AA Limited Annual Report and Accounts 2023.

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.
- 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.

AA SENIOR CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

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

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

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

Risk culture and governance	The processes and structures to demonstrate 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.

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

Financial Risk

The risk that the AA Limited Group has insufficient liquid funds required for the business to operate, is unable to refinance its maturing debt, or unable to do this at affordable cost.

The ability to finance is critical to the ongoing existence and operation of the Group. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. In particular, financing costs have increased as a result of rising interest rates as the economy sees higher levels of inflation.

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

The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group which ringfences its debt within a whole business securitisation (WBS) structure. AA Intermediate Co Limited is a parent undertaking of the Company and part of the AA Limited group. The viability and financial success of the Company is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. For more detail, see note 1.

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

RISK MANAGEMENT FRAMEWORK (continued)

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 Company is exposed to credit risk in relation to the intercompany balance due from a fellow subsidiary undertaking. The AA Limited group monitors the recoverability of intercompany balances to ensure that there are sufficient resources to meet each counterparty's obligation.

ON BEHALF OF THE BOARD



M NEVILLE
DIRECTOR
26 MAY 2023

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA
Registered number: 05663655

AA SENIOR CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023

DIRECTORS' REPORT

DIRECTORS

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

M Neville
T O Mackay

COMPANY SECRETARY

J Cox

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

AA SENIOR CO LIMITED
FOR THE YEAR ENDED 31 JANUARY 2023

DIRECTORS' REPORT (continued)

DIRECTORS' CONFIRMATIONS

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

GOING CONCERN

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

Due to the net current liabilities position of the Company, a letter of support has been granted by Automobile Association Developments Limited in order to allow the directors to conclude that the Company can meet its liabilities as they fall due. AA Senior Co Limited is a wholly owned subsidiary of the AA Limited group ("Group"), hence the going concern status of the Company is linked to the wider Group. The Company directors have reviewed projected cash flows of the Group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Company has sufficient funds to continue trading during this period and the foreseeable future.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes have already been refinanced.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 50-51 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. However, as noted above, the refinancing of the Class A7 Notes, due on 31 July 2024, is currently in progress at the date of issue of these financial statements. The Company is an obligor of the Group's borrowings and in the event the refinancing of the A7 Notes is not successful, the Company may not be able to continue as a going concern. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern for a period in excess of a year from the date of issue of these financial statements.

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

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FOR THE YEAR ENDED 31 JANUARY 2023

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

DIRECTORS' REPORT (continued)

DIVIDENDS

The Company has not paid a dividend in the year (2022: £nil) and the directors do not propose the payment of a final dividend (2022: £nil). The Company received dividends of £124m (2022: £124m) from subsidiary undertakings.

INDEPENDENT AUDITORS

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

ON BEHALF OF THE BOARD



M NEVILLE
DIRECTOR
26 MAY 2023

Registered Office: Fanum House, Basing View, Basingstoke, Hampshire RG21 4EA
Registered number: 0566365

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 January 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 January 2023; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company is an obligor of AA Intermediate Co Limited group's borrowings and forms part of the corresponding debt security group for which the refinancing of the Class A7 Notes, due on 31 July 2024, is not committed at the date of issue of these financial statements. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

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

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

AA SENIOR CO LIMITED

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 Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

AA SENIOR CO LIMITED

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase profit and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, internal compliance and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Challenging significant accounting assumptions and judgements individually and collectively for indications of management bias, in particular in relation to the subsidiary investment impairment assessment.
- 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.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

AA SENIOR CO LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 JANUARY

	Note	2023 £m	2022 £m
Administrative expenses	7	-	(38)
Finance income	9	10	30
Finance costs	10	(131)	(139)
OPERATING LOSS		(121)	(147)
Income from shares in group undertakings	8	124	124
PROFIT/(LOSS) BEFORE TAX		3	(23)
Tax on profit/(loss)	5	33	21
PROFIT /(LOSS) FOR THE FINANCIAL YEAR		36	(2)

The accompanying notes are an integral part of this Income Statement.

AA SENIOR CO LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY**

	Note	2023 £m	2022 £m
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		36	(2)
Other comprehensive income on items that may be reclassified to income statement in subsequent years			
Effective portion of changes in fair value of cash flow hedges		9	5
Tax effect of effective portion of changes in fair value of cash flow hedges	6	(2)	(1)
TOTAL OTHER COMPREHENSIVE INCOME		7	4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		43	2

The accompanying notes are an integral part of this Statement of Comprehensive Income.

AA SENIOR CO LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY

	Note	2023 £m	2022 £m
NON-CURRENT ASSETS			
Investments in subsidiaries	11	3,437	3,437
Derivative financial instruments	14	14	5
		3,451	3,442
CURRENT ASSETS			
Other receivables	12	2,988	3,066
Cash and cash equivalents	13	5	-
		2,993	3,066
TOTAL ASSETS		6,444	6,508
CURRENT LIABILITIES			
Other payables	15	(3,652)	(3,769)
Deferred tax liabilities	6	-	(3)
Current tax payable		(4)	-
		(3,656)	(3,772)
NON-CURRENT LIABILITIES			
Other payables	15	(2,160)	(2,156)
Borrowings	16	(149)	(149)
Deferred tax liabilities	6	(5)	-
		(2,314)	(2,305)
TOTAL LIABILITIES		(5,970)	(6,077)
NET ASSETS		474	431
EQUITY			
Called up share capital	17	-	-
Share premium account		20	20
Cash flow hedge reserve		11	4
Accumulated losses		(1,218)	(1,254)
Capital contribution reserve		1,661	1,661
TOTAL EQUITY		474	431

The financial statements on pages 10-28 were approved by the Board of Directors on 26 May 2023 and signed on its behalf by:



M NEVILLE
DIRECTOR
26 MAY 2023

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

AA SENIOR CO LIMITED

STATEMENT OF CHANGES IN EQUITY

	Share premium	Accumulated losses	Cash flow hedge reserve	Capital contribution reserve	Total equity
	£m	£m	£m	£m	£m
At 1 February 2021	20	(1,252)	-	1,661	429
Loss for the financial year	-	(2)	-	-	(2)
Other comprehensive income	-	-	4	-	4
Total comprehensive income	-	(2)	4	-	2
At 31 January 2022	20	(1,254)	4	1,661	431
Profit for the financial year	-	36	-	-	36
Other comprehensive income	-	-	7	-	7
Total comprehensive income	-	36	7	-	43
At 31 January 2023	20	(1,218)	11	1,661	474

The accompanying notes are an integral part of this Statement of Changes in Equity.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 PRESENTATION OF FINANCIAL STATEMENTS

AA Senior Co Limited is a private company, limited by shares, and is incorporated and domiciled in England and Wales, UK.

The financial statements are prepared in Sterling and are rounded to the nearest £m.

GOING CONCERN

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

Due to the net current liabilities position of the Company, a letter of support has been granted by Automobile Association Developments Limited in order to allow the directors to conclude that the Company can meet its liabilities as they fall due. AA Senior Co Limited is a wholly owned subsidiary of the AA Limited group ("Group"), hence the going concern status of the Company is linked to the wider Group. The Company directors have reviewed projected cash flows of the Group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Company has sufficient funds to continue trading during this period and the foreseeable future.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of £129m of A7 Notes which have a maturity date of 31 July 2024. As at the date of approval of these financial statements, £421m of the original £550m A7 Notes have already been refinanced.

The Company directors have confirmed these points with the AA Limited group directors and have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 50-51 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. However, as noted above, the refinancing of the Class A7 Notes, due on 31 July 2024, is currently in progress at the date of issue of these financial statements. The Company is an obligor of the Group's borrowings and in the event the refinancing of the A7 Notes is not successful, the Company may not be able to continue as a going concern. These circumstances indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern for a period in excess of a year from the date of issue of these financial statements.

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

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

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 as applicable to companies using FRS 101. The financial statements are prepared under the historical cost convention as modified by the measurement of derivatives at fair value. The Company takes the exemption under IFRS 10 paragraph 4 and section 400 of the Companies Act 2006 from presenting consolidated financial statements.

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

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

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instrument Disclosures',
- IAS 8 paragraphs 30 and 31 (new accounting standards that have been issued but are not yet effective),
- IFRS 13 paragraphs 91 – 99 'Fair Value measurement',
- The requirements in IAS 24, 'Related party disclosures' to disclose all related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation).

New Standards, Amendments and IFRIC Interpretations

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements. A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning on or after 1 February 2023, however the Company has not identified any with an expected material impact on the financial statements.

2.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Management has exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an ongoing basis and include i) the assumptions for future growth of cash flows to support the value in use calculations for the investment impairment review, and ii) the collectability of intercompany balances in support of the credit loss allowance assessment on intercompany receivables.

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

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

2.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Investments

Fixed asset investments are stated at historical cost. The Company tests the investment balances for impairment triggers annually, and where a trigger is noted, a full quantitative assessment is performed. The recoverable amounts of the investments have been determined based on value in use calculations which require the use of estimates. Management has prepared discounted cash flow forecasts based on the latest strategic plan.

In performing its impairment testing on its investment in subsidiaries, the Company prepared a traditional value in use model as described in IAS 36 which was also used in prior years. This comprises an enterprise value model which deducts net debt as at 31 January 2023 and discounts estimates of future cash flows at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. IAS 36 considers that the appropriate discount rate for a value in use calculation should take into account weighted average cost of capital, incremental borrowing rate and other market borrowing rates in making such an estimate and the Company uses a discount rate calculated on this basis. Estimates of future cash flows do not include cash inflows or outflows from financing activities or income tax receipts or payments as these are already taken into account in the discount rate.

This differs from the AA Limited company financial statements in which it was considered that using an alternative 'dividend distribution model' would best reflect an investor's assessment of the return required given the short period of time between the acquisition and year end. In that alternative value in use model, estimates of future cash flows included cash outflows relating to taxation and financing activities, reflecting an assessment of future refinancing and interest costs that the Group expects to arise as its existing debt is refinanced over the next 5 years.

As the Company is a holding company within the WBS ringfence, it and its subsidiary investments will continue operating as a group in the event that there was a failure to refinance the Group's class B notes. However, companies above the level of AA Mid Co Limited could face a significantly higher level of risk in those circumstances. The alternative value in use valuation approach used at an AA Limited level is therefore not considered to be an appropriate valuation methodology for the Company to use in its own investment impairment testing.

On this basis, the Company has made the critical accounting judgement to continue to perform impairment testing of its investment in subsidiaries using the traditional enterprise value model which deducts net debt, as outlined above. Management has performed sensitivity analysis as part of its impairment assessment on the Company's investments in subsidiaries (see note 11 for details).

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

Intercompany receivables

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES

a) Investments in group undertakings

Investments are held at cost less impairment.

The carrying amounts of the Company's investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless they arise on a previously revalued fixed asset.

The recoverable amount of investments is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an investment of equal risk.

b) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years. Group relief is paid at the value of the tax saving.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

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.

Other receivables and other payables

Other receivables are generally due for settlement within 30 days and are therefore all classified as current. They are recognised at fair value and are subsequently held at amortised cost. The Company applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all other receivables. Other payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

Derivative financial instruments

The Company's capital structure exposes it to the financial risk of changes in interest rates. The Company uses interest rate swap to hedge this exposure.

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 those financial instruments. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement unless they qualify for hedge accounting as described below.

Cash flow hedges

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

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

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

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 and subsequently measured at amortised cost. 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.

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.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment Income

The accounting treatment of the distribution is determined by whether the distribution paid or received is considered to represent a return of the capital of the subsidiary or not. Where it is deemed to represent a return of capital, a reduction in the parent's investment balance in that subsidiary is recorded rather than the recognition of dividend income in the Income Statement. The factors considered by the directors when determining whether a distribution represents a dividend or return of capital include the following:

- The amount of the distribution relative to the original investment value;
- The legal form of the distribution; and
- The future operating plans for the subsidiary after the distribution.

If the amount of the distribution exceeds the carrying value of the investment balance, the excess gain is recognised in the Income Statement, to the extent that it is realised or in the Statement of Comprehensive Income to the extent that it is unrealised. If the distribution is considered to represent a dividend the parent recognises the dividend in the Income Statement.

3 AUDITORS' REMUNERATION

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2023 amounted to £30k (2022: £30k). The Company's auditors provided no services to the Company other than the annual audit during either of the years under review.

4 DIRECTORS' REMUNERATION

	2023 £m	2022 £m
Aggregate remuneration in respect of qualifying services	0.8	0.8
Share based payments	-	0.1
Compensation for loss of office	-	0.4
Total	0.8	1.3

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

Remuneration	0.6	0.6
Compensation for loss of office	-	0.4
Total	0.6	1.0

All directors of the Company are also directors of the ultimate parent undertaking (Basing ConsortiumCo Limited) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the Basing ConsortiumCo Limited group. As the directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the ultimate parent undertaking and fellow subsidiary companies, their full remuneration has been reflected in the disclosure above.

Retirement benefits are accruing for 1 (2022: 1) directors under a money purchase scheme and no directors (2022: nil) under a defined benefit scheme. There was compensation to directors for loss of office in the year of nil (2022: £0.4m).

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

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 TAX ON PROFIT/(LOSS)

The income tax on profit/(loss) is made up as follows:

	2023	2022
	£m	£m
Current tax:		
- Group relief receivable	(26)	(21)
- Adjustments in respect of prior periods	(7)	-
	(33)	(21)
Deferred tax:		
- Origination and reversal of temporary differences	3	-
- Adjustments in respect of prior periods	(3)	-
	-	-
Total income tax on profit/(loss) reported in the income statement	(33)	(21)

The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/ (loss) before tax is as follows:

	2023	2022
	£m	£m
Profit/(loss) before tax	3	(23)
Tax at rate of 19.0% (2022: 19.0%)	1	(4)
Effects of:		
Corporate interest restriction	-	9
Adjustments in respect of prior periods	(10)	-
Non-taxable forgiveness of inter-company debt	-	(6)
Non- deductible transaction costs	-	4
Dividend income	(24)	(24)
Total income tax on profit/(loss) reported in the income statement	(33)	(21)

The adjustment in respect of prior periods arises on the reversal of prior period provision for restrictions under the Corporate Interest Restriction rules.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 DEFERRED TAX LIABILITIES

	Statement of financial position		Income statement	
	2023	2022	2023	2022
	£m	£m	£m	£m
Cashflow hedges	(4)	(1)	-	-
Short-term temporary differences	(1)	(2)	-	-
Deferred tax liabilities	<u>(5)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
			2023	2022
			£m	£m
Deferred tax liabilities as at 1 February			(3)	(2)
Charge to the Statement of Comprehensive Income			(2)	(1)
Deferred tax liabilities as at 31 January			<u>(5)</u>	<u>(3)</u>

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

The March 2021 budget announced that the main corporation tax rate will increase from 19% 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. The effect of the tax rate increase has not had a material effect on the deferred tax balances during the year.

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

7 ADMINISTRATIVE EXPENSES

	2023	2022
	£m	£m
Transaction fees related to debt financing arrangements recharged from AA Bond Co Ltd	-	38
	<u>-</u>	<u>38</u>

8 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2023	2022
	£m	£m
Dividends from subsidiary undertakings	124	124
	<u>124</u>	<u>124</u>

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 FINANCE INCOME

	2023 £m	2022 £m
Gain from release of Class B2 Notes IBLA (see note 15)	-	29
Fair value movement on interest rate swaps	-	1
Fair value movement on gilt lock	10	-
	10	30

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 settled 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 fair value through profit and loss.

In the prior year, AA Limited surrendered for cancellation £29m of Class B2 notes. Consequently, the Company was released from £29m of the B2 IBLA resulting in a gain of £29m.

10 FINANCE COSTS

	2023 £m	2022 £m
Bank loans and overdrafts	8	7
Interest on interest rate swaps	1	1
Interest payable to fellow parent undertakings	122	130
Debt issue fees immediately written off following refinancing of banking facilities	-	1
	131	139

11 INVESTMENTS IN SUBSIDIARIES

	2023 £m	2022 £m
Investments in subsidiary undertakings at cost and net book value		
At 1 February and 31 January	3,437	3,437

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

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

Name	Country of Incorporation / Registered Office Key	Class of shares held
AA Corporation Limited	England and Wales, UK / A	Ordinary
AA Financial Services Limited	England and Wales, UK / A	Ordinary
AA The Driving School Agency Limited	England and Wales, UK / A	Ordinary
Automobile Association Developments Limited	England and Wales, UK / A	Ordinary
Automobile Association Insurance Services Limited	England and Wales, UK / A	Ordinary
Drivetech (UK) Limited	England and Wales, UK / A	Ordinary
Prestige Fleet Servicing Limited	England and Wales, UK / A	Ordinary
Used Car Sites Limited	England and Wales, UK / A	Ordinary

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Country of Incorporation / Registered Office Key	Class of shares held
A.A. Pensions Trustees Limited	England and Wales, UK / A	Ordinary
AA Brand Management Limited	England and Wales, UK / A	Ordinary
AA Garage Services Limited	England and Wales, UK / A	Ordinary
AA Ireland Pension Trustees DAC	Ireland / B	Ordinary
AA Pension Funding GP Limited	Scotland, UK / C	Ordinary
AA Pension Funding LP	Scotland, UK / C	Membership Interest
Automobile Association Holdings Limited	England and Wales, UK / A	Ordinary and deferred redeemable non-voting special dividend
Automobile Association Insurance Services Holdings Limited	England and Wales, UK / A	Ordinary
Automobile Association Services Limited	England and Wales, UK / A	Limited by guarantee
Accident Assistance Services Limited	England and Wales, UK / A	Ordinary
Intelligent Data Systems (UK) Limited	England and Wales, UK / A	Ordinary
Personal Insurance Mortgages and Savings Limited	England and Wales, UK / A	Ordinary
The Automobile Association Limited ¹	Jersey / D	Ordinary

¹ This company also has a UK branch establishment.

Registered Office Key

Registered Office	Key
Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA, England	A
6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland	B
20 Castle Terrace, Edinburgh, EH1 2EN, Scotland	C
3rd Floor, 44 Esplanade, St Helier, JE4 9WG, Jersey	D

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 impairment test was principally performed on the directly held subsidiary which is supported by cash flow projections of the underlying AA Corporation Limited group. The recoverable amount of the investment was determined based on a value in use calculation using cash flow projections from the Group's five-year plan. For the year ended 31 January 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% growth assumption (2022: 2.01%).

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 INVESTMENTS IN SUBSIDIARIES (continued)

Using an enterprise value model which deducts net debt as at 31 January 2023, cash flows were discounted at a pre-tax rate reflecting the time value of money and the risk specific to these cash flows. This was determined as a pre-tax rate of 11.7% (2022: 10.2%). The equivalent post-tax rate was 8.8% (2022: 7.7%). The use of this value in use calculation and the determination of its inputs were consistent with the impairment test performed in the prior year. The result of this impairment test was that there was a significant amount of headroom and therefore no indicators of impairment in the value of investments in subsidiaries were identified (2022: no indicators of impairment).

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

12 OTHER RECEIVABLES

	2023	2022
	£m	£m
Amounts owed by group undertakings	2,988	3,066
	2,988	3,066

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

13 CASH AND CASH EQUIVALENTS

	2023	2022
	£m	£m
Restricted cash at bank and in hand	5	-
	5	-

In the current year, £5m of restricted cash is held in a debt service reserve account to meet the Liquidity Required Amount per the debt document definitions.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2023	2022
	£m	£m
Non-current assets		
Interest rate swap	14	5

The interest rate swap is held as a financial asset at fair value through other comprehensive income. Hedge accounting is applied to the interest rate swap.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 OTHER PAYABLES

	2023	2022
	£m	£m
Current		
Amounts owed to group undertakings	3,650	3,767
Accruals	2	2
	3,652	3,769
Non-current		
Amounts owed to group undertakings	2,160	2,156
	2,160	2,156

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

During the year ended 31 January 2013, the Company entered into an Issuer/Borrower Loan Agreement (IBLA). As a result of this agreement, the proceeds from loan notes issued by AA Bond Co Limited are loaned to the Company and the terms of this intercompany loan reflect the terms of the loan notes held by AA Bond Co Limited. Amounts owed to group undertakings which relate to the IBLA are as follows:

Intercompany balance relating to:	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total at 31 January 2023 £m	Total at 31 January 2022 £m
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	546
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
		5.59%	2,175	(28)	13	2,160	2,156

Amounts owed to group undertakings which relate to the IBLA are included in current and non-current liabilities as below:

	2023	2022
	£m	£m
Non-current liabilities	2,160	2,156
	2,160	2,156

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 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 2021	10 March 2026	3.49%	150	(1)	-	149	149

The Company'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.

17 CALLED UP SHARE CAPITAL

	2023 £	2022 £
Allotted, called up and fully paid	£	£
1 (2022: 1) ordinary share of £1	<u>1</u>	<u>1</u>

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

The Company did not pay any dividends in the year (2022: £nil). The Company does not propose a final dividend (2022: £nil)

18 GUARANTEES AND COMMITMENTS

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2023, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325m (2022: £2,325m).

The covenants governing the bank loans and bond debt of the AA Intermediate Co Limited group place restrictions on the group's ability to distribute cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

The Company also guarantees all Automobile Association Developments Limited's financial obligations to the UK pension scheme, as well as the contributions currently committed by AA Corporation Limited to the Ireland pension scheme.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets derivative financial instruments and other receivables.

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

The Directors review and agree policies for managing each of these risks, which are summarised below.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 Company is exposed to is future interest rate rises with respect to borrowings. The Company has policies and limits approved by the Board for managing the interest rate risk exposure. The Company's policy is to fully hedge all of its exposure to variable interest rates. The Company therefore takes out interest rate swaps to the value of its variable rate instruments.

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 Company is exposed to credit risk in relation to its financial assets, outstanding derivatives and other receivables. The Company 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.

Credit risk in relation to derivative counterparties is managed by the Group Treasury function in accordance with the Company's policy. The limits are set to mitigate financial loss through any potential counterparty failure.

The Company'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 Company's maximum exposure for financial derivative instruments is noted under liquidity risk.

Liquidity risk

Liquidity risk is the risk that the Company 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 Company'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.

20 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of AA Intermediate Co Limited, a company registered in England and Wales, UK.

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

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

At 31 January 2022, the ultimate parent undertaking and controlling party is Basing Consortium Co Limited, whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey. Copies of the consolidated AA Limited and AA Intermediate Co Limited financial statements are available from the website www.theaacorporate.com/investors.

AA SENIOR CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 EVENTS AFTER THE REPORTING PERIOD

Facility Renewal

On 6 February 2023 the Company 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.