AA INTERMEDIATE CO LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 JULY 2024

Interim management report

General overview

Strong performance in our underlying business has delivered growth in all our financial metrics, including a 36% improvement in profit before tax. Completion of the Stonepeak transaction and paying down of debt has further strengthened the balance sheet making a positive start to FY25.

The Directors present the condensed financial statements of AA Intermediate Co Limited ("the Company") and its subsidiary undertakings (together "the Group") for the period ended 31 July 2024. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company's immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

Highlights

Strong trading performance

- Revenue up 6% to £556m (H1 24: £524m) driven by growth in customers and average income per member.
- Adjusted EBITDA[1] up 4% to £198m (H1 24: £191m), despite ongoing inflationary and macroeconomic pressures, demonstrating the continued success of our ongoing business transformation and strong cost control.
- As a result, PBT up 36% to £30m.

Strengthened balance sheet

- Stonepeak transaction successfully completed with £155m of B3 Notes subsequently redeemed.
- Senior leverage ratio down to 5.46x, permitting the redemption of a further £14m of B3 Notes.
- £439m of A2 Notes refinanced well ahead of their scheduled repayment date, in line with our ongoing approach to debt maturities.
- Class A Notes upgraded from BBB- to BBB by S&P, with B3 Notes reaffirmed at B+.

Delivering for our customers

- Roadside personal members increased to 3.277m (H1 24: 3.267m), and business customers increased by 4% to 11.117m (H1 24: 10.666m) re-confirming our position as the UK's largest breakdown provider.
- Further investment in our patrol base, reaching 2,759 (H1 24: 2,721) continuing to protect our service levels and ensuring strong nationwide coverage.
- £34m of capital investment in H1 (H1 24: £47m) to future proof the business and generate material benefits in future years.

[1] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of insurance acquisition cash flows, amortisation of other intangible assets, adjusting operating items, share-based payments, pension adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

Interim management report (continued)

Highlights (continued)

	Six months ended July 2024 (H1 25)	Six months ended July 2023 (restated) (H1 24)
Revenue (£m)		
Roadside business division	**497**	460
Insurance business division	**59**	64
Revenue	**556**	524
Adjusted EBITDA[1] (£m)		
Roadside business division[2]	**195**	178
Insurance business division[2]	**3**	13
Adjusted EBITDA	**198**	191
Reported EBITDA[3] (£m)		
Roadside business division[2]	**176**	159
Insurance business division[2]	**3**	13
Reported EBITDA	**179**	172
Profit before tax (£m)	**30**	22
Cash		
Net cash from operations (£m)	**169**	150
Cash and cash equivalents (£m)	**111**	109
Membership		
Paid personal members (B2C) (000s)	**3,277**	3,267
Business customers (B2B) (000s)	**11,117**	10,666
Total Motor policies (000s)	**949**	1,010
Renewal rate B2C (%)	**83**	84
Number of patrols	**2,759**	2,721

[1] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of insurance acquisition cash flows, amortisation of other intangible assets, adjusting operating items, share-based payments, pension adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
[2] Prior period EBITDA comparatives have been restated to align with the cost allocation methodology used in the Annual Report and Financial Statements 2024. See page 5 for further details.
[3] Reported EBITDA is defined as Adjusted EBITDA excluding the adjustment for amortisation of acquisition cash flows.

Interim management report (continued)

Outlook

Our transformation continues at pace and we remain confident in the strategy shared in our full-year results. Our focus remains on driving profitable growth from our core business and the momentum from our performance in the first half of the year means we are on track for a strong overall performance this year. We will continue our expansion into wider driving services as we create confidence for drivers, now and in the future.

Stonepeak investment

On 26 July 2024, the transaction previously announced in December 2023 whereby Stonepeak entered into an agreement with Basing TopCo Limited, and its ultimate majority shareholders, TowerBrook Capital Partners and Warburg Pincus, to invest into the AA Limited group completed. As part of Stonepeak's £450m investment, £180m was provided to the wider AA group of which £158m was injected into the AA Intermediate Co Limited group to fund the redemption of £155m notional of Class B3 Notes at a redemption price of 101.625%. The remaining £22m will be used by the wider Group to support the next phase of our growth strategy and pay certain transaction costs associated with the Stonepeak investment.

Keycare acquisition

On 1 February 2024 the Group acquired a 100% share in Key Care Ltd ("Keycare") for total consideration of £10m cash. Keycare is an insurance business offering insurance policies for lost and stolen keys operating in the UK and the Republic of Ireland. The acquisition enables the AA Limited group to expand its product base and increase its offerings for both business and consumer customers, enhancing its position in the market.

Financial performance

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 business division:* 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, Prestige which provides service, maintenance and repair services, and Keycare which provides brokerage services for car key coverage.
- *Insurance business division:* 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 AA Cars which sells used vehicles and accident assist.

Interim management report (continued)

Financial performance (continued)

	Six months ended July 2024 £m	Six months ended July 2023 £m
Revenue		
Roadside business division	**497**	460
Insurance business division	**59**	64
Revenue	**556**	524
Adjusted EBITDA[1]		
Roadside business division	**195**	178
Insurance business division	**3**	13
Adjusted EBITDA	**198**	191
Reported EBITDA[1]		
Roadside business division	**176**	159
Insurance business division	**3**	13
Reported EBITDA	**179**	172

[1] Prior period EBITDA comparatives have been restated to align with the cost allocation methodology used in the Annual Report and Financial Statements 2024. See page 5 for further details.

These financial statements report results and performance both on a statutory and non-GAAP (non-statutory) basis. The Group's adjusted performance measures are non-GAAP (non-statutory) financial measures and are included in these financial statements as they are key financial measures used by management to evaluate performance of business segments.

Adjusted EBITDA is defined as profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of intangible assets, amortisation of insurance acquisition cash flows, adjusting operating items, share-based payments, pension adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

Reported EBITDA is defined as Adjusted EBITDA excluding the adjustment for amortisation of insurance acquisition cash flows.

The pension adjustment represents charges related to the UK and Ireland defined benefit schemes.

Interim management report (continued)

Financial performance (continued)

Adjusted EBITDA and Reported EBITDA are calculated as profit before tax before adjustments as shown in the table below:

	Six months ended July 2024 £m	Six months ended July 2023 £m
Adjusted EBITDA	**198**	191
Amortisation of insurance acquisition cash flows	**(19)**	(19)
Reported EBITDA	**179**	172
Share-based payments	**-**	(3)
Pension adjustment	**(3)**	(3)
Amortisation and depreciation	**(56)**	(54)
Adjusting operating items	**(1)**	(17)
Fulfilment finance costs (included within operating profit)	**(1)**	-
Operating profit	**118**	95
Net finance costs	**(88)**	(73)
Profit before tax	**30**	22

The adoption of IFRS 17 has resulted in a change to the methodology for allocating head office costs to the Group’s operating segments. The below table explains the difference between the Reported EBITDA reported in the prior year’s interim financial statements and those reported this year:

Six months ended July 2023	**Roadside business division £m**	**Insurance business division £m**	**Total £m**
Reported EBITDA (published 31 July 2023)	**154**	**18**	**172**
Reallocation of head office costs	5	(5)	-
Reported EBITDA	**159**	**13**	**172**

Capital expenditure

- Cash capital expenditure of £34m in H1 (H1 24: £47m) reduced after significant previous re-platforming.
- This includes replacing core systems, new digital propositions and upgrades to our data and operational infrastructure.

Interim management report (continued)

Financing position

The table below sets out the current funding position as at 31 July 2024:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	10 March 2026	3.49	150
Senior Term Facility	10 March 2026	7.17	15
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	385
Class A11 Notes	31 January 2028	8.45	400
Class A12 Notes	31 July 2031	6.85	435
Class B3 Notes	31 January 2026	6.50	125
Total loan notes			**2,105**

- The Senior Leverage ratio was 5.46x as at 31 July 2024 (5.7x as at 31 July 2023)
- The Class B Leverage Ratio was 6.0x as at 31 July 2024 (6.6x as at 31 July 2023)
- Class A FCF:DSCR ratio was 2.7x as at 31 July 2024 (2.7x as at 31 July 2023)
- We successfully refinanced £439m of A2 Notes well ahead of their scheduled repayment and in line with the ongoing maturity management programme. See Note 17 for details.
- On 31 July 2024 the AA Limited group redeemed £155m of B3 Notes at a redemption price of 101.625%, thereby reducing the total debt held. The remaining B3 principal balance after this redemption is £125m.
- The Group has fully hedged all its exposure to variable interest rates and 100% of its forecast diesel usage for the years ending 31 January 2025 and 31 January 2026.

Principal risks and uncertainties

The AA continues to assess the principal risks and uncertainties which could pose a threat to the delivery of our strategic objectives. We proactively monitor and take appropriate steps to manage these risks, with oversight by the Group Executive Risk and Compliance Committee and the AA Insurance Services Limited and Group Audit and Risk Committees. The Directors do not consider that the principal risks and uncertainties and the mitigating actions described in the Group's Annual Report and Financial Statements for the year ended 31 January 2024 have substantively changed. Further information in respect of our Risk Management Framework, our Principle Risks and how we manage them can be found on pages 10 to 14 of the AA Intermediate Co Limited 2024 Annual Report and Financial Statements, which can be found on the website https://www.theaacorporate.com.

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Interim management report (continued)

Net debt and covenants

		As at 31 July 2024	As at 31 July 2023	As at 31 January 2024
		£m	**£m**	**£m**
Senior Term Facility		**165**	165	165
Class A notes		**1,815**	1,880	1,819
Less: cash and cash equivalents		**(111)**	(109)	(87)
Net Senior Secured Debt[1]		**1,869**	1,936	1,897
Class B notes		**125**	280	280
Lease obligations for covenant reporting[2]		**62**	39	52
Net Whole Business Securitisation (WBS) debt[3]		**2,056**	2,255	2,229
IFRS 16 lease adjustment for lease obligations[4]		**19**	27	20
Net Debt		**2,075**	2,282	2,249
Reconciliation to covenants				
Lease obligations for covenant reporting[2]		**62**	39	52
IFRS 16 lease adjustment for WBS for lease obligations[4]		**19**	27	20
Total lease liabilities as reported in the statement of financial position		**81**	66	72
Debt Covenant EBITDA for the last 12 months[5]		**343**	342	335
	Covenant			
Class B Leverage Ratio[6]		**6.0x**	6.6x	6.7x
Senior Leverage ratio[7]		**5.46x**	5.7x	5.7x
Class A free cash flow: debt service[8]	>1.35x	**2.7x**	2.7x	2.7x

[1] Principal amounts of the Senior Term Facility and Class A Notes less AA Intermediate Co 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 included in the statement of financial position having adopted IFRS 16 from 1 February 2019.
[5] AA Intermediate Co Limited group debt covenant EBITDA.
[6] Ratio of Net WBS Debt[3] to AA Intermediate Co Limited group debt covenant EBITDA.
[7] Ratio of Net Senior Secured Debt[1] to AA Intermediate Co Limited group debt covenant EBITDA[5]. Note 31 July 2024 calculated on unrounded numbers.
[8] Ratio of free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.

Interim management report (continued)

Net debt and covenants (continued)

Class A free cash flow to debt service was 2.7 times as at 31 July 2024, showing substantial headroom over the covenants which are set out above. The cash within the ring-fenced group headed by AA Mid Co Limited is part of the whole business securitisation (WBS). A dividend cannot be paid from the ring-fenced group until a number of criteria have been met. These include:

- Class A Free Cash Flow: Debt Service is above 1.35x
- The Total Class A Net Debt to EBITDA ratio is less than 5.5x
- The Class B3 Notes impose additional restrictions on certain payments and dividend flows.

Consolidated income statement

	Note	**Six months ended July 2024 £m**	Six Months ended July 2023 £m
Insurance revenue		**271**	249
Other revenue		**285**	275
Total income	**2**	**556**	524
Insurance service expenses		**(99)**	(107)
Other marketing and administration expenses		**(339)**	(322)
Operating profit		**118**	95
Finance income	**4**	**3**	10
Finance cost	**5**	**(91)**	(83)
Profit before tax		**30**	22
Tax expense	**6**	**(9)**	(6)
Profit for the year		**21**	16

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

Consolidated statement of comprehensive income

	Six months ended July 2024 £m	Six Months ended July 2023 £m
Profit for the period	**21**	16
Other comprehensive income on items that may be reclassified to the income statement in subsequent years		
Changes in fair value of cash flow hedges	**1**	7
Reclassification from cash flow hedge reserve	**(4)**	(3)
Tax effect of effective portion of changes in fair value of cash flow hedges	**1**	(1)
	(2)	3
Other comprehensive income on items that will not be reclassified to the income statement in subsequent years		
Remeasurement gains on defined benefit schemes	**8**	41
Tax effect	**(2)**	(10)
	6	31
Total other comprehensive income	**4**	34
Total comprehensive income for the period	**25**	50

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

Consolidated statement of financial position

	Note	**July 2024 £m**	July 2023 £m	January 2024 £m
Assets				
Cash and cash equivalents	**13**	**111**	109	87
Trade and other receivables within 1 year	**11**	**270**	241	268
Amounts owed by other Group undertakings	**12**	**1,206**	1,207	1,209
Financial assets at amortised cost within 1 year	**23**	**-**	1	1
Current tax receivable		**4**	-	6
Inventories		**4**	4	4
Trade and other receivables after 1 year	**11**	**1**	6	1
Derivative financial instruments after 1 year	**18**	**9**	20	11
Deferred tax assets		**16**	-	16
Investments in joint ventures and associates		**5**	5	5
Right-of-use assets	**9**	**85**	67	74
Property, plant and equipment	**8**	**22**	32	28
Goodwill and other intangible assets	**7**	**1,367**	1,358	1,358
Total assets		**3,100**	3,050	3,068
Liabilities				
Trade and other payables	**14**	**(327)**	(286)	(313)
Amounts due to other Group undertakings	**12**	**(116)**	(90)	(120)
Current tax payable		**-**	(2)	-
Lease liabilities due within 1 year		**(30)**	(24)	(26)
Provisions due within 1 year	**15**	**(5)**	(4)	(5)
Insurance contract liabilities	**10**	**(120)**	(109)	(118)
Lease liabilities due after 1 year		**(51)**	(42)	(46)
Derivative financial instruments after 1 year	**18**	**(1)**	(1)	(1)
Deferred tax liability		**-**	(1)	-
Borrowings	**16**	**(2,081)**	(2,295)	(2,238)
Provisions due after 1 year	**15**	**(8)**	(7)	(7)
Defined benefit pension scheme liability	**19**	**(143)**	(119)	(159)
Total liabilities		**(2,882)**	(2,980)	(3,033)
Net assets		**218**	70	35
Equity				
Share capital	**22**	**361**	361	361
Share premium		**158**	-	-
Cash flow hedge reserve		**10**	20	12
Retained earnings		**(311)**	(311)	(338)
Total equity		**218**	70	35

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

Consolidated statement of changes in equity

Attributable to the equity holders of the parent

	Note	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2023		**361**	**-**	**17**	**(361)**	**17**
Profit for the period		-	-	-	16	16
Changes in fair value of cash flow hedges		-	-	7	-	7
Reclassification from cash flow hedge reserve		-	-	(3)	-	(3)
Remeasurement gains on defined benefit schemes		-	-	-	41	41
Tax effect		-	-	(1)	(10)	(11)
Total comprehensive income		-	-	3	47	50
Equity-settled share-based payment		-	-	-	3	3
At 31 July 2023		**361**	**-**	**20**	**(311)**	**70**
At 1 February 2024		**361**	**-**	**12**	**(338)**	**35**
Profit for the period		-	-	-	21	21
Changes in fair value of cash flow hedges		-	-	1	-	1
Reclassification from cash flow hedge reserve		-	-	(4)	-	(4)
Remeasurement losses on defined benefit schemes		-	-	-	8	8
Tax effect		-	-	1	(2)	(1)
Total comprehensive income		-	-	(2)	27	25
Issue of shares	**22**	-	158	-	-	158
At 31 July 2024		**361**	**158**	**10**	**(311)**	**218**

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

	Note(s)	Six months ended July 2024 £m	Six months ended July 2023 £m
Operating activities			
Profit before tax		**30**	22
Amortisation, depreciation and impairment	**7, 8, 9**	**56**	54
Net finance costs	**4, 5**	**89**	73
Difference between pension charge and cash contributions		**(11)**	(12)
Other adjustments to profit before tax		**(2)**	2
Working capital and provisions:			
Decrease/(increase) in trade and other receivables		**(3)**	(18)
Increase/(decrease) in trade and other payables		**16**	32
Increase/(decrease) in provisions		**1**	-
(Decrease)/increase in insurance contract liabilities		**2**	1
Total working capital and provisions adjustments		**16**	15
Net cash flows from operating activities before tax		**178**	154
Tax paid		**(9)**	(4)
Net cash flows from operating activities		**169**	150
Investing activities			
Capital expenditure		**(34)**	(47)
Proceeds from sale of fixed assets		**5**	3
Receipt of principal of financial asset at amortised cost		**1**	3
Payment for acquisition of subsidiary, net of cash acquired		**(9)**	-
Investment in joint venture		**(1)**	(1)
Interest received		**3**	3
Net cash flows used in investing activities		**(35)**	(39)
Financing activities			
Proceeds from borrowings		**435**	537
Issue costs on borrowings		**(3)**	(5)
Debt repayment premium and penalties		**(8)**	-
Equity contribution via issue of shares		**158**	-
Receipt on settlement of gilt lock		**-**	-
Repayment of borrowings		**(595)**	(544)
Refinancing transactions		**(13)**	(12)
Interest paid on borrowings		**(73)**	(73)
Payment of lease capital		**(22)**	(15)
Payment of lease interest		**(2)**	(1)
Net cash flows used in financing activities		**(110)**	(101)
Net increase in cash and cash equivalents		**24**	10
Cash and cash equivalents at the beginning of the period		**87**	99
Cash and cash equivalents	**13**	**111**	109

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

Consolidated statement of cash flows (continued)

Other adjustments to profit before tax outflow of £2m (H1 24: inflow of £2m) includes profit on sale of fixed assets of £3m (H1 24 profit: £1m), offset by impairment of investment in joint ventures of £1m (H1 24: £1m) and a share-based payment charge of £nil (H1 24: £2m).

Notes to the financial statements

1 Basis of preparation

a) Adoption of new accounting standards

No new accounting standards have been adopted by the Group in the period to 31 July 2024.

b) Accounting policies

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) and the Financial Conduct Authority's Disclosure and Transparency Rules. Accordingly, they do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 January 2024.

These financial statements do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year to 31 January 2024 were approved by the Board of Directors on 6 June 2024 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 January 2024 which were prepared 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.

c) Going concern

The Group and the Company have adequate financial resources due to the Group's net current asset position (H1 25: £973m, H1 24: £1,026m, 2024: £971m) and the Company's net asset position. AA Intermediate Co Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Group and the Company is linked to the wider AA Limited group.

The Company Directors have reviewed and stress-tested projected cash flows of the AA Limited 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 group Directors, that the Group and Company has 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 45 of the AA Limited group's Annual Report 2024.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of its Class A2 Notes which had a maturity date of 31 July 2025. As at the date of approval of these financial statements, the full £500m of A2 Notes have already been redeemed. On 31 July 2024 the Group used cash received as part of the Stonepeak investment to redeem £155m of Class B3 Notes, which have a maturity date of 31 January 2026, at a redemption price of 101.625%. See Note 17 for more details.

For the Group's longer-term viability, it remains a key assumption of its Directors that the Group continues to have ready access to public debt markets to enable its borrowings to be refinanced at affordable rates of interest.

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

d) Critical accounting estimates and judgements

The principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value amounts of assets and liabilities within the next financial period are consistent with those disclosed in the financial statements for the year ended 31 January 2024.

Notes to the financial statements (continued)

2 Segmental information and revenue disaggregation

All segments operate principally in the UK. Revenue by destination is not materially different from revenue by origin. Segmental information is not presented for items in the statement of financial position as management does not view this information on a segmental basis.

Disaggregation of revenue:

	Six months ended July 2024 £m	Six months ended July 2023 £m
Roadside business division		
Consumer (B2C)	**310**	287
Business Services (B2B)	**135**	122
Roadside other[1]	**52**	51
Total Roadside business division	**497**	460
Insurance business division		
Brokering activities	**51**	54
Insurance other[1]	**8**	10
Total Insurance business division	**59**	64
Total revenue	**556**	524

[1] 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.

Brokering activities includes £12m (H1 24: £11m) which is recognised under the effective interest method.

Reconciliation of insurance and other revenue by segment:

	Six months ended July 2024 £m	Six months ended July 2023 £m
Roadside business division		
Insurance revenue	**271**	249
Other revenue	**226**	211
Total roadside business division	**497**	460
Insurance business division		
Other revenue	**59**	64
Total insurance business division	**59**	64
Total revenue		
Total insurance revenue	**271**	249
Total other revenue	**285**	275
Total revenue	**556**	524

Notes to the financial statements (continued)

3 Adjusting operating items

	Six months ended July 2024 £m	Six months ended July 2023 £m
Adjusting operating items	**1**	18

In the current period, adjusting operating items comprised £2m of strategic review projects, £1m related to our transformation project and £1m impairment of investments in joint ventures. These costs were partially offset by £3m profit on disposal of non-current assets.

In the prior period, adjusted operating items comprised £1m related to the closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme, £9m relating to our connected car business propositions (AA-X), £2m of one-off payments relating to cost of living disbursements, £3m of strategic review projects and £4m relating to our transformation project, offset by £1m profit on disposal of non-current assets.

Costs from the current period refinancings in May and July 2024 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 17).

4 Finance income

	Six months ended July 2024 £m	Six months ended July 2023 £m
Gain on below par redemption of loan notes (Note 17)	**-**	6
Total adjusting cash finance income	**-**	6
Interest income on bank deposits	**3**	3
Total ongoing cash finance income	**3**	3
Fair value movement on gilt lock	**-**	1
Total ongoing non-cash finance income	**-**	1
Total finance income	**3**	10

Notes to the financial statements (continued)

5 Finance costs

	Six months ended July 2024 £m	Six months ended July 2023 £m
Interest on external borrowings	**76**	76
Reclassification from cash flow hedge reserve to the consolidated income statement	**(4)**	(2)
Finance charges payable on lease liabilities	**2**	1
Total ongoing cash finance costs	**74**	75
Ongoing amortisation of debt issue fees	**3**	3
Net finance expense on defined benefit pension schemes	**4**	3
Total ongoing non-cash finance costs	**7**	6
Debt management and early repayment fees	**8**	-
Total adjusting cash finance costs	**8**	-
Unamortised debt issue fees written off following repayment of borrowings	**2**	2
Total adjusting non-cash finance costs	**2**	2
Finance costs	**91**	83
Fulfilment interest costs (included in insurance service expenses)	**1**	-
Total finance costs	**92**	83

During the current period, in order to redeem its Class A2 Notes, the Group issued £435m of Class A12 Notes. The issues of the Class A12 Notes were not a modification of any existing debt and the associated issue fees were capitalised.

6 Tax

The major components of the income tax expense are:

	Six months ended July 2024 £m	Six months ended July 2023 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**10**	**16**
	10	**16**
Deferred tax		
Relating to origination and reversal of temporary differences – current year	**(1)**	**(10)**
	(1)	**(10)**
Tax charge in the income statement	**9**	**6**

Notes to the financial statements (continued)

6 Tax (continued)

Tax for the period has been calculated by applying the forecast effective tax rate for the full year to the profit before tax result for the period.

The main corporation tax rate increased from 19% to 25% in April 2023. This increase has been reflected in the measurement of deferred tax as at 31 July 2024 and 31 July 2023. The effect of the tax rate increase is nil (2023: £1m) during the year. For both periods, the H1 effective rate was higher than the standard rate of tax due to corporate interest restriction disallowance.

7 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
At 1 February 2023	1,197	11	403	1,611
Additions	-	-	36	36
At 31 July 2023	1,197	11	439	1,647
At 1 February 2024	1,197	11	467	1,675
Additions	-	-	30	30
Additions through acquisition of business	5	4	-	9
At 31 July 2024	**1,202**	**15**	**497**	**1,714**
Amortisation and impairment				
At 1 February 2023	33	4	221	258
Amortisation	-	1	30	31
At 31 July 2023	33	5	251	289
At 1 February 2024	33	5	279	317
Amortisation	-	1	29	30
At 31 July 2024	**33**	**6**	**308**	**347**
Net book value				
At 31 July 2024	**1,169**	**9**	**189**	**1,367**
At 31 July 2023	1,164	6	188	1,358
At 31 January 2024	1,164	6	188	1,358

On 1 February 2024, the Group completed the acquisition of Key Care Limited. As a result of the transaction, goodwill of £5m was recognised. See Note 24 for more details.

Notes to the financial statements (continued)

8 Property, plant and equipment

	Buildings on long leasehold land £m	Plant & equipment £m	Total £m
Cost			
At 1 February 2023	7	73	80
Additions	-	5	5
At 31 July 2023	7	78	85
At 1 February 2024	7	77	84
At 31 July 2024	**7**	**77**	**84**
Depreciation and impairment			
At 1 February 2023	7	38	45
Charge for the period	-	8	8
At 31 July 2023	7	46	53
At 1 February 2024	7	49	56
Charge for the period	-	6	6
At 31 July 2024	**7**	**55**	**62**
Net book value			
At 31 July 2024	**-**	**22**	**22**
At 31 July 2023	-	32	32
At 31 January 2024	-	28	28

Notes to the financial statements (continued)

9 Right-of-use assets

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2023	32	102	134
Additions	-	22	22
Disposals	-	(11)	(11)
At 31 July 2023	32	113	145
At 1 February 2024	26	130	156
Additions	-	31	31
Disposals	-	(15)	(15)
At 31 July 2024	**26**	**146**	**172**
Accumulated Depreciation and impairment			
At 1 February 2023	8	66	74
Charge for the period	2	13	15
Disposals	-	(11)	(11)
At 31 July 2023	10	68	78
At 1 February 2024	10	72	82
Charge for the period	3	17	20
Disposals	-	(15)	(15)
At 31 July 2024	**13**	**74**	**87**
Net book value			
At 31 July 2024	**13**	**72**	**85**
At 31 July 2023	22	45	67
At 31 January 2024	16	58	74

Notes to the financial statements (continued)

10 Insurance contracts

Net carrying amounts of insurance contracts

Liabilities for remaining coverage as at	**31 July 2024**	31 July 2023	31 January 2024
	£m	£m	£m
Insurance contracts	**(164)**	(150)	(160)
Asset for insurance acquisition cashflows	**44**	41	42
Total insurance contract liabilities	**(120)**	(109)	(118)

The following table shows the movement on assets for insurance acquisition cash flows:

	Total £m
Balance at 31 January 2024	42
Amounts incurred during the period	17
Amount derecognised and included in the measurement of insurance contracts	(15)
Balance at 31 July 2024	44
Balance at 1 February 2023	40
Amounts incurred during the period	16
Amount derecognised and included in the measurement of insurance contracts	(15)
Balance at 31 July 2023	41

Reconciliation of changes in insurance contracts by remaining coverage and incurred claim:

	Liabilities for remaining coverage		**Liability for incurred claims**	**Total**
	Incurred claims	**Loss component**	**Estimates of present value of future cash flows**	
	£m	**£m**	**£m**	**£m**
Net opening insurance contract balances at 1 February 2024	**(158)**	**(2)**	**-**	**(160)**
Insurance revenue	271	-	-	271
Insurance service expenses				
Incurred claims and other insurance service expenses	-	2	(80)	(78)
Amortisation of insurance acquisition cash flows	(19)	-	-	(19)
Losses on onerous contracts	-	(2)	-	(2)
Total insurance service expenses	(19)	-	(80)	(99)
Total changes in the consolidated income statement	**252**	**-**	**(80)**	**172**
Premiums received	(275)	-	-	(275)
Insurance acquisition cash flows paid	4	-	-	4
Transferred from insurance acquisition cash flows asset	15	-	-	15
Claims and other insurance service expenses paid	-	-	80	80
Total cash flows	**(256)**	**-**	**80**	**(176)**
Net closing insurance contract balances at 31 July 2024	**(162)**	**(2)**	**-**	**(164)**

Notes to the financial statements (continued)

10 Insurance contracts (continued)

	Liabilities for remaining coverage		Liability for incurred claims	Total
	Incurred claims £m	Loss component £m	Estimates of present value of future cash flows £m	£m
Net opening insurance contract balances at 1 February 2023	(146)	(2)	-	(148)
Insurance revenue	249	-	-	249
Insurance service expenses				
Incurred claims and other insurance service expenses	-	1	(88)	(87)
Amortisation of insurance acquisition cash flows	(19)	-	-	(19)
Losses on onerous contracts	-	(1)	-	(1)
Total insurance service expenses	(19)	-	(88)	(107)
Total changes in the consolidated income statement	230	-	(88)	142
Premiums received	(251)	-	-	(251)
Insurance acquisition cash flows paid	4	-	-	4
Transferred from insurance acquisition cash flows asset	15	-	-	15
Claims and other insurance service expenses paid	-	-	88	88
Total cash flows	(232)	-	88	(144)
Net closing insurance contract balances at 31 July 2023	(148)	(2)	-	(150)

The expected derecognition profile of the insurance acquisition cash flows asset is as follows:

	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	Over 4 years £m	Total £m
31 July 2024	**20**	**12**	**7**	**4**	**1**	**44**
31 July 2023	20	11	7	3	-	41
31 January 2024	20	11	7	3	1	42

11 Trade and other receivables

	July 2024 £m	July 2023 £m	January 2024 £m
After one year			
Other receivables	**1**	6	1
	1	6	1
Within one year			
Trade receivables	**214**	179	197
Prepayments	**25**	28	27
Contract assets	**26**	25	37
Other receivables	**5**	9	7
	270	241	268

Notes to the financial statements (continued)

12 Amounts owed by / due to other group undertakings

	July 2024 £m	July 2023 £m	January 2024 £m
Amounts owed by other Group undertakings	**1,206**	1,207	1,209
Amounts due to other Group undertakings	**(116)**	(90)	(120)

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

13 Cash and cash equivalents

	July 2024 £m	July 2023 £m	January 2024 £m
Cash at bank and in hand – available	**111**	109	87

14 Trade and other payables

	July 2024 £m	July 2023 £m	January 2024 £m
Trade payables	**158**	125	147
Other taxes and social security costs	**10**	13	9
Accruals	**65**	64	69
Deferred income	**60**	51	58
Other payables	**34**	33	30
	327	286	313

15 Provisions

	July 2024 £m	July 2023 £m	January 2024 £m
Property leases	**5**	3	4
Other	**8**	8	8
	13	11	12
Within one year	**5**	4	5
After one year	**8**	7	7
	13	11	12

The property leases provision of £5m (H1 24: £3m) relates primarily to dilapidations. These sums are mainly expected to be paid out over the next 5 years; however, it will take 8 years to fully pay out all amounts provided for. The provision has been calculated at a risk-free rate.

Notes to the financial statements (continued)

15 Provisions (continued)

At 31 July 2024, other provisions included £2m (H1 24: £2m) in relation to warranty for vehicle part replacements and £6m (H1 24: £6m) relating to self-funded insurance liabilities, where the Group provides for the cost of certain claims made against it such as 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.

During the period, total provisions of £1m were utilised (H1 24: £3m) and net additional provisions of £2m were made (H1 24: £3m).

Contingent Liabilities

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.

16 Borrowings and loans

	July 2024 £m	July 2023 £m	January 2024 £m
Non-current			
Borrowings (see Note 17)	**2,081**	2,295	2,238
	2,081	2,295	2,238

17 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total as at 31 July 2024 £m**	Total as at 31 July 2023 £m	Total as at 31 January 2024 £m
Senior Term Facility 2021	10 March 2026	3.49%	150	(1)	1	**150**	149	150
Senior Term Facility 2023	10 March 2026	7.17%	15	-	-	**15**	15	15
Class A2 Notes	31 July 2025	6.27%	-	(1)	1	**-**	500	439
Class A8 Notes	31 July 2027	5.50%	325	(3)	2	**324**	323	323
Class A9 Notes	31 July 2028	3.25%	270	(4)	2	**268**	267	268
Class A10 Notes	31 July 2029	7.38%	385	(16)	3	**372**	370	370
Class A11 Notes	31 January 2028	8.45%	400	(4)	1	**397**	396	397
Class 12 Notes	31 July 2031	6.85%	435	(3)	-	**432**	-	-
Class B3 Notes	31 January 2026	6.50%	125	(10)	8	**123**	275	276
		6.32%	2,105	(42)	18	**2,081**	2,295	2,238

On 6 February 2024 the Group renewed its £200m Liquidity Facility. The facility remains undrawn.

The £150m Senior Term Facility commitments are 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% through to 10 March 2026.

Notes to the financial statements (continued)

17 Borrowings (continued)

The additional £15m Senior Term Facility commitments were transacted with a swap that 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.

At 31 July 2024 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 6.32% has been calculated using the effective interest rate and principal values on 31 July 2024.

The Group has a £56m Working Capital Facility – £46m is available for cash drawings and remains undrawn.

On 22 May 2024 the AA Limited group issued £435m of Class A12 Notes with an interest rate of 6.85% and a maturity date of 31 July 2031. On 23 May 2024, £429m of the issue proceeds were used to settle a tender offer of Class A2 Notes. The remaining £6m of A12 proceeds were held in a Mandatory Prepayment Account.

On 31 July 2024 the outstanding £10m of A2 Notes were redeemed using the £6m of A12 proceeds in the Mandatory Prepayment Account and existing cash held.

On 31 July 2024 the Group redeemed £155m of Class B3 Notes at a redemption price of 101.625% using cash received as part of the Stonepeak investment into The AA.

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 Trading EBITDA and cash flow criteria are met.

Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to 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 A8 Notes, Class A9 Notes, Class A10 Notes and Class A12 Notes this period is 6 months. For the Class A11 Notes this period is 3 months. Any voluntary repayment of the Class B3 Notes is made at a fixed premium until 31 January 2025 after which there is no premium to pay on redemption.

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

In order to comply with the requirements of the Class A Notes, the Group is required to maintain the Class A free cash flow to Class A total debt service charges in excess of 1.35x. The actual Class A free cash flow to Class A total debt service charges as at 31 July 2024 was 2.7x (H1 24: 2.7x).

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The actual Senior Leverage ratio as at 31 July 2024 was 5.46x (H1 24: 5.7x). The Class B3 Notes impose additional restrictions on certain payments and dividend flows.

On 22 May 2024, S&P Global Ratings upgraded the credit rating of the Group's Class A Notes from BBB- to BBB and reaffirmed the Class B3 Notes at B+.

Notes to the financial statements (continued)

18 Derivative financial instruments

	July 2024 £m	July 2023 £m	January 2024 £m
Non-current assets			
Interest rate swap derivatives	**9**	20	11
Total	**9**	20	11
Non-current liabilities			
Forward fuel contracts	**(1)**	(1)	(1)
Total	**(1)**	(1)	(1)

The forward fuel contracts asset is shown on a net basis as the asset is settled on a net basis. On a gross basis, the asset is £nil (H1 24: £nil) and the liability is £1m (H1 24: £1m).

In the current year, the net position of the forward fuel contract has decreased and the interest rate swap has decreased due to decreases in fuel prices and decreases in interest rates respectively.

19 Defined benefit pension scheme liabilities

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. Full disclosure of governance and valuations can be seen in the AA Intermediate Co Limited 2024 Annual Report and Financial Statements on pages 72-75. The amounts recognised in the statement of financial position are as follows:

	As at 31 July 2024			
	AAUK £m	**AAI £m**	**AAPMP £m**	**Total £m**
Present value of the defined benefit obligation in respect of pension and healthcare plans	**(1,590)**	**(34)**	**(19)**	**(1,643)**
Fair value of plan assets	**1,460**	**40**	**-**	**1,500**
(Deficit)/surplus	**(130)**	**6**	**(19)**	**(143)**

	As at 31 July 2023			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension and healthcare plans	(1,560)	(34)	(21)	(1,615)
Fair value of plan assets	1,455	41	-	1,496
(Deficit)/surplus	(105)	7	(21)	(119)

	As at 31 January 2024			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension and healthcare plans	(1,588)	(36)	(22)	(1,646)
Fair value of plan assets	1,445	42	-	1,487
(Deficit)/surplus	(143)	6	(22)	(159)

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

The AAUK pension scheme was in deficit as at 31 July 2024. The movement since 31 January 2024 was mainly due to deficit reduction contributions paid by the Company, a decrease in the defined benefit obligation due to an update to the mortality assumption and the incorporation of the member experience from the 31 January 2024 Medical Plan valuation.

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 £16m 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.

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 AAUK 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 AAUK Pension Scheme under any recovery plan could increase or decrease from those agreed for the 2022 Valuation.

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 AAUK Pension Scheme (our principal defined benefit plan), the AA Ireland Pension Scheme and the post-retirement medical scheme, which could have a material adverse effect on our business, prospects, financial condition and results of operations. Whilst the ongoing volatility from accrual costs has been removed, future volatility of deficit costs does remain.

The assets of the AAUK 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 the net pension obligations.

Using an inflation assumption of 3.2% and a discount rate assumption of 4.9%, 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 2022 for the AAI pension scheme was completed during September 2023. This showed a funding surplus of £1m, an improvement from a £4m deficit as at 31 December 2019. The Group made deficit reduction contributions of £2m in the year ended 31 January 2024 under the deficit reduction agreement which ended in December 2023. After this date deficit contributions have ceased as agreed with the AAI scheme trustees as part of the 31 December 2022 valuation.

In total, the Group paid £14m (H1 24: £15m) in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the period ending 31 July 2024.

In July 2024, the Group completed a full accounting valuation of the AAPMP with a valuation date of 31 January 2024. This updated the previous full accounting valuation of the AAPMP that was performed as at 31 January 2021 and was projected forward to relevant reporting dates.

The 31 January 2024 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 £13m in respect of defined contribution pension scheme costs in the period (H1 24: £13m).

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

Fair value of plan assets

The table below shows the AAUK scheme assets split between those that have a quoted market price and those that are unquoted. The fair value of the AAUK scheme assets was as follows:

	As at 31 July 2024		As at 31 July 2023		As at 31 January 2024	
	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	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	**-**	**145**	-	12	-	97
Bonds/gilts[1]	**61**	**615**	10	628	69	593
Property	**-**	**118**	4	212	-	169
Hedge funds	**-**	**13**	-	5	-	3
Private equity	**-**	**134**	-	133	-	135
Cash/net current assets	**25**	**7**	43	71	11	22
Annuity policies	**-**	**342**	-	337	-	346
Total AAUK scheme assets	**86**	**1,374**	57	1,398	80	1,365

[1] 31 July 2023 bond/gilt assets reallocated between quoted and unquoted. Asset total remains unchanged.

Approximately £10m of unquoted assets allocated to private equity and £10m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

All assets of the AAUK scheme are held in unquoted pooled investment vehicles which invest in mixtures of quoted and unquoted funds. The above table displays the quoted and unquoted splits of the underlying investments.

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK			AAI			AAPMP		
%	**Jul 2024 %**	Jul 2023 %	Jan 2024 %	**Jul 2024 %**	Jul 2023 %	Jan 2024 %	**Jul 2023 %**	Jul 2023 %	Jan 2024 %
Pensioner discount rate - UK	**4.9**	5.3	4.8	**3.4**	3.7	3.3	**4.9**	5.3	4.8
Non-pensioner discount rate	**5.1**	5.1	5.0	**3.5**	3.7	3.4	**4.9**	5.3	4.8
Pensioner RPI	**3.2**	3.2	3.2	**-**	-	-	**3.2**	3.2	3.2
Non-pensioner RPI	**3.1**	3.1	3.0	**-**	-	-	**3.2**	3.2	3.2
Pensioner CPI	**2.6**	2.5	2.4	**2.1**	2.5	2.1	**2.6**	2.5	2.4
Non-pensioner CPI	**2.4**	2.4	2.3	**2.1**	2.5	2.1	**2.6**	2.5	2.4
Rate of increase of pensions in payment (final salary sections) - pensioner	**3.1**	3.0	3.0	**-**	-	-	**-**	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	**3.0**	3.0	2.9	**-**	-	-	**-**	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	**1.8**	1.8	1.8	**-**	-	-	**-**	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	**1.8**	1.8	1.7	**-**	-	-	**-**	-	-
Pension increase for deferred benefits	**2.4**	2.4	2.3	**2.1**	2.5	2.1	**-**	-	-
Medical premium inflation rate	**-**	-	-	**-**	-	-	**7.2**	7.2	7.2

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For July 2024, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (January 2024 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2023 model with a 1.00% long-term rate of improvement and experience weightings of 0% for 2020 and 2021 and 100% for 2022 and 2023 (January 2024 – CMI_2022 model with a 1.00% long-term rate of improvement and experience weightings of 10% above the core model). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

The AA schemes' overall assumptions are that a male retiring in normal health currently aged 60 will live on average for a further 24 years (July 2023: 24 years) and a female retiring in normal health currently aged 60 will live on average for a further 27 years (July 2023: 27 years).

Sensitivity analysis

Please refer to the AA Intermediate Co Limited 2024 Annual Report and Financial Statements pages 73-74 for further detail on sensitivity analysis, which has not moved materially.

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

Virgin Media/NtL judgment

In June 2023, the High Court judged that amendments made to the Virgin Media scheme were invalid because the scheme's actuary did not provide the associated s37 certificate necessary. In July 2024, the Court of Appeal upheld the June 2023 decision. As a result of the decision being upheld, it could impact the AA UK Scheme as it was contracted-out on a salary-related basis, and made amendments between April 1997 and April 2016.

Initial investigations have been carried out by the AA UK Scheme Trustee in relation to the deeds amending the Scheme in the period affected by the judgement. Further analysis of the implications of the judgement on these deeds and any potential impact on the AA UK Scheme is being carried out by management and the Scheme Trustee. This is likely to be a complex process and take some time.

20 Related parties

The following tables provide the total values of transactions that have been entered into with associates and joint ventures in the period.

Transactions with associates:

		Six months ended		Year ended
		July 2024	July 2023	January 2024
Associate	Nature of transaction	**£m**	£m	£m
ARC Europe SA	Registration and call handling fees	**1**	1	2

At 31 July 2024, the Group had an outstanding balance payable to ARC Europe SA of £nil (H1 24: £nil) in respect of the above transactions.

Transactions with joint ventures:

		Six months ended		Year ended
		July 2024	July 2023	January 2024
Joint venture	Nature of transaction	**£m**	£m	£m
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	**-**	-	-
AA Media Limited	Fixed rate loan notes	**-**	1	1

At 31 July 2024, the Group had an outstanding balance payable to Drvn Solutions Limited of £nil (H1 24: £nil) in respect of the above transactions.

At 31 January 2024, the Group had an outstanding balance receivable from AA Media Limited of £1m (H1 24: £1m) comprising fixed rate loan notes. In March 2024, AA Media Limited repaid the outstanding principal balance.

21 Fair values

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.

Notes to the financial statements (continued)

21 Fair values (continued)

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

At 31 July 2024:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swap derivatives (Note 18)	**9**	**9**	**-**	**-**
Liabilities for which fair values are disclosed				
Forward fuel contracts (Note 18)	**1**	**1**	**-**	**-**
Loan notes (Note 17)	**1,916**	**1,962**	**-**	**-**

Notes to the financial statements (continued)

21 Fair values (continued)

At 31 July 2023:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swap derivatives (Note 18)	20	20	-	-
Liabilities for which fair values are disclosed				
Forward fuel contracts (Note 18)	1	1	-	-
Loan notes (Note 17)	2,131	1,988	-	-

At 31 January 2024:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Interest rate swap derivatives (Note 18)	11	11	-	-
Liabilities for which fair values are disclosed				
Forward fuel contracts (Note 18)	1	1	-	-
Loan notes (Note 17)	2,073	2,085	-	-

22 Share capital

	July 2024 £m	July 2023 £m	January 2024 £m
Allotted, called up and fully paid			
360,893,050 (July 2023: 360,893,049, January 2024: 360,893,049) ordinary shares of £1 each	**361**	361	361
	361	361	361

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 period one ordinary share of £1 was issued at a premium of £158m.

Notes to the financial statements (continued)

23 Financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	July 2024 £m	July 2023 £m	January 2024 £m
Current			
Loans to related parties	**-**	1	1

Loans to related parties as at 31 January 2024 comprised £1m (H1 23: £1m) of 5% fixed rate loan notes issued from AA Media Limited to the Group. The loan notes were redeemed at par in March 2024. The Group accounts for its 49% shareholding in AA Media Limited as an investment in a joint venture.

24 Business combinations

On 1 February 2024, the Group completed the acquisition of Key Care Limited, a company incorporated in England and its subsidiary. The Group obtained control through acquiring 100% of voting equity interest.

Keycare is an insurance business offering insurance policies for lost and stolen keys operating in the UK and the Republic of Ireland. The acquisition enables the Group to expand its product base and increase its offerings for both business and consumer customers, enhancing its position in the market.

The total consideration and amount recognised for each class of assets and liabilities is as follows:

	£m
Consideration	
Cash consideration	10
Contingent consideration	-
Fair value of total consideration	10
Net assets acquired	
Intangible assets	4
Cash and cash equivalents	1
Other assets	2
Deferred tax liabilities	(1)
Other liabilities	(1)
Total net assets acquired	5
Goodwill on acquisition	5

Amounts included in other assets are recognised at fair value. Gross contractual amounts receivable total £1m and are considered to be fully recoverable.

The goodwill amount recognised is attributable to the future benefit of the Group being able to integrate Key Care offerings with its existing products. No amount of goodwill recognised is deductible for tax purposes.

Notes to the financial statements (continued)

24 Business combinations (continued)

From the date of the acquisition, the acquired business has contributed the following revenue and profit before taxation attributable to the equity holders of the Group:

	£m
Revenue	2
Profit/(loss) before tax	-
Profit/(loss) after tax	-

25 Events after the reporting period

There are no events to report.