



**AA INTERMEDIATE CO LIMITED**

**INTERIM REPORT**

**FOR THE SIX MONTHS ENDED 31 JULY 2021**

## Half Year Results

### Good first half performance, returning to growth and building momentum from strong foundations

Jakob Pfadler, CEO of the AA said:

*“We have delivered a good set of results despite the challenges presented by the pandemic. Our first-half performance demonstrates the quality of our business, the importance of our services and, above all else, the hard work and determination of our people to deliver for our customers. I would like to extend to them my heartfelt thanks.*

*I joined the AA as CEO during the period and all that I have seen since has confirmed my view that we have an excellent business with our products and services supporting 46% of UK drivers. This is a reflection of our focus on delivering best in class service to our customers and this was recognised with the recently announced Which? rankings, which have once again put us well ahead of our main competitors.*

*Our business has strong foundations, is supported by operational excellence, dedicated employees and has innovation at its core, as demonstrated by our patrol force EV leadership and smart digital products. It is these strengths that give me confidence that we can build on our current momentum and deliver on the AA’s significant potential.”*

### Key Highlights

	Six months ended July 21 (H1 22)	Six months ended July 20* (H1 21)	Change
<b>GAAP measures</b>			
Revenue (£m)	<b>466</b>	460	+1.3%
Operating profit <sup>1</sup> (£m)	<b>62</b>	114	-45.6%
Profit before tax (PBT) (£m)	<b>18</b>	18	0%
<b>Non-GAAP measures</b>			
Trading EBITDA <sup>2</sup> (£m)	<b>163</b>	165	-1.2%
Trading EBITDA <sup>3</sup> margin (%)	<b>35.0</b>	35.9	-2.5%

\* Revenue, operating profit and profit before tax for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

1. Reduction in operating profit was driven by £40m of acquisition related transaction fees. See note 4.

2. Earnings before net finance costs, tax, depreciation, amortisation, adjusting operating items, share-based payments and pension service charge adjustment.

3. Trading EBITDA divided by revenue arising within operating segments

- **Good first half, returning to growth with clear operational and financial progress despite the challenges presented by the pandemic**
- **Roadside delivered growth in both revenue and Trading EBITDA and margin remained strong**
- **Largest UK breakdown provider with 1.5m breakdowns attended**
- **Growth in insurance books and resilient performance in challenging market**
- **Growth in both individual paid and business membership with important business contract wins including Nationwide which will add 0.7m customers from the first quarter of 2022**
- **Continue to invest strongly in digital transformation and build on award-winning experiences for business customers and members**

## Half Year Results (continued)

### CEO STATEMENT

#### Initial impressions – A strong business with significant potential

I am pleased to report a good set of results having joined the AA earlier this year following over 15 years at Lloyds Banking Group. Having been a customer of the AA for many years, I was excited by the opportunity to lead a business which has a tremendous history and am honoured to be entrusted to take it forward on the next phase of growth.

In the busy six months since I joined the business, I have been impressed by all that I have seen, and it is clear to me why the AA leads the market in terms of customers and service. At its core the AA has fantastic, loyal, and innovative people and it is from this platform I see us building on the significant potential that today's results demonstrate.

#### A good first half, demonstrating the strength of our business and model

These results today I believe demonstrate why the future is bright for the AA. We have grown both the top and bottom line, supporting more than 46% of UK drivers, and attending 1.5m breakdowns, significantly more than any of our peers. This has all been achieved despite the continued challenges of the pandemic. On this front, it was particularly pleasing to see our businesses which had been most impacted by the pandemic, such as AA Driving Schools, showing a return to growth in the period.

#### Roadside

Turning to Roadside, our first-half performance was strong. The business grew revenues, trading EBITDA and increased both paid personal membership and business customers.

Margins remained stable despite higher breakdowns and increased garaging costs, demonstrating our operational excellence and resilience.

We won and extended several key B2B contracts in the period, notably Nationwide adding a further 0.7m customers to our growing business book from the first quarter of 2022.

Coming from a customer-focused business, I know the trust customers place in the independent ratings of consumer champion Which? and the high standards that recognition by it requires. That is why I am so pleased to see the AA lead again here, not only as a 'Recommended Provider' for the fourth year running, which no other company has achieved, but also in the top nine slots for serving motor manufacturers' customers. It is a clear indicator of our market differentiation and leadership.

Our business review highlights many other achievements in the period which can be found on pages 4-9.

#### Insurance

The Insurance division delivered a robust performance in challenging circumstances. It has been well covered that a reduction in premiums has been seen throughout the insurance market and our business was not immune to these challenges, and this is reflected in the division's revenue and profits.

These industry-wide challenges should not detract from the real progress we continue to make. Our business continued to deliver in the period, and we saw increases in our customer numbers for motor policies, home policies and also our financial services products. We believe we are taking market share here and, with 35% of our new insurance customers taking Roadside membership, it shows the value of our model.

## Half Year Results (continued)

### CEO STATEMENT (continued)

#### New Ownership

Whilst the AA had been making great operational progress during the last couple of years, it had been burdened with a level of debt that was not sustainable if the business was to deliver on its full potential. In March this year, the AA received new ownership in the form of Warburg Pincus and TowerBrook. Both these businesses saw the underlying potential in the AA and as part of the transaction, they committed to injecting equity to reduce leverage and also refinance our near-term debt at a sustainable level. These commitments have been delivered on and we are on a much firmer financial footing. The key financial highlights section sets out the progress to date here in detail.

This change in structure also gives us the ability to invest in the business to generate future growth. We also took the opportunity to strengthen our Group Executive Committee with some strong internal and external hires.

#### EV and Digitisation, AA at the forefront

The AA has been at the side of UK drivers now for 116 years and we have evolved with our customers throughout this period. This customer ethos continues today with our continued innovation in the development of products and services that are important to our members, from simple and smart digital products, to supporting drivers of electric vehicles, to our service, maintenance and repair proposition (Smart Care). However, I wanted to take the time to highlight one example which for me shows why the AA remains the market leader and is well placed to grow in this role.

Our innovative chief engineer developed the award-winning\* 'Freewheeling Hub' which allows electric vehicles and some SUVs, which can't be flat-towed, to be safely moved from the roadside without the need for a large recovery vehicle. As a concept this is simple but for me it shows how the AA knows its customers and the market better than anyone. With less than 4% of EV breakdowns resulting from running out of charge, the focus needs to be on getting the driver to safety and to a place to fully and quickly recharge. To drivers, this solution is considerably more preferable to waiting more than half an hour to get 10 miles of charge from a diesel-generated on-board charger, which is the current alternative offered on the market.

#### AA – an exciting future

Now six months in I am excited by what I have seen so far and more so by what I can see ahead. The AA has strong foundations, a 'can do' culture and importantly, a relentless focus on delivering superior products and services to our customers, which is why the AA is the market leader. The business did not achieve this by standing still, it has constantly adapted and evolved to its customers' needs, and this is what I have seen every day since joining: a passion for going above and beyond and this means that the business has a very exciting future indeed.

#### Enquiries

**Investors**  
Katherine Horrell

[investorrelations@theaa.com](mailto:investorrelations@theaa.com)  
+44 07513 480458

**Media (FTI Consulting)**  
Alex Le May  
John Waples  
Nick Hasell

+44 20 3727 1340

\*Fleet News 2021 'Innovation in mobility technology award'

## Introduction

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 2021. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company’s immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

## Principal activities and business performance

### Roadside

	<b>Six months ended July 21 (H1 22)</b>	Six months ended July 20 (H1 21)*
Revenue (£m)	<b>406</b>	394
Trading EBITDA (£m)	<b>148</b>	144
Trading EBITDA margin (%)	<b>36.5</b>	36.5
Paid personal members (000s)	<b>3,226</b>	3,150
Average income per paid personal members (£) <sup>1</sup>	<b>165</b>	164
Business customers (000s)	<b>8,945</b>	8,918
Average income per business customer (£)	<b>24</b>	23
Number of breakdowns (000s)	<b>1,523</b>	1,438

\* Revenue, Trading EBITDA and Trading EBITDA margin for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

<sup>1</sup> The average income per paid personal member is represented as a proportion of the average paid personal membership holdings over the relevant period.

Revenue increased by 3.0% in the period to £406m as both our core and developing Roadside businesses recovered from the impacts of COVID-19 seen in the prior year.

Trading EBITDA was up 2.8% to £148m (H1 21 £144m) and the Trading EBITDA margin was flat at 36.5%. The increase in Trading EBITDA is due to the recovery of our developing Roadside businesses, in particular our Driving Schools business which was significantly impacted by COVID-19 in the prior year. Trading EBITDA in our core Roadside business was stable as increased revenue was offset by higher garaging costs reflecting an increased number of breakdowns versus prior year.

### *Business-to-consumer*

The paid membership policy base increased by 1.8% to 3,226k during the first half of FY22 and by 2.4% versus H1 FY21 (H1 21: 3,150k, FY21: 3,168k) driven by strong growth in new business volumes in recent months as restrictions eased, and the customer retention rate improving by 2pts to 80% vs FY21 year end (H1 21: 80%, FY21: 78%). Our growth was underpinned by the ‘Tukker’ above the line marketing campaign, which ran for a number of months in H1 22 and was supported by market leading service at the roadside and through our contact centres.

Average income per paid member was £165 as at 31 July 2021, an increase of 1.2% in the period (H1 21: £164, FY21: £163). The increase since year end reflected the unwinding of the impact of COVID-19 on new business volumes during FY21 and strong growth in our Digital channel.

## Principal activities and business performance (continued)

### *Business-to-business*

Total business customers returned to growth in the period at 8,945k (H1 21: 8,918k, FY21: 8,702k) due largely to continued growth from our contract with Admiral which launched in 2019 and improving new vehicle sales since the first lockdown in the prior year. Average income per business customer was up 4.3% in the period to £24 (H1 21: £23, FY21: £23) reflecting the higher customer holdings as well as the benefit of higher pay-for-use income and additional income generated from the broad range of additional services that we continued to provide to our partners and to the London Ambulance Service since the initial lockdown.

In March 2021, we announced the award of a new five-year contract with Nationwide through which we will provide Nationwide's Flexplus customers with our award-winning roadside assistance services, which they will be able to access fully through digital channels, including the AA app. The service will go live from the first quarter of 2022. During the period we also extended services with Admiral to include Accident Recovery, launched a number of new digital Roadside partnerships with new insurance providers and renewed our contract with Suzuki on a long-term basis. We have enhanced our digital platform for SMEs and have seen strong growth over the half year. Manufacturer programmes provided by the AA occupy the top 9 slots for serving motor manufacturers' customers, with Lexus, Toyota and Honda all gaining 'Recommended Provider' status. We have also continued to drive a successful programme on recalls supporting Toyota, Honda, Hyundai and JLR.

### *Other business lines*

Overall Service Maintenance and Repair volumes through our Prestige business have continued to increase with 64k B2C jobs carried out in the period (H1 21: 46k) and revenue increased 20.0% from £10m in H1 21 to £12m in H1 22. We have continued to enhance the digital journey supporting the B2C journey (known as 'Smart Care') and successfully launched an affiliate offering. Links with the wider AA continue to grow with a number of initiatives increasing the volume of jobs being passed to the garage network from patrols.

Our Driving Schools and DriveTech businesses have recovered well following the severe impact to trading in the prior year caused by the lockdown restrictions under COVID-19. In aggregate, revenue increased by 40.0% to £28m (H1 21: £20m).

Driving Schools benefited from pent up demand for driving lessons following the easing of lockdown restrictions and whilst franchise fees for instructors were capped or waived for 8 weeks in H1 22, revenue increased year on year as we had waived franchise fees for instructors for 14 weeks in H1 21 to support them during the initial lockdown.

In response to COVID-19, in the prior year DriveTech was the first to provide comprehensive online speeding courses as an alternative to class-based learning. As more people took to the road in the current period, police referral volumes for courses grew and in total delivered 232,064 online courses in the period (H1 21: 117,230).

### *Product and Service Innovation*

We continue to make good progress with our pipeline of innovative products and services to differentiate the AA and enable us to target a broader base of UK drivers.

We are at the forefront of the push to encourage drivers to switch to electric vehicles to help decarbonise transport. We give power to electric drivers with the biggest workforce of patrols in Europe trained to work on electric vehicles. We have invested in EV technology and helping drivers transition between combustion and electric vehicles by supporting charge point operators, providing all patrols with EV training and breakdown equipment, as well as, developing EV motor insurance. This EV insurance covers batteries and charging cables as standard.

We also continue to develop our range of products and services to make driving life simpler and smarter for all drivers. Electric, hybrid, petrol and diesel cars can be found on AA Cars – our used car portal. Our used car warranty proposition is now available with monthly billings, allowing customers to spread the cost of protecting against unexpected repair bills. Already more than a third of our network of Smart Care garages can now work on EVs and this proposition continues to increase.

## Principal activities and business performance (continued)

### *Product and Service Innovation (continued)*

**AA Smart Lease** launched in January 2021 to AA members and gives drivers an innovative and flexible way to lease a car. More than 50% of the Smart Lease range is either fully electric or hybrid and continues to expand to ensure our customers' needs are met.

**Smart Lease** is particularly attractive for some customers who want to go electric but are concerned that the EV technology is evolving quickly and some have concerns that battery longevity may be an issue in an outright purchase but not with a flexible lease.

The warranties promoted by AA Cars give access to free basic breakdown cover for 12 months, and generous discounts to upgrade to a higher level. Our **online warranty** proposition, which launched late last year has seen continual sales growth in 2021. Offered through our **AA Cars** portal, new customers benefit from free basic breakdown cover for 12 months. Two thirds of those purchasing have opted for our premium protect plus warranty with more than half of customers enjoying the flexibility of our recently introduced flexible monthly payment option.

**AA Smart Insurance** launched in October 2020 and uses telematics to enable our customers to get the best price for their AA insurance based on their driving performance. It's ideal for younger or less experienced drivers and comes without mileage caps or persistent messaging which customers have told us are important benefits.

The redevelopment of the AA app includes a new homepage which went live to all customers across iOS and Android in July. This is an important milestone, providing customers with a single view of their breakdown and insurance policy holding, also showcasing the range of products, services and benefits available to them.

We have already seen a step change in performance, with the number of sales from the app doubling since April. The pipeline of features available digitally continues to be expanded, with a growing proportion of breakdown and insurance customers now able to renew online. We have seen extremely positive demand for this service, with a corresponding reduction in contact centre calls.

### *Customer Service and Operations*

The AA continues to deliver best-in-class customer service and are pleased to again be "recommended provider" for breakdown cover in an assessment by independent consumer champion Which? We were ranked well above our main competitors with the survey noting over 10 positive points of difference overall between ourselves and our peers. On the B2B side we also won Fleet News awards for Innovation in Technology and Customer service. These are a strong validation of our business model and the outstanding customer service delivery we provide to all our customers.

Total breakdowns increased by 5.9% to 1,523k (H1 21: 1,438k) as drivers returned to Britain's roads. This in turn meant that we incurred higher third-party garaging and patrol-related costs compared to last year. As a result of this volume increase, overall pay-for-use income was up compared to last year. Ancillary sales including battery sales were lower than last year following the spike in members and customers experiencing flat batteries in the prior year due to their cars not being driven during the initial lockdown.

Following the increased number of breakdowns in the period, average call-to-arrive times increased to 47.7 minutes in the period (H1 21: 44.0 minutes). We continued to respond to a majority of calls to our call centre in 20 seconds however, and we continued to perform well on repair rates and average repair times, despite the unique circumstances of the 'Stacycation' summer period.

## Principal activities and business performance (continued)

### Insurance

	Six months ended July 21 (H1 22)	Six months ended July 20 (H1 21)
Revenue (£m)	60	66
Trading EBITDA (£m)	15	21
Trading EBITDA margin (%)	25.0	31.8
Total motor and home policy numbers in force <sup>1</sup> (000s)	1,973	1,818
Average income per policy <sup>2</sup> (£)	56	65
Total Motor policies (000s)	1,058	966
Total Home policies (000s)	915	852
Financial Services products <sup>3</sup> (000s)	101	96

1 Total Motor and Home policies sold in the last 12 months by our insurance broker.

2 Motor and Home only.

3 Financial Services products includes the number of loans drawn down and savings accounts opened.

**The Insurance division faced a tough economic environment during the period with Insurance revenue down 9.1% to £60m (H1 21: £66m) attributed to lower motor new business commissions due to the reduction in premiums throughout the market.**

**Trading EBITDA was down 28.6% to £15m (H1 21: £21m) and Trading EBITDA margin declined from 31.8% to 25.0%, again due to lower motor new business commissions.**

Revenue declined by £6m to £60m (H1 21: £66m) due to the impact of lower motor new business commissions despite the continued strong performance of our Accident Assist business and an improved trading environment for AA Cars following the impact of COVID-19 in the prior year. The motor policy book grew by 0.6% during the period to 1,058k policies (H1 21: 966k, FY21: 1,052k) and the home book grew by 2.9% to 915k (H1 21: 852k, FY21: 889k), reflecting the continued growth of the AA Limited group in-house underwriter.

Our customer journey has delivered consistent and healthy cross-sell conversions into our Roadside business with 35% of new insurance customers taking Roadside membership in line with 35% this time last year and 34% at year end.

Average income per motor and home policy fell to £56 (H1 21: £65) as a result of the lower motor commissions. Renewal rates have remained steady since FY21.

Accident Assist, our in-house claims management proposition launched in FY21, has performed well from a volume and margin perspective. Consolidation of our claims functions into Royal Tunbridge Wells continues to be value generative. The operation offering B2C Accident Management services to our members moved to Royal Tunbridge Wells in H1 FY22 and will be a key growth opportunity moving forward.

We continue to have a strong relationship with our partner Bank of Ireland UK, however growth of our Financial Services business has been curtailed by our competitors aggressively chasing lend volume.

AA Cars, our online used car platform, has recovered well following the significantly low demand and discounting required in the prior year as a result of COVID-19. Volumes of vehicle inspections and car finance applications and conversions increased in the period as a result.

## Key financial highlights

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

On 9 March 2021, the Company's ultimate controlling party and parent undertaking, AA Limited (previously AA plc), was acquired by Basing Bidco Limited ('Bidco'), a company controlled by TowerBrook Capital Partners (U.K.) LLP and Warburg Pincus International LLC (together, 'the Consortium'). AA Limited's ordinary shares were de-listed from the London Stock Exchange on 10 March 2021. AA Limited was re-registered as a private company on 17 March 2021. A number of new holding companies were incorporated above Basing Bidco Limited and the ultimate parent undertaking of the Company became Basing Consortiumco Limited.

### Refinancing of the Class B2 Notes

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

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

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

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

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

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

### Refinancing of the Class A5 Notes

In accordance with the terms of the Acquisition, Bidco stated its intention to provide an additional £100m of funds to be used, together with an issue by AA Bond Co Limited of c.£270m in new Class A Notes, to redeem in full the £372m of Class A5 Notes.

On 21 July 2021 AA Bond Co issued £270m of Class A9 Notes. The gross proceeds of the issuance of the Class A9 Notes are held in escrow for the benefit of the Class A9 Noteholders and will be released on redemption of the Class A5 Notes. This is planned to take place before the expected maturity date of the Class A5 Notes in January 2022.

## Key financial highlights (continued)

### Transaction fees and expenses

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

As part of the Acquisition, both the AA Limited group and Bidco incurred transaction fees and expenses in an aggregate amount of c.£77m of which £10m were refinancing costs relating to issuance of the Class B3 Notes and have been capitalised. Given the significant ongoing benefit to the Group, the Directors agreed to meet a substantial proportion of the remaining transactions fees of c.£67m. The Group has incurred 60% of these transaction fees reflecting the allocation of the AA Limited shareholders' investment towards debt reduction. Following completion of the Acquisition, the Group has therefore been allocated £40m of transaction fees which have been incurred in the period and expensed as adjusting operating items (see note 4).

### Share schemes

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

### Share issue

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

## 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 Group's Audit and Risk Committee. 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 2021 have changed. Further information in respect of our Risk Management Framework, our Principle Risks and how we manage them can be found on pages 13 to 18 of the AA Intermediate Co Limited 2021 Annual Report and Financial Statements, which can be found on the website <https://www.theaacorporate.com>.

## Management discussion and analysis

	Six months ended July 2021 £m	Six months ended July 2020* £m
Revenue	466	460
Cost of sales	(179)	(175)
<b>Gross profit</b>	<b>287</b>	285
Administrative and marketing expenses	(225)	(171)
<b>Operating profit</b>	<b>62</b>	114
Finance Costs	(74)	(96)
Finance Income	30	-
<b>Profit before tax</b>	<b>18</b>	18
Tax expense	(4)	(4)
<b>Profit for the period</b>	<b>14</b>	14

### Reconciliation of Trading EBITDA to Operating Profit

<b>Trading EBITDA</b>	<b>163</b>	165
Share-based payments	(3)	(1)
Pension service charge adjustment	(2)	(2)
Amortisation and depreciation	(48)	(47)
Adjusting operating items	(48)	(1)
<b>Operating profit</b>	<b>62</b>	114

\* Revenue, gross profit, operating profit, profit before tax and profit for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

**Revenue:** Revenue increased by £6m to £466m during the period (H1 21: £460m).

*Roadside:* Revenue increased by £12m during the period to £406m (H1 21: £394m) as both our core and smaller Roadside businesses recovered from the impacts of COVID-19 seen in the prior year.

*Insurance:* Revenue reduced by 9% in the period to £60m (H1 21: £66m), This was driven by lower motor new business commissions due to the reduction in premiums throughout the market.

**Cost of sales:** Cost of sales increased by £4m during the period to £179m (H1 21: £175m) due to higher breakdown volumes and in particular higher garaging costs. This was partly offset by lower staff costs due to lower headcount.

**Administrative and marketing expenses:** Administrative and marketing expenses increased by £54m during the period to £225m (H1 21: £171m) due to the higher adjusting operating items expense as a result of £40m transaction fees incurred as part of the Acquisition (see note 4).

**Operating profit:** Operating profit reduced by £52m during the period to £62m (H1 21: £114m). This was due to the increase in adjusting operating items expense noted above.

## Management discussion and analysis (continued)

**Finance costs:** Finance costs decreased during the period to £74m (H1 21: £96m) principally due to £20m of one-off adjusting finance costs relating to the February 2020 refinancing transaction in the prior year compared to only £3m in the current period relating to the March 2021 repayment of the Class B2 Notes and refinancing of banking facilities (see note 6).

**Finance Income:** Finance income was £30m in the period (H1 21: £nil) as AA Limited surrendered for cancellation £29m of Class B2 notes resulting in a gain of £29m in the Group. This cancellation, along with the £261m equity contribution and issue of £280m Class B3 Notes enabled the redemption in full of the Class B2 Notes (see note 18). The Company also made a £1m gain on fair value movement on interest swaps.

**Taxation:** The tax charge in the period remained flat at £4m (H1 21: £4m). The tax charge consisted of a current tax charge of £4m (H1 21: £3m) and a deferred tax charge of £nil (H1 21: £1m).

### **Trading EBITDA**

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

Trading EBITDA was down by £2m during the period at £163m (H1 21: £165m). The Trading EBITDA margin fell by 0.9% to 35.0% (H1 21: 35.9%).

*Roadside:* EBITDA was up by 2.8% to £148m (H1 21: £144m) and the Trading EBITDA margin was flat at 36.5% due to the recovery of our smaller Roadside businesses, in particular our Driving Schools business which was significantly impacted by COVID-19 in the prior year. Trading EBITDA in our core Roadside business was stable as increased revenue was offset by higher garaging costs reflecting the increased number of breakdowns.

*Insurance:* Trading EBITDA was down 28.6% to £15m (H1 21: £21m) and Trading EBITDA margin declined by 6.8% to 25.0% due to lower motor new business commissions.

## Management discussion and analysis (continued)

### Consolidated statement of cash flows

	Six months ended July 2021 £m	Six months ended July 2020* £m
<b>Net cash flows from operating activities before tax</b>	<b>108</b>	143
Tax paid	(5)	(13)
<b>Net cash flows from operating activities</b>	<b>103</b>	130
<b>Investing activities</b>		
Capital expenditure	(38)	(29)
Payment for acquisition of subsidiary, net of cash acquired	-	(1)
Investment in joint venture	-	(1)
Proceeds from sale of subsidiaries, net of cash sold	-	(1)
<b>Net cash flows used in investing activities</b>	<b>(38)</b>	(32)
<b>Financing activities</b>		
Proceeds from borrowings	430	525
Issue costs on borrowings	(13)	(8)
Debt repayment premium and penalties	-	(6)
Equity contribution via issue of shares	261	-
Repayment of borrowings	(741)	(525)
Refinancing transactions	(63)	(14)
Interest paid on borrowings	(62)	(71)
Lease capital repayments net of proceeds from sale of fixed assets	(11)	(13)
Payment of lease interest	(1)	(1)
<b>Net cash flows from financing activities</b>	<b>(137)</b>	(99)
<b>Net decrease in cash and cash equivalents</b>	<b>(72)</b>	(1)

\* Profit before tax and increase in trade and other payables for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

**Change in working capital:** The change in working capital represented a cash inflow of £8m during the period (H1 21: cash outflow £9m). H1 22 has seen B2C membership stabilise following the impacts of COVID-19 on cash receipts in the prior year. In addition, our Insurance broker saw an increased volume of payments by instalments, accelerating cash receipts compared to H1 21. Lastly, the prior year included a £5m payment made in respect of the extension of our Financial Services contract with Bank of Ireland.

**Net cash flows from operating activities before tax:** Net cash flows from operating activities before tax decreased to a cash inflow of £108m (H1 21: cash inflow £143m) during the period. This was driven by the change in working capital offset by lower operating profit primarily due to the acquisition transaction fees incurred in the period.

**Tax paid:** Cash outflow from tax paid was £5m for the period (H1 21: cash outflow £13m). This decrease reflected the change in the prior year in the timing of corporation tax payments mandated by HMRC for all larger taxpayers.

## Management discussion and analysis (continued)

### Consolidated statement of cash flows (continued)

**Investing activities:** Net cash flow from investing activities was an outflow of £38m for the period (H1 21: cash outflow £32m). The increase in cash outflow from investing activities was driven by higher capital expenditure which was the result of an overall increase in AA investment, reflecting growth in spend on IT, patrol equipment and critical property system upgrades.

**Refinancing transactions:** Net cash flow from refinancing transactions for the period was a cash outflow of £63m (H1 21: £14m). In the current year, this was due to the issue of £280m Class B3 Notes and £150m Senior Term Facility along with an equity contribution of £261m from the Consortium. This was offset by the repayment of the previous £200m Senior Term Facility and the repayment of £541m Class B2 Notes as well as the payment of debt issue fees of £13m associated with these refinancings. See note 18 for more details of the refinancings in the period. The £268m proceeds from the issue of the A9 Notes in July 21 were held in escrow at the period end and are therefore not presented in the cash flow.

**Interest paid on borrowings:** Cash outflow from interest paid on borrowings decreased by £9m to £62m (H1 21: £71m) for the period. The decrease was due to the lower interest rates following the refinancing of the A3 Notes in July 2020 and the B2 Notes in March 2021.

**Payment of lease capital net of proceeds and lease interest:** Cash outflow from the payment of lease capital and interest decreased by £2m to £12m (H1 21: £14m) reflecting timing differences on payments.

## Management discussion and analysis (continued)

Net Debt and covenants	As at 31 July 2021 £m	As at 31 July 2020 £m	As at 31 January 2021 £m
Senior Term Facility	150	200	200
Class A notes	2,267	1,997	1,997
Less: proceeds of Class A9 Notes issuance held in escrow	(268)	-	-
Less: cash and cash equivalents	(47)	(101)	(119)
Net Senior Secured Debt <sup>1</sup>	<u>2,102</u>	<u>2,096</u>	<u>2,078</u>
Class B notes	280	570	850
Less: proceeds of class B3 Notes issuance held in escrow	-	-	(280)
Lease obligations for covenant reporting <sup>2</sup>	<u>26</u>	<u>31</u>	<u>27</u>
Net Whole Business Securitisation (WBS) debt <sup>3</sup>	<u>2,408</u>	<u>2,697</u>	<u>2,675</u>
IFRS 16 lease adjustment for lease obligations <sup>4</sup>	<u>27</u>	<u>22</u>	<u>22</u>
Net Debt	<u><b>2,435</b></u>	<u><b>2,719</b></u>	<u><b>2,697</b></u>
<b>Reconciliation to covenants</b>			
Lease obligations for covenant reporting <sup>2</sup>	26	31	27
IFRS 16 lease adjustment for WBS for lease obligations <sup>4</sup>	<u>27</u>	<u>22</u>	<u>22</u>
Total lease liabilities as reported in the statement of financial position	<u><b>53</b></u>	<u><b>53</b></u>	<u><b>49</b></u>
Group Covenant Trading EBITDA for the last 12 months <sup>5</sup>	317	346	322
	<b>Covenant</b>		
Class B Leverage Ratio <sup>6</sup>	7.6x	7.8x	8.4x
Senior Leverage ratio <sup>7</sup>	6.6x	6.1x	6.5x
Class A free cash flow: debt service <sup>8</sup>	>1.35x	2.9x	2.5x
Class B free cash flow: debt service <sup>9</sup>	>1.00x	n/a	n/a

1 Principal amounts of the Senior Term Facility and Class A notes less cash and cash equivalents.

2 The lease obligations for covenant reporting value is presented based on frozen GAAP, 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 the Company. This includes the principal amounts of the Senior Term Facility, Class A notes, Class B2 notes, class B3 notes and lease obligations for covenant reporting less cash and cash equivalents.

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 Group Trading EBITDA as required by the debt documents based on frozen GAAP.

6 Ratio of Net WBS Debt<sup>3</sup> to Group Covenant Trading EBITDA for the last 12 months<sup>5</sup>.

7 Ratio of Total Class A Net Debt<sup>1</sup> to Group Covenant Trading EBITDA for the last 12 months<sup>5</sup>.

8 Ratio of last 12 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A notes.

9 Ratio of last 12 months free cash flow to proforma debt service.

Class A free cash flow to debt service was 2.9 times as at 31 July 2021, showing substantial headroom over the covenants which are set out above.

## Management discussion and analysis (continued)

### Net debt and covenants (continued)

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
- Trading EBITDA is above 2x fixed charges (being interest charges, dividends and distributions as defined in the financing documents)
- The Group is also subject to a maximum cumulative dividend payout related to the cumulative cash generation and cumulative net income since the WBS was established. These calculations are adjusted for items required by the financing documents.

The Group had a cash balance of £47m at 31 July 2021.

## Consolidated income statement

	Note	Six months ended July 2021 £m	Six months ended July 2020* £m
Revenue	2	466	460
Cost of sales		(179)	(175)
<b>Gross profit</b>		<b>287</b>	285
Administrative and marketing expenses		(225)	(171)
<b>Operating profit</b>		<b>62</b>	114
Finance costs	6	(74)	(96)
Finance income	7	30	-
<b>Profit before tax</b>		<b>18</b>	18
Tax expense	8	(4)	(4)
<b>Profit for the period</b>		<b>14</b>	14

\* Revenue, gross profit, operating profit, profit before tax and profit for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

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

## Consolidated statement of comprehensive income

	Six months ended July 2021 £m	Six Months ended July 2020* £m
<b>Profit for the period</b>	<b>14</b>	14
<b>Other comprehensive income on items that may be reclassified to the income statement in subsequent years</b>		
Effective portion of changes in fair value of cash flow hedges	1	(1)
	<b>1</b>	<b>(1)</b>
<b>Other comprehensive income on items that will not be reclassified to the income statement in subsequent years</b>		
Remeasurement gains/(losses) on defined benefit schemes	<b>167</b>	-
Tax effect	<b>(42)</b>	-
	<b>125</b>	-
<b>Total other comprehensive income</b>	<b>126</b>	<b>(1)</b>
<b>Total comprehensive income for the period</b>	<b>140</b>	<b>13</b>

\* Profit for the period ended 31 July 2020 has been restated to correct a prior year error, see note 15.

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

## Consolidated statement of financial position

	Note	July 2021 £m	July 2020* £m	January 2021 £m
<b>Non-current assets</b>				
Goodwill and other intangible assets	9	1,347	1,348	1,348
Property, plant and equipment	10	51	49	52
Right-of-use assets	11	54	55	52
Investments in joint ventures and associates		5	5	5
Financial assets at amortised cost	23	4	4	4
Deferred tax assets		-	8	17
		<b>1,461</b>	1,469	1,478
<b>Current assets</b>				
Inventories		3	4	4
Trade and other receivables	12	212	197	213
Current tax receivable		1	3	-
Proceeds of Class A9/B3 Notes issuance held in escrow	17	268	-	280
Amounts owed by parent undertakings	13	1,219	1,214	1,233
Cash and cash equivalents	14	47	101	119
		<b>1,750</b>	1,519	1,849
<b>Total assets</b>		<b>3,211</b>	2,988	3,327
<b>Current liabilities</b>				
Trade and other payables	15	(415)	(408)	(444)
Amounts due to parent undertakings		(76)	(67)	(71)
Borrowings and loans	17	(370)	-	(637)
Derivative financial instruments	19	-	-	(1)
Lease liabilities		(18)	(20)	(18)
Provisions	16	(6)	(4)	(5)
		<b>(885)</b>	(499)	(1,176)
<b>Non-current liabilities</b>				
Borrowings and loans	17	(2,303)	(2,745)	(2,383)
Derivative financial instruments	19	-	(4)	(1)
Lease liabilities		(35)	(33)	(31)
Defined benefit pension scheme liabilities	20	(11)	(150)	(188)
Deferred tax liabilities		(25)	-	-
Provisions	16	(7)	(6)	(7)
		<b>(2,381)</b>	(2,938)	(2,610)
<b>Total liabilities</b>		<b>(3,266)</b>	(3,437)	(3,786)
<b>Net liabilities</b>		<b>(55)</b>	(449)	(459)
<b>Equity</b>				
Share capital	24	261	-	-
Cash flow hedge reserve		-	(3)	(1)
Retained earnings		(316)	(446)	(458)
<b>Total equity</b>		<b>(55)</b>	(449)	(459)

\* Trade and other payables, current tax payable and retained earnings as at 31 July 2020 have been restated to correct a prior year error, see note 15.

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

## Consolidated statement of changes in equity

### Attributable to the equity holders of the parent

	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
<b>At 1 February 2020</b>	-	(2)	(450)	(452)
Restatement*(see note 15)	-	-	(11)	(11)
At 1 February 2020 (restated*)	-	(2)	(461)	(463)
Profit for the period (restated*)	-	-	14	14
Other comprehensive income	-	(1)	-	(1)
Total comprehensive income	-	(1)	14	13
Share-based payments	-	-	1	1
<b>At 31 July 2020 (restated*)</b>	-	(3)	(446)	(449)
<b>At 1 February 2021</b>	-	(1)	(458)	(459)
Profit for the period	-	-	14	14
Other comprehensive income	-	1	125	126
Total comprehensive income	-	1	139	140
Issue of share capital (see note 24)	261	-	-	261
Share-based payments	-	-	3	3
<b>At 31 July 2021</b>	<b>261</b>	-	<b>(316)</b>	<b>(55)</b>

\* Retained earnings as at 1 February 2020 and 31 July 2020 and the profit for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

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

## Consolidated statement of cash flows

	Note	Six months ended July 2021 £m	Six months ended July 2020* £m
Profit before tax		18	18
Amortisation, depreciation and impairment	9,10,11	48	47
Net finance costs	6,7	44	96
Difference between pension charge and cash contributions		(12)	(11)
Other adjustments to profit before tax		2	2
Working capital and provisions:			
Decrease/(increase) in trade and other receivables		1	(14)
Increase in trade and other payables		6	6
Increase/(decrease) in provisions		1	(1)
Total working capital and provisions adjustments		8	(9)
<b>Net cash flows from operating activities before tax</b>		<b>108</b>	<b>143</b>
Tax paid		(5)	(13)
<b>Net cash flows from operating activities</b>		<b>103</b>	<b>130</b>
<b>Investing activities</b>			
Capital expenditure		(38)	(29)
Payment for acquisition of subsidiary, net of cash acquired		-	(1)
Investment in joint venture		-	(1)
Proceeds from sale of subsidiaries, net of cash sold		-	(1)
<b>Net cash flows used in investing activities</b>		<b>(38)</b>	<b>(32)</b>
<b>Financing activities</b>			
Proceeds from borrowings		430	525
Issue costs on borrowings		(13)	(8)
Debt repayment premium and penalties		-	(6)
Equity contribution via issue of shares		261	-
Repayment of borrowings		(741)	(525)
Refinancing transactions		(63)	(14)
Interest paid on borrowings		(62)	(71)
Lease capital repayments net of proceeds from sale of fixed assets		(11)	(13)
Payment of lease interest		(1)	(1)
<b>Net cash flows from financing activities</b>		<b>(137)</b>	<b>(99)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(72)</b>	<b>(1)</b>
Cash and cash equivalents at the beginning of the period		119	102
<b>Cash and cash equivalents</b>	14	<b>47</b>	<b>101</b>

\* Profit before tax and increase in trade and other payables for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

The cash flows from operating activities are stated net of cash outflows relating to adjusting operating items of £53m (H1 21: £2m). These items comprise £2m closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme (H1 21: £3m), costs of strategic initiatives of £51m, including Acquisition transaction fees of £40m, (H1 21: £2m), £nil related to emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic (H1 21: £3m), offset by £nil related to government furlough support in respect of COVID-19 (H1 21: £6m).

Other adjustments to profit before tax relate to share-based payments of £3m (H1 21: £1m) and profit on sale of non-current assets £1m (H1 21: loss of £1m).

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

## Notes to the financial statements

### 1 Basis of preparation

#### a) 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 2021.

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 2021 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have been applied consistently across all periods.

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 2021 were approved by the Board of Directors on 20 May 2021 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.

#### b) Going concern

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

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

The Group issued £280m of Class B3 Notes in January 2021 which, alongside the £261m of new equity noted above and the surrender for cancellation of £29m of Class B2 Notes held directly by AA Limited, enabled in March 2021 the repayment in full of the £570m of Class B2 Notes outstanding at 31 January 2021. The Consortium also secured a new drawn £150m Senior Term Facility, undrawn £56m Working Capital Facility and undrawn £160m Liquidity Facility to replace the Group's existing facilities.

On 20 May 2021 the Group issued its financial statements for the year ended 31 January 2021. At that time, the Directors proposed a refinancing of the Class A5 Notes in advance of their maturity on 31 January 2022 and drawing upon the remaining £100m of committed new AA Limited equity referred to above. The outstanding £1,997m Class A Notes were trading at a price near par with yields of below 4% which indicated that the debt market considered the refinancing risk of the Class A5 Notes to be low. Given the significant deleveraging of the debt at both Class A Notes and Class B Notes level, the pricing of Class A Notes in the secondary debt markets and the existing Investment Grade rating of BBB- of the Class A Notes to be issued, the Directors were, on this basis, confident that this refinancing would be successful.

## Notes to the financial statements (Continued)

### 1 Basis of preparation (continued)

#### b) Going concern (continued)

The Directors considered these points along with the projected cash flows, for a period of one year from the date of approval of the Group consolidated financial statements for the year ended 31 January 2021 and concluded that they had confidence that the Group would have sufficient funds to continue trading for this period and would be able to secure financing so as to be able to continue to meet its liabilities as they fall due. However, as noted above, the refinancing of the Class A5 Notes, due on 31 January 2022 was not committed at the date of issue of those financial statements. These circumstances indicated that a material uncertainty existed that may have cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of in excess of a year from the date of issue of those financial statements.

Further to this however, on 21 July 2021, the Group issued £270m of Class A9 Notes and deposited the proceeds into an escrow account. These proceeds will be used, along with the remaining £100m of equity committed by the Consortium (see above), to repay the Class A5 Notes ahead of their maturity on 31 January 2022.

As the financing is now committed, the material uncertainty over the Group's ability to continue as a going concern for a period of in excess of a year from the date of issue of these interim condensed financial statements has been removed. Additionally, there is no other debt with a maturity date within 12 months from the date of approval of these interim condensed financial statements.

The Directors have considered this updated position, along with the projected cash flows, for a period of one year from the date of approval of these interim condensed financial statements and have concluded that the Group has sufficient funds to continue trading for this period.

#### c) Alternative performance measures

The nature of the Group's operations means that for management's decision making and internal performance management the key performance metric is earnings before net finance costs, tax, adjusting operating items, share-based payments, pension service charge adjustment, depreciation and amortisation (referred to as Trading EBITDA, see note 3).

#### 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 2021.

## Notes to the financial statements (continued)

### 2 Segmental information and revenue disaggregation

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

The two reportable operating segments are as follows:

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

	Six months ended July 2021 £m	Six months ended July 2020* £m
<b>Revenue</b>		
Roadside	406	394
Insurance	60	66
<b>Revenue</b>	<b>466</b>	<b>460</b>
<b>Trading EBITDA</b>		
Roadside	148	144
Insurance	15	21
<b>Trading EBITDA</b>	<b>163</b>	<b>165</b>
Share-based payments	(3)	(1)
Pension service charge adjustment	(2)	(2)
Amortisation and depreciation	(48)	(47)
<b>Operating profit before adjusting operating items</b>	<b>110</b>	<b>115</b>
Adjusting operating items	(48)	(1)
<b>Operating profit</b>	<b>62</b>	<b>114</b>
Net finance costs	(44)	(96)
<b>Profit before tax</b>	<b>18</b>	<b>18</b>

\*The comparatives for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

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

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

Adjusting operating items, net finance costs and tax expense are not allocated to individual segments as they are managed on a group basis. Segmental information is not presented for items in the statement of financial position as management does not view this information on a segmental basis.

## Notes to the financial statements (continued)

### 2 Segmental information and revenue disaggregation (continued)

Operating profit before adjusting operating items	Roadside		Insurance	
	Six months ended	Six months ended	Six months ended	Six months ended
	July 2021	July 2020*	July 2021	July 2020
	£m	£m	£m	£m
<b>Trading EBITDA</b>	<b>148</b>	<b>144</b>	<b>15</b>	<b>21</b>
Share-based payments	(3)	(1)	-	-
Pension service charge adjustment	(2)	(2)	-	-
Amortisation and depreciation	(42)	(41)	(6)	(6)
<b>Operating profit before adjusting operating items</b>	<b>101</b>	<b>100</b>	<b>9</b>	<b>15</b>

#### Disaggregation of revenue:

	Six months ended	Six months ended
	July 2021	July 2020*
	£m	£m
<b>Roadside:</b>		
<b>Consumer (B2C)</b>		
Insured contracts	235	234
Pay for use contracts <sup>1</sup>	22	25
<b>Business Services (B2B)</b>		
Insured contracts	16	19
Pay for use contracts <sup>1</sup>	88	84
<b>Roadside other</b>	<b>45</b>	<b>32</b>
<b>Total Roadside</b>	<b>406</b>	<b>394</b>
<b>Insurance:</b>		
Brokering activities	52	58
Insurance other	8	8
<b>Total Insurance</b>	<b>60</b>	<b>66</b>
<b>Total revenue</b>	<b>466</b>	<b>460</b>

\*The comparatives for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

<sup>1</sup> Pay for use contracts relate to contracts that take into account the volume of breakdowns.

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

Roadside other comprises the Group's Driving Schools, Drivetech and Prestige businesses, as well as a number of smaller operations.

Brokering activities revenue relates to commission income from insurers external to the Group.

Insurance other comprises the Group's AA Cars and Financial Services businesses.

## Notes to the financial statements (continued)

### 3 Adjusted performance measures

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

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

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

#### Reconciliation of Trading EBITDA to operating profit

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

		For the six months ended	
	Note	July 2021	July 2020*
		£m	£m
<b>Trading EBITDA</b>	2	<b>163</b>	<b>165</b>
Share-based payments		(3)	(1)
Pension service charge adjustment		(2)	(2)
Amortisation and depreciation	9, 10, 11	(48)	(47)
Adjusting operating items	4	(48)	(1)
<b>Operating profit</b>		<b>62</b>	<b>114</b>

\*The comparatives for the period ended 31 July 2020 have been restated to correct a prior year error, see note 15.

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

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

## Notes to the financial statements (continued)

### 4 Adjusting operating items

	Six months ended July 2021 £m	Six months ended July 2020 £m
<b>Adjusting operating items</b>	<b>48</b>	<b>1</b>

In the current period, adjusting operating items comprised £2m related to the closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme, £47m related to strategic review projects (including Acquisition transaction fees of £40m) and a £1m profit on disposal of non-current assets.

In the prior period, adjusting operating items comprised £3m related to the closure costs of the CARE section of the AAUK pension scheme and the transitional agreement made with employees in that scheme, £2m related to strategic review projects, a £1m loss on disposal of subsidiaries (see note 5), a £1m impairment of investments in joint ventures and £3m related to emergency IT expenditure incurred setting up home working due to the COVID-19 pandemic, offset by £6m related to government furlough support in respect of COVID-19, a £2m release of a provision for conduct and regulatory costs and a £1m profit on disposal of non-current assets.

Costs from the current period refinancing in March and July 2021 were directly attributable to the issue and repayment of loan notes and banking facilities and have therefore been included either in finance costs or in borrowings as debt issue fees (see notes 6 and 18).

### 5 Business combinations

#### Acquisitions during the period ended 31 July 2021

There were no acquisitions during the period ended 31 July 2021.

#### Acquisitions during the year ended 31 January 2021

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

#### Disposals during the period ended 31 July 2021

There were no disposals during the period ended 31 July 2021.

#### Disposals during the year ended 31 January 2021

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

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

## Notes to the financial statements (continued)

### 6 Finance costs

	Six months ended July 2021 £m	Six months ended July 2020 £m
Interest on external borrowings	64	70
Finance charges payable on lease liabilities	1	1
<b>Total ongoing cash finance costs</b>	<b>65</b>	<b>71</b>
Ongoing amortisation of debt issue fees	5	4
Fair value movement on interest rate swaps	-	1
Net finance expense on defined benefit pension schemes	1	-
<b>Total ongoing non-cash finance costs</b>	<b>6</b>	<b>5</b>
Early repayment penalty	-	6
Debt issue fees immediately written off following repayment of borrowings	-	5
Debt issue fees immediately written off following refinancing of banking facilities	1	-
<b>Total adjusting cash finance costs</b>	<b>1</b>	<b>11</b>
Unamortised debt issue fees written off following repayment of borrowings	2	9
<b>Total adjusting non-cash finance costs</b>	<b>2</b>	<b>9</b>
<b>Total finance costs</b>	<b>74</b>	<b>96</b>

During the current period, the Group issued £270m of Class A9 Notes and refinanced the £570m outstanding Class B2 Notes, £200m Senior Term Facility (STF), £60m Working Capital Facility and £165m Liquidity Facility (LF) (see note 18). At 31 July 2021, the cash proceeds from the Class A9 Notes were held in a secured escrow account on behalf of the Group (see note 17).

The issue of the class A9 Notes was not a modification of any existing debt and the associated issue fees were capitalised. £1m of facility arrangement fees were also capitalised for the Senior Term Facility (see note 18).

The Group incurred adjusting finance costs of £3m consisting of £1m of debt issue fees immediately written off on refinancing of the WCF and LF and a £2m write-off of unamortised issue fees associated with the Class B2 Notes.

### 7 Finance income

	Six months ended July 2021 £m	Six months ended July 2020 £m
Fair value movement on interest rate swaps	1	-
<b>Total ongoing non-cash finance income</b>	<b>1</b>	<b>-</b>
Gain from release of Class B2 Notes	29	-
<b>Adjusting non-cash finance income</b>	<b>29</b>	<b>-</b>
<b>Total finance income</b>	<b>30</b>	<b>-</b>

During the period, AA Limited surrendered for cancellation £29m of Class B2 notes resulting in a gain of £29m in the Group. This cancellation, along with the £261m equity contribution and issue of £280m Class B3 Notes enabled the redemption in full of the Class B2 Notes (see note 18). The Company made a £1m gain on fair value movement on interest swaps.

## Notes to the financial statements (continued)

### 8 Tax

The major components of the income tax expense are:

	Six months ended July 2021 £m	Six months ended July 2020 £m
<b>Consolidated income statement</b>		
<b>Current income tax</b>		
Current income tax charge	4	3
	4	3
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences – current year	-	1
	-	1
<b>Tax charge in the income statement</b>	<b>4</b>	<b>4</b>

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 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 FY22 deferred tax calculations. The impact of this rate change was an increase in the value of the deferred tax asset as at 31 January 2021 resulting in a credit of £1.2m being included in the current period deferred tax charge, offsetting other deferred tax movements.

## Notes to the financial statements (continued)

### 9 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
<b>Cost</b>				
At 1 February 2020	1,197	11	296	1,504
Additions	-	-	27	27
Reclassification	-	-	(2)	(2)
Disposals	-	-	(37)	(37)
At 31 July 2020	1,197	11	284	1,492
At 1 February 2021	1,197	11	303	1,511
Additions	-	-	28	28
Disposals	-	-	(10)	(10)
<b>At 31 July 2021</b>	<b>1,197</b>	<b>11</b>	<b>321</b>	<b>1,529</b>
<b>Amortisation and impairment</b>				
At 1 February 2020	27	1	126	154
Amortisation	-	1	26	27
Disposals	-	-	(37)	(37)
At 31 July 2020	27	2	115	144
At 1 February 2021	27	2	134	163
Amortisation	-	1	28	29
Disposals	-	-	(10)	(10)
<b>At 31 July 2021</b>	<b>27</b>	<b>3</b>	<b>152</b>	<b>182</b>
Net book value				
<b>At 31 July 2021</b>	<b>1,170</b>	<b>8</b>	<b>169</b>	<b>1,347</b>
At 31 July 2020	1,170	9	169	1,348
At 31 January 2021	1,170	9	169	1,348

## Notes to the financial statements (continued)

### 10 Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Vehicles £m	Plant & equipment £m	Total £m
<b>Cost</b>					
At 1 February 2020	24	7	4	80	115
Additions	-	-	-	2	2
Reclassification	-	-	-	2	2
Disposals	-	-	-	(9)	(9)
<b>At 31 July 2020</b>	<b>24</b>	<b>7</b>	<b>4</b>	<b>75</b>	<b>110</b>
At 1 February 2021	24	7	-	74	105
Additions	-	-	-	6	6
Disposals	-	-	-	(4)	(4)
<b>At 31 July 2021</b>	<b>24</b>	<b>7</b>	<b>-</b>	<b>76</b>	<b>107</b>
<b>Depreciation and impairment</b>					
At 1 February 2020	9	4	4	46	63
Charge for the period	1	-	-	5	6
Disposals	-	-	-	(8)	(8)
<b>At 31 July 2020</b>	<b>10</b>	<b>4</b>	<b>4</b>	<b>43</b>	<b>61</b>
At 1 February 2021	10	4	-	39	53
Charge for the period	-	1	-	6	7
Disposals	-	-	-	(4)	(4)
<b>At 31 July 2021</b>	<b>10</b>	<b>5</b>	<b>-</b>	<b>41</b>	<b>56</b>
<b>Net book value</b>					
<b>At 31 July 2021</b>	<b>14</b>	<b>2</b>	<b>-</b>	<b>35</b>	<b>51</b>
At 31 July 2020	14	3	-	32	49
At 31 January 2021	14	3	-	35	52

## Notes to the financial statements (continued)

### 11 Right-of-use assets

	Property £m	Vehicles & equipment £m	Total £m
<b>Cost</b>			
At 1 February 2020	23	81	104
Additions	-	4	4
Disposals	-	(7)	(7)
<b>At 31 July 2020</b>	<b>23</b>	<b>78</b>	<b>101</b>
At 1 February 2021	22	75	97
Additions	6	8	14
Disposals	-	(9)	(9)
<b>At 31 July 2021</b>	<b>28</b>	<b>74</b>	<b>102</b>
<b>Accumulated Depreciation and impairment</b>			
At 1 February 2020	3	36	39
Charge for the period	1	13	14
Disposals	-	(7)	(7)
<b>At 31 July 2020</b>	<b>4</b>	<b>42</b>	<b>46</b>
At 1 February 2021	4	41	45
Charge for the period	1	11	12
Disposals	-	(9)	(9)
<b>At 31 July 2021</b>	<b>5</b>	<b>43</b>	<b>48</b>
<b>Net book value</b>			
<b>At 31 July 2021</b>	<b>23</b>	<b>31</b>	<b>54</b>
At 31 July 2020	19	36	55
At 31 January 2021	18	34	52

## Notes to the financial statements (continued)

### 12 Trade and other receivables

	<b>July 2021 £m</b>	July 2020 £m	January 2021 £m
<b>Current</b>			
Trade receivables	<b>165</b>	153	162
Prepayments	<b>23</b>	20	27
Contract assets	<b>16</b>	16	15
Other receivables	<b>8</b>	8	9
	<b>212</b>	197	213

### 13 Amounts owed by parent undertakings

	<b>July 2021 £m</b>	July 2020 £m	January 2021 £m
Amounts owed by parent undertakings	<b>1,219</b>	1,214	1,233

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

### 14 Cash and cash equivalents

	<b>July 2021 £m</b>	July 2020 £m	January 2021 £m
Cash at bank and in hand – available	<b>47</b>	101	119
	<b>47</b>	101	119

## Notes to the financial statements (continued)

### 15 Trade and other payables

	<b>July 2021 £m</b>	July 2020* £m	January 2021 £m
<b>Current</b>			
Trade payables	<b>102</b>	98	109
Other taxes and social security costs	<b>22</b>	20	21
Accruals	<b>55</b>	58	74
Deferred income	<b>222</b>	213	217
Other payables	<b>14</b>	19	23
	<b>415</b>	408	444

\*Deferred income for the period ended 31 July 2020 has been restated to correct an error relating to prior years.

Deferred income in respect of certain roadside assistance policies had been understated in the opening and closing statement of financial position for the year ended 31 January 2020. This was restated in the financial statements for the year ended 31 January 2021.

The effect of the restatement referenced above is shown below:

	<b>Financial statements for the period / year ended</b>					
	<b>31 Jul 2020</b>			<b>31 Jan 2020</b>		
	Previously reported £m	Effect of restatement £m	<b>Restated £m</b>	Previously reported £m	Effect of restatement £m	<b>Restated £m</b>
<b>Consolidated income statement</b>						
Revenue	461	(1)	<b>460</b>	967	(2)	<b>965</b>
<b>Consolidated statement of financial position</b>						
Retained earnings	(434)	(12)	<b>(446)</b>	(450)	(11)	<b>(461)</b>
Deferred income	(200)	(13)	<b>(213)</b>	(213)	(12)	<b>(225)</b>
Current tax receivable/(payable)	2	1	<b>3</b>	(7)	1	<b>(6)</b>

## Notes to the financial statements (continued)

### 16 Provisions

	July 2021 £m	July 2020 £m	January 2021 £m
Property leases	4	4	4
Other	9	6	8
	<b>13</b>	10	12
Current	6	4	5
Non-current	7	6	7
	<b>13</b>	10	12

The property leases provision of £4m (H1 21: £4m) relates primarily to dilapidations. These sums are mainly expected to be paid out over the next 10 years. The provision has been calculated on a pre-tax discounted basis.

At 31 July 2021, other provisions included a balance of £8m (H1 21: £6m) and this relates 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.

Other provisions also include £1m (H1 21: £nil) relating to anticipated redress costs. During the previous financial year, the Group identified that there had been limited instances whereby consumer renewal pricing needed to realign with regulatory requirements. Consequently, the Group has provided for the costs of redress to affected customers, which is expected to be paid out during the next year.

During the period, total provisions of £2m were utilised (H1 21: £3m) and net additional provisions of £3m were made (H1 21: £2m).

#### Litigation – Mr Mackenzie’s claim

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

In November 2018, Mr Mackenzie’s claim against all the directors and a former Company Secretary was dismissed in full and he was ordered to pay their costs to be assessed by the Court if not agreed. The majority of Mr Mackenzie’s claim arises from his exclusion from a share option scheme which, in any event, lapsed for all participants without any payment in June 2019. However, Mr Mackenzie has now issued an amended claim which includes a new claim for personal injury allegedly suffered as a result of stress arising from his role as CEO and Chairman. The Companies have filed a full defence in relation to Mr Mackenzie’s amended claim. After further discussion with external counsel the Companies decided to apply for a strike-out application in relation to the entirety of Mr Mackenzie’s claims against them. This application was filed in May 2020 and the strike out hearing was held in March 2021. The strike out application was successful on all counts and all of Mr Mackenzie’s claims, bar his wrongful dismissal claim which was not part of the strike-out application, were dismissed. However, as a result Mr Mackenzie has now lodged an application to the Court of Appeal for leave to appeal the strike-out application judgement. We are now awaiting to hear the next steps in that process. The Board assumes for the purpose of these financial statements that should Mr Mackenzie be successful in appealing the strike-out application decision then he will proceed with the claim against the Companies but maintains that it is not necessary for the Group to make a financial provision as it expects the defence will prevail.

From time to time the Group is subject to other claims and potential litigation. At the time of these interim 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.

## Notes to the financial statements (continued)

### 17 Borrowings and loans

	July 2021 £m	July 2020 £m	January 2021 £m
<b>Current</b>			
Borrowings	370	-	637
<b>Non-current</b>			
Borrowings	2,303	2,745	2,383
	<b>2,673</b>	<b>2,745</b>	3,020

At 31 July 2021, the current borrowing of £370m comprises:

- £370m carrying value of £372m Class A5 Notes for which the expected maturity date is 31 January 2022

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

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

At 31 January 2021 the £280m Class B3 Notes were contingent on the completion of the acquisition of AA Limited, the Group's ultimate parent undertaking and as such were presented as a current liability at the year end. At the date of approval of these interim condensed financial statements, the acquisition of AA Limited has completed and the Class B3 Notes are therefore no longer contingent on that event.

	July 2021 £m	July 2020 £m	January 2021 £m
<b>Current assets</b>			
Proceeds of Class A9 Notes issuance held in escrow	268	-	-
Proceeds of Class B3 Notes issuance held in escrow	-	-	280

Proceeds of Class A9 Notes issuance held in escrow of £268m (July 2020: £nil) relate to the cash proceeds from the issuance of Class A9 Notes on 21 July 2021 net of a £2m discount to par (see note 18). At 31 July 2021, these proceeds were held in a secured escrow account on behalf of the Group, its Class A Note Trustee and the Class A9 Noteholders as secured creditors. These funds can only be used for the purposes of redeeming the Group's Class A5 Notes on receipt of the £100m equity contribution or repaying the Class A9 Noteholders should the Class A5 Notes not be redeemed.

At 31 January 2021, proceeds of Class B3 Notes issuance held in escrow of £280m related to the cash proceeds from the issuance of Class B3 Notes on 29 January 2021. At 31 January 2021, these proceeds were held in a secured escrow account on behalf of the Group, its Class B Note Trustee and the Class B3 Noteholders as secured creditors. These funds could only be used for the purposes of redeeming the Group's Class B2 Notes or repaying the Class B3 Noteholders should the Class B2 Notes not have been redeemed. On 10 March 2021, the proceeds of Class B3 Notes issuance held in escrow were used to redeem the Class B2 Notes (see note 18).

## Notes to the financial statements (continued)

### 18 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total as at 31 July 2021 £m	Total as at 31 July 2020 £m	Total as at 31 January 2021 £m
Senior Term Facility	31 July 2023	3.74%	150	(1)	-	149	200	200
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	500	500	500
Class A5 Notes	31 January 2022	2.88%	372	(25)	23	370	364	367
Class A6 Notes	31 July 2023	2.75%	250	(4)	3	249	248	248
Class A7 Notes	31 July 2024	4.88%	550	(8)	4	546	545	545
Class A8 Notes	31 July 2027	5.50%	325	(3)	-	322	322	322
Class A9 Notes	31 July 2028	3.25%	270	(4)	-	266	-	-
Class B2 Notes	31 July 2022	5.50%	-	-	-	-	566	568
Class B3 Notes	31 January 2026	6.50%	280	(10)	1	271	-	270
		4.68%	2,697	(56)	32	2,673	2,745	3,020

\*The current interest rate of 3.74% on the STF is expected to remain effective until 10 March 2022 after which period, a new rate of 3.49% will become effective. The new effective rate of 3.49% will comprise of the margin of 2.75%, the swap fixed rate of 0.46% and a credit adjustment spread of 0.28%.

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

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

At 31 July 2021 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.68% has been calculated using the effective interest rate and carrying values on 31 July 2021.

The Group also agreed a new £56m Working Capital Facility, of which £46m is available for cash drawings and remains undrawn, and cancelled its existing Working Capital Facility of £60m. In addition, the Group agreed a new £160m Liquidity Facility which remains undrawn, and cancelled its existing Liquidity Facility of £165m. As a result of refinancing these facilities, £1m of issue fees were written off.

On 29 January 2021, the Group issued £280m of Class B3 Notes at an interest rate of 6.50%. £10m of issuance fees associated with the issue of the Class B3 Notes were capitalised and will be amortised over the expected life of the debt. The gross proceeds of the issuance of the Class B3 Notes were held in escrow for the benefit of the Group, its Class B Note Trustee and the Class B3 Noteholders until the completion of the Acquisition.

Following the Acquisition, on 10 March 2021, these funds were released from escrow and combined with an equity contribution of £261m from Bidco in order to prepay and redeem the Class B2 Notes. There was no premium paid on repayment of the Class B2 Notes. In addition, £29m aggregate principal amount of Class B2 Notes which were held by AA Limited were surrendered for cancellation. As a result, all £570m of outstanding Class B2 Notes were redeemed as part of this refinancing and following the extinguishment of these borrowings, £2m of associated unamortised fees were written off.

## Notes to the financial statements (continued)

### 18 Borrowings (Continued)

In accordance with the terms of the Acquisition, Bidco stated its intention to provide an additional £100m of funds to be used, together with an issue by the Group of £270m in new Class A9 Notes, to redeem in full the £372m of Class A5 Notes.

On 21 July 2021 AA Bond Co issued £270m of Class A9 Notes at an interest rate of 3.25%. £4m of issuance fees associated with the issue of the Class A9 Notes were capitalised and will be amortised over the expected maturity of the debt. The gross proceeds of the issuance of the Class A9 Notes are held in escrow for the benefit of the Class A9 Noteholders and will be released on redemption of the Class A5 Notes. This is planned to take place before the expected maturity date of the Class A5 Notes in January 2022.

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, except the Class A5, Class A6, Class A7, Class A8 and Class A9 Notes which can be settled without penalty within three months, two months, three months, six months and six months respectively of the expected maturity date. The Class B3 Notes would attract a make-whole payment if they were to be redeemed before 31 January 2023, thereafter any voluntary repayment would be made at a fixed premium until 31 January 2025 after which there would be no premium to pay on redemption.

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

In order to comply with the requirements of the Class A Notes, the Group is required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x. The actual Class A free cash flow to debt service ratio as at 31 July 2021 was 2.9x (H1 21: 2.9x). Following redemption of the Group's Class B2 Notes on 10 March 2021, the Group no longer has to comply with any Class B free cash flow to debt service ratio requirements.

The Class A Notes only permit the release of cash when the Total Class A Net Debt to EBITDA ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The actual Total Class A Net Debt to EBITDA at 31 July 2021 was 6.6x (H1 21: 6.1x). The Class B3 Notes restrictions only permit the release of cash providing a number of criteria are met including that the Fixed Charge Coverage ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income. The actual Fixed Charge Coverage ratio at 31 July 2021 was 2.7x (H1 21: 2.6x).

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

On 20 July 2021, S&P Global Ratings reaffirmed the credit rating of the Group's Class A Notes at BBB- and the Class B3 Notes at B+.

## Notes to the financial statements (continued)

### 19 Derivative financial instruments

	July 2021 £m	July 2020 £m	January 2021 £m
<b>Current Liabilities</b>			
Interest rate swap derivatives	-	-	(1)
<b>Non-current Liabilities</b>			
Interest rate swap derivatives	-	(1)	-
Forward fuel contracts	-	(3)	(1)
	-	(4)	(2)

The forward fuel contracts liability is shown on a net basis as the liability is settled on a net basis. On a gross basis, the asset is £nil (H1 21 : £nil) and the liability is £nil ( H1 21: £3m).

### 20 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. The AAUK scheme has a closed final salary and a closed Career Average Revalued Earnings (CARE) section. Following closure of the CARE section, from 1 April 2020, all future pensions build-up in the UK is on a defined contribution basis.

During the 2017 financial year and following the sale of the Irish business by the Group, AA Corporation Limited, a UK subsidiary of the Group, became the sponsor of the AAI scheme. The Group also operates an unfunded post-retirement Private Medical Plan (AAPMP), which is treated as a defined benefit scheme and is not open to new entrants.

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

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

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

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

## Notes to the financial statements (continued)

### 20 Defined benefit pension scheme liabilities (continued)

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

	As at 31 July 2021			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension and healthcare plans	<b>(2,675)</b>	<b>(57)</b>	<b>(46)</b>	<b>(2,778)</b>
Fair value of plan assets	<b>2,716</b>	<b>51</b>	<b>-</b>	<b>2,767</b>
<b>Deficit</b>	<b>41</b>	<b>(6)</b>	<b>(46)</b>	<b>(11)</b>

	As at 31 July 2020			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension and healthcare plans	(2,717)	(65)	(46)	(2,828)
Fair value of plan assets	2,628	50	-	2,678
<b>Deficit</b>	<b>(89)</b>	<b>(15)</b>	<b>(46)</b>	<b>(150)</b>

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

The AAUK pension scheme was in surplus as at 31 July 2021. The significant movement since 31 January 2021 was mainly due to an increase in assets due to higher than expected asset returns in addition to employer deficit reduction contributions, as well as an increase in corporate bond yields and the adoption of the CMI 2020 mortality improvement model. These changes were slightly offset by an increase in future inflation expectations.

In November 2013, the Group implemented an Asset-Backed Funding scheme which remains in place. The Asset-Backed Funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution of £15m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands.

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

Following closure of the CARE section of the AAUK pension scheme, transitional arrangements were agreed with all employees costing c.£11m over three years starting from 1 April 2020.

## Notes to the financial statements (continued)

### 20 Defined benefit pension scheme liabilities (continued)

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

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

Using an inflation assumption of 3.3% and a discount rate assumption of 1.6%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such time as another recovery plan is put in place, despite the IAS 19 surplus position shown as at 31 July 2021. The Group Notes that, in the event that a surplus emerges, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

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

In total, the Group is currently committed to pay £27m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2022.

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

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

## Notes to the financial statements (continued)

### 20 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 2021		As at 31 July 2020		As at 31 January 2021	
	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	-	371	-	337	-	360
Bonds/gilts	557	602	480	591	439	562
Property	14	270	30	236	31	239
Hedge funds	1	240	1	295	29	287
Private equity	-	85	-	60	-	69
Cash/net current assets	25	38	26	30	26	12
Annuity policies	-	513	-	542	-	526
<b>Total AAUK plan assets</b>	<b>597</b>	<b>2,119</b>	<b>537</b>	<b>2,091</b>	<b>525</b>	<b>2,055</b>

\*Note a misallocation was identified in the figures as at 31 July 2020 for the split of assets between those with / without a quoted market price. The total plan asset value remains the same, but the splits shown above are restated for the 31 July 2020 position.

Approximately £32m of unquoted assets allocated to private equity and £13m 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)

### 20 Defined benefit pension scheme liabilities (continued)

#### Pension plan assumptions

The principal actuarial assumptions were as follows:

	AAUK			AAI			AAPMP		
	Jul 2021 %	Jul 2020 %	Jan 2021 %	Jul 2021 %	Jul 2020 %	Jan 2021 %	Jul 2021 %	Jul 2020 %	Jan 2021 %
Pensioner discount rate - UK	<b>1.6</b>	1.3	1.5	<b>0.5</b>	0.6	0.4	<b>1.6</b>	1.3	1.5
Non-pensioner discount rate	<b>1.7</b>	1.5	1.6	<b>0.8</b>	0.7	0.7	<b>1.6</b>	1.3	1.5
Pensioner RPI	<b>3.3</b>	2.9	3.0	-	-	-	<b>3.3</b>	2.9	3.0
Non-pensioner RPI	<b>3.1</b>	2.8	2.8	-	-	-	<b>3.3</b>	2.9	3.0
Pensioner CPI	<b>2.6</b>	2.0	2.2	<b>1.6</b>	1.0	1.3	<b>2.6</b>	2.0	2.2
Non-pensioner CPI	<b>2.4</b>	2.0	2.3	<b>1.6</b>	1.0	1.3	<b>2.6</b>	2.0	2.2
Rate of increase of pensions in payment (final salary sections) - pensioner	<b>3.2</b>	2.9	2.9	-	-	-	-	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	<b>3.1</b>	2.8	2.8	-	-	-	-	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	<b>2.0</b>	1.7	1.8	-	-	-	-	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	<b>1.9</b>	1.7	1.9	-	-	-	-	-	-
Pension increase for deferred benefits	<b>2.4</b>	2.0	2.3	<b>1.6</b>	1.0	1.3	-	-	-
Medical premium inflation rate	-	-	-	-	-	-	<b>7.3</b>	6.9	7.0

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For July 2021, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (July 2020 – SAPS (S3) series) with future improvements in line with the CMI\_2020 model with a 1.25% long-term rate of improvement and a 2020 experience weighting of 10% (July 2020 – CMI\_2019 model with a 1.25% long-term rate of improvement). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

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

## Notes to the financial statements (continued)

### 20 Defined benefit pension scheme liabilities (continued)

#### Sensitivity analysis

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

	For the six months ended 31 July 2021		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	<b>133</b>	<b>3</b>	<b>2</b>
Increase of 0.25% in RPI	<b>(103)</b>	<b>(1)</b>	-
Increase of 1% in medical claims inflation	-	-	<b>(8)</b>
Increase of one year of life expectancy	<b>(111)</b>	<b>(2)</b>	-

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

### 21 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:

Associate	Nature of transaction	Six months ended		Year ended
		<b>July 2021</b>	July 2020	January 2021
		<b>£m</b>	£m	£m
ARC Europe SA	Registration and call handling fees	<b>1</b>	1	2

At 31 July 2021, the Group had an outstanding balance payable to ARC Europe SA of £1m (H1 21: £1m) in respect of the above transactions.

#### Transactions with joint ventures:

Joint venture	Nature of transaction	Six months ended		Year ended
		<b>July 2021</b>	July 2020	January 2021
		<b>£m</b>	£m	£m
AA Media Limited	Services supplied to AA Media Limited	-	-	-
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	-	1	3

At 31 July 2021, the Group had an outstanding balance receivable from AA Media Limited of £4m ( H1 21 : £4m) comprising fixed rate loan notes.

At 31 July 2021, the Group had an outstanding balance payable to Drvn Solutions Limited of £nil (H1 21: £nil) in respect of the above transactions.

## Notes to the financial statements (continued)

### 22 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.

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 2021:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial assets measured at fair value</b>				
Forward fuel contracts (note 19)	-	-	-	-
<b>Financial liabilities measured at fair value</b>				
Interest rate swap derivatives (note 19)	-	-	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 18)	2,524	2,732	-	-

## Notes to the financial statements (continued)

### 22 Fair values (continued)

At 31 July 2020:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial liabilities measured at fair value</b>				
Interest rate swap derivatives (note 19)	1	1	-	-
Forward fuel contracts (note 19)	3	3	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 18)	2,545	2,492	-	-

At 31 January 2021:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
<b>Financial liabilities measured at fair value</b>				
Forward fuel contracts (note 19)	1	1	-	-
Interest rate swap derivatives (note 19)	1	1	-	-
<b>Liabilities for which fair values are disclosed</b>				
Loan notes (note 18)	2,820	3,007	-	-

### 23 Financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	July 2021 £m	July 2020 £m	January 2020 £m
<b>Non-current</b>			
Loans to related parties	4	4	4
	4	4	4

Loans to related parties comprises £4m of 5% fixed rate loan notes in issue from AA Media Limited to the Group. The Group accounts for its 49% shareholding in AA Media Limited as an investment in a joint venture.

## Notes to the financial statements (continued)

### 24 Share capital

	July 2021 £m	July 2020 £m
<b>Allotted, called up and fully paid</b>		
260,893,049 ordinary shares of £1 each	261	-
	<b>261</b>	<b>-</b>

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

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