



AA INTERMEDIATE CO LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 JULY 2022

Interim management report

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 2022. 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.

General Overview

“AA continues to deliver for members and grow membership enabling positive revenue and cash generation.”

Highlights

- H1 23 Revenue increased 4.1% to £485m (H1 22: £466m) driven by growth in both paid personal membership and business customers
- H1 23 Trading EBITDA¹ was in-line with prior year at £163m despite significant inflationary pressures and artificially lower prior year costs during lockdown, demonstrating the continued success of the ongoing transformation programme
- In H1 23, Paid personal members increased 1.3% to 3.219m (H1 22: 3.158m², FY22: 3.177m), and total paid customers increased by 6.0% to 12.740m (H1 22: 12.103m², FY22: 12.019m) re-confirming us as the UK’s largest breakdown provider
- Inflationary cost pressures are evident in the business and we continue to adjust pricing in particular in Roadside to reflect materially increased cost to serve
- The AA continued 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? for the fifth consecutive year. In the Which? manufacturer cover review, breakdown cover is provided by the AA for the top ten manufacturers in the table (out of 14 total). On the B2B side we also won the *What Van Award* for Best Customer Service 2022 and the Green Fleet Award for Industry Innovation 2022
- We launched BEAM, our new 4 star Defaqto rated motor insurance brand across all major UK price comparison websites
- UK drivers have rated us as the best breakdown service against all other major breakdown providers, according to the Brand and Market Tracker study from June 2020-June 2022. This driver confidence in the AA is further reinforced by the latest independent Mintel Vehicle Recovery report (September 2022), in which consumers rated the AA as their most trusted, most recommended and favourite brand of those covered by the survey
- We continued to get to most breakdowns in 60 minutes or less and respond to a majority of calls to our call centre in 20 seconds
- Major new roadside assistance account win, further driving our holdings in H2
- We successfully refinanced £250m of A6 notes well ahead of their scheduled repayment and in line with ongoing maturity management programme
- We invested £39m of cash capital in H1 (H1 22: £38m) to future proof the business and generate material benefits in future years

¹ Profit after tax adjusted for depreciation, amortisation, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

² During the prior year, the basis of the paid personal membership holding was revised to exclude ancillary holdings. The paid personal membership figure for July 2021 has therefore been restated.

Interim management report (continued)

	Six months ended July 22 (H1 23)	Six months ended July 21 (H1 22)
Revenue (£m)		
- Roadside	431	406
- Insurance	54	60
Trading EBITDA ¹ (£m)		
- Roadside	151	148
- Insurance	12	15
Operating profit (£m)	94	62
Membership		
- Paid personal members (B2C) (000s)	3,219	3,158 ²
- Business customers (B2B) (000s)	9,521	8,945
- Total Motor policies (000s)	1,041	1,058
Retention rate B2C (%)	81	80
Number of patrols	2,657	2,602
Free cash flow ³ (£m)	4	(9)
Cash and cash equivalents (£m)	79	47

¹ Profit after tax adjusted for depreciation, amortisation, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

² During the prior year, the basis of the paid personal membership holding was revised to exclude ancillary holdings. The paid personal membership figure for July 2021 has therefore been restated in the table above.

³ Free cash flow is net movement in cash and cash equivalents before refinancing transactions.

Outlook

The AA Intermediate Group continues to show positive momentum despite the increasingly challenging economic and competitive environment. The Roadside business continues to deliver revenue growth from growth in B2C membership and the win of material new contracts in B2B. The Insurance business continues to operate in a dynamic and challenging environment following the implementation of the GIPP regulatory changes and we remain confident of the growth opportunity provided by the launch of our BEAM motor insurance brand.

Our transformation programme is progressing well against Horizon 1 (Optimising the core) and Horizon 2 (Extending the business), with key milestones delivered including the launch of our BEAM motor insurance brand, improvements in the digital customer journey, progressing the modernisation of our core Roadside and Insurance policy administration systems and new capability and data insight to creating exciting cross-sell opportunities across our business.

As we approach the second half of our financial year we remain focused on driving our modernisation agenda while pursuing targeted price increases in order to reflect cost inflation in a sustainable manner, and deliver further efficiency saving. Despite these challenges, the AA Intermediate Group remains well positioned to deliver EBITDA growth.

Capital expenditure

- Cash capital expenditure of £39m in H1 (H1 22: 38m) ensures we continue to be well invested as we deliver on Horizon 1 and Horizon 2, generating significant benefits
- This includes replacing core systems, new digital propositions and upgrades to our data and operational infrastructure

Interim management report (continued)

Financing position

The table below sets out the current funding position as at 31 July 2022:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	10 March 2026	3.49	150
Class A2 Notes	31 July 2025	6.27	500
Class A7 Notes	31 July 2024	4.88	550
Class A8 Notes	31 July 2027	5.50	325
Class A9 Notes	31 July 2028	3.25	270
Class A10 Notes	31 July 2029	7.38	250
Class B3 Notes	31 January 2026	6.50	280
Total loan notes			2,325

- The Class B Leverage Ratio was 7.1x as at 31 July 2022 (7.6x as at 31 July 2021)
- The Senior Leverage ratio was 6.1x as at 31 July 2022 (6.6x as at 31 July 2021)
- Class A FCF:DSCR ratio as at 31 July 2022 was 2.8x (2.9x as at 31 July 2021)
- The Group has fully hedged all its exposure to variable interest rates and 100% of its forecast diesel usage for the years ending 31 January 2023 and 31 January 2024

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 2022 have changed. Further information in respect of our Risk Management Framework, our Principle Risks and how we manage them can be found on pages 11 to 16 of the AA Intermediate Co Limited 2022 Annual Report and Financial Statements, which can be found on the website <https://www.theaacorporate.com>.

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Interim management report (continued)

Net Debt and covenants	As at 31 July 2022 £m	As at 31 July 2021 £m	As at 31 January 2022 £m
Senior Term Facility	150	150	150
Class A notes	1,895	2,267	1,895
Less: proceeds of Class A9 Notes issuance held in escrow	-	(268)	-
Less: cash and cash equivalents	(79)	(47)	(67)
Net Senior Secured Debt ¹	1,966	2,102	1,978
Class B notes	280	280	280
Lease obligations for covenant reporting ²	20	26	20
Net Whole Business Securitisation (WBS) debt ³	2,266	2,408	2,278
IFRS 16 lease adjustment for lease obligations ⁴	26	27	25
Net Debt	2,292	2,435	2,303
Reconciliation to covenants			
Lease obligations for covenant reporting ²	20	26	20
IFRS 16 lease adjustment for WBS for lease obligations ⁴	26	27	25
Total lease liabilities as reported in the statement of financial position	46	53	45
Group Covenant Trading EBITDA for the last 12 months ⁵	320	317	321
	Covenant		
Class B Leverage Ratio ⁶	7.1x	7.6x	7.1x
Senior Leverage ratio ⁷	6.1x	6.6x	6.2x
Class A free cash flow: debt service ⁸	>1.35x	2.8x	2.9x

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, pre-IFRS 16 as required by the debt documents. The figure above is therefore different to the lease liabilities value shown in the statement of financial position.

3 Net WBS Debt represents the borrowings and cash balances within the WBS structure headed by 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 Debt³ to Group Covenant Trading EBITDA for the last 12 months⁵.

7 Ratio of Net Senior Secured Debt¹ to Group Covenant Trading EBITDA for the last 12 months⁵.

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

Class A free cash flow to debt service was 2.8 times as at 31 July 2022, showing substantial headroom over the covenants which are set out above.

Interim management report (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 £79m at 31 July 2022.

Consolidated income statement

	Note	Six months ended July 2022 £m	Six months ended July 2021 £m
Revenue	2	485	466
Cost of sales		(192)	(179)
Gross profit		293	287
Administrative and marketing expenses		(199)	(225)
Operating profit		94	62
Finance costs	5	(64)	(74)
Finance income	6	2	30
Profit before tax		32	18
Tax expense	7	(4)	(4)
Profit for the period		28	14

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

Consolidated statement of comprehensive income

	Six months ended July 2022 £m	Six Months ended July 2021 £m
Profit for the period	28	14
Other comprehensive income on items that may be reclassified to the income statement in subsequent years		
Effective portion of changes in fair value of cash flow hedges	17	1
Tax effect of effective portion of changes in fair value of cash flow hedges	(4)	-
	13	1
Other comprehensive income on items that will not be reclassified to the income statement in subsequent years		
Remeasurement gains on defined benefit schemes	-	167
Tax effect	-	(42)
	-	125
Total other comprehensive income	13	126
Total comprehensive income for the period	41	140

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

Consolidated statement of financial position

	Note	July 2022 £m	July 2021 £m	January 2022 £m
Non-current assets				
Goodwill and other intangible assets	8	1,340	1,347	1,346
Property, plant and equipment	9	33	51	36
Right-of-use assets	10	46	54	49
Investments in joint ventures and associates		5	5	5
Derivative financial instruments	18	11	-	6
Financial assets at amortised cost	22	4	4	4
Defined benefit pension scheme assets	19	144	-	130
		1,583	1,461	1,576
Current assets				
Inventories		5	3	4
Trade and other receivables	11	228	212	209
Current tax receivable		5	1	-
Proceeds of Class A9 Notes issuance held in escrow	16	-	268	-
Derivative financial instruments	18	3	-	-
Amounts owed by parent undertakings	12	1,208	1,219	1,208
Cash and cash equivalents	13	79	47	67
		1,528	1,750	1,488
Assets classified as held for sale	24	7	-	8
Total assets		3,118	3,211	3,072
Current liabilities				
Trade and other payables	14	(428)	(415)	(430)
Amounts due to parent undertakings		(75)	(76)	(73)
Current tax payable		-	-	(2)
Borrowings and loans	16	-	(370)	-
Lease liabilities		(15)	(18)	(15)
Provisions	15	(2)	(6)	(4)
		(520)	(885)	(524)
Non-current liabilities				
Borrowings and loans	16	(2,307)	(2,303)	(2,306)
Lease liabilities		(31)	(35)	(30)
Defined benefit pension scheme liabilities	19	-	(11)	-
Cash settled share-based payment		(1)	-	-
Deferred tax liabilities		(60)	(25)	(54)
Provisions	15	(10)	(7)	(10)
		(2,409)	(2,381)	(2,400)
Total liabilities		(2,929)	(3,266)	(2,924)
Net assets/(liabilities)		189	(55)	148
Equity				
Share capital	23	361	261	361
Cash flow hedge reserve		17	-	4
Retained earnings		(189)	(316)	(217)
Total equity		189	(55)	148

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
At 1 February 2021	-	(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 23)	261	-	-	261
Share-based payments	-	-	3	3
At 31 July 2021	261	-	(316)	(55)
At 1 February 2022	361	4	(217)	148
Profit for the period	-	-	28	28
Other comprehensive income	-	13	-	13
Total comprehensive income	-	13	28	41
At 31 July 2022	361	17	(189)	189

Cash flow hedge reserve

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

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

Consolidated statement of cash flows

	Note	Six months ended July 2022 £m	Six months ended July 2021 £m
Profit before tax		32	18
Amortisation, depreciation and impairment	8, 9,10	54	48
Net finance costs	5, 6	62	44
Difference between pension charge and cash contributions		(12)	(12)
Other adjustments to profit before tax		2	2
Working capital and provisions:			
Increase in inventories		(1)	-
(Increase)/decrease in trade and other receivables		(19)	1
Increase in trade and other payables		3	6
(Decrease)/increase in provisions		(2)	1
Total working capital and provisions adjustments		(19)	8
Net cash flows from operating activities before tax		119	108
Tax paid		(9)	(5)
Net cash flows from operating activities		110	103
Investing activities			
Capital expenditure		(39)	(38)
Proceeds from sale of fixed assets		2	1
Investment in joint venture		(1)	-
Net cash flows used in investing activities		(38)	(37)
Financing activities			
Proceeds from borrowings		250	430
Issue costs on borrowings		(1)	(13)
Debt repayment premium and penalties		(1)	-
Equity contribution via issue of shares		-	261
Receipt on settlement of gilt lock		10	-
Repayment of borrowings		(250)	(741)
Refinancing transactions		8	(63)
Interest paid on borrowings		(58)	(62)
Payment of lease capital		(9)	(12)
Payment of lease interest		(1)	(1)
Net cash flows used in financing activities		(60)	(138)
Net increase/(decrease) in cash and cash equivalents		12	(72)
Cash and cash equivalents at the beginning of the period		67	119
Cash and cash equivalents	13	79	47

The cash flows from operating activities are stated net of cash outflows relating to adjusting operating items of £9m (H1 22: £53m). 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 22: £2m) and costs of strategic initiatives of £7m (H1 22: £51m), including Acquisition transaction fees of £1m (H1 22: £40m).

Other adjustments to profit before tax relate to a share-based payment charge of £1m (H1 22: £3m), impairment of investment in joint venture £1m (H1 22: nil) and impairment of property held for sale of £1m (H1 22: nil), partly offset by profit on sale of non-current assets £1m (H1 22: £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 2022.

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 2022 which were prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 2022 were approved by the Board of Directors on 31 May 2022 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 highly cash generative with a large proportion of its revenues coming from recurring transactions. The significant customer loyalty demonstrated by high renewal rates and lengthy customer tenure underpins this and, in addition to the cash balances at the reporting date, the Group has agreed undrawn credit facilities. The majority of the Group's borrowings are long term in nature, with no borrowings due within 12 months from the date of signing of these financial statements. For the Group's longer-term viability, it remains a key assumption of the Directors that the Group continues to have ready access to public debt markets to enable these borrowings to be refinanced in due course.

On 13 July 2022, the Group completed a refinancing of its A6 notes, issuing £250m of A10 notes at a coupon of 7.38%. The Group will continue to seek to refinance its maturities within good time of their scheduled maturities.

The Directors have reviewed projected cash flows for a period of one year from the date of signing these financial statements and have concluded that the Group has sufficient funds to continue trading for this period and the foreseeable future. Therefore, the financial statements have been prepared using the going concern basis.

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, amortisation and impairment of property, plant and equipment and intangible assets (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 2022.

Notes to the financial statements (continued)

2 Segmental information and revenue disaggregation

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

The two reportable operating segments are as follows:

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

	Six months ended July 2022 £m	Six months ended July 2021 £m
Revenue		
Roadside	431	406
Insurance	54	60
Revenue	485	466
Trading EBITDA		
Roadside	151	148
Insurance	12	15
Trading EBITDA	163	163
Share-based payments	(1)	(3)
Pension service charge adjustment	(2)	(2)
Amortisation and depreciation	(48)	(48)
Impairment of goodwill	(6)	-
Impairment of held for sale property	(1)	-
Operating profit before adjusting operating items	105	110
Adjusting operating items	(11)	(48)
Operating profit	94	62
Net finance costs	(62)	(44)
Profit before tax	32	18

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.

Notes to the financial statements (continued)

2 Segmental information and revenue disaggregation (continued)

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

Insurance revenue includes £11m (HY22: £12m) which is recognised under the effective interest method.

Operating profit before adjusting operating items	Roadside		Insurance	
	Six months ended July 2022 £m	Six months ended July 2021 £m	Six months ended July 2022 £m	Six months ended July 2021 £m
Trading EBITDA	151	148	12	15
Share-based payments	(1)	(3)	-	-
Pension service charge adjustment	(2)	(2)	-	-
Amortisation and depreciation	(44)	(42)	(4)	(6)
Impairment of goodwill	(6)	-	-	-
Impairment of held for sale property	-	-	(1)	-
Operating profit before adjusting operating items	98	101	7	9

Disaggregation of revenue:

	Six months ended July 2022 £m	Six months ended July 2021 £m
Roadside:		
Consumer (B2C)		
Insured contracts	247	235
Pay for use contracts ¹	26	22
Business Services (B2B)		
Insured contracts	17	16
Pay for use contracts ¹	93	88
Roadside other²	48	45
Total Roadside	431	406
Insurance:		
Brokering activities	44	52
Insurance other ²	10	8
Total Insurance	54	60
Total revenue	485	466

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

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

Roadside B2C and B2B mostly consists of revenue from roadside membership subscriptions. The majority of brokering activities revenue relates to commission income from insurers external to the Group.

Notes to the financial statements (continued)

3 Adjusted performance measures

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

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, 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:

	Note	For the six months ended	
		July 2022 £m	July 2021 £m
Trading EBITDA	2	163	163
Share-based payments		(1)	(3)
Pension service charge adjustment		(2)	(2)
Amortisation and depreciation	8, 9, 10	(48)	(48)
Adjusting operating items	4	(11)	(48)
Impairment of goodwill	8	(6)	-
Impairment of held for sale property		(1)	-
Operating profit		94	62

Trading EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, legal costs and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of share-based payments, defined benefit pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, amortisation and depreciation.

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 2022 £m	Six months ended July 2021 £m
Adjusting operating items	11	48

In the current period, adjusted 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, £9m of strategic review projects (including £1m transaction fees relating to the acquisition in March 2021), £1m impairment of investments in joint ventures and £1m profit on disposal of non-current assets.

In the prior 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.

Costs from the current period refinancing in July 2022 were directly attributable to the issue and repayment of loan notes and have therefore been included either in finance costs or in borrowings as debt issue fees (see notes 5 and 17).

5 Finance costs

	Six months ended July 2022 £m	Six months ended July 2021 £m
Interest on external borrowings	59	64
Finance charges payable on lease liabilities	1	1
Total ongoing cash finance costs	60	65
Ongoing amortisation of debt issue fees	2	5
Net finance expense on defined benefit pension schemes	-	1
Total ongoing non-cash finance costs	2	6
Early repayment penalty	1	-
Debt issue fees immediately written off following refinancing of banking facilities	-	1
Total adjusting cash finance costs	1	1
Unamortised debt issue fees written off following repayment of borrowings	1	2
Total adjusting non-cash finance costs	1	2
Total finance costs	64	74

During the current period, the Group issued £250m of Class A10 Notes in exchange for £250m of Class A6 Notes. The issue of the class A10 Notes was not a modification of any existing debt and the associated issue fees were capitalised.

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

Notes to the financial statements (continued)

6 Finance income

	Six months ended July 2022 £m	Six months ended July 2021 £m
Fair value movement on interest rate swaps	-	1
Net finance income on defined benefit pension schemes	2	-
Total ongoing non-cash finance income	2	1
Gain from release of Class B2 Notes	-	29
Adjusting non-cash finance income	-	29
Total finance income	2	30

In the prior year, 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.

7 Tax

The major components of the income tax expense are:

	Six months ended July 2022 £m	Six months ended July 2021 £m
Consolidated income statement		
Current income tax		
Current income tax charge	2	4
	2	4
Deferred tax		
Relating to origination and reversal of temporary differences – current year	2	-
	2	-
Tax charge in the income statement	4	4

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 measurement of FY 23 deferred tax calculations. The impact of this rate change was largely recognised during the year ended 31 January 2022. Included in the H1 23 current tax charge is a credit of £3m overprovision of tax from FY 22. This credit arose in respect of corporate interest restriction in FY 22 and has resulted in an effective tax rate below the standard rate of tax.

On 23 September 2022, the UK Chancellor of the Exchequer announced that the intended increase in the UK corporate tax rate to 25% from April 2023 referred to above will be cancelled. This change has not been substantively enacted as at the date of these accounts, and so is not reflected in the Company's balance sheet. The impact of this change on the H1 23 balance sheet would be a reduction in the deferred tax liability of £17m.

Notes to the financial statements (continued)

8 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
At 1 February 2021	1,197	11	303	1,511
Additions	-	-	28	28
Disposals	-	-	(10)	(10)
At 31 July 2021	1,197	11	321	1,529
At 1 February 2022	1,197	11	342	1,550
Additions	-	-	31	31
Disposals	-	-	(5)	(5)
At 31 July 2022	1,197	11	368	1,576
Amortisation and impairment				
At 1 February 2021	27	2	134	163
Amortisation	-	1	28	29
Disposals	-	-	(10)	(10)
At 31 July 2021	27	3	152	182
At 1 February 2022	27	3	174	204
Amortisation	-	1	30	31
Impairment	6	-	-	6
Disposals	-	-	(5)	(5)
At 31 July 2022	33	4	199	236
Net book value				
At 31 July 2022	1,164	7	169	1,340
At 31 July 2021	1,170	8	169	1,347
At 31 January 2022	1,170	8	168	1,346

During the period there was an impairment of £6m in goodwill relating to the Drivetech business.

Notes to the financial statements (continued)

9 Property, plant and equipment

	Freehold land & buildings £m	Buildings on long leasehold land £m	Plant & equipment £m	Total £m
Cost				
At 1 February 2021	24	7	74	105
Additions	-	-	6	6
Disposals	-	-	(4)	(4)
At 31 July 2021	24	7	76	107
At 1 February 2022				
At 1 February 2022	-	7	76	83
Additions	-	-	3	3
Disposals	-	-	(11)	(11)
At 31 July 2022	-	7	68	75
Depreciation and impairment				
At 1 February 2021	10	4	39	53
Charge for the period	-	1	6	7
Disposals	-	-	(4)	(4)
At 31 July 2021	10	5	41	56
At 1 February 2022				
At 1 February 2022	-	7	40	47
Charge for the period	-	-	6	6
Disposals	-	-	(11)	(11)
At 31 July 2022	-	7	35	42
Net book value				
At 31 July 2022	-	-	33	33
At 31 July 2021	14	2	35	51
At 31 January 2022	-	-	36	36

Notes to the financial statements (continued)

10 Right-of-use assets

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2021	22	75	97
Additions	6	8	14
Disposals	-	(9)	(9)
At 31 July 2021	28	74	102
At 1 February 2022	28	68	96
Additions	-	9	9
Disposals	-	(6)	(6)
At 31 July 2022	28	71	99
Accumulated Depreciation and impairment			
At 1 February 2021	4	41	45
Charge for the period	1	11	12
Disposals	-	(9)	(9)
At 31 July 2021	5	43	48
At 1 February 2022	6	41	47
Charge for the period	1	10	11
Disposals	-	(5)	(5)
At 31 July 2022	7	46	53
Net book value			
At 31 July 2022	21	25	46
At 31 July 2021	23	31	54
At 31 January 2022	22	27	49

Notes to the financial statements (continued)

11 Trade and other receivables

	July 2022 £m	July 2021 £m	January 2022 £m
Current			
Trade receivables	174	165	158
Prepayments	24	23	25
Contract assets	24	16	21
Other receivables	6	8	5
	228	212	209

12 Amounts owed by parent undertakings

	July 2022 £m	July 2021 £m	January 2022 £m
Amounts owed by parent undertakings	1,208	1,219	1,208

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

13 Cash and cash equivalents

	July 2022 £m	July 2021 £m	January 2022 £m
Cash at bank and in hand – available	79	47	67
	79	47	67

Notes to the financial statements (continued)

14 Trade and other payables

	July 2022 £m	July 2021 £m	January 2022 £m
Current			
Trade payables	99	102	111
Other taxes and social security costs	22	22	24
Accruals	65	55	56
Deferred income	225	222	222
Other payables	17	14	17
	428	415	430

15 Provisions

	July 2022 £m	July 2021 £m	January 2022 £m
Property leases	3	4	4
Other	9	9	10
	12	13	14
Current	2	6	4
Non-current	10	7	10
	12	13	14

The property leases provision of £3m (H1 22: £4m) relates primarily to dilapidations. These sums are mainly expected to be paid out over the next 9 years; however, it will take 34 years to fully pay out all amounts provided for. The provision has been calculated at a risk-free rate.

At 31 July 2022, other provisions included £1m (H1 22: nil) in relation to warranty for vehicle part replacements and £8m (H1 22: 8m) relating to self-funded insurance liabilities, where the Group provides for the cost of certain claims made against it such as motor vehicle accident damage and employer liability claims. These sums are mainly expected to be paid out over the next 5 years; however, it can take up to 30 years for employer liability claims to pay out in full.

In the prior year, other provisions also included £1m relating to anticipated redress costs. The Group identified that there had been limited instances whereby consumer renewal pricing needed to realign with regulatory requirements. The group has subsequently released this provision.

During the period, total provisions of £3m were utilised (H1 22: £2m) and net additional provisions of £1m were made (H1 22: £3m).

Notes to the financial statements (continued)

15 Provisions (continued)

As reported previously, former Executive Chairman, Bob Mackenzie, who was dismissed for gross misconduct on 1 August 2017, issued a claim form and amended claim form in the High Court, Chancery Division (the "Court") against AA plc, its subsidiary Automobile Association Developments Limited (referred to herein as the Companies) and personally against a number of their directors (existing and former) and the former Company Secretary.

In November 2018, the claim against all the directors and the former Company Secretary was dismissed in full and Mr. Mackenzie was ordered to pay their costs. Mr. Mackenzie's amended claim included a claim for personal injury allegedly suffered as a result of stress arising from his role as CEO and Chairman. The Companies successfully applied to strike-out all, bar one, of Mr. Mackenzie's claims against us. In its judgement the Court agreed that all of Mr. Mackenzie's claims should be struck out (except for his wrongful dismissal claim which was not part of the strike-out application) meaning at this stage Mr. Mackenzie's claim has now been defeated. Additionally, Mr. Mackenzie was ordered to pay 90% of the costs we incurred in bringing our application although the exact figure of our costs is still subject to further review.

Mr. Mackenzie obtained permission to appeal the Court's judgement and the Court of Appeal subsequently dismissed Mr Mackenzie's appeal on 1 July 2022. The Court of Appeal also refused Mr Mackenzie's application to appeal the judgment to the Supreme Court and ordered Mr Mackenzie to pay the AA £73,000 as an interim payment towards its costs. Notwithstanding, Mr Mackenzie has sought permission from the Supreme Court to appeal the Court of Appeal's judgement.

As a result of our external advice we have not taken any provision for this matter as we do not anticipate having to make any payment of damages to Mr. Mackenzie.

16 Borrowings and loans

	July 2022 £m	July 2021 £m	January 2022 £m
Current			
Borrowings (see note 17)	-	370	-
Non-current			
Borrowings (see note 17)	2,307	2,303	2,306
	2,307	2,673	2,306

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

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

	July 2022 £m	July 2021 £m	January 2022 £m
Current assets			
Proceeds of Class A9 Notes issuance held in escrow	-	268	-

At 31 July 2021, proceeds of Class A9 Notes issuance held in escrow of £268m related to the cash proceeds from the issuance of Class A9 Notes on 21 July 2021 net of a £2m discount to par. 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 could 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. The £100m equity contribution was received from Basing BidCo Limited and the £268m proceeds of the Class A9 Notes were released from escrow to redeem the Class A5 Notes on 1 November 2021.

Notes to the financial statements (continued)

17 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total as at 31 July 2022 £m	Total as at 31 July 2021 £m	Total as at 31 January 2022 £m
Senior Term Facility	31 July 2023	2.72%	-	-	-	-	149	-
Senior Term Facility 2021	10 March 2026	3.49%	150	(1)	-	149	-	149
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	500	500	500
Class A5 Notes	31 January 2022	2.88%	-	-	-	-	370	-
Class A6 Notes	31 July 2023	2.75%	-	-	-	-	249	249
Class A7 Notes	31 July 2024	4.88%	550	(8)	5	547	546	547
Class A8 Notes	31 July 2027	5.50%	325	(3)	1	323	322	323
Class A9 Notes	31 July 2028	3.25%	270	(4)	1	267	266	266
Class A10 Notes	31 July 2029	7.38%	250	(2)	-	248	-	-
Class B3 Notes	31 January 2026	6.50%	280	(10)	3	273	271	272
		5.45%	2,325	(29)	11	2,307	2,673	2,306

No changes were made to the Group's banking facilities during the period.

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

At 31 July 2022 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 5.45% has been calculated using the effective interest rate and principal values on 31 July 2022.

The Group's £56m Working Capital Facility, of which £46m is available for cash drawings, and the Group's £160m Liquidity Facility remain undrawn.

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

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

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.

Notes to the financial statements (continued)

17 Borrowings (continued)

Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to the expected maturity date, although most classes of notes can be settled without penalty within a period before the expected maturity date. For the Class A7 Notes this period is three months, for the Class A8 Notes, Class A9 Notes and Class A10 Notes this period is 6 months. 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 2022 was 2.8x (H1 22: 2.9x).

The Class A Notes only permit the release of cash providing the Senior Leverage ratio after payment is less than 5.5x and providing there is sufficient excess cash flow to cover the payment. The actual Senior Leverage ratio as at 31 July 2022 was 6.1x (H1 22: 6.6x). 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 2022 was 2.5x (H1 22: 2.7x).

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

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

18 Derivative financial instruments

	July 2022 £m	July 2021 £m	January 2022 £m
Current assets			
Forward fuel contracts	3	-	-
Non-current assets			
Interest rate swap derivatives	9	-	5
Forward fuel contracts	2	-	1
	14	-	6

The forward fuel contracts asset is shown on a net basis as the asset is settled on a net basis. On a gross basis, the asset is £5m (H1 22: £nil) and the liability is £nil (H1 22: £nil).

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

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. 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 2022 by independent qualified actuaries.

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

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

	As at 31 July 2022			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension and healthcare plans	(1,991)	(43)	(27)	(2,061)
Fair value of plan assets	2,160	45	-	2,205
Surplus/(deficit)	169	2	(27)	144

	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	(2,675)	(57)	(46)	(2,778)
Fair value of plan assets	2,716	51	-	2,767
Surplus/(deficit)	41	(6)	(46)	(11)

	As at 31 January 2022			Total £m
	AAUK £m	AAI £m	AAPMP £m	
Present value of the defined benefit obligation in respect of pension and healthcare plans	(2,453)	(51)	(32)	(2,536)
Fair value of plan assets	2,617	49	-	2,666
Surplus/(deficit)	164	(2)	(32)	130

The AAUK pension scheme was in surplus as at 31 July 2022. The movement since 31 January 2022 was mainly due to a decrease in the defined benefit obligation due to an increase in corporate bond yields which drive the discount rate, a decrease in future inflation expectations and adoption of the CMI 2021 mortality improvement model with a 2020 and 2021 weighting parameter of 10%. This was partially offset by inflation experience losses due to high expected inflationary increases due to be paid next year and decrease in assets due to lower-than-expected asset returns due to the hedging strategy in place.

In November 2013, the Group implemented an Asset-Backed Funding scheme which remains in place. The Asset-Backed Funding scheme provides a long-term deficit reduction plan where the Group makes an annual deficit reduction contribution of £14m increasing annually with inflation, until October 2038 or until the AAUK scheme funding deficit is removed if earlier, secured on the Group's brands.

In February 2020, the actuarial triennial review for the AAUK pension scheme was completed as at 31 March 2019. This resulted in a significant reduction to the technical provisions deficit of 64% from £366m as at 31 March 2016 to £131m. 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 one year earlier than previously planned in terms of the Additional Funding element and 13 years earlier in terms of the Asset-Backed Funding element. To do this, the Group committed to paying an additional (above the Asset-Backed Funding scheme payments) £10m per annum from April 2020 to March 2021, £11m per annum from April 2021 to March 2022 and £12m per annum from April 2022 to July 2025. From 1 February 2020, the trustee has also met its own costs of running the scheme.

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)

19 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 conclusion of the consultation on closure of the AAUK scheme to future accrual, the Group gained much clearer visibility over short-term pension costs lasting at least to the end of FY23 (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 and other events on the global financial markets has meant higher fluctuation of the funding level in the AAUK scheme, albeit mitigated by the de-risked investment strategy and high levels of hedging. Therefore, there is a risk that the contributions required from the Group could increase following the 2022 triennial valuation.

Using an inflation assumption of 3.3% and a discount rate assumption of 3.4%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such a time as another recovery plan is put in place, despite the IAS19 surplus position shown as at 31 July 2022. The Group notes that 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 2022 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2024 or until an alternative agreement is signed with the AAI scheme trustee.

In total, the Group is currently committed to pay £28m in deficit reduction employer contributions to its defined benefit plans (AAUK and AAI) in the year ending 31 January 2023.

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

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

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

Fair value of plan assets

The table below shows the AAUK scheme assets split between those that have a quoted market price and those that are unquoted.

The fair value of the AAUK scheme assets was as follows:

	As at 31 July 2022		As at 31 July 2021		As at 31 January 2022	
	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m	Assets with a quoted market price £m	Assets without a quoted market price £m
Equities	-	263	-	371	-	439
Bonds/gilts	338	428	557	602	322	667
Property	15	308	14	270	15	300
Hedge funds	1	157	1	240	-	194
Private equity	-	130	-	85	-	110
Cash/net current assets	24	66	25	38	19	66
Annuity policies	-	430	-	513	-	485
Total AAUK plan assets	378	1,782	597	2,119	356	2,261

Approximately £22m of unquoted assets allocated to private equity and £10m of unquoted assets allocated to property have been measured at amortised cost rather than fair value.

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

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	AAUK			AAI			AAPMP		
	Jul	Jul	Jan	Jul	Jul	Jan	Jul	Jul	Jan
	2022	2021	2022	2022	2021	2022	2022	2021	2022
	%	%	%	%	%	%	%	%	%
Pensioner discount rate - UK	3.4	1.6	2.3	2.2	0.5	1.1	3.4	1.6	2.3
Non-pensioner discount rate	3.5	1.7	2.3	2.3	0.8	1.4	3.4	1.6	2.3
Pensioner RPI	3.3	3.3	3.6	-	-	-	3.3	3.3	3.6
Non-pensioner RPI	3.1	3.1	3.3	-	-	-	3.3	3.3	3.6
Pensioner CPI	2.7	2.6	3.0	2.4	1.6	1.9	2.7	2.6	3.0
Non-pensioner CPI	2.5	2.4	2.7	2.4	1.6	1.9	2.7	2.6	3.0
Rate of increase of pensions in payment (final salary sections) - pensioner	3.2	3.2	3.5	-	-	-	-	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	3.0	3.1	3.2	-	-	-	-	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	2.0	2.0	2.2	-	-	-	-	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	2.0	1.9	2.0	-	-	-	-	-	-
Pension increase for deferred benefits	2.5	2.4	2.7	2.4	1.6	1.9	-	-	-
Medical premium inflation rate	-	-	-	-	-	-	7.3	7.3	7.6

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For July 2022, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (July 2021 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2021 model with a 1.25% long-term rate of improvement and 2020/2021 experience weightings of 10% (July 2021 – CMI_2020 model with a 1.25% long-term rate of improvement and 2020 experience weighting of 10%). 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 2021: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 28 years (July 2021: 28 years).

Notes to the financial statements (continued)

19 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 2022		
	AAUK £m	AAI £m	AAPMP £m
Increase of 0.25% in discount rate	87	2	1
Increase of 0.25% in RPI and CPI	(69)	(1)	-
Increase of 0.25% in CPI only	(30)	(1)	-
Increase of 1% in medical claims inflation	-	-	(4)
Increase of one year of life expectancy	(66)	(1)	-

An equivalent decrease in the assumptions at 31 July 2022 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.

20 Related parties

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

Transactions with associates:

Associate	Nature of transaction	Six months ended		Year ended
		July 2022	July 2021	January 2022
		£m	£m	£m
ARC Europe SA	Registration and call handling fees	1	1	2

At 31 July 2022, the Group had an outstanding balance payable to ARC Europe SA of £1m (H1 22: £1m) in respect of the above transactions.

Transactions with joint ventures:

Joint venture	Nature of transaction	Six months ended		Year ended
		July 2022	July 2021	January 2022
		£m	£m	£m
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	-	-	1

At 31 July 2022, the Group had an outstanding balance receivable from AA Media Limited of £4m (H1 22: £4m) comprising fixed rate loan notes.

At 31 July 2022, the Group had an outstanding balance payable to Drvn Solutions Limited of £nil (H1 22: £nil) in respect of the above transactions.

Notes to the financial statements (continued)

21 Fair values

Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include interest rates.

The objective of using valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at each year end at which the asset or liability would have been exchanged by market participants acting at arm's length.

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 2022:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Forward fuel contracts (note 18)	5	5	-	-
Interest rate swap derivatives (note 18)	9	9	-	-
Liabilities for which fair values are disclosed				
Loan notes (note 17)	2,158	2,132	-	-

Notes to the financial statements (continued)

21 Fair values (continued)

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
Financial assets measured at fair value				
Forward fuel contracts (note 18)	-	-	-	-
Financial liabilities measured at fair value				
Interest rate swap derivatives (note 18)	-	-	-	-
Liabilities for which fair values are disclosed				
Loan notes (note 17)	2,524	2,732	-	-

At 31 January 2022:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Forward fuel contracts (note 18)	1	1	-	-
Interest rate swap derivatives (note 18)	5	5	-	-
Liabilities for which fair values are disclosed				
Loan notes (note 17)	2,157	2,274	-	-

22 Financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	July 2022 £m	July 2021 £m	January 2022 £m
Non-current			
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)

23 Share capital

	July 2022 £m	July 2021 £m	January 2022 £m
Allotted, called up and fully paid			
360,893,049 (July 2021: 260,893,049, January 2022: 360,893,049) ordinary shares of £1 each	361	261	361
	361	261	361

On 3 March 2021 and 27 October 2021, the Company issued 260,893,029 and 100,000,000 shares, respectively, of £1 each to its parent entity, AA Midco Limited.

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

24 Assets classified as held for sale

Two properties are classified as held for sale. The sale of property 1 is expected to complete before year end. The expected sale of property 2 did not materialise but the entity remains committed to its plan to sell the asset, with an expectation that the property will be sold within 12 months of the reporting date. The assets have been remeasured to the lower of carrying amount and fair value less cost to sell, which has resulted in an impairment of £1m included within administrative expenses in the income statement.

	July 2022 £m	July 2021 £m	January 2022 £m
Current			
Property, plant and equipment – property 1	5	-	5
Property, plant and equipment – property 2	2	-	3
	7	-	8