AA INTERMEDIATE CO LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 JULY 2023

Interim management report

General overview

"Continued growth in our membership and customer base along with increasing income paid per personal member has enabled us to deliver growth in both our EBITDA and operating cashflow."

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 2023. 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.

Adoption of IFRS 17

The Group adopted IFRS 17 on 1 February 2023, which replaces IFRS 4 ‑ Insurance Contracts. IFRS 17 was applied retrospectively as at 1 February 2022 and as a result comparative information has been restated. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts.

For more information on accounting policies under IFRS 17 please see note 1. The impact of the restatements is explained in note 26.

Highlights

- H1 24 Revenue increased 8% to £524m (H1 23: £485m[1]) driven by growth in both paid personal membership and business customers as well as growth in average income per member.
- H1 24 Adjusted EBITDA[2] increased 2% to £191m (H1 23: £188m[1]) despite significant inflationary and macroeconomic pressures, demonstrating the continued success of the ongoing transformation programme.
- H1 24 Reported EBITDA[3] increased 2% to 172m (H1 23: £169m[1]).
- In H1 24, Paid personal members increased 1% to 3.267m (H1 23: 3.219m, FY23: 3.252m), and business customers increased by 12% to 10.666m (H1 23: 9.521m, FY23: 10.618m) re-confirming us as the UK's largest breakdown provider.
- H1 24 income paid per personal member increased by 4% to £194 (H1 23: £186), substantially offsetting our cost to serve.
- Motor insurance policies have increased 4% to 1,010k (H1 23: 969k[4]).
- We successfully refinanced £550m of A7 notes well ahead of their scheduled repayment and in line with the ongoing maturity management programme.
- Owing to group performance, on 17 August 2023 the AA Limited group was able to repurchase and subsequently cancel £61m of A2 Notes for cash consideration of £60m, thereby reducing the total debt held.
- We invested £47m of cash capital in H1 (H1 23: £39m) to future proof the business and generate material benefits in future years.

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.
[2] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of insurance acquisition costs, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
[3] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
[4] During the year we have revised the basis of policies to show policies in force rather than twelve month rolling policies. As a result, the total motor policies have been restated.

Interim management report (continued)

Highlights (continued)

	Six months ended July 23 (H1 24)	Six months ended July 22 (restated)[1] (H1 23)
Revenue (£m)		
- Roadside business division	**460**	431
- Insurance business division	**64**	54
Adjusted EBITDA[2] (£m)		
- Roadside business division	**173**	176
- Insurance business division	**18**	12
Reported EBITDA[3] (£m)		
- Roadside business division	**154**	157
- Insurance business division	**18**	12
Profit before tax (£m)	**22**	37
Membership		
- Paid personal members (B2C) (000s)	**3,267**	3,219
- Business customers (B2B) (000s)	**10,666**	9,521
- Total Motor policies[4] (000s)	**1,010**	969
Renewal rate B2C (%)	**84**	84
Number of patrols	**2,721**	2,657
Net cash from operations (£m)	**150**	110
Cash and cash equivalents (£m)	**109**	79

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.
[2] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of insurance acquisition costs, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
[3] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
[4] During the year we have revised the basis of policies to show policies in force rather than twelve month rolling policies. As a result, the total motor policies have been restated.

Interim management report (continued)

Outlook

The AA Intermediate Group continues to show positive momentum despite the ongoing challenging economic and competitive environment. The Roadside business continues to deliver revenue growth from growth in B2C membership and B2B customers. The Insurance market has seen strong price inflation and our Insurance business has increased prices in line with this, growing profit at the same time.

Our transformation programme is delivering strongly against Horizon 2 (Extending the business) with key milestones delivered including launching our refreshed brand identity and media campaign, improvements in the digital customer journey, improvements in our data capability and insights delivering savings and improvements in our tiered Insurance proposition offers, following our replatforming of our systems. We have also moved into delivery in Horizon 3 (Monetizing innovation) through the launch of our new connected car proposition (AA-X), which is now live in three trial areas.

As we approach the second half of our financial year, we remain focused on driving our transformation and developing further propositions for customers, with ensuring the health of our business by delivering further efficiency savings and assessing our pricing strategy to manage cost inflation in a sustainable manner.

TCFD update

The AA is required to report on climate-related risks and opportunities in line with the Task Force on Climate-Related Financial Disclosures (TCFD)'s recommendations by the end of this financial year.

The AA recognises that climate change poses risks and opportunities that could impact our business strategy as well as society in general. We also recognise the critical importance of reducing our GHG emissions and are committed to becoming Net Zero for our operational emissions by 2035. Over the last 18 months we have assessed our climate-related risks, undertaken climate-based scenario analysis and have improved the management of climate-related risks as part of our broader risk management framework.

Our Annual Report and Accounts at the end of this year will provide our first disclosure in relation to this work.

Financial performance

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

The two reportable operating segments are as follows:

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

Interim management report (continued)

Financial performance (continued)

	Six months ended July 2023 £m	Six months ended July 2022 (restated)[1] £m
Revenue		
Roadside business division	**460**	431
Insurance business division	**64**	54
Revenue	**524**	485
Adjusted EBITDA		
Roadside business division	**173**	176
Insurance business division	**18**	12
Adjusted EBITDA	**191**	188
Reported EBITDA		
Roadside business division	**154**	157
Insurance business division	**18**	12
Reported EBITDA	**172**	169

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

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

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

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

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.

Interim management report (continued)

Financial performance (continued)

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

	Six months ended July 2023 £m	Six months ended July 2022 (restated)[1] £m
Adjusted EBITDA	**191**	188
Amortisation of insurance acquisition cash flows	**(19)**	(19)
Reported EBITDA	**172**	169
Share-based payments	**(3)**	(1)
Pension service charge adjustment	**(3)**	(3)
Amortisation and depreciation	**(54)**	(48)
Adjusting operating items	**(18)**	(11)
Impairment of goodwill	**-**	(6)
Impairment of held for sale property	**-**	(1)
Gain on disposal of fixed assets	**1**	-
Net finance costs	**(73)**	(62)
Profit before tax	**22**	37

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

The adoption of IFRS 17 has resulted in a change to the numbers presented as part of EBITDA. The below table explains the difference between the Reported EBITDA (previously Trading EBITDA) reported in the prior year's interim financial statements and those reported this year:

Six months ended July 2022	**Roadside Business division £m**	**Insurance business division £m**	**Total £m**
Reported EBITDA (published 31 July 2022)	**151**	**12**	**163**
Loss component	3	-	3
Deferral of acquisition costs	22	-	22
Amortisation of insurance acquisition cash flows	(19)	-	(19)
Reported EBITDA	**157**	**12**	**169**

Capital expenditure

- Cash capital expenditure of £47m in H1 (H1 23: 39m) ensures we continue to be well invested as we finalise on Horizon 1 and deliver on Horizon 2 and Horizon 3, 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 2023:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	10 March 2026	3.49	150
Senior Term Facility	10 March 2026	7.17	15
Class A2 Notes	31 July 2025	6.27	500
Class A8 Notes	31 July 2027	5.50	325
Class A9 Notes	31 July 2028	3.25	270
Class A10 Notes	31 July 2029	7.38	385
Class A11 Notes	31 January 2028	8.45	400
Class B3 Notes	31 January 2026	6.50	280
Total loan notes			**2,325**

- The Class B Leverage Ratio was 6.6x as at 31 July 2023 (7.1x as at 31 July 2022)
- The Senior Leverage ratio was 5.7x as at 31 July 2023 (6.1x as at 31 July 2022)
- Class A FCF:DSCR ratio was 2.7x as at 31 July 2023 (2.8x as at 31 July 2022)
- On 17 August 2023 the AA Limited group repurchased and cancelled £61m of A2 Notes for cash consideration of £60m, thereby reducing the total debt held. The remaining A2 principal balance after this redemption is £439m.
- 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 2024 and 31 January 2025

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 2023 have substantively changed. Further information in respect of our Risk Management Framework, our Principle Risks and how we manage them can be found on pages 11 to 16 of the AA Intermediate Co Limited 2023 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 2023	As at 31 July 2022	As at 31 January 2023
		£m	**£m**	**£m**
Senior Term Facility		**165**	150	150
Class A notes		**1,880**	1,895	1,895
Less: cash and cash equivalents		**(109)**	(79)	(99)
Net Senior Secured Debt[1]		**1,936**	1,966	1,946
Class B notes		**280**	280	280
Lease obligations for covenant reporting[2]		**39**	20	31
Net Whole Business Securitisation (WBS) debt[3]		**2,255**	2,266	2,257
IFRS 16 lease adjustment for lease obligations[4]		**27**	26	28
Net Debt		**2,282**	2,292	2,285
Reconciliation to covenants				
Lease obligations for covenant reporting[2]		**39**	20	31
IFRS 16 lease adjustment for WBS for lease obligations[4]		**27**	26	28
Total lease liabilities as reported in the statement of financial position		**66**	46	59
Debt Covenant EBITDA for the last 12 months[5]		**342**	320	336
	Covenant			
Class B Leverage Ratio[6]		**6.6x**	7.1x	6.7x
Senior Leverage ratio[7]		**5.7x**	6.1x	5.8x
Class A free cash flow: debt service[8]	>1.35x	**2.7x**	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 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 Reported EBITDA as required by the debt documents based on frozen GAAP and accounting principles.

[6] Ratio of Net WBS Debt[3] to Debt Covenant EBITDA for the last 12 months[5].

[7] Ratio of Net Senior Secured Debt[1] to Debt Covenant EBITDA for the last 12 months[5].

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

Interim management report (continued)

Net debt and covenants (continued)

Class A free cash flow to debt service was 2.7 times as at 31 July 2023, showing substantial headroom over the covenants which are set out above. The cash within the ring-fenced group headed by AA Mid Co Limited is part of the whole business securitisation (WBS). A dividend cannot be paid from the ring-fenced group until a number of criteria have been met. These include:

- Class A Free Cash Flow: Debt Service is above 1.35x
- The Total Class A Net Debt to EBITDA ratio is less than 5.5x
- The Class B3 Note restrictions generally only permit the release of cash providing 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 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 £109m at 31 July 2023 (H1 23: £79m).

Consolidated income statement

	Note	Six months ended July 2023 £m	Six Months ended July 2022 (restated)[1] £m
Insurance revenue		**249**	239
Other revenue		**275**	246
Total income	**2**	**524**	485
Insurance service expenses		**(107)**	(103)
Other marketing and administration expenses		**(322)**	(283)
Operating profit		**95**	99
Finance income	**4**	**10**	2
Finance cost	**5**	**(83)**	(64)
Profit before tax		**22**	37
Tax expense	**6**	**(6)**	(5)
Profit for the year		**16**	32

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

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

Consolidated statement of comprehensive income

	Six months ended July 2023 £m	Six Months ended July 2022 (restated)[1] £m
Profit for the period	**16**	32
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	**4**	17
Tax effect of effective portion of changes in fair value of cash flow hedges	**(1)**	(4)
	3	13
Other comprehensive income on items that will not be reclassified to the income statement in subsequent years		
Remeasurement gains on defined benefit schemes	**41**	-
Tax effect	**(10)**	-
	31	-
Total other comprehensive income	**34**	13
Total comprehensive income for the period	**50**	45

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

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

Consolidated statement of financial position

	Note	**July 2023 £m**	July 2022 (restated)[1] £m	January 2023 (restated)[1] £m
Assets				
Goodwill and other intangible assets	**7**	**1,358**	1,340	1,353
Property, plant and equipment	**8**	**32**	33	35
Right-of-use assets	**9**	**67**	46	60
Investments in joint ventures and associates		**5**	5	5
Deferred tax asset		**-**	-	1
Defined benefit pension scheme assets	**19**	**-**	144	-
Derivative financial instruments after 1 year	**18**	**20**	11	14
Trade and other receivables after 1 year	**11**	**6**	-	6
Financial assets at amortised cost after 1 year	**23**	**-**	4	4
Derivative financial instruments within 1 year	**18**	**-**	3	1
Assets held for sale	**24**	**-**	7	2
Inventories		**4**	5	4
Trade and other receivables within 1 year	**11**	**241**	230	223
Amounts owed by other group undertakings	**12**	**1,207**	1,208	1,211
Current tax receivable		**-**	5	10
Financial assets at amortised cost within 1 year	**23**	**1**	-	-
Cash and cash equivalents	**13**	**109**	79	99
Total assets		**3,050**	3,120	3,028
Liabilities				
Insurance contract liabilities	**10**	**(109)**	(115)	(108)
Trade and other payables	**14**	**(286)**	(260)	(284)
Current tax payable		**(2)**	-	-
Amounts due to other group undertakings	**12**	**(90)**	(75)	(70)
Lease liabilities due within 1 year		**(24)**	(15)	(23)
Provisions due within 1 year	**15**	**(4)**	(2)	(5)
Lease liabilities due after 1 year		**(42)**	(31)	(36)
Derivative financial instruments after 1 year	**18**	**(1)**	-	(1)
Deferred tax liability		**(1)**	(77)	-
Borrowings	**16**	**(2,295)**	(2,307)	(2,309)
Cash settled share-based payment		**-**	(1)	-
Provisions due after 1 year	**15**	**(7)**	(10)	(6)
Defined benefit pension scheme liability	**19**	**(119)**	-	(169)
Total liabilities		**(2,980)**	(2,893)	(3,011)
Net assets/(liabilities)		**70**	227	17
Equity				
Share capital	**22**	**361**	361	361
Cash flow hedge reserve		**20**	17	17
Retained earnings		**(311)**	(151)	(361)
Total equity		**70**	227	17

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

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

Consolidated statement of changes in equity

Attributable to the equity holders of the parent

	Note	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2022 (reported)		**361**	**4**	**(205)**	**160**
Change in accounting policy	**26**	-	-	22	22
At 1 February 2022 (restated)		**361**	**4**	**(183)**	**182**
Profit for the period		-	-	32	32
Other comprehensive income		-	13	-	13
Total comprehensive income		-	13	32	45
At 31 July 2022		**361**	**17**	**(151)**	**227**
At 1 February 2023 (reported)		**361**	**17**	**(390)**	**(12)**
Change in accounting policy	**26**	-	-	29	29
At 1 February 2023 (restated)		**361**	**17**	**(361)**	**17**
Profit for the period		-	-	16	16
Other comprehensive income		-	3	31	34
Share-based payment		-	-	3	3
Total comprehensive income		-	3	50	53
At 31 July 2023		**361**	**20**	**(311)**	**70**

Cash flow hedge reserve

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

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

Consolidated statement of cash flows

	Note(s)	**Six months ended July 2023 £m**	Six months ended July 2022 (restated)[1] £m
Operating activities			
Profit before tax		**22**	37
Amortisation, depreciation and impairment	**7, 8, 9**	**54**	54
Net finance costs	**4, 5**	**73**	62
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)
Movement in trade and other receivables and payables		**14**	(13)
Increase/(decrease) in insurance contract liabilities		**1**	(10)
Total working capital and provisions adjustments		**15**	(24)
Net cash flows from operating activities before tax		**154**	119
Tax paid		**(4)**	(9)
Net cash flows from operating activities		**150**	110
Investing activities			
Capital expenditure		**(47)**	(39)
Proceeds from sale of fixed assets		**3**	2
Receipt of principal of financial asset at amortised cost		**3**	-
Investment in joint venture		**(1)**	(1)
Interest received		**3**	-
Net cash flows used in investing activities		**(39)**	(38)
Financing activities			
Proceeds from borrowings		**537**	250
Issue costs on borrowings		**(5)**	(1)
Debt repayment premium and penalties		**-**	(1)
Receipt on settlement of gilt lock		**-**	10
Repayment of borrowings		**(544)**	(250)
Refinancing transactions		**(12)**	8
Interest paid on borrowings		**(73)**	(58)
Payment of lease capital		**(15)**	(9)
Payment of lease interest		**(1)**	(1)
Net cash flows used in financing activities		**(101)**	(60)
Net increase in cash and cash equivalents		**10**	12
Cash and cash equivalents at the beginning of the period		**99**	67
Cash and cash equivalents	**13**	**109**	79

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

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

Notes to the financial statements

1 Basis of preparation

a) Adoption of new accounting standards

The Group adopted IFRS 17 on 1 February 2023, which replaces IFRS 4 – Insurance Contracts ("IFRS 4"). IFRS 17 was applied retrospectively as at 1 February 2022, as a result comparative information was restated.

Changes to classification, recognition and measurement

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts. It introduces a General Measurement Model ("GMM") that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin ("CSM"). Entities also have the option to use a simplified measurement model (the "PAA"), for short-duration contracts. The Group chose to apply the PAA model for all of its insurance and reinsurance contracts.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows.

The accounting under IFRS 17 is similar to IFRS 4, but differs in the following key areas:

Acquisition costs

IFRS 17 permits costs that relate to selling, starting, and underwriting a group of insurance contracts to be deferred over the contract period, and in certain circumstances, over the period of expected renewals of the contract. The Group has elected to defer these acquisition costs over an expected renewal period of five years. This has resulted in the recognition of a deferred acquisition cost asset and the associated amortisation.

Loss component

IFRS 17 requires a loss component to be recognised where the group of contracts are expected to be onerous (i.e. the costs of performing the contract exceed the income).

Changes to presentation and disclosure

Balance sheet

Under IFRS 17 previously reported line items are presented together by portfolio on a single line called *insurance contract liabilities or assets*. Presentation is driven by portfolios which are composed of groups of contracts covering similar risks that are managed together.

Portfolios of insurance and reinsurance contracts are presented separately between:

- Portfolios of insurance contracts that are assets;
- Portfolios of insurance contracts that are liabilities; and

Portfolios were established at initial recognition in accordance with IFRS 17. Portfolios and groups may change prospectively if there are changes to how the Company manages its business.

Income statement

IFRS 17 introduces presentation changes in the income statement where direct insurance results are presented separately from other results. Expenses are classified either as insurance acquisition cash flows and fulfilment cash flows within insurance service expense, or as other expenses when they are not directly attributable to insurance contracts.

Disclosures

IFRS 17 includes detailed disclosure requirements on the amounts recognised from insurance contracts and the nature and extent of related risks arising. It also recommends disclosing information at a more detailed level than required under IFRS 4.

Notes to the financial statements (continued)

1 Basis of preparation (continued)

a) Adoption of new accounting standards (continued)

Disclosures (continued)

The Directors have used their judgement in determining the appropriate level of disclosures included in these first interim financial statements. The additional disclosures present materially new or modified information that, when combined with the Group's annual financial statements, provide sufficient information to understand the impact of the adoption of IFRS 17. The Group expects to provide additional information in its first full financial statements under IFRS 17.

Transition

On the transition date of 1 February 2022, the Company identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied, and derecognised any existing balances that would not exist had IFRS 17 always applied. Any resulting net difference was recognised in equity.

b) Accounting policies

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) and the Financial Conduct Authority's Disclosure and Transparency Rules. Accordingly, they do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 January 2023.

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 2023 were approved by the Board of Directors on 9 June 2023 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 January 2023 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, with the exception of the following.

Insurance contracts

At inception, the Group separates the following components from an insurance contract and accounts for them as if they were stand-alone financial instruments:

- Derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance contract as a stand-alone instrument; and
- Distinct investment components, being investment components that are not highly interrelated with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Group separates any promises to transfer to policyholders' distinct services other than insurance coverage and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A service is distinct if the policyholder can benefit from it either on their own or with other resources that are readily available to the policyholder. A service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the service are highly interrelated with those associated with the insurance component, and the Group provides a significant service of integrating the service with the insurance component.

Notes to the financial statements (continued)

1 Basis of preparation (continued)

b) Accounting policies (continued)

Insurance contracts (continued)

Recognition

The Group has identified insurance contracts written within the scope of IFRS 17 and has grouped them together in the Roadside portfolio. Contracts will be allocated to groups within the portfolio based upon the expected profitability. Groups of contracts contain only contracts issued no more than one year apart. All other contracts written and sold by the Group are outside of the scope of IFRS 17.

The Group initially recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; or
- The issue date when the group of insurance contracts is onerous.

Measurement

All of the Group's insurance contracts written have been assessed as eligible for the Premium Allocation Approach (PAA). This is primarily because most contracts provide coverage for one year or less.

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

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

For the Roadside insurance contracts where claims (breakdown recoveries) are incurred and settled in a short time period (within the same day) there is not expected to be any liability for incurred claims outstanding at any point in time.

Onerous contracts

A group of contracts is onerous if there is a net outflow of fulfilment cash flows. If at any time before, or during coverage, facts and circumstances indicate that a Group of contracts is onerous, then the Group will increase the liability for remaining coverage by including a loss component, with the loss being recognised in the income statement. The loss component is then amortised to net income over the coverage period to offset incurred claims in insurance service expense. The loss component is measured on a gross basis.

Acquisition cashflows

Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort.

If insurance acquisition cash flows are directly attributable to a group of contracts (e.g. non-refundable commissions paid on issuance of a contract), then they are allocated to that group and to the groups that will include renewals of those contracts.

Insurance acquisition cash flows arising before the recognition of the related group of contracts are recognised as an asset. The asset is derecognised, fully or partially, when the insurance acquisition cash flows are included in the measurement of the group of contracts.

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, then the Group recognises an impairment loss in the income statement.

Notes to the financial statements (continued)

1 Basis of preparation (continued)

b) Accounting policies (continued)

Insurance contracts (continued)

Derecognition and contract modification

The Group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

When a contract is derecognised under the PAA, any resultant gain or loss is recognised in the income statement.

c) 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 6 February 2023 the AA Limited group issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed using the £98m surplus and £5m of additional cash.

On 23 June 2023 the AA Limited group issued an additional £135m of Class A10 Notes at an interest rate of 7.38%. This rate is below the prevailing yield at the time of issue of 9.50% and so the Notes were issued below par. The proceeds of the issue were therefore £122m. The proceeds were used in combination with existing cash held to redeem the outstanding £129m of Class A7 Notes.

On 17 August 2023 the AA Limited group repurchased and cancelled £61m of A2 Notes for cash consideration of £60m. The remaining A2 principal balance after this redemption is £439m.

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.

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 2023.

Notes to the financial statements (continued)

2 Segmental information and revenue disaggregation

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

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

Insurance revenue includes £11m (H1 23: £11m) which is recognised under the effective interest method.

Disaggregation of revenue:

	Six months ended July 2023 £m	Six months ended July 2022 £m
Roadside business division:		
Consumer (B2C)		
Insured contracts	**258**	247
Pay for use contracts[1]	**29**	26
Business Services (B2B)		
Insured contracts	**29**	17
Pay for use contracts[1]	**93**	93
Roadside other[2]	**51**	48
Total Roadside business division	**460**	431
Insurance business division:		
Brokering activities	**54**	44
Insurance other[2]	**10**	10
Total Insurance business division	**64**	54
Total revenue	**524**	485

[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.

Revenue from Insured contracts differs to Insurance revenue in the Consolidated Income Statement due to application of the fixed fee exemption in IFRS 17, which allows contracts meeting certain criteria to apply IFRS 15 as an alternative. Insurance broking is also recognised in accordance with IFRS 15 so does not appear in Insurance revenue in the Consolidated Income Statement

Notes to the financial statements (continued)

3 Adjusting operating items

	Six months ended July 2023 £m	Six months ended July 2022 £m
Adjusting operating items	**18**	11

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

In the prior 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) and £1m impairment of investments in joint ventures, offset by £1m profit on disposal of non-current assets.

Costs from the current period refinancings in February and July 2023 were directly attributable to the issue and repayment of loan notes and have therefore been included either in finance costs or in borrowings as debt issue fees (see notes 5 and 17).

4 Finance income

	Six months ended July 2023 £m	Six months ended July 2022 £m
Gain on below par redemption of loan notes (Note 17)	**6**	-
Total adjusting cash finance income	**6**	**-**
Interest income on bank deposits	**3**	-
Total ongoing cash finance income	**3**	**-**
Net finance income on defined benefit pension schemes	**-**	2
Fair value movement on gilt lock	**1**	-
Total ongoing non-cash finance income	**1**	2
Total finance income	**10**	2

Notes to the financial statements (continued)

5 Finance costs

	Six months ended July 2023 £m	Six months ended July 2022 £m
Interest on external borrowings	**74**	59
Finance charges payable on lease liabilities	**1**	1
Total ongoing cash finance costs	**75**	60
Ongoing amortisation of debt issue fees	**3**	2
Net finance expense on defined benefit pension schemes	**3**	-
Total ongoing non-cash finance costs	**6**	2
Debt management and early repayment fees	**-**	1
Total adjusting cash finance costs	**-**	1
Unamortised debt issue fees written off following repayment of borrowings	**2**	1
Total adjusting non-cash finance costs	**2**	1
Total finance costs	**83**	64

During the current period, in order to redeem its Class A7 Notes, the Group issued £400m of Class A11 Notes and an additional £135m of Class A10 Notes. The issues of the Class A11 and Class A10 Notes were not a modification of any existing debt and the associated issue fees were capitalised.

6 Tax

The major components of the income tax expense are:

	Six months ended July 2023 £m	Six months ended July 2022 (restated)[1] £m
Consolidated income statement		
Current income tax		
Current income tax charge	**16**	3
	16	3
Deferred tax		
Relating to origination and reversal of temporary differences – current year	**(10)**	2
	(10)	2
Tax charge in the income statement	**6**	5

[1] Prior period comparatives have been restated on the adoption of IFRS 17. See Note 26 for further details.

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.

Notes to the financial statements (continued)

6 Tax (continued)

The March 2021 budget announced that the main corporation tax rate would 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 the deferred tax calculations for both periods. The impact of this rate change was largely recognised during the year ended 31 January 2022. The H1 24 effective rate is higher than the standard rate of tax due to corporate interest restriction disallowance. 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.

7 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Software £m	Total £m
Cost				
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
At 1 February 2023	1,197	11	403	1,611
Additions	-	-	36	36
At 31 July 2023	**1,197**	**11**	**439**	**1,647**
Amortisation and impairment				
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
At 1 February 2023	33	4	221	258
Amortisation	-	1	30	31
At 31 July 2023	**33**	**5**	**251**	**289**
Net book value				
At 31 July 2023	**1,164**	**6**	**188**	**1,358**
At 31 July 2022	1,164	7	169	1,340
At 31 January 2023	1,164	7	182	1,353

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

Notes to the financial statements (continued)

8 Property, plant and equipment

	Buildings on long leasehold land £m	Plant & equipment £m	Total £m
Cost			
At 1 February 2022	7	76	83
Additions	-	3	3
Disposals	-	(11)	(11)
At 31 July 2022	7	68	75
At 1 February 2023	7	73	80
Additions	-	5	5
At 31 July 2023	**7**	**78**	**85**
Depreciation and impairment			
At 1 February 2022	7	40	47
Charge for the period	-	6	6
Disposals	-	(11)	(11)
At 31 July 2022	7	35	42
At 1 February 2023	7	38	45
Charge for the period	-	8	8
At 31 July 2023	**7**	**46**	**53**
Net book value			
At 31 July 2023	**-**	**32**	**32**
At 31 July 2022	-	33	33
At 31 January 2023	-	35	35

Notes to the financial statements (continued)

9 Right-of-use assets

	Property £m	Vehicles & equipment £m	Total £m
Cost			
At 1 February 2022	28	81	109
Additions	-	9	9
Disposals	-	(6)	(6)
At 31 July 2022	28	84	112
At 1 February 2023	32	102	134
Additions	-	22	22
Disposals	-	(11)	(11)
At 31 July 2023	**32**	**113**	**145**
Accumulated Depreciation and impairment			
At 1 February 2022	6	54	60
Charge for the period	1	10	11
Disposals	-	(5)	(5)
At 31 July 2022	7	59	66
At 1 February 2023	8	66	74
Charge for the period	2	13	15
Disposals	-	(11)	(11)
At 31 July 2023	**10**	**68**	**78**
Net book value			
At 31 July 2023	**22**	**45**	**67**
At 31 July 2022	21	25	46
At 31 January 2023	24	36	60

Notes to the financial statements (continued)

10 Insurance contracts

Net carrying amounts of insurance contracts

Liabilities for remaining coverage as at	31 July 2023 £m	31 July 2022 £m	31 January 2023 £m
Insurance contracts	**150**	156	148
Asset for insurance acquisition cashflows	**(41)**	(41)	(40)
Total insurance contract liabilities	**109**	115	108

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

	Total £m
Balance at 1 February 2023	40
Amounts incurred during the period	16
Amount derecognised and included in the measurement of insurance contracts	(15)
Balance at 31 July 2023	41
Balance at 1 February 2022	38
Amounts incurred during the period	18
Amount derecognised and included in the measurement of insurance contracts	(15)
Balance at 31 July 2022	41
Amounts incurred during the period	14
Amount derecognised and included in the measurement of insurance contracts	(15)
Balance at 31 January 2023	40

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

	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	Over 4 years £m	Total £m
31 July 2023	**20**	**11**	**7**	**3**	**-**	**41**
31 July 2022	20	11	7	3	-	41
31 January 2023	19	11	7	3	-	40

Notes to the financial statements (continued)

10 Insurance contracts (continued)

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

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

[1] Includes notional cash movement of £15m relating to expenditure in prior periods.

Notes to the financial statements (continued)

10 Insurance contracts (continued)

	Liabilities for remaining coverage		Liability for incurred claims	Total
	Incurred claims £m	Loss component £m	Estimates of present value of future cash flows £m	£m
Net opening insurance contract balances at 1 February 2022	**157**	**6**	**-**	**163**
Changes in the income statement				
Insurance revenue				
Full retrospective approach	(239)	-	-	(239)
Total insurance revenue	**(239)**	-	-	(239)
Insurance service expenses				
Incurred claims and other insurance service expenses	-	(4)	87	83
Amortisation of insurance acquisition cash flows	19	-	-	19
Losses on onerous contracts	-	1	-	1
Total insurance service expenses	**19**	**(3)**	**87**	**103**
Insurance service result	**(220)**	**(3)**	**87**	**(136)**
Cash flows				
Premiums received	235	-	-	235
Insurance acquisition cash flows paid[1]	(19)	-	-	(19)
Claims and other insurance service expenses paid	-	-	(87)	(87)
Total cash flows	**216**	**-**	**(87)**	**129**
Net closing insurance contract balances at 31 July 2022	**153**	**3**	**-**	**156**

[1] Includes notional cash movement of £15m relating to expenditure in prior periods.

Notes to the financial statements (continued)

10 Insurance contracts (continued)

	Liabilities for remaining coverage		Liability for incurred claims	Total
	Incurred claims £m	Loss component £m	Estimates of present value of future cash flows £m	£m
Net opening insurance contract balances at 1 February 2022	**157**	**6**	**-**	**163**
Changes in the income statement				
Insurance revenue				
Full retrospective approach	(485)	-	-	(485)
Total insurance revenue	**(485)**	**-**	-	(485)
Insurance service expenses				
Incurred claims and other insurance service expenses	-	(6)	173	167
Amortisation of insurance acquisition cash flows	40	-	-	40
Losses on onerous contracts	-	2	-	2
Total insurance service expenses	**40**	**(4)**	**173**	**209**
Insurance service result	**(445)**	**(4)**	**173**	**(276)**
Cash flows				
Premiums received	474	-	-	474
Insurance acquisition cash flows paid[1]	(40)	-	-	(40)
Claims and other insurance service expenses paid	-	-	(173)	(173)
Total cash flows	**434**	**-**	**(173)**	**261**
Net closing insurance contract balances at 31 January 2023	**146**	**2**	**-**	**148**

[1] Includes notional cash movement of £30m relating to expenditure in prior periods.

Notes to the financial statements (continued)

11 Trade and other receivables

	July 2023 £m	July 2022 £m	January 2023 £m
After one year			
Other receivables	**6**	-	6
	6	-	6
Within one year			
Trade receivables	**179**	174	163
Prepayments	**28**	24	29
Contract assets	**25**	23	25
Other receivables	**9**	9	6
	241	230	223

12 Amounts owed by / due to other group undertakings

	July 2023 £m	July 2022 £m	January 2023 £m
Amounts owed by other group undertakings	**1,207**	1,208	1,211
Amounts due to other group undertakings	**(90)**	(75)	(70)

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

13 Cash and cash equivalents

	July 2023 £m	July 2022 £m	January 2023 £m
Cash at bank and in hand – available	**109**	79	99

14 Trade and other payables

	July 2023 £m	July 2022 £m	January 2023 £m
Trade payables	**125**	99	123
Other taxes and social security costs	**13**	22	13
Accruals	**64**	65	65
Deferred income	**51**	49	50
Other payables	**33**	25	33
	286	260	284

Notes to the financial statements (continued)

15 Provisions

	July 2023 £m	July 2022 £m	January 2023 £m
Property leases	**3**	3	3
Other	**8**	9	8
	11	12	11
Within one year	**4**	2	5
After one year	**7**	10	6
	11	12	11

The property leases provision of £3m (H1 23: £3m) relates primarily to dilapidations. These sums are mainly expected to be paid out over the next 6 years; however, it will take 9 years to fully pay out all amounts provided for. The provision has been calculated at a risk-free rate.

At 31 July 2023, other provisions included £2m (H1 23: £1m) in relation to warranty for vehicle part replacements and £6m (H1 23: £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.

During the period, total provisions of £3m were utilised (H1 23: £3m) and net additional provisions of £3m were made (H1 23: £1m).

Contingent Liabilities

From time to time the Group is subject to other claims and potential litigation. At the time of these financial statements, the Directors do not consider any such claims and litigation to have anything other than a remote risk of resulting in any material liability to the Group.

Notes to the financial statements (continued)

16 Borrowings and loans

	July 2023 £m	July 2022 £m	January 2023 £m
Non-current			
Borrowings (see note 17)	**2,295**	2,307	2,309
	2,295	2,307	2,309

17 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total as at 31 July 2023 £m**	Total as at 31 July 2022 £m	Total as at 31 January 2023 £m
Senior Term Facility 2021	10 March 2026	3.48%	150	(1)	-	**149**	149	149
Senior Term Facility 2023	10 March 2026	7.17%	15	-	-	**15**	-	-
Class A2 Notes	31 July 2025	6.27%	500	(1)	1	**500**	500	500
Class A7 Notes	31 July 2024	4.88%	-	-	-	**-**	547	548
Class A8 Notes	31 July 2027	5.50%	325	(3)	1	**323**	323	323
Class A9 Notes	31 July 2028	3.25%	270	(4)	1	**267**	267	267
Class A10 Notes	31 July 2029	7.38%	385	(16)	1	**370**	248	248
Class A11 Notes	31 January 2028	8.45%	400	(4)	-	**396**	-	-
Class B3 Notes	31 January 2026	6.50%	280	(10)	5	**275**	273	274
		6.22%	2,325	(39)	9	**2,295**	2,307	2,309

On 6 February 2023 the Group renewed and increased its Liquidity Facility by £15m and by a further £25m on 7 June 2023, to a total of £200m. The facility remains undrawn.

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

The existing £150m Senior Term Facility commitments are subject to a variable interest rate of SONIA plus a Credit Adjustment Spread of 0.28% plus a margin of 2.75% per annum. The Group has an interest rate swap which fixes the variable SONIA interest rate at 0.46% through to 10 March 2026.

At 31 July 2023 all other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 6.22% has been calculated using the effective interest rate and principal values on 31 July 2023.

The Group’s £56m Working Capital Facility, of which £46m is available for cash drawings, remains undrawn.

Notes to the financial statements (continued)

17 Borrowings (continued)

On 6 February 2023 the Group issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed using the £98m surplus and £5m of additional cash.

On 23 June 2023 the Group issued an additional £135m of Class A10 Notes at a yield to maturity of 9.50% and a below par price of 90.31%. The proceeds of the issue of £122m were used in combination with existing cash held to redeem the outstanding £129m of Class A7 Notes.

On 17 August 2023 £61m of A2 Notes were repurchased and cancelled for cash consideration of £60m. The remaining A2 principal balance after this redemption is £439m.

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

All of the Class A Notes are secured by first ranking security in respect of the undertakings and assets of AA Intermediate Co Limited and its subsidiaries. The Class A facility security over the AA Intermediate Co Limited group’s assets ranks ahead of the Class B3 Notes. The Class B3 Notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co Limited group, AA Mid Co Limited. AA Mid Co Limited can only pay a dividend when certain Net Debt to Trading EBITDA and cash flow criteria are met.

Any voluntary early repayments of the Class A Notes would incur a make-whole payment of all interest due to the expected maturity date, although most classes of notes can be settled without penalty within a period before the expected maturity date. For the Class A8 Notes, Class A9 Notes, Class A10 Notes and Class A11 Notes this period is 6 months. Any voluntary repayment of the Class B3 Notes is to be made at a fixed premium until 31 January 2025 after which there is 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 Class A total debt service charges in excess of 1.35x. The actual Class A free cash flow to Class A total debt service charges as at 31 July 2023 was 2.7x (H1 23: 2.8x).

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 2023 was 5.7x (H1 23: 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 2023 was 2.3x (H1 23: 2.5x).

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 23 June 2023, 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)

18 Derivative financial instruments

	July 2023 £m	July 2022 £m	January 2023 £m
Financial derivative assets within one year			
Forward fuel contracts	**-**	3	1
Total	**-**	3	1
Financial derivative assets after one year			
Interest rate swap derivatives	**20**	9	14
Forward fuel contracts	**-**	2	-
Total	**20**	11	14
Financial derivative liabilities after one year			
Forward fuel contracts	(1)	-	(1)
Total	**(1)**	-	(1)

The forward fuel contracts asset is shown on a net basis as the asset is settled on a net basis. On a gross basis, the asset is £nil (H1 23: £5m) and the liability is £1m (H1 23: £nil). In the current year, the net position of the forward fuel contract has decreased and the interest rate swap has increased due to decreases in fuel prices and increases in interest rates respectively.

19 Defined benefit pension scheme liabilities

The Group operates two funded defined benefit pension schemes: the AA UK Pension Scheme (AAUK) and the AA Ireland Pension Scheme (AAI). The assets of the schemes are held separately from those of the Group in independently administered funds. Full disclosure of governance and valuations can be seen in the AA Limited 2023 Annual Report and Financial Statements on page 89 - 90. The amounts recognised in the statement of financial position are as follows:

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

	As at 31 July 2022			
	AAUK £m	AAI £m	AAPMP £m	Total £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**

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

	As at 31 January 2023			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension and healthcare plans	(1,730)	(36)	(24)	(1,790)
Fair value of plan assets	1,579	42	-	1,621
Surplus/(deficit)	**(151)**	**6**	**(24)**	**(169)**

The AAUK pension scheme was in deficit as at 31 July 2023. The movement since 31 January 2023 was mainly due to a decrease in the defined benefit obligation due to an improvement in financial conditions and changes to the latest mortality assumptions, partially offset by falls in hedging assets designed to move in line with movements in liabilities.

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

The next triennial actuarial valuation for the AA UK Pension Scheme will be carried out as at 31 March 2025 (the “2025 Valuation”). The AA and the AA UK Pension Trustee have until 30 June 2026 to agree the 2025 Valuation and any recovery plan to pay off any funding deficit identified. The 2025 Valuation could vary from the 2022 Valuation meaning the payments required into the AA UK Pension Scheme under any recovery plan could increase or decrease from those agreed for the 2022 Valuation.

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

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

Using an inflation assumption of 3.2% and a discount rate assumption of 5.3%, the present value of the future deficit reduction contributions has been calculated. These contributions remain due until such a time as another recovery plan is put in place, whether or not an IAS 19 surplus position is shown. The Group notes that, in the event a surplus is shown, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of AAUK scheme liabilities over time until all members have left the scheme.

The actuarial triennial review as at 31 December 2022 for the AAI pension scheme was completed during September 2023. This resulted in a funding surplus of 102% from c. £4m deficit as at 31 December 2019 to c. £1m surplus as at 31 December 2022. The Group made deficit reduction contributions of £1m in the year ended 31 January 2023 and will continue to make annual deficit reduction contributions, increasing with inflation, until December 2023 under the previous agreement. After this date deficit contributions will cease as agreed with the trustees based on the September 2023 review.

In total, the Group paid £15m (H1 23: £14m) 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.

Notes to the financial statements (continued)

19 Defined benefit pension scheme liabilities (continued)

The 31 January 2021 full accounting valuation of the AAPMP revealed a reduction in reported deficit as a result of the actual level of medical premium inflation experienced being lower than that assumed over the period between full valuations and the impact of the latest longevity expectations. The Group recognised a charge in the consolidated income statement of £13m in respect of defined contribution pension scheme costs in the period (H1 23: £13m).

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 2023		As at 31 July 2022		As at 31 January 2023	
	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	**-**	**12**	-	263	-	88
Bonds/gilts	**443**	**195**	338	428	326	325
Property	**4**	**212**	15	308	6	209
Hedge funds	**-**	**5**	1	157	1	60
Private equity	**-**	**133**	-	130	-	138
Cash/net current assets	**43**	**71**	24	66	46	14
Annuity policies	**-**	**337**	-	430	-	366
Total AAUK scheme assets	**490**	**965**	378	1,782	379	1,200

Approximately £16m 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 2023 %**	Jul 2022 %	Jan 2023 %	**Jul 2023 %**	Jul 2022 %	Jan 2023 %	**Jul 2023 %**	Jul 2022 %	Jan 2023 %
Pensioner discount rate - UK	**5.3**	3.4	4.5	**3.7**	2.2	3.4	**5.3**	3.4	4.5
Non-pensioner discount rate	**5.1**	3.5	4.5	**3.7**	2.3	3.4	**5.3**	3.4	4.5
Pensioner RPI	**3.2**	3.3	3.1	**-**	-	-	**3.2**	3.3	3.1
Non-pensioner RPI	**3.1**	3.1	3.1	**-**	-	-	**3.2**	3.3	3.1
Pensioner CPI	**2.5**	2.7	2.3	**2.5**	2.4	2.3	**2.5**	2.7	2.3
Non-pensioner CPI	**2.4**	2.5	2.3	**2.5**	2.4	2.3	**2.5**	2.7	2.3
Rate of increase of pensions in payment (final salary sections) - pensioner	**3.0**	3.2	2.9	**-**	-	-	**-**	-	-
Rate of increase of pensions in payment (final salary sections) – non-pensioner	**3.0**	3.0	2.9	**-**	-	-	**-**	-	-
Rate of increase of pensions in payment (CARE section) - pensioner	**1.8**	2.0	1.7	**-**	-	-	**-**	-	-
Rate of increase of pensions in payment (CARE section) – non-pensioner	**1.8**	2.0	1.7	**-**	-	-	**-**	-	-
Pension increase for deferred benefits	**2.4**	2.5	2.3	**2.5**	2.4	2.3	**-**	-	-
Medical premium inflation rate	**-**	-	-	**-**	-	-	**7.2**	7.3	7.1

Mortality assumptions are set using standard tables based on scheme-specific experience where available and an allowance for future improvements. For July 2023, the assumptions used were in line with the SAPS (S3) series mortality tables with scheme-specific adjustments (July 2022 – SAPS (S3) series with scheme-specific adjustments) with future improvements in line with the CMI_2022 model with a 1.00% long-term rate of improvement and experience weightings of 10% above the core model (July 2022 – CMI_2021 model with a 1.25% long-term rate of improvement and experience weightings of 10% above the core model). The AAI scheme mortality assumptions are set using standard tables with scheme-specific adjustments.

The AA schemes' overall assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 24 years (July 2022: 25 years) and an active female retiring in normal health currently aged 60 will live on average for a further 27 years (July 2022: 28 years).

Sensitivity analysis

Please refer to the AA Limited 2023 Annual Report and Financial Statements page 91 for further detail on sensitivity analysis, which has not moved materially.

Notes to the financial statements (continued)

20 Related parties

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

Transactions with associates:

		Six months ended		Year ended
		July 2023	July 2022	January 2023
Associate	Nature of transaction	**£m**	£m	£m
ARC Europe SA	Registration and call handling fees	**1**	1	2

At 31 July 2023, the Group had an outstanding balance payable to ARC Europe SA of £nil (H1 23: £1m) in respect of the above transactions.

Transactions with joint ventures:

		Six months ended		Year ended
		July 2023	July 2022	January 2023
Joint venture	Nature of transaction	**£m**	£m	£m
Drvn Solutions Limited	Goods supplied by Drvn Solutions Limited	**-**	-	1
AA Media Limited	Fixed rate loan notes	**1**	4	4

At 31 July 2023, the Group had an outstanding balance payable to Drvn Solutions Limited of £nil (H1 23: £nil) in respect of the above transactions.

At 31 July 2023, the Group had an outstanding balance receivable from AA Media Limited of £1m (H1 23: £4m) comprising fixed rate loan notes. On 27 March 2023, AA Media Limited repaid £3m (H1 23: £nil) of the outstanding £4m principal balance.

21 Fair values

Fair values

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

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

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

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.

Notes to the financial statements (continued)

21 Fair values (continued)

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 2023:

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

At 31 July 2022:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
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 January 2023:

		Fair value measurement using		
	Carrying value £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial assets measured at fair value				
Forward fuel contracts (Note 18)	1	1	-	-
Interest rate swap derivatives (Note 18)	14	14	-	-
Liabilities for which fair values are disclosed				
Forward fuel contracts (Note 18)	1	1	-	-
Loan notes (Note 17)	2,160	2,022	-	-

22 Share capital

	July 2023 £m	July 2022 £m	January 2023 £m
Allotted, called up and fully paid			
360,893,049 (July 2022: 360,893,049, January 2023: 360,893,049) ordinary shares of £1 each	**361**	361	361
	361	361	361

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

23 Financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	July 2023 £m	July 2022 £m	January 2023 £m
Non-current			
Loans to related parties	**-**	4	4
Current			
Loans to related parties	**1**	-	-

Loans to related parties comprises £1m of 5% fixed rate loan notes in issue from AA Media Limited to the Group. On March 29 2023, AA Media Limited repaid £3m of this loan. 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 Assets classified as held for sale

During FY22 the sale of two properties was approved. The sale of one of these properties completed in FY23 and resulted in a profit on sale of £1m which was included in the consolidated income statement. The sale of the second property was completed in May 2023. The realisable value of the property was impaired by £1m in FY23 and the proceeds on completion were in line with this revised value. The impairment was recognised in the consolidated income statement.

	July 2023 £m	July 2022 £m	January 2023 £m
Current			
Property, plant and equipment – property 1	**-**	5	-
Property, plant and equipment – property 2	**-**	2	2
	-	7	2

25 Events after the reporting period

A2 Loan Note repurchase

On 17 August 2023 the AA Limited group repurchased and cancelled £61m of A2 Notes for cash consideration of £60m. The remaining A2 principal balance after this redemption is £439m.

26 Prior year restatements

Upon transition to IFRS 17 on 1 February 2022, the Group's equity increased by £22m, mainly due to the deferral of additional indirect costs which were previously expensed as incurred.

The following table shows the impact of IFRS 17 on the primary financial statements as at 31 July 2023:

	Balance presented under IFRS 4 £m	**Deferral of acquisition cost adjustment under IFRS 4 £m**	**Restated under IFRS 4 £m**	**Impact of Remeasurement on application of IFRS 17 £m**	**Reclassification £m**	**Restated IFRS 17 Balance £m**
As reported at 31 January 2022						
Equity	N/A	N/A	**160**	22	-	**182**
As reported at 31 July 2022						
Total comprehensive income	(41)	-	**(41)**	(4)	-	**(45)**
Assets	3,118	15	**3,133**	42	(55)	**3,120**
Liabilities	(2,929)	(3)	**(2,932)**	(16)	55	**(2,893)**
Equity	189	12	**201**	26	-	**227**
As reported at 31 January 2023						
Assets	3,054	-	**3,054**	31	(57)	**3,028**
Liabilities	(3,066)	-	**(3,066)**	(2)	57	**(3,011)**
Equity	(12)	-	**(12)**	29	-	**17**