22 September 2015

AA plc interim results for the six months ended 31 July 2015

Transformation firmly on track with good progress in Roadside Assistance

Expect to meet year end expectations for the full year and interim dividend declared

Continued strong cash generation

	Six months ended		Year ended
	July 15	July 14	January 15
Revenue (£m)	484.6	491.7	983.5
Trading EBITDA[1] (£m)	199.2	211.8	430.1
Trading EBITDA[2] margin (%)	41.1	43.1	43.7
Adjusted basic EPS[3](p)	8.2	11.6	23.3
Cash conversion[4] (%)	111.8	100.9	100.0

Transformation and strategic developments

- These results demonstrate good progress in the transformation of the AA in line with the strategic objectives set at the time of the IPO 15 months ago
- Retention up and a slower rate of decline in Roadside Assistance Personal Members
- Award-winning advertising campaign showing positive signs
- Digital development progress with the app used in 5% of Personal Members' breakdowns
- IT systems transformation within budget and well on track for the first phase to be in place in July 2016 facilitating further restructuring and development of the membership proposition
- Restructuring now expected to achieve annualised saving of at least £40m in the medium term
- Development of Insurance Underwriter well on track and launch expected in the new year, creating a more sustainable and profitable insurance business model
- Financial Services partnership with Bank of Ireland and Roadside joint venture with TVS in India announced

Financial highlights

- Trading in line with expectations for the full year, reflecting the early phase of a major programme of modernisation and transformation as outlined at the year end. As indicated, the significant benefits of the transformation will not begin to be reflected in results until the latter half of the 2017 financial year
- Good progress is already being made. Roadside Assistance revenue up 2.1% to £359.1m showing early benefits of the transformation in increased retention and a slower decline in Personal Members
- Overall revenue reduced 1.4% to £484.6m as a result of the decline in income from Insurance Services including Financial Services, and reduced volume of Driving Services training courses
- The 5.9% reduction in Group Trading EBITDA to £199.2m is distorted by factors amounting to more than £15m which were not in last year's results: the early phasing of investment in brand marketing; the rollout of diagnostic technology; the runoff of a former credit card within Financial Services; the FX impact on the Ireland results; and public company operating costs
- Adjusted earnings per share were 8.2p reflecting in part the impact of the new capital structure
- Cash conversion before exceptional items improved to 111.8%, reflecting a positive working capital contribution to cash flow
- The refinancing was completed on 31 July 2015 with redemption of Class B and PIK notes. This resulted in a reduction of annual cash interest costs of £45m and of net debt to Trading EBITDA from 6.9x to 6.7x; it also facilitated the payment of dividends. The refinancing increased finance costs in the period to £202.2m of which £87.4m were exceptional
- At the refinancing, we committed to dividends of at least £50m in respect of the 2016 financial year. We now propose total dividends of approximately £55m or 9p per share for the full year and declare an interim dividend of 3.5p per share

Bob Mackenzie, Executive Chairman, commented:

"On IPO we set ourselves three objectives: to turn the AA into the UK's pre-eminent motoring services organisation, to revolutionise customer experience through investing and embracing new technology and, finally, to reduce group borrowing and the associated interest cost.

"I am pleased to report early and positive signs that our strategy will deliver our expectations of the AA brand. Our Roadside Assistance advertising was launched in June and has been well received. This together with changes to our product offering, pricing and marketing, is showing encouraging new sales, improving retention and slowing the decline in Personal Member numbers. Our digital development is making good progress with take up of the app growing monthly.

"There is a great deal still to be done, particularly relating to the revenue increases and cost reductions which are contingent on the introduction of our new IT systems. The first phase of the IT investment is firmly on track and expected to be in place in July 2016. This is the key step in reaching our three-year transformation strategy which will enable us to capitalise on the strength of the brand, modernise the business and enhance the customer experience as well as, over time, continue to reduce the financial leverage.

"There are however two external factors to consider: first, the Government recently and unexpectedly decided to increase Insurance Premium Tax by 58% from November – yet another imposition on the motorist in the UK. The impact on the AA is that it is likely to create additional churn in both Insurance and Roadside Assistance. Secondly, EU legislation on holiday pay may increase operating costs.

"We have met one of the original objectives already: our recent refinancing not only reduced the annual cash interest cost by £45m, but also enabled us to pay a dividend. Given the progress we are making in the transformation combined with the potential of the AA, we are increasing the proposed total dividend to approximately £55m for the current financial year and declaring an interim dividend of 3.5p per share.

"The AA has once again demonstrated its fundamental strength, stability and hugely cash generative characteristics. We are confident that we are in line with expectations for the full year and that we will position the AA as the digital brand for all motorists' needs."

Notes

1 Trading EBITDA: Earnings before interest, tax, depreciation and amortisation excluding exceptional items, share-based payments, acquisition earn-out costs and items not allocated to a business segment
2 Trading EBITDA margin: Trading EBITDA divided by revenue
3 Adjusted Basic EPS: Earnings per share adjusted for a number of one-offs of which the largest are exceptional items, the amortisation of debt issue fees and penalties on early repayment of debt
4 Cash conversion: Net cash inflows from operating activities before tax and exceptional items divided by Trading EBITDA

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Presentation

A presentation by Bob Mackenzie, Executive Chairman, and Martin Clarke, CFO, will be held for analysts, investors and bond holders at 9am today at London Stock Exchange, 10 Paternoster Square, London EC4M 7LS.

- Dial-in to the presentation: Webcast audio dial in: +44 20 3059 8125, Password: The AA
- Replay except from the US: +44 121 260 4861; from the US: 1 844 2308 058; Code: 1636186♯
- Link to the webcast: http://www.investis-live.com/aa/55e6fbde3923ce1000518b5e/ir-15

Executive Chairman's statement

Good progress in Roadside Assistance in a year of transformation

The performance of Roadside Assistance demonstrates the business's fundamental strengths and some early signs of progress in the transformation we are undertaking. However, strong competition in Motor Insurance, the reset of our Financial Services business and difficult trading conditions in Driving Services offset the 2.1% increase in Roadside Assistance revenue, resulting in an overall decline of 1.4% in Group revenue to £484.6m.

Group Trading EBITDA reduced 5.9% to £199.2m and is distorted by factors amounting to more than £15m which were not in last year's results: the early phasing of investment in brand marketing; the rollout of diagnostic technology; the runoff of a former credit card within Financial Services; the FX impact on the Ireland results; and public company operating costs.

We remain confident that we are on track to meet year-end expectations.

Roadside Assistance

	Six months ended		Year ended
	July 15	**July 14**	**Jan 15**
Revenue (£m)	359.1	351.8	728.1
Trading EBITDA	172.3	178.3	358.9
Trading EBITDA margin (%)	48.0	50.7	49.3
Roadside Assistance Personal Members (000s)	3,726	3,879	3,770
Average income per Personal Member (£)	138	130	135
Business Customers (000s)	9,981	9,529	9,640
Average income per Business Customer (£)	18	18	19
Number of breakdowns[1] (m)	3.5	3.4	3.5

1 Last 12 months

We are seeing strong signs of progress in those elements of the Roadside strategy which are not contingent upon the IT investment, and Roadside Assistance revenue rose 2.1% to £359.1m.

Retention is up one percentage point compared with last year and, while Personal Members declined 3.9% year-on-year to 3.7m, on a sequential basis the second quarter declined by only 0.3% compared to the first quarter. Average Income per Personal Member rose 6.2% year on year but is expected to moderate as we reduce renewal price increases to improve retention.

Operationally, service levels remain excellent and we have been awarded Which? Recommended Provider status for both consumer and manufacturer breakdown cover for the 10th year in a row. Alongside this, the reinforcement and differentiation of the AA's expertise and service levels in the advertising campaign has supported our more sophisticated and targeted marketing approach. The "Stay AA" programme, which drives retention while reducing discounting, has continued to perform well following the introduction of new initiatives.

In addition we have made good progress on key operational metrics such as patrol utilisation levels and roadside repair rates. The repair rate has risen as a result of the application of the Bosch diagnostic technology which is now substantially rolled out.

The 4.7% growth in Business customers to 10.0m arises mainly from new VW Group customers, following the contract win in June 2014. As the VW contract is now in its second year, this effect will drop out but we continue to develop our relationships with all our Business customers who are benefitting from buoyant UK new car sales.

Trading EBITDA declined 3.4% to £172.3m owing to increased garaging costs and the early phasing of advertising investment. Garaging costs increased to free up patrols for training in the Bosch diagnostic technology. Hot weather early in July also drove increased garaging costs. Investment in the advertising campaign to date amounted to £7.5m with the balance of the £10.0m anticipated spend to come in the second half.

The strategy for Roadside Assistance remains as set out at the Investor Day and we are putting in the new IT systems to realise revenue growth and efficiency improvements. We remain confident that we are on the right track to deliver the potential of this business in the medium term.

Insurance Services (including Financial Services and Home Services)

	Six months ended		Year ended
	July 15	**July 14**	**Jan 15**
Revenue (£m)	64.4	72.3	142.4
Trading EBITDA	37.3	41.6	83.9
Trading EBITDA margin (%)	57.9	57.5	58.9
Policy numbers in force[1] (000s)	2,131	2,222	2,163
Average income per policy (£)	63	66	66

1 Last 12 months excluding business customers

Revenue for Insurance Services, which includes Financial Services and Home Services, declined by 10.9% to £64.4m largely due to the one-off benefits to last year's Financial Services. While the tough trading conditions in motor insurance were reflected in our performance, our Home insurance business was stable and overall our core Motor and Home insurance business was relatively robust. Insurance policies in force declined 4.1% reflecting the fewer motor insurance policies as well as the curtailment of an introductory offer to Home Service customers.

Trading EBITDA of our core Motor and Home insurance businesses was approximately £1.0m lower than last year while the performance of Financial Services was affected by the benefit to last year's interim Trading EBITDA of £2.3m which arose from the run-off of the credit card offered by our former financial services business. The impact of the Financial Services credit card run off will amount to £4.9m in the full year. As a result, overall Trading EBITDA fell 10.3% but as a result of significant savings in our call centres, where we reduced costs by 16%, the Trading EBITDA margin percentage rose.

In motor insurance we expect no improvement in trading conditions in the short term. Premiums have risen across the market causing customers to continue actively shopping around for competitive prices. The 58% increase in Insurance Premium Tax (IPT) due in November will add considerably to the cost of car insurance and is likely to exacerbate price sensitivity and increase churn. We are taking specific steps to protect profits which may affect revenue in the short term.

The AA's leading brand consideration gives us significant strength in this market. Building on this, we believe we are capable of generating considerable value once our new integrated customer relationship management (CRM) system is in place. This will facilitate sales across our product range.

Insurance Underwriter: The combination of our brand and our proprietary data gives us a marked advantage as an insurance underwriter. With our deep understanding of our customers' motoring behaviour, we expect to be able to offer competitive pricing to an estimated 1m of our Roadside Assistance customers who are not served by our current broker insurance panel. The launch of our Insurance Underwriter is planned for early in the next financial year. Our entry into this segment will initially be conservative, with committed capital of £7.0m supplemented by reinsurance and coinsurance covering some 80% of the risk, and is expected to be loss-making in the short term.

Financial Services: We launched our financial services partnership with Bank of Ireland in July to provide a range of retail financial service products to UK consumers, taking advantage of our trusted brand and our positioning with our customers. The 10 year exclusive arrangement will combine the strength of our brand with the financial services expertise of Bank of Ireland UK, particularly demonstrated by its partnership with the Post Office.

The AA branded financial services products will include credit cards, loans, cash savings (including ISAs) and mortgages, the first of which, a new credit card, was launched in July. While car loans are an obvious fit, our first AA branded mortgage product, expected to be launched in 2016, will provide a strategic fit with our home services businesses. While this business is not expected to have an immediate impact on our profitability, we believe we can create a significant position, building on past experience of both the AA and Bank of Ireland.

Home Services: This business continues to perform well with growth in Trading EBITDA of 20% on a like-for-like basis. As only 3% of our Personal Members have some form of home emergency protection, we are encouraged by the opportunity this market presents, particularly for heating emergencies. In addition, we are working with partners to develop new products to build our presence in this profitable market.

Driving Services

	Six months ended		**Year ended**
	July 15	**July 14**	**Jan 15**
Revenue (£m)	32.8	38.4	73.7
Trading EBITDA	8.9	8.6	20.4
Trading EBITDA margin (%)	27.1	22.4	27.7
Number of driving instructors	2,602	2,763	2,670

Volumes of police referrals for Driving Services are down and buoyant economic conditions make it more difficult to recruit driving instructors. As a result, revenue is down 14.6% to £32.8m. We renegotiated the terms of our leases for the supply of driving school vehicles, resulting in the classification of these as finance leases. This increased Trading EBITDA by £2.6m and depreciation by £2.2m. Overall Trading EBITDA rose 3.5% to £8.9m.

Our focus in this business is to continue to develop DriveTech services for a broader customer base and to integrate Driving Schools more fully into our membership proposition to aid recruitment of Personal Members.

Ireland

	Six months ended		**Year ended**
	July 15	**July 14**	**Jan 15**
Revenue (£m)	18.8	19.4	38.7
Trading EBITDA	6.9	7.1	14.8
Trading EBITDA margin (%)	36.7	36.6	38.2
Personal members (‘000s)	122	116	119
Insurance policies (‘000s)	182	172	178

Ireland has performed strongly in both the insurance and roadside assistance markets, but the reported results reflect the weakness of the Euro. Hence revenue declined 3.1% to £18.8m and EBITDA fell 2.8% to £6.9m, but on a constant currency basis rose £1.6m and £0.6m respectively.

Strategic investment and developments

IT transformation

In March, we announced our plans to invest £128.0m over the next three years to modernise our IT, with some £80m of this in the current year. We have made excellent progress so far in implementing the plans to improve our IT capabilities but there is much still to be done. We expect the first phase of this programme to be in place to time and budget in July 2016 with full implementation to follow, enabling the IT-dependent elements of the business transformation.

The following achievements have been made:

- The building of a more sophisticated and integrated CRM capability is underway. This is the critical process needed to enable self-service for customers and to allow us to capture a single view of the customer's relationship with respect to all relevant AA product lines. With common processes across all products for sales, retention and service, it should allow easier transaction with the AA across multiple channels, helping to generate revenue and enhance the efficiency of our sales force.

- Smart phones and tablets are now being introduced to the patrol force and the development of AA Help, our deployment system for this technology, is on track. We look forward to connecting patrols more effectively, enabling easier communications and training, and facilitating development in technology as customers take up the app.

- We have upgraded the vast majority of all desktop computers in call centres and are now upgrading those in the back office. This will improve efficiency by enabling new IT interfaces and collaboration across the AA to operate smoothly.

- Take up of the new AA app, which was launched in November, is growing rapidly and now represents 5% of breakdowns. This will be a key driver of cost reductions as breakdowns go direct to patrols without the need for intermediation.

- Work is underway to improve self-service capability for AA Members. This is designed to give Members easier access to and administration of their policies and benefits.

Marketing and advertising

We have made good progress on marketing and advertising, resulting in strong new business volumes and improved retention rates.

As mentioned above, we have invested 75% of our anticipated spend of £10.0m for the year in TV and radio advertising. This award-winning advertising campaign has reinforced the brand, underpinning improvements we have made in direct marketing. Our marketing channels are now more targeted and sophisticated. In addition we have introduced new initiatives to address churn. We have recently introduced a clearly defined, low-cost basic roadside assistance product which helps to illuminate the benefits of full membership.

Once we have analysed the full impact of the advertising campaign and all our marketing initiatives, we will build our programme for next year, which is likely to be at least as extensive as the current year. It will target multi-product sales, develop the product and membership proposition as well as promote the brand. We also expect to commit increased resources to product development to enhance the membership proposition.

Membership proposition and business development

We continue to explore opportunities to enhance the membership proposition and strengthen our position as the pre-eminent motoring services organisation in the UK. Our focus is to develop our existing and new products, services and rewards for customers to enhance our positioning as a membership club serving a broader range of motorists' needs in the digital age.

AA Tyres, our mobile tyre fitting partnership launched earlier this year, is performing well and adding to the membership proposition as a more efficient way of undertaking tyre repairs both for the customer and ourselves. This should enable us to increase pre-emptive repairs, thereby reducing emergency call-outs and improving the efficient management of our resources. We continue to work closely with partners on car technologies for the connected car.

We have invested £4.0m in a 49% share of a joint venture with TVS Automobile Solutions, one of the largest players in the Indian automotive market. We will provide operational expertise to develop the business-to-business roadside assistance business in India, leveraging our strong existing relationships with car manufacturers. This will give us access to TVS's network in India where vehicle ownership is expected to increase significantly.

In August 2015 we agreed the disposal of AA AutoWindshields, our windscreens business, with completion expected later in the year. This is a strategic decision reflecting the highly competitive nature of the market and level of required investment. We will, under a ten-year partnership arrangement, continue to use AutoWindshields to deliver glass repair and replacement services for our Personal Members as well as our business-to-business and insurance customers.

We continue to review our business and product portfolio.

Restructuring

In March we announced that we would restructure to ensure we are more competitive, commercially agile and efficient. This would incur one-off costs of approximately £45m over the next three years and lead to a saving of approximately £40m per annum taking into account natural attrition and property rationalisation. We now expect savings of at least £40m per year to be generated once we have delivered the restructuring and are realising the full benefits of the new IT system.

We have made organisational changes to help direct focus on the customer and simplify management structures. The main changes are as follows:

- Mike Lloyd is responsible for the commercial areas across Roadside Assistance and, subject to regulatory approval, will be responsible for Insurance Services, including Financial Services, from the end of the financial year.
- Olly Kunc, is responsible for the operational areas of Roadside Assistance and Insurance Services, and is aiming to achieve efficient and excellent service levels which will also drive sales performance.
- Janet Connor becomes responsible for business transformation and the Insurance Underwriter with Craig Staniland, the CEO of the Insurance Underwriter, reporting to her.
- Kirsty Ross remains Membership Services Director and is also responsible for Group strategy.

Since the IPO, we have replaced a significant proportion of our senior management team and now feel we have the appropriate skill set to lead and reinforce the existing talent in the AA. The review of our property portfolio continues and our marketing and digital teams are now located in London where there is a larger pool of talent to attract the capabilities we need and work more closely with partners. This move has also enabled the creation of a dynamic and innovative culture.

Refinancing

The refinancing, announced in the first quarter, delivered one of the three strategic objectives we set at the IPO, namely to reduce Group borrowings and the associated interest costs.

We raised £200m of equity and issued new bonds of £735m allowing us to retire the most expensive elements of the debt, the original Class B and PIK notes that we inherited from the previous private equity owners. The refinancing was concluded on 31 July 2015 when the original Class B notes were repaid. While it generated significant one-off finance charges, it reduced the cash cost of servicing our debt by more than £45m per year. Net debt at 31 July 2015 was £2,811m compared to £2,967m at the year end.

This significant saving of interest charges, coupled with the removal of the dividend gating restrictions of the original Class B notes, enables us to pay dividends in respect of the current year.

Dividend

In view of the AA's business model, characterised by strong cash generation, our confidence in the transformation plans and the interest cost savings facilitated by the refinancing, the Board announced in March our intention to pay at least £50m in dividends in respect of the 2016 financial year.

Given the good progress we are making in the transformation, we now propose a total dividend of approximately £55m, or 9 pence per share, for the full year. The interim dividend of 3.5 pence per share, declared today, represents 39% of that total and will be paid on 23 October 2015 to shareholders registered on 2 October 2015 (with the ex-dividend date set for 1 October 2015). It remains our intention to pursue a progressive dividend policy.

Outlook

While good progress has already been made, most of our transformation initiatives are dependent on the new IT systems and will be enabled once those systems are in place next year. However, ahead of that, we will continue to improve retention and slow the rate of decline in Personal Members, reinforcing what we have achieved so far this year. With the majority of the diagnostic technology and advertising spend in the first half, we believe we are on track to meet expectations for the full year.

In the 2017 financial year, we can begin the process of realising the benefits of the new IT systems once they are in place in the second half. We will also assess the desirability of further investment in marketing based on evidence of the marketing campaign. We expect to commit increased resources to product development to enhance the membership proposition. Trading conditions in motor insurance are expected to remain challenging, exacerbated by the introduction of a higher rate of IPT, which will affect both insurance and roadside assistance. In addition, the introduction of the new EU legislation relating to holiday pay may add to our costs.

However we are encouraged by the early success of the Roadside Assistance transformation and confident of the potential the Insurance Underwriter can realise. With the anticipated returns on our investment in IT and brand marketing, we expect the transformation to deliver benefits in cost reduction and revenue growth in the medium term.

Bob Mackenzie

Executive Chairman

21 September 2015

Financial Report

	Six months ended July 2015	Six months ended July 2014
Revenue (£m)	484.6	491.7
Trading EBITDA[1] (£m)	199.2	211.8
Trading EBITDA[2] margin (%)	41.1%	43.1%
Net cash inflows from operating activities before tax and exceptional items[3] (£m)	222.7	213.7
Cash conversion[4] (%)	111.8%	100.9%
Adjusted earnings per share (pence)	8.2	11.6

1 Earnings before interest, tax, depreciation and amortisation excluding exceptional items, share-based payments, acquisition earn-out costs and items not allocated to a business segment
2 Trading EBITDA divided by revenue arising within operating segments
3 Net cash inflows from operating activities before tax and excluding cash flows from exceptional items (see note 6)
4 Net cash inflows from operating activities before tax and exceptional items divided by Trading EBITDA

Group revenues reduced by £7.1m in the six months ended 31 July 2015 to £484.6m (2014: £491.7m). This was principally as the result of strong competition in Motor Insurance, the reset of the Financial Services business and reduced volumes of training courses delivered in Driving Services partially offset by the 2.1% growth in revenues in Roadside Assistance.

Group Trading EBITDA reduced by 5.9% to £199.2m (2014: £211.8m) in the six months ended 31 July 2015, principally as a result of the £7.5m investment in the new Brand marketing campaign, higher garaging costs from the rollout of the Bosch diagnostic technology and £4.3m of on-going incremental public company costs which are included within the Head Office Costs segment. The incremental public company costs are expected to be approximately £8m in a full year. Trading EBITDA margins fell in the six months ended 31 July 2015 to 41.1% (2014: 43.1%).

Exceptional costs incurred in the six months ended 31 July 2015 of £26.4m include £0.5m relating to the impairment of software and £2.6m relating to a provision for the loss on disposal of Autowindshields (UK) Limited which is expected to complete in H2. The balance of exceptional costs of £23.3m principally related to cost restructuring activities. In the prior period, exceptional items of £39.4m included £33.6m relating to the IPO in June 2014.

Due mainly to the refinancing, Finance costs increased to £202.2m in the six months ended 31 July 2015 (2014: £138.6m). This increase is principally due to early repayment penalties of £62.1m (2014: £nil) and the exceptional write-off of debt issue fees of £17.7m (2014: £17.9m) relating to the refinancing announced in Q1. In addition, there was a finance charge of £7.6m (2014: £nil) relating to the extinguishment of the interest rate cashflow hedge following the repayment of £209.4m of the Senior Term Facility.

The tax income for the period is £12.5m (2014: £17.3m). The Group's effective tax rate is 19.7%. In the prior period, tax income included a credit of £21.9m relating to the recognition of a deferred tax asset and the impact of non-deductible costs for corporation tax purposes relating to the IPO. Excluding these items, the Group's underlying effective tax rate was 19.0%.

Overall the Group had a loss after tax for six months of £51.1m including the early repayment penalties and exceptional write-off of debt issue fees described above (2014: Profit after tax of £27.5m).

Financial Report (continued)

Cash flow, net debt and liquidity

Net debt and covenants	**As at 31 July 2015 £m**	**As at 31 July 2014 £m**
Senior Term Facility	453.6	663.0
Class A notes	1,725.0	1,725.0
Less: AA Intermediate Co Limited group cash and cash equivalents	(114.3)	(204.2)
Net Senior Secured Debt[1]	2,064.3	2,183.8
Class B and B2 notes	735.0	655.0
Finance lease obligations	52.2	39.4
Net Debt excluding PIK notes[2]	2,851.5	2,878.2
PIK notes	-	350.0
Less: AA plc Group cash and cash equivalents[3]	(40.3)	(234.2)
Total Net Debt	2,811.2	2,994.0
Trading EBITDA for the last 12 months	417.5	430.8
Net debt ratio[4]	6.7x	6.9x
Class B Leverage ratio[5]	6.8x	6.7x
Senior leverage ratio[6]	4.9x	5.1x
Class A Free Cash Flow : Debt Service[7]	3.8x	3.2x
Class B Free Cash Flow : Debt Service[8]	2.2x	2.1x

1 Principal amounts of the Senior Term Facility and Class A notes less AA Intermediate Co Limited group cash and cash equivalents
2 Principal amounts of the Senior Term Facility, Class A notes, Class B notes and finance leases less AA Intermediate Co Limited group cash and cash equivalents
3 Total cash and cash equivalents for the Group excluding the value reported as the AA Intermediate Co Limited group cash and cash equivalents
4 Ratio of Total Net Debt to Trading EBITDA for the last 12 months
5 Ratio of Net Debt excluding PIK notes[2] to Trading EBITDA for the last 12 months
6 Ratio of Net Senior Secured Debt[1] to Trading EBITDA for the last 12 months
7 Ratio of last 12 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.
8 Ratio of last 12 months free cash flow to proforma debt service.

Cash generation for the Group has remained strong with net cash inflows from operating activities before exceptional items and tax of £222.7m (2014: £213.7m) and cash conversion of 111.8% (2014: 100.9%) in the six months ended 31 July 2015. Overall, improved profitability combined with net cash generation after debt service and proceeds from the equity issue in Q1, has led to a further deleveraging of the Group. Net debt to Trading EBITDA for the last 12 months stood at 6.7 times and net senior secured debt to Trading EBITDA at 4.9 times as at 31 July 2015.

Class A free cash flow to debt service was 3.8 times as at 31 July 2015 and Class B free cash flow to debt service was 2.2 times, showing substantial covenant headroom.

Financial Report (continued)

Cash flow, net debt and liquidity (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
- Class B Free Cash Flow : Debt Service is above 1.00x
- The Senior Leverage ratio is less than 5.5x
- Finance charges : Trading EBITDA is above 2x where finance charges relate to the ring-fenced group and are on a proforma basis based on the Group's borrowings at the time of the test and exclude the amortisation of debt issue fees and net finance expense on defined benefit schemes
- The Group is also subject to a maximum cumulative dividend payout related to the cumulative cash generation and cumulative EBITDA since the WBS was established, which are significantly higher than the proposed dividends.

The Group has a cash balance of £154.6m, invested in AAA money market funds, giving overnight access and high liquidity. The Group has not drawn its Working Capital Facility and does not currently envisage needing to do so.

The Group is required to hold segregated funds as 'restricted cash' in order to satisfy regulatory requirements governing our insurance underwriting business and Irish subsidiaries. These restricted cash balances were £24.5m at 31 July 2015 (2014: £23.7m). In the prior period, the Group also held £35.3m of pre-funded cash to pay PIK note interest.

Financing transactions in the period

In April 2015, the AA plc issued £193.3m of equity, net of issue fees of £6.6m, and used the proceeds to repay the remaining £175.0m of PIK notes. As part of this repayment, the Group incurred an early repayment charge of £3.5m and debt issue fees outstanding of £2.0m were written off.

On 13 April 2015 the Group issued £735.0m of new Class B2 loan notes with an interest rate of 5.5% and an expected maturity of 31 July 2022. Using the proceeds combined with existing cash resources, the Group paid off all £655.0m of the existing Class B notes and £209.4m of the Senior Term Facility. The interest rate on the £209.4m Senior Term Facility repaid has been hedged with a matching interest rate swap. The redemption of the Class B Notes incurred an early repayment charge of £58.6m and debt issue fees outstanding of £15.7m relating both to the Class B Notes and Senior Term Facility were written off.

Principal risks and uncertainties

The Board has considered the Company's Principal Risks, which are detailed below. The Board has not identified any material change to the Company's Principal Risks since the Annual Report 2015 with the exception of the mitigation arising from the successful completion of a debt restructuring. These risks are summarised as follows:

We are unable to maintain an outstanding service at a fair price: The AA's brand and its continued success rely on delivering outstanding service at a fair price. The lack of any significant investment in IT processes and systems in recent years might, if not addressed, impact on our continued ability to deliver the service level our Members expect.

We are unable to grow the business in a manner that complements and sustains the brand: We will be unable to develop and grow new profitable business products and lines that complement the customer experience and which demonstrate standards and values that underly our core brand.

We are unable to maintain our market share and gross margin on our roadside services: Competitors that provide roadside services at a lower price together with changes in car technology threaten our roadside revenues. This requires us to demonstrate more clearly that we deliver a consistent, superior level of service and ensure our pricing remains competitive for the services we deliver.

Financial Report (continued)

Principal risks and uncertainties (continued)

Aggregators and price comparison sites will further damage the insurance broker model: The further growth of price comparison sites may continue to transfer value from our insurance brokering business.

A changing regulatory environment may adversely affect our activities: The changing regulatory environment could cause currently compliant services to become non-compliant with material implications for customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in substantial fines, etc.

We are unable to successfully deliver the essential business transformation: A significant change and enhancement to the leadership and management capability was necessary to envision and implement the required business transformation. In particular the Company's marketing and digital services require significant enhancement. Whilst a new Board and senior management team are now in place there is still a need to recruit or develop further talented people to deliver the necessary business capability and ensure adequate succession planning. In addition, we need to develop new management processes to achieve the transformation and strengthen business continuity.

We are unable to successfully deliver the essential IT transformation: The essential programme of renewal and enhancement of our IT estate is necessary to address the risks to our brand and our competitive capability and to provide improved data and systems security particularly against unauthorised access. It is extensive and involves a complex programme of work over the next 12 to 18 months. Given the scale and complexity, the programme involves inherent implementation risks.

The AA is a highly leveraged company with a substantial pension fund, currently in deficit: The Company is unable to repay or refinance its debt at an acceptable price. The Company has a large pension scheme, currently in deficit, whose assets and obligations are subject to future variation from investment returns, longevity and other similar factors.

Since publication of the Annual Report 2015, the Company completed a debt restructuring, which reduced the average cost of debt from 5.9% to 5.0% per cent, and lengthened maturities from an average of 5.3 years at 31 January 2015 to 5.7 years at 31 July 2015. Whilst the Company remains highly leveraged, this restructuring improves the ability of the Company to manage unforeseen financial shocks.

The Group risk profile will evolve as mitigating activities succeed in reducing the net risks over time, or as new risks continue.

The risks listed above do not comprise all those associated with the AA, and are not set out in any order of priority. Additional risks and uncertainties not presently known to management or currently deemed to be less material, may also have an adverse effect on the business.

Post Balance Sheet Events

During August 2015, AA plc group agreed to dispose of its subsidiary Autowindshields (UK) Limited. Contracts were exchanged in August 2015 and the sale is expected to complete by the end of the financial year.

On 19 August 2015, AA plc purchased XL Underwriting Limited for £7.0m. This company had existing regulatory capital of £7.0m and forms the basis of the Group's new underwriting activities.

Martin Clarke

Chief Financial Officer

21 September 2015

Consolidated income statement

	Note	**Six months ended July 2015 £m**	Six months ended July 2014 £m
Revenue	2	**484.6**	491.7
Cost of sales		**(172.1)**	(172.3)
Gross profit		**312.5**	319.4
Other operating income		**0.1**	0.1
Administrative & marketing expenses		**(175.3)**	(171.5)
Share of profit from joint ventures and associates, net of tax		**0.4**	0.5
Operating profit		**137.7**	148.5
Trading EBITDA	2	**199.2**	211.8
Items not allocated to a segment	2	**(7.6)**	(1.8)
Amortisation and depreciation		**(25.9)**	(21.9)
Share-based payments and acquisition earn-out costs		**(1.6)**	(0.2)
Exceptional items	2	**(26.4)**	(39.4)
Operating profit		**137.7**	148.5
Finance costs	3 (a)	**(202.2)**	(138.6)
Finance income	3 (b)	**0.9**	0.3
(Loss)/profit before tax		**(63.6)**	10.2
Tax income	4	**12.5**	17.3
(Loss)/profit for the period		**(51.1)**	27.5

Earnings per share from the (loss)/profit for the period:

	Note	**Six months ended July 2015 pence**	Six months ended July 2014 pence
Basic	5	**(8.8)**	5.7
Diluted	5	**(8.8)**	5.7

The accompanying notes are an integral part of these financial statements.

Consolidated statement of comprehensive income

	Note	**Six months ended July 2015 £m**	Six months ended July 2014 £m
(Loss)/profit for the period		**(51.1)**	27.5
Other comprehensive income on items that are or may be reclassified to profit and loss in subsequent years			
Exchange differences on translation of foreign operations		**(0.2)**	(0.1)
Effective portion of changes in fair value of cash flow hedges		**17.0**	4.0
Tax effect		**(3.4)**	(0.8)
		13.4	3.1
Other comprehensive income on items that are not to be reclassified to profit and loss in subsequent years			
Remeasurement differences on defined benefit schemes	14	**111.4**	(1.0)
Tax effect		**(21.9)**	0.1
		89.5	(0.9)
Total other comprehensive income		**102.9**	2.2
Total comprehensive income for the period		**51.8**	29.7

The accompanying notes are an integral part of these financial statements.

Consolidated statement of financial position

	Note	July 2015 £m	July 2014 £m	January 2015 £m
Non-current assets				
Goodwill and other intangible assets	7	**1,270.9**	1,249.9	1,256.9
Property, plant and equipment	8	**106.0**	93.0	99.8
Investments in joint ventures and associates		**8.4**	4.0	4.1
Deferred tax assets		**57.0**	53.4	81.4
Other receivables	9	**-**	13.1	21.2
		1,442.3	1,413.4	1,463.4
Current assets				
Inventories		**5.3**	5.4	5.0
Trade and other receivables	9	**184.4**	175.4	187.1
Current tax receivable		**-**	-	1.2
Cash and cash equivalents	10	**154.6**	438.4	301.5
		344.3	619.2	494.8
Assets held for sale		**3.0**	-	-
Total assets		**1,789.6**	2,032.6	1,958.2
Current liabilities				
Trade and other payables	11	**(523.4)**	(498.4)	(498.2)
Provisions		**(6.4)**	(10.7)	(8.0)
		(529.8)	(509.1)	(506.2)
Non-current liabilities				
Borrowings and loans	12	**(2,910.7)**	(3,376.9)	(3,240.9)
Finance lease obligations		**(20.4)**	(10.8)	(15.8)
Defined benefit pension scheme liabilities	14	**(328.5)**	(266.5)	(434.4)
Provisions		**(11.3)**	(14.1)	(12.2)
Insurance technical provisions		**(3.9)**	(4.3)	(3.9)
		(3,274.8)	(3,672.6)	(3,707.2)
Liabilities held for sale		**(4.5)**	-	-
Total liabilities		**(3,809.1)**	(4,181.7)	(4,213.4)
Net liabilities		**(2,019.5)**	(2,149.1)	(2,255.2)
Equity				
Share capital		**0.6**	0.6	0.6
Share premium	15	**393.0**	199.7	199.7
Own shares		**(11.0)**	-	-
Currency translation reserve		**(2.1)**	(1.2)	(1.9)
Cashflow hedge reserve		**(4.0)**	(3.0)	(17.6)
Retained earnings		**(2,396.0)**	(2,345.2)	(2,436.0)
Total equity attributable to equity holders of the parent		**(2,019.5)**	(2,149.1)	(2,255.2)

The accompanying notes are an integral part of these financial statements.

Consolidated statement of changes in equity

Attributable to the equity holders of the parent

	Share capital £m	Share premium £m	Own Shares £m	Currency translation reserve £m	Cashflow hedge reserve £m	Retained earnings £m	**Total £m**
At 1 February 2014	**0.2**	**0.8**	**-**	**(1.1)**	**(6.2)**	**(2,371.9)**	**(2,378.2)**
Profit for the period	-	-	-	-	-	27.5	27.5
Other comprehensive income	-	-	-	(0.1)	3.2	(0.9)	2.2
Total comprehensive income	-	-	-	(0.1)	3.2	26.6	29.7
Reorganisation of share capital	0.3	(0.3)	-	-	-	-	-
Issue of share capital	0.1	199.2	-	-	-	-	199.3
Share-based payments	-	-	-	-	-	0.1	0.1
At 31 July 2014	**0.6**	**199.7**	**-**	**(1.2)**	**(3.0)**	**(2,345.2)**	**(2,149.1)**
At 1 February 2015	**0.6**	**199.7**	**-**	**(1.9)**	**(17.6)**	**(2,436.0)**	**(2,255.2)**
Loss for the period	-	-	-	-	-	(51.1)	(51.1)
Other comprehensive income	-	-	-	(0.2)	13.6	89.5	102.9
Total comprehensive income	-	-	-	(0.2)	13.6	38.4	51.8
Issue of share capital	-	193.3	-	-	-	-	193.3
Purchase of own shares	-	-	(11.0)	-	-	-	(11.0)
Share-based payments	-	-	-	-	-	1.6	1.6
At 31 July 2015	**0.6**	**393.0**	**(11.0)**	**(2.1)**	**(4.0)**	**(2,396.0)**	**(2,019.5)**

The accompanying notes are an integral part of these financial statements.

Consolidated statement of cash flows

	Note	**Six months ended July 2015 £m**	Six months ended July 2014 £m
Net cash flows from operating activities before tax	6	**201.7**	175.7
Tax paid		**(0.6)**	(0.7)
Net cash flows from operating activities		**201.1**	175.0
Investing activities			
Software development expenditure		**(25.7)**	(12.2)
Purchase of property, plant and equipment		**(10.5)**	(4.3)
Acquisition of subsidiaries and joint ventures		**(4.0)**	(0.2)
Proceeds from fixed term investments - restricted		**-**	5.0
Interest received		**1.0**	0.3
Net cash flows used in investing activities		**(39.2)**	(11.4)
Financing activities			
Proceeds from borrowings		**735.0**	913.0
Issue costs on borrowings		**(14.1)**	(5.5)
Repayment of borrowings		**(1,039.4)**	(913.0)
Financing transactions		**(318.5)**	(5.5)
Issue of share capital (net of fees)		**193.8**	200.1
Purchase of own shares		**(7.0)**	-
Interest paid on borrowings		**(104.1)**	(114.6)
Debt repayment penalties		**(62.1)**	-
Payment of finance lease capital excluding final payment		**(7.0)**	(7.0)
Payment of finance lease interest		**(3.1)**	(0.9)
Net cash flows from financing activities		**(308.0)**	72.1
Net increase in cash and cash equivalents		**(146.1)**	235.7
Net foreign exchange differences		**(0.8)**	(0.5)
Cash and cash equivalents at the beginning of the period		**301.5**	203.2
Cash and cash equivalents	10	**154.6**	438.4

The accompanying notes are an integral part of these financial statements.

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). 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 2015.

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 2015 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have been applied consistently across all periods.

These financial statements do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year to 31 January 2015 were approved by the board of directors on 24 March 2015 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 has long-term contracts with a number of suppliers across different industries and is strongly cash generative. The Group's borrowings are long-term in nature and in addition to the cash balances at the reporting date the Group has agreed undrawn credit facilities. The Directors have considered this along with projected cash flows and have concluded that the Group has sufficient funds to continue trading for the foreseeable future. Therefore, the interim condensed consolidated financial statements have been prepared using the going concern basis.

c) Segmental analysis

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 interest, tax, depreciation and amortisation (EBITDA) by trading segment which excludes certain unallocated items (referred to as Trading EBITDA). Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one-off in nature. Trading EBITDA is further analysed as part of the segmental analysis in note 2.

d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the financial statements (continued)

2 Segmental information

	Six months ended July 2015 £m	Six months ended July 2014 £m
Revenue		
Roadside Assistance	**359.1**	351.8
Insurance Services	**64.4**	72.3
Driving Services	**32.8**	38.4
Ireland	**18.8**	19.4
Insurance Underwriting	**0.9**	0.2
Trading Revenue	**476.0**	482.1
Business held for sale	**8.6**	9.6
Total Revenue	**484.6**	491.7
Trading EBITDA		
Roadside Assistance	**172.3**	178.3
Insurance Services	**37.3**	41.6
Driving Services	**8.9**	8.6
Ireland	**6.9**	7.1
Insurance Underwriting	**0.1**	-
Head Office costs	**(26.3)**	(23.8)
Total Trading EBITDA	**199.2**	211.8
Items not allocated to a segment	**(7.6)**	(1.8)
Amortisation and depreciation	**(25.9)**	(21.9)
Share-based payments and acquisition earn-out costs	**(1.6)**	(0.2)
Exceptional items	**(26.4)**	(39.4)
Operating profit	**137.7**	148.5
Net finance costs	**(201.3)**	(138.3)
(Loss)/profit before tax	**(63.6)**	10.2

During the prior year, management responsibility for the Group's Media business was transferred from Driving Services to Roadside Assistance. As a result the above analysis has been restated to show the results from Media within the Roadside Assistance segment for all periods. For the period ended 31 July 2014, revenue of the Media business was £7.3m and Trading EBITDA was £2.1m.

During August 2015, AA plc group agreed to dispose of its subsidiary Autowindshields (UK) Limited. Contracts were exchanged in August 2015 and the sale is expected to complete by the end of the financial year. As a result, this business has been presented as held for sale.

Exceptional costs incurred in the six months ended 31 July 2015 of £26.4m include £0.5m relating to the impairment of software and £2.6m relating to a provision for the loss on disposal of Autowindshields (UK) Limited. The balance of exceptional costs of £23.3m principally related to cost restructuring activities. In the prior period, exceptional items of £39.4m included £33.6m relating to the IPO in June 2014 and £5.8m principally related to cost restructuring activities.

Notes to the financial statements (continued)

2 Segmental information (continued)

For management purposes, the Group is organised into business units based on their products and services, with the exception of Ireland, which represents a separate geographical area. The Group has six reportable operating segments as follows:

- *Roadside Assistance:* 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.
- *Insurance Services:* This segment includes the insurance brokerage activities of the AA, primarily in arranging motor and home insurance for customers, its home emergency activities and its intermediary financial services business.
- *Driving Services:* This segment contains the AA Driving School and the British School of Motoring, which are the two largest driving schools in the UK, as well as AA DriveTech, which provides driver training and educative programmes.
- *Ireland:* This segment competes in the same segment types as the AA UK business, with the largest part of its business being Insurance Services and Roadside Assistance.
- *Insurance Underwriting:* This segment consists of a reinsurance company, which historically reinsures certain private motor insurance business and roadside assistance in support of other business within the Group.
- *Head Office costs:* This segment includes IT, property, finance and other back office support functions.

Segment performance is primarily evaluated using the Group's key performance measure of Trading EBITDA.

Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, exceptional items, share-based payments and acquisition earn-out costs, items not allocated to a segment and tax expense.

Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance and include transactions which are one–off in nature. In the six months ended 31 July 2015 these principally related to the difference between the cash contributions to the pension schemes for on-going service and the calculated annual service cost as well as the trading results of businesses held for sale.

Depreciation, amortisation, net finance costs, share-based payments and acquisition earn-out costs, exceptional items and tax expense are not allocated to individual segments as they are managed on a group basis.

Notes to the financial statements (continued)

3 (a) Finance costs

	Six months ended July 2015 £m	Six months ended July 2014 £m
Interest on external borrowings	**102.4**	107.5
Early repayment penalty	**62.1**	-
Finance charges payable under finance leases	**3.3**	1.3
Total cash finance costs	**167.8**	108.8
Amortisation of debt issue fees	**20.4**	24.1
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge	**7.6**	-
Net finance expense on defined benefit pension schemes	**6.3**	5.6
Unwinding of discount and effect of changes in discount rate on provisions	**0.1**	0.1
Total non-cash finance costs	**34.4**	29.8
Total finance costs	**202.2**	138.6

During the period, the Group repaid the original Class B notes of £655m and PIK notes of £175.0m (see note 13). As a result, the Group incurred an early repayment penalty of £62.1m (2014: £nil).

Amortisation of debt issue fees includes £17.7m (2014: £17.9m) that was immediately written off following the refinancing during the period.

Following the repayment of £209.4m of the Senior Term Facility, the Group has transferred the fair value of the cashflow hedges related to the repayment of £7.6m (2014: £nil) to the income statement.

3 (b) Finance income

	Six months ended July 2015 £m	Six months ended July 2014 £m
Interest receivable	**0.9**	0.3
Total finance income	**0.9**	0.3

Notes to the financial statements (continued)

4 Tax

The major components of the income tax expense are:

	Six months ended July 2015 £m	Six months ended July 2014 £m
Consolidated income statement		
Current income tax		
Current income tax (income)/charge	**(11.5)**	0.4
	(11.5)	0.4
Deferred tax		
Relating to origination and reversal of temporary differences – current year	**(1.0)**	(17.7)
	(1.0)	(17.7)
Tax income in the income statement at an effective rate of 19.7% (July 2014: 19.0%)	**(12.5)**	(17.3)

Tax for the period has been calculated by applying the forecast effective tax rate for the full year excluding some exceptional items to the profit before tax result for the period (excluding some exceptional items).

In the prior period, following the IPO, a deferred tax asset of £21.9m was recognised on tax losses carried forward as the Group expected to have sufficient taxable profits to be able to recover those losses. Excluding the impact of the recognition of this deferred tax asset and the impact of expenses relating to the IPO that were disallowable for tax purposes of £14.0m, the Group's effective tax rate for the six months ended 31 July 2014 was 19.0%.

Deferred tax has been recognised at 20% for the UK (2014: 20%) and 12.5% for Ireland (2014: 12.5%). The 2015 Summer Budget announced that the UK corporation tax rate will be reducing to 19% in April 2017 and 18% in April 2020. These rates are not expected to be substantively enacted until late 2015. Restatement of the Group's deferred tax asset at 18% would reduce the asset by £5.6m.

Notes to the financial statements (continued)

5 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	Six months ended July 2015	Six months ended July 2014
Basic earnings per share:		
(Loss)/profit after tax (£m)	**(51.1)**	27.5
Weighted average number of shares outstanding (millions)	**582.7**	485.7
Basic earnings per share (pence)	**(8.8)**	5.7

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares. As at 31 July 2015 the Group had dilutive potential ordinary shares of the employee share schemes and the Management Value Participation Shares (MVPS). A loss cannot be further diluted.

	Six months ended July 2015	Six months ended July 2014
Weighted average number of ordinary shares in issue (millions)	**582.7**	485.7
Potentially dilutive shares (millions)	**7.4**	-
Weighted average number of diluted ordinary shares (millions)	**590.1**	485.7
Diluted earnings per share (pence)	**(8.8)**	5.7

Reconciliation of reported earnings per share to adjusted earnings per share:

	Six months ended July 2015 £m	Six months ended July 2014 £m
(Loss)/profit after tax as reported	**(51.1)**	27.5
Less tax income	**(12.5)**	(17.3)
(Loss)/profit before tax as reported	**(63.6)**	10.2
Adjusted for:		
Exceptional items	**26.4**	39.4
Share scheme and acquisition earn-out costs	**1.6**	0.2
Items not allocated to a segment	**7.6**	1.8
Penalties on early repayment of debt (see note 3(a))	**62.1**	-
Transfer from cashflow hedge reserve for extinguishment of cashflow hedge (see note 3(a))	**7.6**	-
Write off of debt issue fees following refinancing (see note 3(a))	**17.7**	17.9
Underlying profit before tax	**59.4**	69.5
Tax at the effective rate of 19.7% (July 2014: 19.0%)	**(11.7)**	(13.2)
Underlying profit	**47.7**	56.3
Adjusted basic earnings per share (pence)	**8.2**	11.6
Adjusted diluted earnings per share (pence)	**8.1**	11.6

Notes to the financial statements (continued)

6 Cash flow from operating activities

	Six months ended July 2015 £m	Six months ended July 2014 £m
(Loss)/profit before tax	**(63.6)**	10.2
Amortisation and depreciation	**25.9**	21.9
Share-based payments	**1.6**	-
Impairment of intangible assets	**0.5**	-
Finance costs	**202.2**	138.6
Finance income	**(0.9)**	(0.3)
Other operating income	**(0.1)**	(0.1)
Share of profit from joint ventures and associates	**(0.4)**	(0.5)
Working capital adjustments:		
Increase in inventories	**(0.3)**	(0.5)
Decrease/(increase) in trade and other receivables	**13.7**	(12.5)
Increase in trade and other payables	**26.6**	27.3
Increase/(decrease) in provisions	**0.1**	(2.9)
Increase in insurance technical provisions	**-**	0.1
Difference between pension charge and cash contributions	**(0.8)**	(5.6)
Purchase of vehicles	**(0.7)**	-
Proceeds from sale of vehicles net of final payment on finance leases	**(2.1)**	-
Net cash flows from operating activities before tax	**201.7**	175.7
Tax paid	**(0.6)**	(0.7)
Net cash flows from operating activities	**201.1**	175.0

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £21.0m (2014: £38.0m). This relates to the cost of the IPO of £nil (2014: £27.0m), re-financing of the Group's borrowings £3.7m (2014: £0.8m), restructuring expenditure costs from the re-organising of Group operations of £15.9m (2014: £8.5m) and onerous property provision lease costs in respect of vacant properties of £1.4m (2014: £1.7m).

Notes to the financial statements (continued)

7 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2014	1,198.5	100.1	1,298.6
Additions	-	12.2	12.2
At 31 July 2014	1,198.5	112.3	1,310.8
At 1 February 2015	1,198.5	129.6	1,328.1
Additions	-	25.7	25.7
At 31 July 2015	**1,198.5**	**155.3**	**1,353.8**
Amortisation and impairment			
At 1 February 2014	-	52.9	52.9
Amortisation	-	8.0	8.0
At 31 July 2014	-	60.9	60.9
At 1 February 2015	-	71.2	71.2
Amortisation	-	11.2	11.2
Impairment on assets held for sale	-	0.5	0.5
At 31 July 2015	**-**	**82.9**	**82.9**
Net book value			
At 31 July 2015	**1,198.5**	**72.4**	**1,270.9**
At 31 July 2014	1,198.5	51.4	1,249.9
At 31 January 2015	1,198.5	58.4	1,256.9

Notes to the financial statements (continued)

8 Property, plant and equipment

	Freehold Land & Buildings £m	Long Leasehold Land & Buildings £m	Vehicles £m	Plant & equipment £m	Total £m
Cost or valuation					
At 1 February 2014	23.9	10.4	66.3	104.0	204.6
Additions	-	0.3	25.7	3.8	29.8
Disposals	-	-	(11.3)	-	(11.3)
Exchange adjustments	-	(0.1)	-	(0.5)	(0.6)
At 31 July 2014	23.9	10.6	80.7	107.3	222.5
At 1 February 2015	23.9	10.3	92.0	107.0	233.2
Additions	-	-	13.3	10.5	23.8
Disposal	-	-	(24.5)	(0.1)	(24.6)
Transfer to assets held for sale	-	-	(0.1)	(2.9)	(3.0)
Exchange adjustments	-	(0.2)	(0.1)	(0.9)	(1.2)
At 31 July 2015	**23.9**	**10.1**	**80.6**	**113.6**	**228.2**
Depreciation and impairment					
At 1 February 2014	5.5	3.4	39.9	78.5	127.3
Charge for the period	0.3	0.2	7.8	5.6	13.9
Disposals	-	-	(11.3)	-	(11.3)
Exchange adjustments	-	-	-	(0.4)	(0.4)
At 31 July 2014	5.8	3.6	36.4	83.7	129.5
At 1 February 2015	6.1	3.9	36.9	86.5	133.4
Charge for the period	0.3	0.3	9.4	4.7	14.7
Disposals	-	-	(22.4)	(0.3)	(22.7)
Transfer to assets held for sale	-	-	(0.1)	(2.3)	(2.4)
Exchange adjustments	-	(0.1)	(0.1)	(0.6)	(0.8)
At 31 July 2015	**6.4**	**4.1**	**23.7**	**88.0**	**122.2**
Net book value					
At 31 July 2015	**17.5**	**6.0**	**56.9**	**25.6**	**106.0**
At 31 July 2014	18.1	7.0	44.3	23.6	93.0
At 31 January 2015	17.8	6.4	55.1	20.5	99.8

Notes to the financial statements (continued)

9 Trade and other receivables

	July 2015 £m	July 2014 £m	January 2015 £m
Current			
Trade receivables	**144.2**	146.7	156.4
Prepayments and accrued income	**34.4**	22.9	25.4
Other receivables	**5.8**	5.8	5.3
	184.4	175.4	187.1
Non-current			
Interest rate swap derivatives	**-**	13.1	21.2

10 Cash and cash equivalents

	July 2015 £m	July 2014 £m	January 2015 £m
Ring-fenced cash at bank and in hand – available	**96.2**	187.2	243.6
Ring-fenced cash at bank and in hand – restricted	**18.1**	17.0	17.6
Non ring-fenced cash at bank and in hand – available	**33.9**	192.2	15.2
Non ring-fenced cash at bank and in hand – restricted	**6.4**	42.0	25.1
Cash and cash equivalents	**154.6**	438.4	301.5

Ring-fenced cash and cash equivalents relate to cash held by AA Intermediate Co Limited and its subsidiaries. There are restrictions on dividends that can be paid to AA plc until certain debt to EBITDA and cashflow criteria are met.

Cash at bank and in hand – restricted includes £nil (July 2014: £35.3m, January 2015: £18.5m) held as pre-funded interest to cover interest payments on the PIK notes (see note 13).

Cash at bank and in hand - restricted includes £24.5m (July 2014: £23.7m, January 2015: £24.2m) held by and on behalf of the Group's insurance businesses which are subject to contractual or regulatory restrictions. These amounts are not readily available to be used for other purposes within the Group.

Notes to the financial statements (continued)

11 Trade and other payables

	July 2015 £m	July 2014 £m	January 2015 £m
Current			
Trade payables	**120.9**	120.8	114.1
Other taxes and social security costs	**23.7**	26.5	25.5
Accruals and deferred income	**325.5**	287.3	303.6
Other payables	**16.9**	30.5	18.2
Interest payable	**0.6**	4.7	2.2
Payable for purchase of own shares	**4.0**	-	-
Obligations under finance lease agreements	**31.8**	28.6	34.6
	523.4	498.4	498.2

12 Borrowings and loans

	July 2015 £m	July 2014 £m	January 2015 £m
Borrowings (see note 13)	**2,891.1**	3,360.0	3,190.7
Interest rate swap derivatives	**19.6**	16.9	50.2
	2,910.7	3,376.9	3,240.9

Notes to the financial statements (continued)

13 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	**Total as at 31 July 2015 £m**	Total as at 31 January 2015 £m
Senior Term Facility	31 January 2019	4.36%	453.6	(3.1)	1.6	**452.1**	660.5
Class A1 notes	31 July 2018	4.72%	475.0	(3.0)	1.3	**473.3**	473.0
Class A2 notes	31 July 2025	6.27%	500.0	(0.8)	0.2	**499.4**	499.3
Class A3 notes	31 July 2020	4.25%	500.0	(2.7)	0.7	**498.0**	497.8
Class A4 notes	31 July 2019	3.78%	250.0	(2.2)	0.5	**248.3**	248.1
Class B notes	31 July 2019	-	-	-	-	**-**	639.1
Class B2 notes	31 July 2022	5.50%	735.0	(15.7)	0.7	**720.0**	-
PIK notes	6 November 2019	-	-	-	-	**-**	172.9
		4.96%	**2,913.6**	**(27.5)**	**5.0**	**2,891.1**	3,190.7

A summary of the Group's refinancing transactions since January 2015 is shown below:

	Senior term facility £m	Class A1 £m	Class A2 £m	Class A3 £m	Class A4 £m	Class B £m	Class B2 £m	PIK notes £m	Total £m
As at 1 February 2015	663.0	475.0	500.0	500.0	250.0	655.0	-	175.0	**3,218.0**
Issue date:									
25 March 2015	(97.2)	-	-	-	-	-	-	-	**(97.2)**
24 April 2015	-	-	-	-	-	-	-	(175.0)	**(175.0)**
13 April 2015	-	-	-	-	-	-	735.0	-	**735.0**
30 April 2015	(112.2)	-	-	-	-	-	-	-	**(112.2)**
31 July 2015	-	-	-	-	-	(655.0)	-	-	**(655.0)**
Total	**453.6**	**475.0**	**500.0**	**500.0**	**250.0**	**-**	**735.0**	**-**	**2,913.6**

At 31 July 2015, the Senior Term Facility carried interest at a rate of LIBOR plus a margin of 2%. The variable element has been fully hedged using matching interest rate swap arrangements. All other borrowings have fixed interest rates. The weighted average interest rate for all borrowings of 4.96% has been calculated using the effective interest rate and carrying values on 31 July 2015.

In order to show the Group's net borrowing, 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 Balance Sheet at fair value at the period end (see notes 9 and 12).

All of the Class A notes and Senior Term Facility 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 group's assets ranks ahead of the Class B2 notes. The Class B2 notes have first ranking security over the assets of the immediate parent undertaking of the AA Intermediate Co group, AA Mid Co Limited.

The Class B2 notes have an initial period to 31 July 2018 when any voluntary repayment would incur a make-whole payment and incur all remaining interest due to 31 July 2018. After this period, there is a further two year period when any voluntary repayment would made at a fixed premium based on the date of redemption. The Class A notes do not have a non-call period, however any voluntary early repayments would incur a make-whole payment.

Notes to the financial statements (continued)

14 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. New entrants to the AAUK scheme accrue benefits on a career average salary basis. The AAUK scheme has final salary sections that are closed to new entrants but open to future accrual for existing members. The AAI scheme is closed to new entrants and future accrual of benefits. The Group also operates an unfunded post-retirement Private Medical Plan scheme (AAPMP), which is a defined benefit scheme that is not open to new entrants.

In November 2013, the Group completed the AAUK pension scheme triennial valuations agreeing a deficit of £202m with the pension trustees and implementing an asset backed funding scheme. The asset backed funding scheme provides a long-term deficit reduction plan where the Group has an annual deficit reduction contribution of £12.9m increasing with inflation, over a period of up to 25 years secured on the Group's brands.

The remeasurement gain of £111.4m shown in the consolidated statement of comprehensive income is primarily a result of an increase in the discount rate following rises in corporate bond yields over the period to 31 July 2015. This has been mitigated to some extent by a rise in future inflation expectations and smaller than expected returns on the plan assets held to back the liabilities.

The amounts recognised in the balance sheet are as follows:

	As at 31 July 2015			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,088.6)	(43.8)	(48.1)	(2,180.5)
Fair value of plan assets	1,817.8	34.2	-	1,852.0
Deficit	**(270.8)**	**(9.6)**	**(48.1)**	**(328.5)**

	As at 31 July 2014			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(1,833.5)	(45.4)	(45.0)	(1,923.9)
Fair value of plan assets	1,623.2	34.2	-	1,657.4
Deficit	**(210.3)**	**(11.2)**	**(45.0)**	**(266.5)**

	As at 31 January 2015			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,177.5)	(51.4)	(49.4)	(2,278.3)
Fair value of plan assets	1,808.9	35.0	-	1,843.9
Deficit	**(368.6)**	**(16.4)**	**(49.4)**	**(434.4)**

15 Share premium

	£m
At 31 July 2014 and 31 January 2015	199.7
Issue of shares	199.9
Issue fees	(6.6)
At 31 July 2015	**393.0**

Notes to the financial statements (continued)

16 Fair values

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

The fair values are periodically reviewed by the Group Treasury function. The following tables provide the quantitative fair value hierarchy of the Group's interest rate swaps and loan notes. The carrying values of all other financial assets and liabilities approximate to their fair values:

At 31 July 2015:

		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 liabilities measured at fair value				
Interest rate swaps (note 12)	19.6	-	19.6	-
Liabilities for which fair values are disclosed				
Loan notes (note 13)	2,439.0	2,616.0	-	-

At 31 July 2014:

		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 swaps (note 9)	13.1	-	13.1	-
Financial liabilities measured at fair value				
Interest rate swaps (note 13)	16.9	-	16.9	-
Liabilities for which fair values are disclosed				
Loan notes (note 13)	2,699.9	2,935.1	-	-

Notes to the financial statements (continued)

16 Fair values (continued)

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 period 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 measurement.

17 Related parties

Transactions between AA plc and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed. There were no further transactions with related parties which had a material effect on the financial position or performance of the Company during the periods covered by this interim report.

18 Post Balance Sheet Events

During August 2015, AA plc group agreed to dispose of its subsidiary Autowindshields (UK) Limited. Contracts were exchanged in August 2015 and the sale is expected to complete by the end of the financial year.

On 19 August 2015, AA plc purchased XL Underwriting Limited for £7.0m. This company had existing regulatory capital of £7.0m and forms the basis of the Group's new underwriting activities.

Directors' responsibility statement

The directors confirm that to the best of their knowledge:

- The consolidated interim financial information contained in this report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34);

- The Chairman's statement and the financial report together include a fair review of the information required by the Financial Conduct Authority's Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

- The interim report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Bob Mackenzie

Executive Chairman

21 September 2015

Forward-looking statements

This document contains various forward-looking statements that reflect management's current views with respect to future events and anticipated financial and operational performance. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Group's actual financial condition, results of operations and cash flows, and the development of the industry in which it operates, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this document. In addition, even if its financial condition, results of operations and cash flows and the development of the industry in which it operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that they will materialise or prove to be correct. Because these forward-looking statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements.

Independent review report to AA plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 July 2015 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 July 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

21 September 2015