



AA INTERMEDIATE CO LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 JULY 2016

Management discussion and analysis

Introduction

The directors present the condensed financial statements of AA Intermediate Co Limited (“the Company”) and its subsidiary undertakings (together “the Group”) for the period ended 31 July 2016. The Company is an Obligor and a parent company of each of the other Obligors that provide security and guarantees under the financing arrangements entered into by the AA on 2 July 2013. The Company’s immediate parent is AA Mid Co Limited. There is no material difference in the financial conditions and results of operations between the AA Intermediate Co Limited group and the AA Mid Co Limited group.

Principal activity and review of business developments

The Group provides AA branded goods and services across the UK. The AA’s principal activity is the provision of Roadside Assistance to both its personal Members and business customers (which in aggregate makes up 80% of Group Trading Revenue).

The other business segments that the AA operates in the UK are Insurance Services and Driving Services. The AA business strategy includes cross-selling Insurance Services to its Membership utilising its marketing database and multiple points of contact with its customers.

The AA is focused on delivering the highest possible standards of customer service, quality products, stable and predictable profits, strong operating margins and continued strong cash generation. The Group continued to demonstrate all of these qualities during the six month period.

Key operating measures

We use several key operating measures to track the financial and operating performance of our business.

	July 2016	July 2015
Roadside Assistance		
Paid personal Members ¹ (000s)	3,321	3,340
Average income per paid personal Member ¹ (£)	157	154
Roadside Assistance Personal Members ¹ (000s)	3,599	3,726
Average income per Personal Member ¹ (£)	145	138
Business customers ¹ (000s)	10,179	9,981
Average income per Business Customer ¹ (£)	19	18
Number of breakdowns ² (000s)	1,759	1,662
¹ Last 12 months		
² Last 6 months		
Insurance Services		
Policy numbers in force ¹ (000s)	1,962	2,131
Average income per policy ² (£)	67	63
¹ Last 12 months includes Home Services		
² Average income per policy includes Financial Services revenue		
Driving services		
Number of driving instructors	2,516	2,602

Management discussion and analysis (continued)

Key operating measures (continued)

We have reversed the decline of personal Members in recent months. While paid personal Members declined 0.6% year on year and 0.3% from January 2016 to 3,321,000 (2015: 3,340,000), we grew Members sequentially in the final three months of the period. We have ceased to give away free Memberships to insurance customers and as a result, the rate of decline including free memberships was higher at 3.4%. Retention remains strong at 81%, compared to 80% for the same period last year, and new business volumes have grown year on year by double digits in response to our investment in the product, pricing and marketing.

In the business-to-business segment, the 2% growth in business customers reflects the win of the Lex Autoleasing contract which started in January 2016. Revenue per business customer rose 5.6% to £19 as a result of an increased number of call outs, which are largely paid per job.

Motor insurance policies declined 7% year on year as significant underwriter premium increases resulted in elevated levels of customer churn across the market. However, the sequential decline in volumes has slowed since the 2016 financial year end and there are signs of stabilisation of the book as a result of both improved retention and new business volumes via our Underwriter. Home insurance policies remained broadly flat year on year but Home Services policies for home emergencies declined following a re-evaluation of marketing activities which means we no longer give cover away.

Principal risks and uncertainties

The Board has considered the Company's Principal Risks. These were detailed in the Annual Report 2016 and are summarised below.

1. Outstanding service

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.

2. Roadside market share and margin

We are unable to maintain our market share and gross margin on our roadside services: Competitors that provide roadside services at a lower price or a different business model 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.

3. Growing the business

We are unable to grow the business in a manner that complements and sustains the brand: We may 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.

4. Insurance business

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 broking business. The in house Insurer has higher than anticipated claims costs: There are risks of higher than expected claims frequency, higher average cost per claim and catastrophic claims.

5. Regulatory environment

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 to customer offerings, pricing and profitability. Failure to comply with regulatory obligations could result in substantial fines. Changes in Government legislation or taxation could impact the business model.

6. Business transformation

We are unable to successfully complete the essential business transformation: We need to continue to develop new management processes to achieve the transformation required to develop the business.

Management discussion and analysis (continued)

Principal risks and uncertainties (continued)

7. IT transformation

We are unable to successfully deliver the essential IT transformation: An essential programme of renewal and enhancement of our IT estate is in progress to address the risks to our brand and our competitive capability. It is extensive and involves a complex programme of work over the next 6 to 12 months. Given the scale and complexity, the programme involves inherent risks to the timely delivery of this implementation.

8. Debt

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.

9. Information security/cyber crime

The integrity or availability or security of critical information is compromised: Critical information is not available where and when it is needed. The integrity of critical information is corrupted or the confidentiality of commercially sensitive, private or customer information is compromised by inappropriate disclosure.

Material developments to these principal risks since publication of the Annual Report 2016 and other principal risks and uncertainties for the remaining six months of the financial year are as follows:

- We continue to make progress enhancing our IT security and defences against cyber-crime. However, such improvements are made in the context of an external environment which appears to be increasingly hostile to all businesses.
- We are aware that there is some duplication of roadside assistance cover taken by a limited number of business-to-business customers who are also personal Members. While some may be unaware that they have more than one form of cover, others choose to maintain this in order to take advantage of the additional benefits personal Membership provides. Through the programme of data review for the new Customer Relationship Management systems, we identified a group of our banking partners' customers for whom the benefit of holding both forms of cover is not clear. We proposed a programme of remediation for them which has the support of the regulatory authority.
- We believe the risk from the pension deficit has increased. The sharp decrease in gilt yields in July 2016 has driven a substantial increase to the defined benefit net liabilities reported under IAS 19. Whilst we anticipate that the ongoing triennial valuation at 31 March 2016 for the AAUK pension scheme will show a deficit at that date materially lower than the 31 July 2016 IAS 19 deficit, long term gilt yields are substantially lower than in 2013 when the last triennial valuation was performed. These market dynamics are likely to increase the cost of the AAUK Pension Scheme to the Group.
- The proceeds from the sale of our Irish business enable us to make a further reduction to our group debt and the historic low interest rate provides an opportunity to further reduce the cost of debt going forward. The first tranche of borrowings, the Class A1 notes, are now due in two years of the reporting period end. In order for the Group to be able to refinance its borrowings, it is a key assumption of the directors that the Capital Markets remain open to the Group. The directors continue to be confident that they will be able to refinance these borrowings at an acceptable price.

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

Management discussion and analysis (continued)

Post Balance Sheet Events

On 11 August 2016, the Group completed the sale of AA Ireland. As part of the transaction, the AA Ireland pension scheme, which is closed to future accrual was transferred to AA Corporation Limited, a UK subsidiary of AA plc and will continue to be the responsibility of the Group.

Net assets of the group at disposal, excluding the pension scheme, but including goodwill allocated to the segment of £26m, were £53m resulting in a profit on disposal of £77m which will be recognised in the second half of the year.

Proceeds, net of fees were £130m and allowed £106m of the Senior Term Facility to be repaid on 31 August 2016. Following the repayment of this debt, the overall weighted average interest rate rose slightly from 4.97% to 5.07%. Under the terms of our borrowings, we have held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions. Any amounts not committed within 12 months from the AA Ireland completion date must be used to repay either Class A notes or the Senior Term Facility.

Management discussion and analysis (continued)

	Six months ended July 2016 £m	Six months ended July 2015 £m
Revenue	455	464
Cost of sales	(166)	(166)
Gross profit	289	298
Administrative & marketing expenses	(155)	(165)
Operating profit	134	133
Trading EBITDA	194	193
Items not allocated to a segment	(10)	(9)
Amortisation and depreciation	(28)	(25)
Exceptional items	(22)	(26)
Operating profit	134	133
Finance costs	(84)	(193)
Finance income	-	1
Profit/(loss) before tax	50	(59)
Tax (expense)/income	(11)	11
Profit/(loss) for the period from continuing operations	39	(48)
Discontinued operations		
Profit for the year from discontinued operations	6	5
Profit/(loss) for the period	45	(43)

Revenue: Revenue decreased by £9m from £464m in the six months ended 31 July 2015 to £455m in the six months ended 31 July 2016. This included an exceptional revenue provision of £10m for refunds for customers who may have duplicate breakdown cover. The prior period included £9m relating to a business held for sale. Excluding these items, trading revenue increased by £10m from £455m in the six months ended 31 July 2016 to £465m in the six months ended 31 July 2016.

Roadside Assistance: Roadside assistance trading revenue grew 3.1% from £359m in the six months ended 31 July 2015 to £370m in the six months ended 31 July 2016. This increase was driven by the increase in income per member and higher business-to-business revenue.

Insurance Services: Trading revenue for Insurance Services was unchanged year on year at £64m with lower motor insurance revenue offset by increased revenue from Financial Services.

Driving Services: Driving Services trading revenue declined by £1m to £32m due to lower Driving School volumes. While the overall number of people learning to drive in the market increased, Driving School revenue declined in line with the 3.3% fall in the number of franchised instructors.

Management discussion and analysis (continued)

Cost of sales: Cost of sales remains at the same level of £166m in the six months ended 31 July 2015 and six months ended 31 July 2016.

Administrative and marketing expenses: Administrative and marketing expenses decreased by £10m or 6% from £165m in the six months ended 31 July 2015 to £155m in the six months ended 31 July 2016. The decrease in administrative and marketing expenses is due to lower exceptional costs and lower advertising spend compared to the prior period.

Operating profit: Operating profit increased by £1m or 1% from £133m in the six months ended 31 July 2015 to £134m in the six months ended 31 July 2016. The increase in operating profit was primarily driven by the increase in Trading EBITDA described later.

Finance costs: Finance costs at £84m were considerably lower than the prior period which included some one-off costs of the refinancing in March 2015 (2015: £193m).

Finance income: Finance income decreased from £1m in the six months ended 31 July 2015 to £nil in the six months ended 31 July 2016. The decrease in finance income was due to lower bank interest receivable from cash balances.

Taxation: The tax charge in the six months ended 31 July 2016 was £11m compared to a credit of £11m in the six months to 31 July 2015. The prior year credit reflected costs of the refinancing in March 2015. The charge for the current period reflects higher profit before tax.

Trading EBITDA

Trading EBITDA increased by £1m from £193m in the six months ended 31 July 2015 to £194m in the six months ended 31 July 2016. The Trading EBITDA margin at 41.7% was marginally lower than last year (2015: 42.4%).

Roadside Assistance: Trading EBITDA rose 4.1% to £179m with a favourable phasing of advertisement investment somewhat offset by increased workload. Investment in the advertising campaign to date amounted to £5m (compared to £7.5m last year). The volume of breakdown incidents in the period was higher than expected which resulted in higher pay per job business services revenue. This was partly offset by operational efficiency improvements.

Insurance Services: Core Insurance trading EBITDA declined by £2m with lower earnings from motor insurance partially offset by improved home insurance profitability and cost savings.

Driving Services Driving Services trading EBITDA was flat on last year with the decline in Driving School revenue offset by cost savings

Head Office Costs: Head Office Costs increased by £4m or 16.0% from £25m in the six months ended 31 July 2015 to £29m in the six months ended 31 July 2016. The increase in Head Office Costs is principally due the increase in IT costs as part of the IT transformation programme.

Management discussion and analysis (continued)

Consolidated statement of cash flows

	Six months ended July 2016 £m	Six months ended July 2015 £m
Net cash flows from operating activities before tax	194	203
Tax paid	(8)	(1)
Net cash flows from operating activities	186	202
Investing activities		
Capital expenditure	(37)	(41)
Proceeds from sale of fixed assets	6	2
Acquisition and disposals, net of cash acquired or disposed of	(2)	-
Interest received	-	1
Net cash flows used in investing activities	(33)	(38)
Financing activities		
Proceeds from borrowings	-	735
Issue costs on borrowings	-	(14)
Debt repayment penalties	-	(59)
Repayment of borrowings	-	(864)
Refinancing transactions	-	(202)
Interest paid on borrowings	(73)	(98)
Payment of finance lease capital excluding final payments	(20)	(7)
Payment of finance lease interest	(3)	(3)
Net cash flows from financing activities	(96)	(310)
Net increase/(decrease) in cash and cash equivalents	57	(146)

Change in working capital: The change in working capital represented a cash inflow of £36m in the six months ended 31 July 2015 compared to a cash inflow of £17m in the six months ended 31 July 2016. This change in working capital movements between the periods was principally due to timing differences on cash receipts from Business Services and Insurance Services customers and a higher difference between the pension charge and cash contributions partially offset by an increase in provisions resulting from the provision for customers who may have duplicate breakdown cover.

Management discussion and analysis (continued)

Net cash flows from operating activities before tax: Net cash flow from operating activities before tax decreased from a cash inflow of £203m in the six months ended 31 July 2015 to a cash inflow of £194m in the six months ended 31 July 2016. This was driven by the decrease in working capital described above, partially offset by adjustments for pension.

Tax paid: Cash outflow from tax paid was £1m in the six months ended 31 July 2015 compared to £8m in the six months ended 31 July 2016. This was due to higher profit before tax in the current period compared to losses in the prior year due to the refinancing announced in March 2015.

Investing activities: Cash outflow from investing activities was £38m in the six months ended 31 July 2015 compared to £33m in the six months ended 31 July 2016. The decrease in cash outflow from investing activities was driven by an increase in proceeds from the sale of fixed assets.

Financing transactions: Net cash flow from financing transactions was a cash outflow of £202m in the six months ended 31 July 2015 compared to £nil in the six months ended 31 July 2016. The decrease in financing outflows relates to the refinancing carried out in the prior period.

Interest paid on borrowings: Cash outflow from interest paid on borrowings was £98m in the six months ended 31 July 2015 compared to £73m in the six months ended 31 July 2016. This decrease reflected the lower interest costs following the refinancing in the prior period.

Debt repayment penalties: Cash outflow from debt repayment penalties was £59m in the six months ended 31 July 2015 compared to £nil in the six months ended 31 July 2016. This payment related to the repayment penalty on early redemption of the Class B notes in the prior period.

Payment of finance lease capital and interest: Cash outflow from the payment of finance lease capital and interest was £10m in the six months ended 31 July 2015 compared to £23m in the six months ended 31 July 2016. The increase in cash outflow from payment of finance lease capital and interest was primarily driven by timing differences on lease payments for driving schools.

Management discussion and analysis (continued)

Net debt and covenants	As at 31 July 2016 £m	As at 31 July 2015 £m
Senior Term Facility	454	454
Class A notes	1,725	1,725
Less: cash and cash equivalents	(122)	(114)
Net Senior Secured Debt ¹	2,057	2,065
Class B notes	735	735
Finance lease obligations	51	52
Net Debt ²	2,843	2,852
Trading EBITDA for the last twelve months ³	419	419
Leverage ratio ⁴	6.8x	6.8x
Senior leverage ratio ⁵	4.9x	4.9x
Class A Free Cash Flow: Debt Service ⁶	3.3x	3.8x
Class B Free Cash Flow: Debt Service ⁷	2.3x	2.2x

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

2 Principal amounts of the Senior Term Facility, Class A notes, Class B notes and finance leases less cash and cash equivalents

3 Includes discontinued operations and business held for sale as required by the debt documents

4 Ratio of Net Debt to Trading EBITDA for the last twelve months

5 Ratio of Net Senior Secured Debt to Trading EBITDA for the last twelve months

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

7 Ratio of last twelve 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 £203m in the six months ended 31 July 2016 compared to £224m in the six months to 31 July 2015. Net debt to Trading EBITDA for the last 12 months stood at 6.8 times and net senior secured debt to Trading EBITDA has remained steady at 4.9 times as at 31 July 2016.

Class A free cash flow to debt service was 3.3 times as at 31 July 2016 and Class B free cash flow to debt service was 2.3 times, showing substantial covenant headroom.

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 net income since the WBS was established, which are significantly higher than the proposed dividends. These calculations are adjusted for items required by the financing documents.

The Group has a cash balance of £122m, 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 regulated business. These restricted cash balances were £8m at 31 July 2016 excluding any restricted cash balances shown as held for sale (2015: £18m).

Consolidated income statement

	Note	Six months ended July 2016 £m	Six months ended July 2015 £m
Revenue	2	455	464
Cost of sales		(166)	(166)
Gross profit		289	298
Administrative & marketing expenses		(155)	(165)
Operating profit		134	133
Trading EBITDA	2	194	193
Items not allocated to a segment	4	(10)	(9)
Amortisation and depreciation		(28)	(25)
Exceptional items	4	(22)	(26)
Operating profit		134	133
Finance costs	5 (a)	(84)	(193)
Finance income	5 (b)	-	1
Profit/(loss) before tax		50	(59)
Tax (expense)/income	6	(11)	11
Profit/(loss) for the period from continuing operations		39	(48)
Discontinued operations			
Profit for the year from discontinued operations	3	6	5
Profit/(loss) for the period		45	(43)

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

Consolidated statement of comprehensive income

	Note	Six months ended July 2016 £m	Six months ended July 2015 £m
Profit/(loss) for the period		45	(43)
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		1	-
Effective portion of changes in fair value of cash flow hedges		(1)	17
Tax effect		-	(3)
		-	14
Other comprehensive income on items that are not to be reclassified to profit and loss in subsequent years			
Remeasurement losses on defined benefit schemes	16	(330)	111
Tax effect		56	(22)
		(274)	89
Total other comprehensive income		(274)	103
Total comprehensive income for the period		(229)	60

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

Consolidated statement of financial position

	Note	July 2016 £m	July 2015 £m	January 2016 £m
Non-current assets				
Goodwill and other intangible assets	7	1,269	1,270	1,290
Property, plant and equipment	8	117	106	122
Investments in joint ventures and associates		7	5	6
Deferred tax assets		107	57	52
		1,500	1,438	1,470
Current assets				
Inventories		6	5	5
Trade and other receivables	9	159	182	170
Amounts owed by parent undertakings	11	1,212	1,207	1,214
Cash and cash equivalents	12	122	114	94
		1,499	1,508	1,483
Assets held for sale	3	93	3	-
Total assets		3,092	2,949	2,953
Current liabilities				
Trade and other payables	13	(494)	(522)	(517)
Current tax payable		(11)	-	(7)
Provisions	10	(21)	(7)	(8)
		(526)	(529)	(532)
Non-current liabilities				
Borrowings and loans	14	(2,922)	(2,911)	(2,920)
Finance lease obligations		(21)	(20)	(21)
Defined benefit pension scheme liabilities	16	(622)	(329)	(296)
Provisions		(7)	(11)	(7)
		(3,572)	(3,271)	(3,244)
Liabilities held for sale	3	(40)	(4)	-
Total liabilities		(4,138)	(3,804)	(3,776)
Net liabilities		(1,046)	(855)	(823)
Equity				
Share capital		20	20	20
Currency translation reserve		-	(2)	(1)
Cash flow hedge reserve		(11)	(4)	(10)
Retained earnings		(1,055)	(869)	(832)
Total equity attributable to equity holders of the parent		(1,046)	(855)	(823)

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	Currency translation reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 February 2015	20	(2)	(18)	(917)	(917)
Loss for the period	-	-	-	(43)	(43)
Other comprehensive income	-	-	14	89	103
Total comprehensive income	-	-	14	46	60
Share-based payments	-	-	-	2	2
At 31 July 2015	20	(2)	(4)	(869)	(855)
At 1 February 2016	20	(1)	(10)	(832)	(823)
Profit for the period	-	-	-	45	45
Other comprehensive income	-	1	(1)	(274)	(274)
Total comprehensive income	-	1	(1)	(229)	(229)
Share-based payments	-	-	-	6	6
At 31 July 2016	20	-	(11)	(1,055)	(1,046)

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

Consolidated statement of cash flows

	Note	Six months ended July 2016 £m	Six months ended July 2015 £m
Profit/(loss) before tax		57	(53)
Amortisation and depreciation		29	26
Net finance costs		84	192
Other adjustments to profit before tax		7	2
Working capital:			
(Increase)/decrease in trade receivables		(12)	14
Increase in trade and other payables		26	23
Increase in provisions		13	-
Difference between pension charge and cash contributions		(10)	(1)
Total working capital adjustments		17	36
Net cash flows from operating activities before tax		194	203
Tax paid		(8)	(1)
Net cash flows from operating activities		186	202
Investing activities			
Capital expenditure		(37)	(41)
Proceeds from sale of fixed assets		6	2
Acquisition and disposals, net of cash acquired or disposed of		(2)	-
Interest received		-	1
Net cash flows used in investing activities		(33)	(38)
Financing activities			
Proceeds from borrowings		-	735
Issue costs on borrowings		-	(14)
Debt repayment penalties		-	(59)
Repayment of borrowings		-	(864)
Refinancing transactions		-	(202)
Interest paid on borrowings		(73)	(98)
Payment of finance lease capital		(20)	(7)
Payment of finance lease interest		(3)	(3)
Net cash flows from financing activities		(96)	(310)
Net increase/(decrease) in cash and cash equivalents		57	(146)
Net foreign exchange differences		1	(1)
Cash and cash equivalents at the beginning of the period		94	261
Cash and cash equivalents		152	114
Cash transferred to asset held for sale	3	(30)	-
Cash and cash equivalents from continuing operations	12	122	114

The cash flows from operating activities are stated net of cash outflows relating to exceptional items of £9m (2015: £21m). This relates to the cost of business transformation of £7m (2015: £14m), re-financing of the Group's borrowings £nil (2015: £4m), non-recurring costs of IT system implementation and cost restructuring activities of £1m (2015: £2m) and onerous property provision lease costs in respect of vacant properties of £1m (2015: £1m).

Other adjustments to profit before tax relate to share based payments £6m (2015: £2m) and impairment of software £1m (2015: £nil).

Operating cash flows from discontinued operations were £10m (2015: £8m) (see note 3).

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 2016.

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 2016 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 2016 were approved by the board of directors on 29 June 2016 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 generally long-term in nature and the Group has agreed undrawn credit facilities in place. The first tranche of borrowings, the Class A1 notes, are due within two years of the reporting period end. A key assumption has therefore been made that the Capital Markets remain open to the Group, however the directors remain confident of their ability to refinance these borrowings at an acceptable price.

The Directors have considered this along with the cash balances at the reporting date and projected future 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. The segmental results for the prior year have been restated to exclude Ireland which is now a discontinued operation, see note 3.

d) Assets and liabilities held for sale and discontinued operations

Assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Liabilities are classified as held for sale when their carrying value is to be settled through a sale transaction and a sale is considered highly probable.

Discontinued operations are businesses that are either disposed of or held for sale and represent a separate major line of business or geographical area of operations. See note 3.

e) 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)

1 Basis of preparation (continued)

f) Critical accounting estimates and judgements

The principal estimates and assumptions that have a risk of causing an 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 2016 with the exception of:

Provisions

The Group has made a provision in revenue for potential refunds due to customers who may have duplicate cover as a business-to-business customer and as a personal Member. This provision has required the use of estimates in determining the likelihood of a refund occurring and is dependent on individual customer circumstances. These estimates may be different to the actual outcome.

Notes to the financial statements (continued)

2 Segmental information

	Six months ended July 2016 £m	Six months ended July 2015 £m
Revenue		
Roadside Assistance	370	359
Insurance Services	64	64
Driving Services	31	32
Trading Revenue	465	455
Business held for sale	-	9
Exceptional revenue provision (see note 10)	(10)	-
Total Revenue	455	464
Trading EBITDA		
Roadside Assistance	179	172
Insurance Services	35	37
Driving Services	9	9
Head Office costs	(29)	(25)
Total Trading EBITDA	194	193
Items not allocated to a segment	(10)	(9)
Amortisation and depreciation	(28)	(25)
Exceptional items	(22)	(26)
Operating profit	134	133
Net finance costs	(84)	(192)
Profit before tax	50	(59)

As at 31 July 2015, it was highly probable that the Group would sell its subsidiary, Autowindshields (UK) Limited. As a result, this business was presented as held for sale in the prior period. The sale was subsequently completed in September 2015.

The segmental results for the prior year have been restated to exclude Ireland which is now a discontinued operation, see note 3.

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. The Group has four 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.
- *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 measures of Trading revenue and Trading EBITDA.

Trading revenue is revenue adjusted for exceptional items and business held for sale. Trading EBITDA is profit after tax as reported adjusted for depreciation, amortisation, net finance costs, exceptional items, items not allocated to a segment, tax expense and business held for sale.

Depreciation, amortisation, net finance costs, exceptional items and tax expense are not allocated to individual segments as they are managed on a group basis.

Segmental information is not presented for items in the Statement of Financial Position as management do not view this information on a segmental basis.

3 Assets and liabilities held for sale and discontinued operations

At the period end, the Ireland business segment was held for sale and has been reported as a discontinued operation as it represents a separate geographical area and there was a plan to dispose of the whole of the Irish operation. The entities being sold are AA Ireland Limited and its subsidiary undertakings. The sale was completed on the 11 August 2016, see note 19.

In the prior period, the Autowindshields business was held for sale. This sale was completed in September 2015.

a) Assets of disposal group classified as held for sale

	July 2016 £m	July 2015 £m
Goodwill	26	-
Other intangible assets	9	-
Property, plant and equipment	3	1
Trade and other receivables	25	2
Cash and cash equivalents	30	-
Total	93	3

Notes to the financial statements (continued)

3 Assets and liabilities held for sale and discontinued operations (continued)

b) Liabilities of disposal group classified as held for sale

	July 2016 £m	July 2015 £m
Trade and other payables	40	4
Total	40	4

c) Results of discontinued operations

	Six months ended July 2016 £m	Six months ended July 2015 £m
Revenue	23	19
Expenses	(15)	(12)
Trading EBITDA	8	7
Depreciation	(1)	(1)
Operating profit	7	6
Tax	(1)	(1)
Profit for the period from discontinued operations	6	5

d) Net cash flows of discontinued operations

	Six months ended July 2016 £m	Six months ended July 2015 £m
Operating cash flow	10	8
Investing cash flow	(3)	(2)
Total cash flows	7	6

4 Items not allocated to a segment and exceptional items

	Six months ended July 2016 £m	Six months ended July 2015 £m
Share-based payments	6	2
Difference between cash contributions to the pension scheme for on-going service and the calculated annual service costs	4	7
Total items not allocated to a segment	10	9
Exceptional items	22	26

Exceptional items incurred in the six months ended 31 July 2016 of £22m included an estimated £10m provision for revenue refunds to customers who may have duplicate breakdown cover (See note 10), £9m relating to business transformation, £1m impairment of intangible assets and the remainder of £2m relating to IT transformation, loss on disposal of fixed assets and other restructuring activities.

In the prior period, exceptional items of £26m included £1m relating to the impairment of software and £3m relating to a provision for the loss on disposal of Autowindshields (UK) Limited, £18m relating to business transformation and the balance of exceptional costs of £4m principally relating to financing transactions.

Notes to the financial statements (continued)

5 (a) Finance costs

	Six months ended July 2016 £m	Six months ended July 2015 £m
Interest on external borrowings	74	99
Early repayment penalty	-	59
Finance charges payable under finance leases	3	3
Total cash finance costs	77	161
Amortisation of debt issue fees	2	18
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge	-	8
Net finance expense on defined benefit pension schemes	5	6
Total non-cash finance costs	7	32
Total finance costs	84	193

In the previous period, the Group repaid the original Class B notes of £655m. As a result, the Group incurred an early repayment penalty of £nil (2015: £59m).

In the prior period, there were £18m of amortised debt issue fees immediately written off following the refinancing.

In the prior period, following the repayment of £209m of the Senior Term Facility, the Group transferred the £8m fair value of the cash flow hedges related to the repayment to the income statement.

(b) Finance income

	Six months ended July 2016 £m	Six months ended July 2015 £m
Interest receivable	-	1
Total finance income	-	1

Notes to the financial statements (continued)

6 Tax

The major components of the income tax expense are:

	Six months ended July 2016 £m	Six months ended July 2015 £m
Consolidated income statement		
Current income tax		
Current income tax charge/(income)	11	(10)
	11	(10)
Deferred tax		
Relating to origination and reversal of temporary differences – current year	-	(1)
	-	(1)
Tax charge/(income) in the income statement	11	(11)

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.

UK deferred tax has been recognised at the enacted rates of 18% and 19% depending on the expected reversal profile (2015: 20%). The UK corporation tax rate will be reducing to 19% in April 2017 and 18% in April 2020. The 2016 Budget announced that the UK corporation tax rate will reduce to 17%, instead of 18% in April 2020. This rate was substantively enacted in September 2016.

Notes to the financial statements (continued)

7 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2015	1,198	129	1,327
Additions	-	26	26
At 31 July 2015	1,198	155	1,353
Amortisation and impairment			
At 1 February 2016	1,198	184	1,382
Additions	-	27	27
Transfer to assets held for sale	(26)	(14)	(40)
Exchange adjustment	-	1	1
At 31 July 2016	1,172	198	1,370
Amortisation and impairment			
At 1 February 2015	-	71	71
Amortisation	-	11	11
Impairment on assets held for sale	-	1	1
At 31 July 2015	-	83	83
At 1 February 2016	-	92	92
Amortisation	-	12	12
Impairment	-	1	1
Transfer to assets held for sale	-	(5)	(5)
Exchange adjustment	-	1	1
At 31 July 2016	-	101	101
Net book value			
At 31 July 2016	1,172	97	1,269
At 31 July 2015	1,198	72	1,270
At 31 January 2016	1,198	92	1,290

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 2015	24	10	92	107	233
Additions	-	-	13	11	24
Disposals	-	-	(25)	-	(25)
Transfer to assets held for sale	-	-	-	(3)	(3)
Exchange adjustments	-	-	-	(1)	(1)
At 31 July 2015	24	10	80	114	228
At 1 February 2016	24	10	89	125	248
Additions	-	-	11	9	20
Disposals	-	-	(12)	-	(12)
Transfer to assets held for sale	-	(3)	(6)	(8)	(17)
Exchange adjustments	-	-	1	-	1
At 31 July 2016	24	7	83	126	240
Depreciation and impairment					
At 1 February 2015	6	4	37	86	133
Charge for the period	-	-	9	5	14
Disposals	-	-	(22)	-	(22)
Transfer to assets held for sale	-	-	-	(2)	(2)
Exchange adjustments	-	-	-	(1)	(1)
At 31 July 2015	6	4	24	88	122
At 1 February 2016	7	4	22	93	126
Charge for the period	-	1	11	4	16
Disposals	-	-	(6)	-	(6)
Transfer to assets held for sale	-	(2)	(4)	(8)	(14)
Exchange adjustment	-	-	1	-	1
At 31 July 2016	7	3	24	89	123
Net book value					
At 31 July 2016	17	4	59	37	117
At 31 July 2015	18	6	56	26	106
At 31 January 2016	17	6	67	32	122

Notes to the financial statements (continued)

9 Trade and other receivables

	July 2016 £m	July 2015 £m	January 2016 £m
Current			
Trade receivables	132	143	144
Prepayments and accrued income	23	34	22
Other receivables	4	5	4
	159	182	170

10 Provisions (Current)

	July 2016 £m	July 2015 £m	January 2016 £m
Duplicate breakdown cover	10	-	-
Property leases	6	6	6
Restructuring	5	-	1
Other	-	1	1
	21	7	8

We are aware that there is some duplication of roadside assistance cover taken by a limited number of business-to-business customers who are personal Members and hold AVAs with our banking partners. While some may be unaware that they have duplicate cover, others choose to maintain this to receive the benefits of Membership. Through the review of data for the new Customer Relationship Management systems, we have identified a group of customers for whom the benefit of holding both forms of cover is not clear. We proposed a programme of remediation for them which has the support of the regulatory authority. We have provided £10m for our estimate of the costs.

11 Amounts owed by parent undertakings

	July 2016 £m	July 2015 £m	January 2016 £m
Amounts owed by parent undertakings	1,212	1,207	1,214

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

Notes to the financial statements (continued)

12 Cash and cash equivalents

	July 2016 £m	July 2015 £m	January 2016 £m
Cash at bank and in hand – available	114	96	74
Cash at bank and in hand – restricted	8	18	20
Cash and cash equivalents	122	114	94

Cash at bank and in hand - restricted includes £8m (July 2015: £18m, January 2016: £20m) 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.

13 Trade and other payables

	July 2016 £m	July 2015 £m	January 2016 £m
Current			
Trade payables	104	121	110
Other taxes and social security costs	24	22	23
Accruals and deferred income	308	328	313
Other payables	27	18	30
Interest payable	1	1	1
Obligations under finance lease agreements	30	32	40
	494	522	517

14 Borrowings and loans

	July 2016 £m	July 2015 £m	January 2016 £m
Borrowings (see note 15)	2,895	2,891	2,893
Interest rate swap derivatives	27	20	27
	2,922	2,911	2,920

Notes to the financial statements (continued)

15 Borrowings

	Expected maturity date	Interest rate	Principal £m	Issue costs £m	Amortised issue costs £m	Total as at 31 July 2016 £m	Total as at 31 July 2015 £m	Total as at 31 January 2016 £m
Senior Term Facility	31 January 2019	4.36%	454	(3)	2	453	452	452
Class A1 notes	31 July 2018	4.72%	475	(3)	2	474	473	474
Class A2 notes	31 July 2025	6.27%	500	(1)	-	499	499	499
Class A3 notes	31 July 2020	4.25%	500	(3)	1	498	498	498
Class A4 notes	31 July 2019	3.78%	250	(2)	1	249	249	249
Class B2 notes	31 July 2022	5.50%	735	(16)	3	722	720	721
		4.97%	2,914	(28)	9	2,895	2,891	2,893

At 31 July 2016, 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 4.97% has been calculated using the effective interest rate and carrying values on 31 July 2016.

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 note 14).

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. AA Mid Co Limited group can only pay a dividend when certain net debt to EBITDA and cash flow criteria are met

The Class B2 notes have an initial period to 31 July 2018 during which 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 be 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.

In order to comply with the requirements of the Class A notes, we are required to maintain the Class A free cash flow to debt service ratio in excess of 1.35x and the senior leverage ratio below 5.5x. The Class B2 notes require us to maintain the Class B2 free cash flow to debt service ratio in excess of 1x.

The Class A and Class B2 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.

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 Class B2 note restrictions only permit the release of cash providing the fixed charge cover ratio after payment is more than 2:1 and providing that the aggregate payments do not exceed 50% of the accumulated consolidated net income.

Notes to the financial statements (continued)

16 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 and was transferred to a UK company following the sale of the Irish business. 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 makes an annual deficit reduction contribution of £13m increasing annually with inflation, until November 2038, secured on the Group's brands. During the period, the Group also made an additional deficit reduction payment of £6m.

The remeasurement loss of £330m shown in the consolidated statement of comprehensive income for the six months to 31 July 2016 is primarily a result of a decrease in the discount rate due to the decrease in corporate bond yields following the recent UK vote to leave the European Union and the announcement by the Bank of England in July 2016 that it would cut interest rates and undertake a UK corporate debt purchase programme.

The amounts recognised in the balance sheet are as follows:

	As at 31 July 2016			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,577)	(61)	(55)	(2,693)
Fair value of plan assets	2,030	41	-	2,071
Deficit	(547)	(20)	(55)	(622)
	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	(2,089)	(44)	(48)	(2,181)
Fair value of plan assets	1,818	34	-	1,852
Deficit	(271)	(10)	(48)	(329)
	As at 31 January 2016			
	AAUK £m	AAI £m	AAPMP £m	Total £m
Present value of the defined benefit obligation in respect of pension plans	(2,053)	(46)	(47)	(2,146)
Fair value of plan assets	1,815	35	-	1,850
Deficit	(238)	(11)	(47)	(296)

Notes to the financial statements (continued)

16 Defined benefit pension scheme liabilities (continued)

Fair value of plan assets

The table below shows the AAUK plan assets split between those that have a quoted market price and those that are unquoted. Of the AAI scheme, 26.0% (2015: 25.7%) of assets do not have a quoted market price.

The fair value of the AAUK plan assets and the return on those assets were as follows:

	2016		2015	
	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	150	322	239	210
Bonds	790	142	719	115
Property	76	175	70	142
Hedge funds	-	344	-	312
Cash/current assets	29	2	9	2
Total plan assets	1,045	985	1,037	781

Pension plan assumptions

The principal actuarial assumptions were as follows:

%	AAUK		AAI		AAPMP	
	July 2016 %	July 2015 %	July 2016 %	July 2015 %	July 2016 %	July 2015 %
Pensioner discount rate	2.3	3.6	0.9	1.7	2.3	3.6
Non pensioner discount rate	2.5	3.8	1.6	2.4	2.3	3.8
Pensioner RPI	2.7	3.1	-	-	2.7	3.1
Non pensioner RPI	2.9	3.3	-	-	2.7	3.3
Rate of increase of pensions in payment - pensioner	2.6	2.9	-	-	-	-
Rate of increase of pensions in payment - non pensioner	2.7	3.1	-	-	-	-
Pensioner increase for deferred benefits	1.9	2.3	1.3	1.5	-	-
Medical premium inflation rate	-	-	-	-	6.7	7.1

Mortality assumptions are set using standard tables based on scheme specific experience where available. Each scheme's mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The AA schemes' assumptions are that an active male retiring in normal health currently aged 60 will live on average for a further 28 years and an active female retiring in normal health currently aged 60 will live on average for a further 30 years.

Notes to the financial statements (continued)

17 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 2016:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Interest rate swaps (note 14)	27	-	27	-
Liabilities for which fair values are disclosed				
Loan notes (note 15)	2,442	2,616	-	-

At 31 July 2015:

	Carrying value £m	Fair value measurement using		
		Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Financial liabilities measured at fair value				
Interest rate swaps (note 14)	20	-	20	-
Liabilities for which fair values are disclosed				
Loan notes (note 15)	2,439	2,616	-	-

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.

Notes to the financial statements (continued)

17 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 measurement.

18 Related parties

Transactions between AA Intermediate Co Limited 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.

19 Post Balance Sheet Events

On 11 August 2016, the Group completed the sale of AA Ireland. As part of the transaction, the AA Ireland pension scheme, which is closed to future accrual was transferred to AA Corporation Limited, a UK subsidiary of the Group and will continue to be the responsibility of the Group.

Net assets of the group at disposal, excluding the pension scheme, but including goodwill allocated to the segment of £26m, were £53m resulting in a profit on disposal of £77m which will be recognised in the second half of the year.

Proceeds, net of fees were £130m and allowed £106m of the Senior Term Facility to be repaid on 31 August 2016. Following the repayment of this debt, the overall weighted average interest rate rose slightly from 4.97% to 5.07%. Under the terms of our borrowings, we have held back £24m from the net proceeds in ring-fenced available cash to be used for potential future acquisitions. Any amounts not committed within 12 months from the AA Ireland completion date must be used to repay either Class A notes or the Senior Term Facility.