28 September 2016

AA plc Interim Results for the six months ended 31 July 2016

- Personal Member numbers rising and long-term historic decline reversed
- Trading in line with expectations
- Transformation on track at the midpoint and gaining momentum
- Continued strong cash generation and proceeds from sale of AA Ireland to de-lever

	Six months ended		
	July 16	**July 15**	**Change**
Trading revenue (£m)[1,2]	467	457	+2.2%
Trading EBITDA[1,3] (£m)	192	192	Flat
Trading EBITDA[1,4] margin (%)	41.1	42.0	-2.1%
Operating profit[1] (£m)	132	132	Flat
Group PBT[1] (£m)	48	(69)	+£117m
Basic EPS[1] (p)	6.2	(9.6)	+15.8p
Adjusted basic EPS[1,5](p)	10.3	10.1	+0.2p
Cash conversion[1,6] (%)	99	114	-13.2%
Dividend per share (p)	3.6	3.5	

Financial headlines

- Trading revenue grew 2% to £467m as a result of a strong performance from Roadside Assistance with growth in paid personal Member numbers for the last three months of the period. This has continued into August and September
- Group Trading EBITDA flat at £192m reflecting increased costs associated with the higher number of breakdowns in the period which are in part driven by greater awareness of the service achieved by the marketing campaign
- Operating profit remained flat at £132m as a result of higher share based charges partially offset by a lower level of exceptional items. Profit before tax up £117m to £48m due to the absence of refinancing payments that impacted last year's results
- Adjusted earnings per share up 2% to 10.3p reflecting lower interest costs due to the new capital structure
- Cash conversion before exceptional items 99%, lower than last year due to the relative timing of working capital movements
- Net debt was £2,807m at period end. Adjusting net debt and EBITDA for the disposal of AA Ireland in August, net debt of £2,677m represents leverage[7] of 6.7x EBITDA (July 2016: 6.7x)
- Recommended dividend increased to 3.6 pence per share reflecting the good progress made in the transformation and our progressive dividend policy
- Of the £130m net proceeds from the sale of AA Ireland, £106m has been used for partial repayment of the Senior Term Facility which incurs no penalties for early payments

Operational and strategic highlights

- Paid personal Members grew in each of the last three months of the period to 3,321k. This contributed to a slowing in the rate of decline to 0.6% year on year and to 0.3% for the six months since January as retention and new business improved. Average income per paid Member rose 1.9% to £157. B2B customers grew 2% to 10,179k with average income up 5.6%
- IT infrastructure to support back office and call centres is in place and the new CRM system is expected to be fully implemented on plan
- Investment in the digital platform, including "My AA", the app, and the new commercial website is improving customer experience, making our products more immediate, intuitive and relevant

- Investment in technology and equipment for patrols is delivering improved efficiency, repair rates and response times resulting in better customer service
- Newly launched in-house Insurance Underwriter and Financial Services partnership both performing in line with expectations at this early stage, and well positioned to leverage the AA brand and increase the number of products per member

Bob Mackenzie, Executive Chairman, said:

"We are extremely encouraged by the reversal of the decline in paid personal Members over the last few months. The marketing strategy is achieving a significant impact on new business, and we are continuing to improve customer experience through digital innovation.

"Now in the second year of the transformation of the AA, the investment we are making in technology is on track. We are increasingly confident about the scale of the opportunity for the brand across the Group's many products and services from breakdown cover to mortgages.

"Overall the performance of the business has been robust in the first half and we continue to trade in line with expectations. To date we see no impact on our operations from any Brexit related issues and, as we look forward, we believe we are creating significant momentum for the 2018 financial year."

Enquiries

Investors +44 20 7395 7301
Jill Sherratt
James Curran

Media (Headland) +44 20 7367 5222
Howard Lee
Francesca Tuckett
Lucy Legh

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 The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED

- 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: 4171393 #
- Link to the webcast: http://www.investis-live.com/aa/57cfee5d5c14c30700aa5d13/5rw54d

Notes

1. Excludes discontinued operations and business held for sale
2. Trading revenue excludes exceptional revenue items
3. Earnings before interest, tax, depreciation and amortisation excluding exceptional items and items not allocated to a business segment
4. Trading EBITDA divided by trading revenue arising within operating segments
5. Earnings per share excluding discontinued operations adjusted for a number of one-offs of which the largest are exceptional items, items not allocated to a segment, the amortisation of debt issue fees, penalties on early repayment of debt and double-running interest costs on Class B/B2 notes
6. Net cash inflows from continuing operating activities before tax and exceptional items divided by Trading EBITDA
7. Ratio of Total Net Debt to Trading EBITDA for the last 12 months

Performance and strategy review

Group performance

	Six months ended July 2016	Six months ended July 2015	Year ended 2016
Trading revenue[1,2] (£m)	467	457	925
Trading EBITDA[1,3] (£m)	192	192	402
Trading EBITDA[1,4] margin (%)	41.1	42.0	43.4
Net cash inflows from continuing operating activities before tax and exceptional items[5] (£m)	190	218	404
Cash conversion[6] (%)	99	114	100
Adjusted basic earnings per share[7] (pence)	10.3	10.1	21.8

1. Excludes discontinued operations and business held for sale
2. Trading revenue excludes exceptional revenue item
3. Earnings before interest, tax, depreciation and amortisation excluding exceptional items and items not allocated to a business segment
4. Trading EBITDA divided by trading revenue arising within operating segments
5. Net cash inflows from continuing operating activities before tax and excluding cash flows from exceptional items
6. Net cash inflows from continuing operating activities before tax and exceptional items divided by Trading EBITDA
7. Earnings per share excluding discontinued operations adjusted for a number of one-offs of which the largest are exceptional items, items not allocated to a segment, the amortisation of debt issue fees, penalties on early repayment of debt and double-running interest costs on Class B/B2 notes

Roadside Assistance trading revenue growth of 3.1% demonstrates both the AA's fundamental strengths and the progress we have made in the transformation of the business. This strong performance more than offset high levels of competition in motor insurance, the reset of our Financial Services business and difficult trading conditions in Driving Services. Group revenue was £457m, down 2% compared with last year (2016: £466m).

Group Trading EBITDA was flat at £192m with organic growth and cost savings offset by the anticipated increase in IT licensing fees and maintenance costs. Roadside Assistance workload, and associated costs, increased, demonstrating the effectiveness of our continued marketing investment in increasing awareness and utilisation of our services which should lead to higher retention. The Trading EBITDA margin at 41.1% was as a result lower than last year (2016: 42.0%).

Exceptional items incurred in the six months ended 31 July 2016 were £22m. This included a provision estimated at £10m to cover potential refunds and associated costs in respect of a limited number of customers whom we have identified as having duplicate levels of Roadside cover through both their personal membership of the AA and an Added Value Account held with our banking partners. Other exceptional items are £9m relating to the 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 £18m relating to business restructuring activities.

Finance costs at £84m (2016: £202m) were considerably lower than the prior period due to lower interest on external borrowings and the absence of the one-off costs of the refinancing announced in March 2015. The tax charge for the period was £10m (effective tax rate of 20.8%) compared with a credit of £13m in the previous period reflecting the loss before tax following the refinancing in that period.

Profit for the period from continuing operations was £38m compared with a £56m loss in the previous period as early repayment penalties and the exceptional write-off of debt issue fees associated with the refinancing announced in March 2015 did not re-occur. Basic earnings per share from continuing operations were 6.2p compared with a loss per share in the previous period of 9.6p.

Adjusting for exceptional items including the previous period's one-off costs of refinancing and the double-running interest costs of holding the Class B and new Class B2 notes at the same time, adjusted profit after tax was £63m (2016: £59m) and adjusted earnings per share were 10.3p up 2% (2016: 10.1p). The increase in adjusted earnings per share related to the overall reduction in interest rates following the refinancing announced in the prior period.

The AA has continued to generate high levels of operating cash of £190m (2016: £218m), representing cash conversion of 99% (2016: 114%), lower than the prior period due to the relative timing of working capital movements.

Business performance

Roadside Assistance

	Six months ended		Year ended
	July 16	**July 15**	**Jan 16**
Trading revenue (£m)	370	359	724
Trading EBITDA	179	172	361
Trading EBITDA margin (%)	48.4%	47.9%	49.9%
Paid personal Members[1] (000s)	3,321	3,340	3,331
Average income per paid personal Members[1] (£)	157	154	156
Roadside Assistance personal Members[1] (000s)	3,599	3,726	3,673
Average income per personal Member[1] (£)	145	138	141
Business customers[1] (000s)	10,179	9,981	10,216
Average income per business customer[1] (£)	19	18	18
Number of breakdowns (000s)	1,759	1,662	3,459

1 Last 12 months

Roadside assistance trading revenue of £370m grew 3.1%, driven by the increase in income per member and higher business-to-business revenue.

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.

Average income per paid personal Member rose 1.9% to £157. With moderation in pricing as planned, this is largely the result of increased sales of higher value service packages and increased sales of ancillary products, for instance vehicle batteries. Average income per Member including free Memberships rose 5.1% as we reduced the number of free Memberships given away. These results are net of Insurance Premium Tax which increased by 3.5% from November 2015.

In the business-to-business segment trading revenue grew as a result of increased customer numbers and higher revenue per customer. 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.

We have made good progress on operational improvements, including patrol utilisation levels, cost per job and roadside repair rates. The efficiency of our patrols has been enhanced by the use of the new battery testing kit; introduction of the multi-fit spare wheel; and our investment in diagnostic tools; as well as the roll out of new mobile devices. We will continue to invest in technology that enables our patrols to get our members back on the road more efficiently and save cost at the same time. This is increasingly important as call-outs have increased, partly as a result of the advertising which has reminded Members and business customers of the value of the AA.

Trading EBITDA rose 4.1% to £179m with a favourable phasing of advertisement investment somewhat offset by increased workload. Investment in the advertising campaign for the period to date amounted to £5m (compared to £7.5m for the same period last year) with the balance of the £10m anticipated spend to come in the second half of the year. The volume of breakdown incidents in the period was higher than expected, and whilst this had a negative impact on costs, the increased use of our service is positive for reinforcing to customers the value of the product and the AA brand.

Insurance Services (including Financial Services and Home Services)

	Six months ended		Year ended
	July 16	**July 15**	**Jan 16**
Trading revenue (£m)	64	64	131
Trading EBITDA	35	37	78
Trading EBITDA margin (%)	54.7%	57.8%	59.5%
Policy numbers in force[1] (000s)	1,962	2,131	2,074
Average income per policy[2] (£)	67	63	63
Financial Services products[3] (000s)	82	-	33

1 Last 12 months includes Home Services
2 Average income per policy includes Financial Services revenue
3 Financial Services products includes the number of credit cards activated, loans drawn down and savings accounts opened

Trading revenue for Insurance Services was unchanged year on year with lower motor insurance revenue offset by increased revenue from Financial Services. Trading EBITDA fell £2m to £35m as a result of the 8% decline in insurance policies.

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.

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

Through our partnership with the Bank of Ireland, launched in July 2015, the AA offers a range of products including savings, loans and credit cards, and, since August 2016, mortgages. Financial Services revenue has increased £3m year on year due to the new marketing and product development services provided by the AA to the Bank of Ireland. Trading EBITDA was flat compared with the prior period.

Driving Services

	Six months ended		Year ended
	July 16	**July 15**	**Jan 16**
Trading revenue (£m)	32	33	68
Trading EBITDA (£m)	9	9	19
Trading EBITDA margin (%)	28.1%	27.3%	27.9%
Number of driving instructors	2,516	2,602	2,574

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. We are revamping the proposition for AA driving instructors and making clearer the advantages of association with the AA brand to learner drivers.

We are developing our strategy to increase the options and flexibility available to driving instructors and hence reduce the decline in franchisees we experience when market conditions are buoyant. We are also trialling a new approach which optimises pupils' contact with the AA, rather than the instructor, and offers Membership which is more relevant to a new driver. In the longer term, we plan a new self-serve website and better customer communication to reinforce the relationship with pupils and ensure that product offerings are targeted.

DriveTech trading revenue was flat year on year with police speed awareness course volumes stable. A new management team is now in place and we are positive about opportunities for this business.

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

Insurance Underwriting

	Six months ended		Year ended
	July 16	**July 15**	**Jan 16**
Trading revenue (£m)	1	1	2
Trading EBITDA (£m)	(1)	-	-
Motor policies underwritten[1] (000s)	25	-	-

1 Underwritten by the Insurance Underwriter

We launched our Insurance Underwriter in January to participate on the AA's motor insurance panel. In August 2016 we expanded into home insurance, which, like motor insurance, is an area where the combination of our brand and our proprietary data gives us a marked advantage. We underwrote 25,000 motor insurance policies in the six months since launch and are on track to underwrite over 100,000 policies in the first year. While it is too early to expect a material financial contribution from the underwriter, the initial signs are promising and the operation is performing in line with expectations.

This segment also includes the result of our historic reinsurance business which remains flat year on year.

The vertical integration of our broker and underwriter gives rise to a change in accounting treatment where customers of the broker are underwritten by the AA. For these customers, the broker commission received and associated acquisition costs will be recognised over the life of the policy along with the underwriter premium. With the growth of the underwriter, some income that would previously have been recognised in the current financial year by the broker is now deferred until the next financial year. This does not affect overall profitability or cash flows of the business.

The transformation of the AA

We have made good progress against our three strategic priorities set out at the time of our IPO:

1. To strengthen the AA's foundations to become the pre-eminent Membership organisation in the UK, reversing years of under-investment;
2. To revolutionise customer experience through investing in the business and embracing new technologies; and
3. To reduce Group borrowings and the associated costs.

Capital investment

We are now half way through the three-year period of investment and are building on the foundations we put in place last year to create momentum for change. We are investing significant levels of transformation capital, particularly in IT transformation. Of the total £128m investment planned, we invested £54m last year and expect to invest a further £55m by the end of this financial year. This represents a saving of around £10m which gives us scope for further investment. This is in addition to maintenance capex which, following the transformation, is expected to reach a level of around £40m per annum in the 2018 financial year.

Cost savings

We set out, through the transformation, to save at least £40m off the 2015 cost base in the 2019 financial year and are on track to deliver these savings. As so much of the savings will stem from the implementation of the new IT systems, we expect savings in the current year to be relatively modest and the bulk to be delivered over the next two financial years. The cost of these savings is expected to amount to £45m over three years and we have so far invested £31m.

Growth of the core Roadside Assistance business

With the goal of reversing the decline in personal Membership numbers, we set out to transform the AA's Membership proposition and our commercial model through investment in brand, invigorated marketing, new IT systems, a more rational approach to pricing and improved rewards for Members. We aim to retain existing Members, win new Members and increase the sale of products across all our businesses.

In our second year of this transformation we are building on last year's foundations and seeing the benefits in each of these areas.

The advertising campaign was relaunched with an emphasis on outdoor advertising as opposed to TV and its effectiveness is evident in part in greater usage of the service which underpins retention. Our improved pricing model ensures our products are more rationally tiered and rewards for Members, including Mitchell & Butler and MOTO discounts, are gaining usage. Our new digital channel to market is proving highly effective in driving double digit growth in new business and an increase in average sales value. In addition, the rationalisation of direct marketing has increased its effectiveness and is also achieving strong growth of new Members.

The growth in new business and the increased rate of year on year retention has resulted in the reversal of the decline in paid Membership numbers in the last three months of the period. This has continued into August and September. We look forward to the continued growth of paid Membership numbers alongside a planned decline in non-paid Membership numbers.

Our commitment to holding price increases at the level of inflation has resulted in a small overall increase in average income per paid Member of just under 2%. We are confident that this more rational approach is well received by our Members.

IT systems, processes and digital platforms embracing new technology

While our IT investment can be broadly separated into infrastructure, customer relationship management, AA Help (our Roadside deployment system) and our digital platform, the complexity of the requirement means that these systems have to inter-connect. We are pleased to have achieved so much since we launched the programme:

- **IT Infrastructure.** We have successfully installed new IT infrastructure to support our back-office functions and call centres. This will generate savings as we reduce manual reconciliations and in-house maintenance, and as a result become leaner and more efficient.

- **CRM (Customer Relationship Management system).** The marketing element went live in March, ahead of plan. This system allows us to segment and market to customers in a more sophisticated, personalised and relevant way. The system reduces the quantity while increasing the effectiveness of communication.

  The more sophisticated CRM, which provides an integrated sales platform, will ultimately enable all sales to be done on the new system, taking full advantage of the 360-degree view of a customer, their data and products. The Roadside Assistance system began commissioning in July and data is now in the process of being uploaded. We expect this to be finalised during the autumn. This is expected to reduce handling time, and therefore costs, for call centres, result in a smoother customer experience, and increase the number of products per customer from the current level.

- **AA Help 2.** The new version of AA Help, our bespoke operational deployment system, is now being rolled out. This improves the interface for our call centres and patrols, enhancing information flow amongst our employees.

- **Patrols' systems.** Access to iPhones and tablets for our patrols has significantly improved their efficiency as they now have easy access to information ahead of and during a job. This also saves time spent on administration as we increasingly reduce reliance on paper records of jobs done.

- **The digital platform.** Our digital investment is improving the attractiveness and efficiency of the AA's products and processes by making them more immediate, intuitive and relevant.
  - **The new commercial website***,* launched in May, enhances our commercial online processes including enabling us to update information and prices more rapidly. Since its launch, we have achieved double digit sales growth.
  - **My AA** gives our Members access to their accounts on a new digital platform, enabling them to manage their own information and giving us a single profile of a customer across all our products. This is a critical step leading to modernised self-service, which will deliver savings and increase online sales.
  - **The app** is now used in 14% of breakdowns thus reducing the number of calls being handled by call centres and improving customer experience.
- **Insurer Hosted Pricing.** This allows our in-house Underwriter to tailor prices using enhanced data and to enable more dynamic and frequent price changes. In time other members of the insurer panel will also be able to adopt it and we expect it to improve performance in our broking business.

Evolution of the Insurance and Financial Services businesses

Both our new Underwriter and the reset Financial Services business are making good progress and are on track to become profitable in the medium term.

- **The Insurance Underwriter** was launched on 30 January 2016. We are encouraged by our first six months of operation and continue to expect that, with our experienced team, new IT, strong brand and competitive pricing model, we can build the business over the next few years supported by a significant level of reinsurance to mitigate risk.

  We have recently added home insurance to motor insurance underwriting as the proprietary data we have is relevant to both segments. The brand strength combined with the competitive pricing that our data allows us to offer has enabled us to expand our market penetration. The majority of customers are either new to the AA or have not been insured by us for more than 10 years. With the recent pick up in policies to a total of 54,000 to date we are on track to deliver approximately 100,000 motor policies this year as planned. Home insurance underwriting was launched in August 2016.

  Our Underwriter's ability to price competitively is also benefiting our broking business as volumes of new business increase.

- **The relaunch of AA-branded Financial Services** through our 10-year exclusive arrangement with Bank of Ireland (BOI UK) is going well. We have the products and marketing strength of the BOI UK, underpinned by our brand, enabling us to rebuild our position in a market which was previously highly successful for the AA.

Improvement of business customer positioning

Our business contacts add scale and operational leverage to our operations. We have recruited 50 additional patrols to serve the Lex Autoleasing contract we won in January 2016. These patrols are also available to serve our Members and other business customers, improving service levels all round and reducing reliance on third party mechanics.

Capturing opportunities based on the brand

We believe that we can take advantage of the strength of the AA brand, our track record in innovation and collaborative approach to business partnerships in adjacent segments. The key developments to date include the following:

- **Automyze** is our digital tool which helps manage the administration of owning and maintaining a car. It now integrates all AA Members when they join or renew as well as through the app and is achieving high conversion rates as Members sign up. We provide more than 75,000 Members a month with MOT reminders.

- **AA Garage Guide** is the website where motorists can find and book a local garage. It now lists more than 4,000 garages, including many franchised dealers.

- **AA Tyres** is now further integrated into the operational processes of our roadside assistance business. We are incentivising patrols to refer AA Tyres for appropriate jobs and the feedback from patrols and customers is excellent. We expect referrals to increase as the service becomes more accessible for our Members and patrols, and we are investing in additional vans to meet demand. Our new partnership with Micheldever Tyre and Auto Services and the launch of an exclusive AA recommended Tyre should further improve profitability.

Connected car

The AA is pioneering the use of connected car technology. In addition to the direct benefits to drivers of monitoring safety, security, logistics and driving costs, this technology will give the AA the capability to improve prognostics, diagnostics, accuracy of deployment and speed of repair. There is also potential for its use by our Insurance Underwriter in pricing risk.

- **Intelematics Europe,** our joint venture with Intelematics, the market-leading connected car developer, and European Roadside clubs, is making good progress. We are operating a trial of 10,000 cars which will give us data which should help finesse the design of future products.

  The experience of Intelematics in the US with Ford reinforces our view that the relationships with motor manufacturers will be key to innovation in this market. We are encouraged by the progress made by the American and Californian Automobile Associations (AAA and CAA) in working with Ford to install the Intelematics' app, Club Connect, on dashboards, providing information about the vehicle and emergency functions for AAA and CAA Members.

Strategic priority to reduce Group Borrowings and the associated interest costs

The AA is highly cash generative and converts on average 100% of EBITDA to operating cash flow. We have very low working capital requirements and low levels of maintenance capital expenditure. After the transformation, when capital requirements are normalised, we expect to use our significant levels of net free cash to redeem debt and pay dividends.

Sale of Ireland and repayment of borrowings

On 11 August 2016, the Group completed the sale of AA Ireland. As an insurance broker-led business, the Irish business differed significantly from the AA's UK operations, with limited synergies and potential cross sell opportunities. As part of the deal, the Ireland pension scheme, which is closed to future accrual was transferred to a UK company 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.

Net proceeds from the disposal of AA Ireland 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.

Net debt, adjusted for the receipt of proceeds from the disposal of AA Ireland in August, was £2,677m compared with £2,807m at the period end. This represents leverage of 6.7x EBITDA.

Pensions

As at 31 July 2016, the net liabilities of the defined benefit pension schemes under IAS 19 were £622m. This large increase since 31 January 2016 was principally due to the decrease in corporate bond yields, which we are required to use as the discount rate for these liabilities. Corporate bond yields have fallen significantly 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 IAS 19 valuation of the AAUK pension deficit as at 31 July 2016 is £547m.The triennial review valuation for this scheme is being carried out as at 31 March 2016. Preliminary indications suggest the reduction in long term gilt yields since 2013 will cause the deficit to increase from £202m as at 31 March 2013. However, we expect the deficit to be materially below the IAS 19 equivalent. The final results of the triennial review will not be known for up to fifteen months after the 31 March 2016.

In light of the anticipated increase in cost of the AA pension scheme, we are undertaking a review of the options for mitigating current and future liabilities.

Dividend

In view of the encouraging performance for the year-to-date, we have declared an interim dividend of 3.6p per share, representing a 2.9% increase on the interim dividend last year of 3.5p.

This dividend will be paid on 28 October 2016 to shareholders on the register on 7 October 2016 (with the ex-dividend date set for 6 October 2016).

Outlook

We have made a positive start to the second half of the 2017 financial year and are trading in line with expectations. In the second year of the transformation programme we are making good progress on our strategic objectives and are increasingly confident about the scale of the opportunity for the AA.

As a result of improvements made to our operations, even before the IT transformation is complete, we have arrested the decline of paid personal Members and have started to see sequential growth in Memberships. This has continued into the second half of the year and builds momentum for the 2018 financial year. To date we see no operational impact on our business from any Brexit related issues.

We continue to target cost savings off the 2015 base of at least £40m in the 2019 financial year. We are on track to achieve this but the bulk of the savings will be achieved following the completion of the IT implementation which is expected during the 2018 financial year.

In the second half of the year we expect free cash flow and net debt reduction, outside of that associated with the Ireland disposal proceeds, to be modest. Thereafter, as we revert to more normalised levels of capex, we expect deleveraging to accelerate.

We expect the valuation of the pension deficit and agreement on deficit reduction contributions to be concluded within 15 months of the triennial review which started in April 2016.

The investment in the transformation is expected to strengthen and revolutionise the AA, resulting in revenue growth, cost savings, enhanced profitability and lower net debt. The transformation will increase the value we deliver to our Members, customers and shareholders.

Cash flow, net debt and liquidity

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: AA Intermediate Co Limited group cash and cash equivalents	(122)	(114)
Net Senior Secured Debt[1]	2,057	2,065
Class B2 notes	735	735
Finance lease obligations	51	52
Net WBS Debt[2]	2,843	2,852
Less: AA plc Group cash and cash equivalents[3]	(36)	(41)
Net debt at period end	2,807	2,811
Trading EBITDA for the last 12 months[4]	419	419
Net debt ratio[5]	6.7x	6.7x
Class B Leverage ratio[6]	6.8x	6.8x
Senior leverage ratio[7]	4.9x	4.9x
Class A Free Cash Flow: Debt Service[8]	3.4x	3.8x
Class B Free Cash Flow: Debt Service[9]	2.3x	2.2x

Note in the above table, the prior period values have not been restated for discontinued operations to preserve the ratios as reported.

1 Principal amounts of the Senior Term Facility and Class A notes less AA Intermediate Co Limited group cash and cash equivalents
2 WBS debt represents the borrowings and cash balances within the WBS structure headed by AA Intermediate Co Limited. This includes the principal amounts of the Senior Term Facility, Class A notes, Class B2 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 AA Intermediate Co Limited group trading EBITDA including discontinued operations and business held for sale as required by the debt documents
5 Ratio of Total Net Debt to Trading EBITDA for the last 12 months
6 Ratio of Net WBS Debt[2] to Trading EBITDA for the last 12 months
7 Ratio of Net Senior Secured Debt[1] to Trading EBITDA for the last 12 months
8 Ratio of last 12 months free cash flow to proforma debt service relating to the Senior Term Facility and Class A notes.
9 Ratio of last 12 months free cash flow to proforma debt service.

The above net debt as at 31 July 2016 does not include the available and restricted cash balances in AA Ireland that were classified as held for sale at the period end. Adjusting for the net proceeds received for the sale of Ireland, net debt would have been:

	£m
Net debt at period end	2,807
Net proceeds from the sale of AA Ireland	(130)
Adjusted net debt	2,677

Cash flow, net debt and liquidity (continued)

Cash generation for the Group has remained strong with net cash inflows from operating activities before exceptional items and tax of £190m (2015: £218m) and cash conversion of 99% (2015: 114%) in the six months ended 31 July 2016. Net debt to Trading EBITDA for the last 12 months stood at 6.7 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 3.4 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 £158m, 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 £21m at 31 July 2016 excluding any restricted cash balances shown as held for sale (2015: £25m).

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.

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.

Principal risks and uncertainties (continued)

Material developments to these principal risks (above) 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.

Consolidated income statement

	Note	**Six months ended July 2016 £m**	Six months ended July 2015 £m
Continuing operations			
Revenue	2	**457**	466
Cost of sales		**(168)**	(167)
Gross profit		**289**	299
Administrative & marketing expenses		**(157)**	(167)
Operating profit		**132**	132
Trading EBITDA	2	**192**	192
Items not allocated to a segment	4	**(10)**	(9)
Amortisation and depreciation		**(28)**	(25)
Exceptional items	4	**(22)**	(26)
Operating profit		**132**	132
Finance costs	5 (a)	**(84)**	(202)
Finance income	5 (b)	**-**	1
Profit/(loss) before tax		**48**	(69)
Tax (expense)/income	6	**(10)**	13
Profit/(loss) for the period from continuing operations		**38**	(56)
Discontinued operations			
Profit for the period from discontinued operations	3	**6**	5
Profit/(loss) for the period		**44**	(51)

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

	Note	**Six months ended July 2016 pence**	Six months ended July 2015 pence
Basic from total operations	7	**7.2**	(8.7)
Basic from continuing operations	7	**6.2**	(9.6)
Diluted from total operations	7	**7.2**	(8.6)
Diluted from continuing operations	7	**6.2**	(9.5)

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		**44**	(51)
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 differences 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		**(230)**	52

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	8	**1,276**	1,271	1,298
Property, plant and equipment	9	**117**	106	122
Investments in joint ventures and associates		**11**	8	10
Deferred tax assets		**107**	57	52
		1,511	1,442	1,482
Current assets				
Inventories		**6**	5	5
Trade and other receivables	10	**169**	185	172
Cash and cash equivalents	11	**158**	155	166
		333	345	343
Assets held for sale	3	**93**	3	-
Total assets		**1,937**	1,790	1,825
Current liabilities				
Trade and other payables	12	**(502)**	(523)	(518)
Current tax payable		**(11)**	-	(7)
Provisions	13	**(21)**	(7)	(8)
		(534)	(530)	(533)
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)
Insurance technical provisions		**(4)**	(4)	(4)
		(3,576)	(3,275)	(3,248)
Liabilities held for sale	3	**(40)**	(4)	-
Total liabilities		**(4,150)**	(3,809)	(3,781)
Net liabilities		**(2,213)**	(2,019)	(1,956)
Equity				
Share capital		**1**	1	1
Share premium	17	**401**	393	399
Own shares		**(24)**	(11)	(22)
Currency translation reserve		**-**	(2)	(1)
Cash flow hedge reserve		**(11)**	(4)	(10)
Retained earnings		**(2,580)**	(2,396)	(2,323)
Total equity attributable to equity holders of the parent		**(2,213)**	(2,019)	(1,956)

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	Cash flow hedge reserve £m	Retained earnings £m	**Total £m**
At 1 February 2015	**1**	**200**	**-**	**(2)**	**(18)**	**(2,436)**	**(2,255)**
Loss for the period	-	-	-	-	-	(51)	(51)
Other comprehensive income	-	-	-	-	14	89	103
Total comprehensive income	-	-	-	-	14	38	52
Issue of share capital	-	193	-	-	-	-	193
Purchase of own shares	-	-	(11)	-	-	-	(11)
Share-based payments	-	-	-	-	-	2	2
At 31 July 2015	**1**	**393**	**(11)**	**(2)**	**(4)**	**(2,396)**	**(2,019)**
At 1 February 2016	**1**	**399**	**(22)**	**(1)**	**(10)**	**(2,323)**	**(1,956)**
Profit for the period	-	-	-	-	-	44	44
Other comprehensive income	-	-	-	1	(1)	(274)	(274)
Total comprehensive income	-	-	-	1	(1)	(230)	(230)
Dividends	-	-	-	-	-	(33)	(33)
Issue of share capital	-	2	-	-	-	-	2
Purchase of own shares	-	-	(2)	-	-	-	(2)
Share-based payments	-	-	-	-	-	6	6
At 31 July 2016	**1**	**401**	**(24)**	**-**	**(11)**	**(2,580)**	**(2,213)**

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		**55**	(63)
Amortisation and depreciation		**29**	26
Net finance costs		**84**	201
Other adjustments to profit before tax		**7**	2
Working capital:			
(Increase)/decrease in trade receivables		**(20)**	14
Increase in trade and other payables		**33**	26
Increase in provisions		**13**	-
Difference between pension charge and cash contributions		**(10)**	(1)
Total working capital adjustments		**16**	39
Net cash flows from operating activities before tax		**191**	205
Tax paid		**(7)**	(1)
Net cash flows from operating activities		**184**	204
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)**	(4)
Interest received		**-**	1
Net cash flows used in investing activities		**(33)**	(42)
Financing activities			
Proceeds from borrowings		**-**	735
Issue costs on borrowings		**-**	(14)
Debt repayment penalties		**-**	(62)
Repayment of borrowings		**-**	(1,039)
Share capital issued		**-**	194
Refinancing transactions		**-**	(186)
Purchase of own shares		**(2)**	(7)
Interest paid on borrowings		**(73)**	(104)
Payment of finance lease capital		**(20)**	(8)
Payment of finance lease interest		**(3)**	(3)
Dividends paid		**(33)**	-
Net cash flows from financing activities		**(131)**	(308)
Net increase/(decrease) in cash and cash equivalents		**20**	(146)
Net foreign exchange differences		**2**	(1)
Cash and cash equivalents at the beginning of the period		**166**	302
Cash and cash equivalents		**188**	155
Cash transferred to asset held for sale	3	**(30)**	-
Cash and cash equivalents from continuing operations	11	**158**	155

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 other 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 4 April 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 period 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.

Notes to the financial statements (continued)

1 Basis of preparation (continued)

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.

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	**32**	33
Insurance Underwriting	**1**	1
Trading Revenue	**467**	457
Business held for sale	**-**	9
Exceptional revenue provision (see note 13)	**(10)**	-
Total Revenue	**457**	466
Trading EBITDA		
Roadside Assistance	**179**	172
Insurance Services	**35**	37
Driving Services	**9**	9
Insurance Underwriting	**(1)**	-
Head Office costs	**(30)**	(26)
Total Trading EBITDA	**192**	192
Items not allocated to a segment	**(10)**	(9)
Amortisation and depreciation	**(28)**	(25)
Exceptional items	**(22)**	(26)
Operating profit	**132**	132
Net finance costs	**(84)**	(201)
Profit/(loss) before tax from continuing operations	**48**	(69)

As at 31 July 2015, it was highly probable that AA plc 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 period 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 five 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.
- *Insurance Underwriting:* This segment consists of the Insurance underwriting and reinsurance activities of the AA.
- *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 were AA Ireland Limited and its subsidiary undertakings. The sale was completed on the 11 August 2016, see note 20.

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

Notes to the financial statements (continued)

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 13), £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.

5 (a) Finance costs

	Six months ended July 2016 £m	Six months ended July 2015 £m
Interest on external borrowings	**74**	103
Early repayment penalty	**-**	62
Finance charges payable under finance leases	**3**	3
Total cash finance costs	**77**	168
Amortisation of debt issue fees	**2**	20
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**	34
Total finance costs	**84**	202

In the previous period, the Group repaid the original Class B notes of £655m and PIK notes of £175m. As a result, the Group incurred an early repayment penalty of £nil (2015: £62m).

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.

Notes to the financial statements (continued)

5 (b) Finance income

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

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)	**10**	(12)
	10	(12)
Deferred tax		
Relating to origination and reversal of temporary differences – current year	**-**	(1)
	-	(1)
Tax charge/(income) in the income statement at an effective rate of 20.8% (July 2015: 18.8%)	**10**	(13)

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 Earnings per share

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

	Six months ended July 2016	Six months ended July 2015
Basic earnings per share:		
Profit/(loss) after tax from total operations (£m)	**44**	(51)
Weighted average number of shares outstanding (millions)	**609**	583
Basic earnings per share from total operations (pence)	**7.2**	(8.7)

	Six months ended July 2016	Six months ended July 2015
Basic earnings per share:		
Profit/(loss) after tax from continuing operations (£m)	**38**	(56)
Weighted average number of shares outstanding (millions)	**609**	583
Basic earnings per share from continuing operations (pence)	**6.2**	(9.6)

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 (MVP shares). The dilutive shares under the previous employee share scheme were issued in September 2015 so are no longer dilutive. Under the current SIP, shares are purchased monthly at market value and are therefore not dilutive.

As at 31 July 2016, based on average market value of ordinary shares for the period, the MVP shares were not dilutive.

There are no further classes of share that are dilutive as at 31 July 2016.

	Six months ended July 2016	Six months ended July 2015
Weighted average number of ordinary shares in issue (millions)	**609**	583
Potentially dilutive shares (millions)	**-**	7
Weighted average number of diluted ordinary shares (millions)	**609**	590
Diluted earnings per share from total operations (pence)	**7.2**	(8.6)
Diluted earnings per share from continuing operations (pence)	**6.2**	(9.5)

Notes to the financial statements (continued)

7 Earnings per share (continued)

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

	Six months ended July 2016 £m	Six months ended July 2015 £m
Profit/(loss) after tax from continuing operations as reported	38	(56)
Adjusted for:		
Exceptional items	22	26
Items not allocated to a segment	10	9
Penalties on early repayment of debt (see note 5(a))	-	62
Transfer from cash flow hedge reserve for extinguishment of cash flow hedge (see note 5(a))	-	8
Write off of debt issue fees following refinancing (see note 5(a))	-	18
Double-running interest cost of Class B/B2 notes (see below)	-	19
Tax expense/(income)	10	(13)
Underlying profit before tax	80	73
Tax at the effective rate of 20.8% (July 2015: 18.8%)	(17)	(14)
Underlying profit from continuing operations	63	59
Adjusted basic earnings per share from continuing operations (pence)	10.3	10.1
Adjusted diluted earnings per share from continuing operations (pence)	10.3	10.0

The double-running interest cost of Class B/B2 notes relates to the period from the time of issue of the Class B2 notes in April 2015 until the repayment of the Class B notes in July 2015.

Notes to the financial statements (continued)

8 Goodwill and other intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 1 February 2015	1,199	129	1,328
Additions	-	26	26
At 31 July 2015	**1,199**	**155**	**1,354**
At 1 February 2016	1,199	191	1,390
Additions	-	26	26
Transfer to assets held for sale	(26)	(14)	(40)
Exchange adjustment	-	1	1
At 31 July 2016	**1,173**	**204**	**1,377**
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	**1,173**	**103**	**1,276**
At 31 July 2015	1,199	72	1,271
At 31 January 2016	1,199	99	1,298

Notes to the financial statements (continued)

9 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
Disposal	-	-	(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)

10 Trade and other receivables

	July 2016 £m	July 2015 £m	January 2016 £m
Current			
Trade receivables	**136**	144	146
Prepayments and accrued income	**29**	34	22
Other receivables	**4**	7	4
	169	185	172

11 Cash and cash equivalents

	July 2016 £m	July 2015 £m	January 2016 £m
Ring-fenced cash at bank and in hand – available	**114**	96	74
Ring-fenced cash at bank and in hand – restricted	**8**	18	20
Non ring-fenced cash at bank and in hand – available	**23**	34	58
Non ring-fenced cash at bank and in hand – restricted	**13**	7	14
Cash and cash equivalents	**158**	155	166

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 cash flow criteria are met.

Cash at bank and in hand - restricted includes £21m (July 2015: £25m, January 2016: £34m) 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)

12 Trade and other payables

	July 2016 £m	July 2015 £m	January 2016 £m
Current			
Trade payables	**105**	121	110
Other taxes and social security costs	**25**	24	23
Accruals and deferred income	**314**	325	315
Other payables	**27**	16	30
Interest payable	**1**	1	-
Payable for purchase of own shares	**-**	4	-
Obligations under finance lease agreements	**30**	32	40
	502	523	518

13 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.

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 borrowings, the notes and the issue costs have been offset. Issue costs are shown net of any premium on the issue of borrowings. Interest rate swaps are recognised in the 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 Share premium

	£m
At 31 January 2015	200
Issue of shares	200
Issue fees	(7)
At 31 July 2015	**393**
At 31 January 2016	399
Issue of shares	2
At 31 July 2016	**401**

18 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:

		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 14)	27	-	27	-
Liabilities for which fair values are disclosed				
Loan notes (note 15)	2,442	2,616	-	-

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 14)	20	-	20	-
Liabilities for which fair values are disclosed				
Loan notes (note 15)	2,439	2,616	-	-

Notes to the financial statements (continued)

18 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.

19 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.

20 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.

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

27 September 2016

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 2016 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 2016 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

27 September 2016